



FEDERAL ENERGY REGULATORY COMMISSION

July 1, 2008

Chairman Joseph T. Kelliher

Statement of Chairman Joseph T. Kelliher Conference to provide a review of the current and future state of regional wholesale electricity markets

"The purpose of this conference is to review the state of wholesale power markets in the various regions of the country. The United States does not have a national power market, we have regional markets, and there are significant differences among the regions. Some of these differences relate to market structure, others to industry structure and electricity supply fuel mix.

All of our regional power markets rely on a mixture of competition and regulation to assure reliable supply of electricity at reasonable cost. However, the nature of these competitive markets is quite different, and the U.S. has hybrid wholesale markets.

Organized markets cover much of the country, serve most of our country's population, and power most of our economic activity. Regional transmission organizations (RTOs) and independent system operators (ISOs) were established for a variety of purposes, including improving reliability, reducing the prospect of undue discrimination and preference in transmission service, improving grid access, establishing broader regional power markets, improving market access, and increasing market transparency. Today we will hear about the continuing progress by RTOs and ISOs in these areas. I have been impressed with the steady progress made in the organized markets on a number of fronts.

The West and the South do not have organized markets. But these regional power markets also rely on competitive forces to varying degrees. The Commission is as interested in the state of wholesale markets in these regions as in the organized markets.

As we examine the state of competitive wholesale power markets, we must consider how best to evaluate these markets. In my view, retail price movements is a poor measure, since these movements are largely dictated by changes in capital and fuel costs, and heavily influenced by state regulatory policy. The better measure is more complicated, namely whether wholesale power markets demonstrate the characteristics of competitive markets. If so, we can conclude wholesale markets are subject to effective competition.

What are the characteristics of competitive markets? In my view, they would include the following:

- Generation entry
- Generation fuel diversity
- Market access
- Grid access
- Robust power grid
- Grid investment
- Operating performance
- Market transparency
- Demand response



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- New products and services
- New technologies

In my opinion, both the organized markets and the Western and Southern regional markets should be evaluated on the same basis, applying the same characteristics.

My expectation is that we will be able to identify whether regional wholesale power markets have these characteristics. I also hope we will be able to identify areas where significant progress has been made, and where further improvements are needed.

I do not expect at the end of the day we will conclude that perfect competition governs regional wholesale power markets, either in the organized markets or in the West or South. My hope is we will determine whether regional wholesale power markets are subject to effective competition, and identify reforms that can set us down the path to more perfect competition in each market.

I look forward to hearing the statements of our witnesses today."