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# FEDERAL ENERGY REGULATORY COMMISSION



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## NEWS RELEASE

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### COMMISSION ISSUES WHITE PAPER ON BULK POWER MARKET DESIGN, FOCUSES ON RTOS WHILE CITING DEFERENCE TO REGIONAL NEEDS

In a White Paper issued today, the Federal Energy Regulatory Commission emphasized its strong commitment to customer-based, competitive wholesale power markets, while underscoring an increasingly flexible approach to regional needs and outlining step-by-step elaborations of its key market design proposal.

In its final rule, the White Paper said, the Commission will focus on the formation of regional transmission organizations (RTOs) and on ensuring that all independent transmission organizations have sound wholesale market rules. The final rule, the White Paper indicates, will allow implementation schedules to vary depending on local needs and will allow for regional differences.

The White Paper notes that the Commission's proposal has taken into consideration the experiences in this country and abroad in electric market design, including the effects of supply shortages, demand that does not respond to high prices, lack of price transparency in the marketplace, and the importance of market monitoring and market power mitigation.

After ten months of unprecedented outreach and dialogue with state commissions, the public, industry, and consumer groups, the Commission issued a market design proposal in July 2002. Since that time, the Commission has continued its extensive outreach efforts with interested parties and has reconsidered several aspects of its proposal in addressing concerns raised by various stakeholders.

Chairman Pat Wood, III commented: "I hope the White Paper will prove helpful

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in the debate on regulation of the bulk power markets. We will continue to consider carefully the comments of all interested parties as we maintain our comprehensive outreach to the states and other stakeholders. We will also closely monitor any pending legislation in Congress. In the end, when we have the rules right, customers benefit. The core elements of our proposal will combat the type of market flaws that led to the California crisis three years ago."

The White Paper responds to the numerous comments on FERC's proposal and provides direction for the final rule expected later this year. It notes that a well-designed market will enhance wholesale competition and remove economic inefficiencies.

The proposal advances the competitive markets envisioned by two earlier Commission orders--Order Nos. 888 and 2000. Order No. 888, issued in 1996, opened up the nation's transmission grid through open access transmission tariffs. In 1999, the Commission issued Order No. 2000 which called for the voluntary creation of regional transmission organizations (RTOs). RTOs bring about increased efficiency through improved grid management and increased customer access to competitive power supplies.

The proposal is designed to establish a customer-based wholesale power market platform. Among its customer-focused objectives are:

- \*reliable service--sufficient power to meet demand;
- \*fairness--transmission and power at just and reasonable rates;
- \*stability--service in a marketplace marked by certainty and fairness;
- \*predictability--good price signals to encourage investment in needed generation and transmission infrastructure; and
- \*innovative technology--future technological advances will be accommodated.

In addition, the proposal envisions a significant role being played by regional authorities in setting up regional power markets.

The White Paper stresses that the Commission will rely on regional state committees to address significant market design features for their regions while ensuring that "seams" issues between regions are minimized. State commissions and market participants in each region will have sufficient flexibility to work out the details of how certain core elements will be implemented in their respective regions.

In the White Paper, the Commission, taking particular note of comments received

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on its proposal so far, says, among other things, that:

- \*recognizing that practically all public utilities have voluntarily joined RTOs or independent system operators (ISOs), the Commission will direct the remaining utilities to join an RTO or ISO;
- \*FERC jurisdiction over the transmission rate component of bundled retail sales is not needed to implement the plan;
- \*provisions in the proposal regarding transmission planning and resource adequacy will be changed to make clear that state and local governments are decision makers in these areas and that FERC's role is a supporting one;
- \*the Commission will emphasize the need for a transparent, well-monitored spot power market for last-minute imbalances between supply and demand (as well as other voluntary trades) and adopt a fair method of allocating costs of transmission grid congestion;
- \*the final rule will permit regional state committees to oversee the allocation of firm transmission rights to current customers based on existing uses of the grid; the Commission will not require that such rights be auctioned;
- \*the Commission will look closely at mitigation proposals for their compatibility with RTOs within the same interconnection;
- \*the RTO or ISO will develop detailed market rules to be included in its Commission-filed tariff;
- \*the rule will give substantial weight to the committees on the determination of the method that will be used to allocate costs of existing and new transmission facilities;
- \*certain core features (independent operation of the grid, establishment of regional state committees and development of a regional transmission plan) will be required at the onset of the proposal but RTOs, ISOs and their regional state committees may work out a timetable and budget for implementation of remaining elements (energy markets, congestion cost allocation and market monitoring);

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\*the Commission will allow flexibility on scope and configuration for ISOs; and

\*network access service could serve as a baseline service offered by all RTOs and ISOs that use locational prices. RTOs and ISOs would be free to propose improvements or modifications to meet regional needs.

Overarching principles of independent governance for RTOs will be included in the final rule but the Commission will decide governance issues on a case-by-case basis. The final rule will not override governance already approved. Nor will the Commission override decisions made without reservation in prior RTO orders in which the Commission noted an overlap with the proposed role.

A standard tariff provision limiting liability for transmission providers will be included in the final rule.

For the purposes of the final rule, all of the characteristics and functions for RTOs would apply to ISOs except for scope and regional configuration.

Interested parties are invited to comment on issues related to flexibility of the rule's implementation, regulatory jurisdiction, market monitoring, market power mitigation, native load, the role of independent transmission providers and the time line for implementing the final rule. Details on the Commission's revisions to its proposal may be found in Appendix A of the White Paper.

The complete White Paper is available on FERC's website– [www.ferc.gov](http://www.ferc.gov).