

COMPREHENSIVE ELECTRICITY COMPETITION PLAN

Need for Federal Action

Approximately twenty States have enacted legislation or promulgated regulations establishing retail competition programs. Most of the remaining States have the matter under active consideration. We respect the actions of those States which are in the process of implementing retail competition, and seek to build on, rather than disrupt, those efforts. Nevertheless, effective retail competition cannot happen without Federal legislation.

- **Recognizing Developing Regional Markets**

Based on the laws of physics, electricity flows do not respect State borders. As States remove the constraints of monopoly franchise territories, electricity markets will naturally become more regionalized. Only Federal action can adequately address the needs of these regional markets.

In recognition of these developing regional markets, the Administration proposes provisions to assure access to and reliability of the transmission system. First, the Administration proposes provisions to assure FERC authority over the entire transmission grid, including transmission lines owned by the Federal power systems. Second, the Administration proposes to require FERC to approve the formation of and oversee an organization that prescribes and enforces mandatory reliability standards. In addition, the Administration proposes the creation of an Electricity Outage Investigations Board to investigate major electricity outages, the establishment of joint Federal-State meetings to consider transmission capacity additions and the establishment of regional transmission planning and siting groups. Finally, the Administration proposes to provide FERC with the authority to require transmitting utilities to turn over operational control of transmission facilities to an independent regional system operator. Without these additions to Federal law, effective regional markets cannot develop.

- **Updating Federal Law**

The electric industry is also hampered by statutes which inhibit the development of competitive markets. The entire Federal electricity law framework dates from the New Deal and is premised upon State-regulated monopolies rather than regional competitive markets.

In the Administration's bill, we propose to repeal the Public Utility Holding Company Act of 1935 and replace it with greater FERC and State Commission access to the books and records of holding companies and the affiliates of public utilities within the holding companies to assist in guarding against interaffiliate abuses. The Administration also proposes to repeal the "must buy" provision of section 210 of the Public Utility Regulatory Policies Act prospectively in favor of a more flexible and economically efficient renewable portfolio standard. Such Federal law must be updated so that it stimulates, rather than stifles, competition.

- **Obtaining the Full Benefits of Competition**

The States alone cannot obtain the full economic and environmental benefits of competition for American consumers. Without comprehensive Federal electricity restructuring legislation, neither State nor Federal regulators will have the necessary tools to ensure that regional electricity markets are truly competitive and operate as efficiently as possible. Moreover, there will be no assurance that support for renewable technologies and other important public purpose programs will continue.

To protect competitive markets, the Administration proposes to provide FERC with additional authority over mergers and to address market power. In addition, to ensure continued support for renewable technologies, energy efficient technologies, and other public benefits, the Administration proposes the establishment of a Renewable Portfolio Standard and a Public Benefits Fund. The Administration also proposes to remove barriers for the effective development of distributed power and combined heat and power technologies. Without these and other federal initiatives, the gains to consumers, the economy, and the environment which we expect under the Administration's Plan will not be fully realized.