



Federal Energy Regulatory Commission
February 27, 2007
Conference on Competition on
Wholesale Power Markets
AD07-7-000
Statement of
Chairman Joseph T. Kelliher

"Good morning, welcome to the "Conference on Competition on Wholesale Power Markets".

The fundamental duty of the Federal Energy Regulatory Commission in the area of electric regulation is to "guard the consumer from exploitation by noncompetitive electric power companies." That is our core responsibility.

We have discretion in how to discharge that duty, however. Over the past 25 years, we have relied on two principal means to guard the consumer and assure just and reasonable wholesale power prices. One is direct regulation. The other is promoting competition.

The Commission's policy is not and has never been deregulation. The agency has never relied solely on competition to assure just and reasonable rates, and has never withdrawn from regulation of wholesale power sales. The nature of our regulation has changed over time, of course. While we used to control the exercise of market power by setting cost-based rates for individual sellers, we now analyze market power of individual sellers and set rules of general applicability which are enforced through the enforcement powers recently granted to the Commission by Congress.

Some persist in the view that regulation and competition cannot coexist. They argue that the Commission must go down one path or the other. Personally, I reject that notion. Nearly forty years ago, the great economist Alfred Kahn observed that "The two principal institutions of control in private enterprise economy are competition and direct regulation. Rarely do we rely on either of these exclusively: no competition markets are totally unregulated, and no public utilities are free of some aspects of rivalry. The proper object of search, in each instance, is the best possible mixture of the two." I agree with Dr. Kahn. In my view, the central challenge facing the Commission today is finding the best possible mixture between regulation and competition of wholesale power markets.

Some of our panelists will doubtless argue that we have not found the best possible mixture. But none should doubt the Commission's resolve to do so. That is driving a lot of what the Commission is now doing. It led us to reform our open access rule. It led us to pursue reform of our market based rate program. It led us to reform transmission pricing. It led us to strengthen our enforcement program. It led us to this meeting today.

This conference is an important part of this process.

The fact that we are holding this conference shows that we have heard the criticism of stakeholders and market participants, and that we take these concerns seriously. It also shows we recognize there are challenges to competitive wholesale power markets, both the organized markets and the bilateral markets. It also shows we are not complacent, not resistant to change, not defenders of the status quo. While competitive markets face challenges, we should acknowledge that competition in wholesale power markets is national policy. The Energy Policy Act of 2005

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embraced wholesale competition as national policy for this country. It represented the third major federal law enacted in the last 25 years to embrace wholesale competition. To my mind, the question before the Commission is not whether competition is the correct national policy. That question has been asked and answered three times by Congress.

If we accept the Commission has a duty to guard the consumer, and that competition is national policy, our duty is clear. It is to make existing wholesale markets more competitive. That is the heart of this review: to not only identify the challenges facing competitive wholesale markets but also identify and assess solutions.

Competition has existed in wholesale power markets for many decades, but it has steadily become a more important feature of electricity markets in the last 25 years. At the outset of our review, I thought it would be useful to begin at the beginning, to discuss the origins of wholesale competition policy and remind ourselves why this country committed itself to competition in the first place. To that end, we invited leaders from the early efforts to promote competition to join us and discuss why the country turned towards competition. Later panels will identify challenges facing organized and bilateral wholesale markets, and hopefully begin a discussion of possible reforms.

We have different wholesale market structures, and that will likely remain the case for some time. That means the Commission, as it considers reforms to make wholesale markets more competitive, must bear in mind those differences in market structures. It also means that we should consider reforms that are both national in scope, as well as changes that improve one particular market structure.

I ask panelists to give us your best ideas on solutions to market challenges. As panelists propose ideas, I ask you to set aside jurisdictional considerations. Just give us your best ideas. We know where the jurisdictional lines fall, and I for one am not interested in reaching beyond them. We also know that the Commission has limited authority to address certain challenges. In some areas, states have more authority than the Commission. If we hear good ideas that properly fall within state jurisdiction, we may recommend them to the states for their consideration.

I also do not necessarily think that all challenges facing competitive markets can be resolved by regulators. Some challenges may be best resolved by the industry itself.

I look forward to hearing your ideas.

The Commission is a reform agency, and we are prepared to make reforms."