
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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COMMISSION ADDRESSES CALIFORNIA ELECTRICITY MARKETS, ORDERS INVESTIGATION

The Federal Energy Regulatory Commission today ordered a formal investigation of the electric rates and structure of California's Independent System Operator (ISO) and power exchange (PX) as well as market-based sellers in the California market.

The decision to launch a formal investigation was taken at this time so the process can be accelerated when the Commission staff concludes a previously announced nationwide fact-finding probe of electric markets and recent price spikes. The findings of the national probe will be presented to the Commission which will then decide on any formal action. Today's order directs staff to focus its investigation as soon as possible on California and the Western region and also launches the separate formal Commission investigation in California. The formal investigation will permit the Commission to take remedial action if rates are found to be unjust and unreasonable.

The California investigation comes in response, in part, to a complaint from San Diego Gas & Electric Company (SDG&E). It is appropriate, the Commission said, to investigate not only public utility sellers' rates in the ISO and PX but also the tariffs and agreements of the ISO and PX to determine whether market rules need to be modified.

Chairman James J. Hoecker commented: "SDG&E has asked us to limit what it believes to be excessive rates in the California wholesale market. We did that three weeks ago. Today, we affirm that action. This order demonstrates that the Commission is committed to reasonable rates for consumers of power. I believe we must pursue that goal vigorously within the limits of our authority. I therefore directed staff two weeks

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ago to accelerate the California portion of our national market investigation. And, I anticipate that at least one hearing pursuant to today's order will be held in San Diego. We do not find finger-pointing to be helpful at this juncture. Rather, the Commission recognizes the importance of getting all the facts before passing judgment on how this circumstance could have been avoided or what we must do to ensure that power markets function well in the future."

The Commission has said that while many of the factors that have contributed to recent increased prices in California's retail market are under the jurisdiction of state regulators, the Commission is committed to working with California officials to ensure that consumers have an efficient, affordable and reliable electric power market.

In addition to the new investigation, today's action denies the San Diego utility's request for an immediate broad \$250 per MWh price cap on all sellers in California. SDG&E did not present evidence that all potential sellers in California have market power, nor did it show why a broad price cap would be an appropriate response, the Commission said. Importantly, however, although today's order finds that immediate seller price caps were not justified on the existing record, the order does not disturb the California ISO's recent decision to set its maximum purchase price cap for imbalance energy and ancillary services at \$250 per MWh. The ISO's actions to change purchase price caps were sustained in an order issued by the Commission three weeks ago. The ISO purchase price caps will mitigate pricing volatility and serve to discipline prices in both the ISO and the PX, the Commission explained.

The national investigation was ordered July 26 to determine if the electricity markets are operating efficiently as the industry transitions to a more competitive marketplace.

Earlier this month, Chairman Hoecker, in a letter to California Governor Gray Davis, assured the Governor that the Commission is committed to finding solutions to Californians' concerns about electricity prices. Last week, the Commission's General Counsel Douglas Smith testified in California that the Commission is working with California officials and emphasized the Commission's ongoing investigation into electric bulk power markets. Daniel Larcamp, the head of the Commission's Office of Markets, Tariffs and Rates, will participate in a hearing scheduled by the California Public Utilities Commission in San Diego this week.

