



Federal Energy Regulatory Commission
September 21, 2006
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

Item No. E-1: California Independent System Operator, Corp (ER06-615-000 *et. al*)

“The purpose of the MRTU order is clear: to prevent a recurrence of the California and Western power crisis from 2000-2001.

There were three principal causes of the California and Western power crisis. First, a lack of electricity supply in California. As a result, California imported more power from other Western states that would otherwise be the case. Second, poor market rules, particularly rules that governed the behavior of state regulated utilities in California. Third, market manipulation.

We have made a lot of progress in all three areas over the past few years, and are in a much better position to prevent a recurrence of the California and Western power crisis.

We have issued new rules to prevent market manipulation. Before 2005, the Commission did not have the right regulatory tools to prevent and sanction market manipulation. That represented a gap in our regulatory authority, one that Congress filled last year with enactment of the Energy Policy Act of 2005. Filling this regulatory gap was a personal priority for me, and I am pleased Congress agreed with our need for more authority. Congress established a statutory prohibition against market manipulation, and authorized the agency to implement rules. We acted quickly to deploy our new regulatory authority.

There has also been progress on reform of market rules. Some of the California market rules were corrected by the Commission five years ago. However, rule flaws remain. Some of these flaws were recognized years ago, and progress has been slow.

California has also made significant progress on improving electricity supply. However, southern California remains dangerously dependent on power imports from the rest of the West.

There is a need to take further steps to reduce the prospect of a recurrence of the California and Western power crisis. We can do more to prevent another crisis.

The MRTU order makes continued progress in all three areas. It takes major steps to assure adequate electricity supply in California, through the resource adequacy provisions. I would like to commend the California Public Utility Commission for its efforts in resource adequacy and note that the MRTU tariff builds on these state efforts. It makes important incremental improvements to market rules. It guards against market manipulation.

California is not a discrete power market; it is an important part of a broader Western power market. There is heightened concern in the West that California market rules could cause problems in Western power markets. That is a valid concern.

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The Western Interconnection encompasses regions that have adopted organized markets and regions that have not. There currently exist “seams” at the borders between the CAISO and other bilateral markets in the West. These seams exist today, and are not created by MRTU. MRTU is designed, in many ways, to mitigate the seams and enhance trade between the differing regions within the West. For example, the day-ahead energy market should allow more opportunities for imports and exports to be scheduled ahead of real-time. However, we are sensitive to the seams concerns raised by Western parties. For that reason, the order grants their request for a technical conference to ensure seams issues will continue to receive the attention they deserve and are carefully considered.

However, the question before the Commission is not whether there should be an organized market in California. That question was asked and answered years ago. The question is whether we should act to fix the rules that govern the California market, whether we should reform flawed market rules, whether the status quo is better for California and the West than the MRTU order.

In my view, the West is better off with the MRTU order than under the status quo. The West is better off because under MRTU, California will take greater steps to assure adequate electricity supply in the state. California will lean less on the West than it does currently. The West is better off because of the improved market rules, which finally correct flaws that were identified years ago.

This order is not the last word on MRTU. Some issues are not resolved completely in this order, and will be examined at the technical conference and compliance filings and Commission orders. This order is the latest in a long series of orders that trace back six years. It is doubtless the most important order in that series.

Our process has been very deliberate. The MRTU process began six years ago. There has been no rush to judgment. Instead, our approach has been very deliberate.

It is important to note that although we approve MRTU, we order significant changes in a number of areas.

As I said, the purpose of this order is to prevent a recurrence of the California and Western power crisis. To do that, we must continue to make progress assuring adequate electricity supply in California, reform flawed market rules, and strengthen our safeguards against market manipulation. Failure to make progress in these three critical areas leaves California and the West exposed to greater risks.

I support the order.”