BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF:
SOUTH JOINT BOARD ON SECURITY:
CONSTRAINED ECONOMIC DISPATCH:

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Hyatt Regency on Capitol Hill
400 New Jersey Avenue, N.W.
Washington, D.C.

Sunday, February 12, 2006

The above-entitled matter came on for a conference, pursuant to notice, at 9:40 a.m.

PRESIDING:

JOSEPH KELLIHER, Chairman
CHAIRMAN KELLIHER: Why don't we start here?

First of all, I'd like to thank everyone for being here this morning. This is the hardy few that came out in a very wet snow storm to talk about security-constrained economic dispatch.

It's a very different setting from our last meeting in California. The climate is different; same subject, though.

But this is the second meeting of this Joint Board. It's really an experiment in Federalism.

We have not had that many Joint Boards in this City. We've all had a lot of telecons, but I really enjoyed the last meeting. We had a very discussion of the issues.

Today I thought the discussion would really focus on the document that we circulated. We were charged to study the security-constrained economic dispatch in the South, and then make recommendations to the Commission.

The Commission, in turn, would report to Congress, including any consensus recommendations from the Joint Boards. So, the first question is to look at the document we circulated and see, does it really fairly reflect the discussions we had on the subject in November, then look at the second document on recommendations.
Those recommendations were pulled straight from the record in most cases. They also reflect some of the recommendations in the DOE report that was issued shortly after our meeting.

I'm not saying they're my recommendations of Jimmy's recommendations, but they're really ones that emerged out of our prior discussion. We can work through those after we talk a little bit about the draft study and see if people are comfortable with the draft study, or if there are changes they want to make to it, and then we can start talking about recommendations.

The next step would be to recapitulate today's discussion, and to the extent we agree to make recommendations and we agree on the recommendations we should make, we would wrap that up into a report from this Joint Board to the Commission, to FERC. That's basically the agenda for today.

I'd like to ask my Vice Chairman, my new Vice Chairman, to make some comments. Mike Callahan has moved on to greener pastures, and Jimmy has stepped in as the new Vice Chairman, and he's helped with the documents that we circulated previously.

MR. ERVIN: I don't have anything in particular to add to what Joe said. Unlike Mike, he and I didn't have a meeting where Joe could steal all of Michael's thoughts,
because I didn't have any to begin with, but I'm glad to see all of you this morning.

We also agree that the meeting we had in Palm Springs was interesting and worthwhile. I thought one of the better aspects of it was that it was one of the very few times that I have seen an actual interchange on some of the issues get debated in the region.

But people actually had a chance to follow up on assertions. You hear a lot of assertions about many different subjects from many different points of view, and it was helpful, to me, at least, to actually have a chance to explore some of them in depth.

I left the room thinking I had a better understanding of the situation than I did when I came in, which has not always been the case in the meetings I've been to. Again, I appreciate all of you being here this morning and look forward to hearing the discussion today.

CHAIRMAN KELLIHER: Why don't we just go around the table and would you all identify yourselves for the record, and feel free to make any comments you want. Once we go around the table, we can start talking about the study.

MR. HAMILTON: G. O'Neal Hamilton, South Carolina PSC.

MR. SULLIVAN: Jim Sullivan from the Alabama
Public Service Commission.

MS. HOCHSTETTER: Sandy Hochstetter, Arkansas PSC.

MS. EPPS: Pandora Epps from the Georgia PSC.

MR. CLOUD: Jeff Cloud from the Oklahoma Corporation Commission.

MS. BACA: Shirley Baca from the New Mexico Public Regulation Commission. I'm also on the Western Board, so I appreciate that you didn't hold both Boards at the same time.

DR. GARBACZ: Chris Barbacz on behalf of the Mississippi Commission.

MR. HINTON: K.C. Hinton for the Florida PSC.

MR. HOLLOWAY: Larry Holloway with the Kansas Commission staff sitting in for Brian Moline. I don't know whether he's here or not, but --

CHAIRMAN KELLIHER: Okay.

We previously circulated a draft study. Why don't we turn to that and see if any of the Board members have comments on the draft study. We think that fairly would reflect the discussion we had last meeting.

If you think it does fairly reflect the previous discussion, we don't have to do a line-by-line review of the study; we can just go straight to recommendations. Do we want to make recommendations, and, if so, which
recommendations are the choice of the Joint Board members?

Sandy?

MS. HOCHSTETTER: Clarification questions: If we have minor wordsmithing suggestions, would we just convey those to someone?

CHAIRMAN KELLIHER: Sure. We can do the edits offline, so that we can really talk about policy, so, to the extent you have policy issues on the draft study, let's talk about those. But if it's wordsmithing, we can do that offline.

Any comments on the draft study? It follows a bit the format of the documents we released in November, so it's not real new.

The parts that are new, are the parts that reflect the discussion from November. I think those are intended to be a fairly Joe Friday discussion of what we did in November, and pointing out the major issues that came up at the Joint Board meeting, both in the oral testimony, as well as the written comments that were submitted afterwards.

Jim, did you have comments?

MR. SULLIVAN: Not yet.

(Laughter.)

MR. ERVIN: To an extent I remember what people said, they think the document was an accurate reflection of the comments and what I understood to be in the written
record. I didn't have any concerns about the report. It is intended, as you said, to be a Joe Friday factual document.

CHAIRMAN KELLIHER: The thing that adds to what was previously circulated, identifies the issues that were discussed at the last Joint Board meeting, so, really, the question for us, if we don't have any changes we want to discuss to the draft study, is, what are the recommendations we want to pursue that are relevant to these issues?

As we talk about recommendations, one thing to bear in mind is that Congress has told us that the purpose of this Joint Board is limited to studying security-constrained economic dispatch and the issues associated with that.

We're not supposed to get too far afield from that general subject as we consider recommendations. I'd also like to point out that Julie Parsley of Texas is listening in, so she's here electronically, as well.

Any comments on recommendations out of the second document that was circulated? It starts at Attachment C of the document. I think we should probably just go down and look at those one by one.

Now, again, these recommendations reflect the record, both the oral testimony and the written comments in November. The first bullet is a discussion about trading hubs.
There was some concern that some of the hubs in the South don't have the same liquidity and aren't as good a measure of price as the trade hubs elsewhere. For example, some of the trading hubs in the organized markets, as well as some of the trading hubs, say, the Palo Verde Hub and the Mid-Columbia Hub and the California/Oregon border hub. Those are very good sources of price information.

So, one of the issues that came up in November, one of the recommendations is to somehow improve the quality of trading hubs in the South, by introducing a day-ahead market and expanding the scope of economic dispatch. That was the recommendation that came from the record.

There's also more general issues under other ways to improve the quality of trading hubs. It seems that improving the quality of trading hubs -- to me, that seems to be generally a good thing. It's hard to find that objectionable.

It doesn't necessarily mean introducing a day-ahead market, it doesn't seem to me, but, you know, I think that generally improving the quality of trade hubs, I have a hard time conceiving what's the down side to that, what's the negative to that. Sandy?

MS. HOCHSTETTER: I have a supplemental comment. It seems like you would need, if you're going to have a trading hub that's fairly effective, that you at least have
some sort of independent overseer of that trading hub, such as with the Entergy Region. They're suggesting that SPP be the overseer of the weekly procurement market.

I remember Carl Monroe saying that once you had that with the system up and running, it would be a very nominal additional expense to have a day-ahead market, but, as a preliminary matter, you would have to have some sort of entity, some sort of assisting process, in place.

So, there may need to be some sort of a cost/benefit analysis performed to see whether or not in that particular region -- certainly in the Entergy region, the SPP region, there's already been studies to demonstrate that. But I'm not sure that it could be uniformly done. I think it's more another question that I have in terms of how do we implement this informally without an entity?

CHAIRMAN KELLIHER: I agree with you that RTO trading hubs are a very good source of price information; very good price transparency in the RTO trading hubs. But there are non-RTO trading hubs that are equally good sources of pricing information.

The Cinergy hub, before MISO's A. T. Markham established that as a very good source of pricing information, and, currently, Palo Verde, Cobb and the Mid-C trading hubs, those are all non-RTO trading hubs, and they are a very good source of price information.
I think it is possible to improve trading hubs, without an independent entity. It's possible.

MR. ERVIN: It seems to me, looking at this reservation, I have two thoughts about it. One, as you say, I don't see any downside to improving a hub. I can't see any reason anybody could have a problem with that. I do think, without saying you need an independent entity per se -- somebody would obviously have to have some confidence in the accuracy of the numbers that were reported from the hub and things like that.

The second thing is, it seems to me that it should also be something, at least in our region, that would be voluntary. If people could participate, if they are willing to, but we're not required to, in the absence of some kind of state condition-derived obligation that the retail load be first through such a hub. So my thought was, the way to respond to this one is to say yes to the improvements and development of improvements for hubs.

It would be a beneficial thing. At least for now, they ought to be voluntary. Picking up on Sandy's point, it would be a good idea that they be operated in such a fashion that folks had confidence in the way that they were operating, but I'm not sure how far you'd need to go in order to establish some formal entity in order to operate a successful hub. I don't know enough about them to have an
opinion on that.

MR. HAMILTON: If I could speak to the second part of Jim's discussion, in South Carolina we would agree with the fact that it should be voluntary and not additional regulations at the federal level on these situations. I think that would best serve our market.

CHAIRMAN KELLIHER: Jim, do you have any comments?

(No response.)

CHAIRMAN KELLIHER: Any other comments on trading hubs? Yes, sir?

MR. HOLLOWAY: It seems to me that -- in the Southwest Power Pool, we're in the process of trying to develop and energy imbalance market. It seems to be that it would be a little bit premature to try to designate a hub, when that price signal and the stuff in that market itself may be very relevant. It may be a natural migration toward the hub that's relevant to a larger area.

Just as you force a hub without really looking at the congestion around it, it's hard to say how well it would work for people that can't receive or trade power physically.

DR. GARBACZ: The Mississippi Commission just wants to go on record as saying that the voluntary aspect would probably make this acceptable to us.
CHAIRMAN KELLIHER: Again, the non-RTO hubs are voluntary hubs, to my knowledge, but one thing I think might help us is if we look at more information on how they operate and which ones are reliable, which ones are not, and to what extent -- why are certain hubs reliable and why are certain hubs not?

There was something pretty recently -- there was some analysis of trading hubs that looked at the volume of transactions and clearly put them into different categories in terms of reliability of price transparency. So why doesn't the Commission circulate some more information on the trading hubs to help us on this?

I think, if we can, in the end, adopt some kind of recommendation on encouraging the improvement of the quality of the trading hubs, that seems to be -- again, I struggle to find a good reason why you wouldn't want to have price transparency in the South, better price transparency in the South.

I'm not sure exactly how we do that, but it seems like it's a pretty reasonable goal to pursue. Why don't we do that on the Commission side? We'll circulate some information on trading hubs, and in future discussions, probably electronic or over a conference call, we can talk about trading hubs.

MS. BACA: Chairman Kelliher, is this also going
to be an issue that will be brought up in the West? I think your point about providing the information is good. We only have a small southeastern portion of New Mexico that's in the Southern Pool with SPP.

It would be interesting to know for other states that have a multiple or dual jurisdictional area, what that information is.

CHAIRMAN KELLIHER: Sure, no problem. Did this come up? Was there a trading hub discussion?

MS. BACA: Not as much. You know how the West is, very independent, so we did keep our Western market separate.

CHAIRMAN KELLIHER: In the case of the western trading hubs -- we are webcasting this, at least the audio we're webcasting, so we have to speak into the mikes for the Sunday morning economic dispatch junkies.

(Laughter.)

CHAIRMAN KELLIHER: Or they're not going to hear all of our discussions. Thank you.

Is there any more discussion on that first recommendation, the first bullet?

MR. ERVIN: In the second part of it, it also talks about expanding the scope of the economic dispatch. I would not that this was an issue. I believe it was qualified by the NCEC representative at Palm Springs.
Certainly, if that could be done through existing processes, I don't think anybody would have a problem. I put a number of questions about it at times, to find out what that meant, and I don't really recall getting a very clear understanding of what that meant.

So, in the absence of doing that, we have some obligations to these folks who took the trouble to make these recommendations, to comment or at least to acknowledge that we got them.

The second aspect of this one is one that I have a little bit of trouble grappling with. I'm not quite sure exactly what they meant. If they meant to go to a super regional dispatch, as you find in PJM or some of the others, I don't think the region is prepared to do that, because I don't think that -- the existing cost-benefit information we developed a number of years ago was not all that promising.

In the absence of some better idea of what this meant, I'm a little bit reluctant to endorse it, based on what I know now.

CHAIRMAN KELLIHER: Thank you for stating it clearly, Jimmy. You're right; it says the recommendation is improved quality of trading hubs in the South by introducing a day-ahead market and expanding the scope of economic dispatch.

What expanding the scope of economic dispatch --
right now, it's done outside of FERC, at least in SPP, assuming SPP has an imbalance market, outside it would be in ERCOT. It would be done on a utility-by-utility basis, and if you're going to expand the scope of economic dispatch beyond the utility footprint, there has to be some institution, and it's hard to see that it's not some kind of RTO, and that doesn't see to be the way the region wants to go at this point.

    Even an ICT, I'm not sure how an ICT would necessarily expand the scope of economic dispatch, for example, if there was an entity -- there is an entity up now. It's not necessarily clear that the energy hub would have more liquidity, if it were established.

    MS. HOCHSTETTER: I'm glad that you called that out. That was going to be my next comment.

    I think, at least as I'm looking at the concept of an ICT, to the extent that the ICT was asked to help look at a broader array of generation options, and look at a weekly procurement process and perhaps a day-ahead market or whatever, it would be expanding the scope from the standpoint of the scope including more generation options, not necessarily the scope of the footprint, but the scope of the generation choices through transmission planning and looking at additional economic opportunities.

    I think it kind of gets down to how you scope it.
I think it's possible.

MR. ERVIN: It seems to me that maybe the best way to respond, which is maybe consistent with what Sandy says, would be to indicate that the expansion of the scope of economic dispatch might or might not, depending on how it's done, be a sensible thing to do.

As you indicated, it would clearly require the creation of perhaps an additional institution that might or might not be cost-beneficial. Maybe the best way to respond to this one, would be to suggest something along the lines of a voluntary proposal, and receive the appropriate approval from FERC and state commission approvals, where required, might be a good thing.

It would require further investigation. But they would need to remain, a), voluntary, and, b) subject to the appropriate regulatory approvals.

CHAIRMAN KELLIHER: I think that makes sense. The Commission is certainly not hostile to ICTs. We approved two in December and Entergy is still pending, so we're not hostile to the institution.

We think it can improve the quality of transmission service. The Commission also has some discretionary authority under the Energy Policy Act, on transparency, and it's actually a pretty broad authority where we can take steps to assure greater transparency of
wholesale power sales and transmission service. So this is an area where, if there was consensus among the Joint Board Members, that it's a good thing to have improvement in the quality of trading hubs. One recommendation would be that the Commission should consider exercising is discretionary authority to require great transparency, so that would be a way to improve the quality of trading hubs.

That's different, but not inconsistent with introducing a day-ahead market and expanding the scope of economic dispatch. It's achieving the same goal by different means, perhaps. That could include some reporting requirements.

Any more discussion on trading hubs?

(No response.)


Any comments on this recommendation?

MS. HOCHSTETTER: When I read the second bullet, I think of the ICT approach as being an incremental opportunity to get that transparency, and, of course, we could also partner with the Commission under the statutory authority and do that. I would be very supportive of that.
CHAIRMAN KELLIHER: The ICT, conceptually, we support it. We haven't got a mandate on it, we haven't required it, we haven't conditioned any merger on it, but when they've come forward, we have approved two and we're still considering one.

Any comments on this bullet?

MR. ERVIN: This, I guess, is going to be a persistent theme with a lot of what I say today. Generally speaking, who is against transparency? It's about as close to mother, God, and apple pie as you're going to get in this world.

It seems to me the bigger question is, how do you get there and under what circumstances? What do you mean by "transparency" and things of that nature.

Again, dealing with the generality of these recommendations, it seems to be that about all we can say is, yes, transparency is a good thing, as a general proposition. If there are ways to improve it, we ought to take advantage of them, but, again, they ought to be, at least in the near term, voluntary and subject to receiving the appropriate regulatory approvals from you and from us.

At least at the state level, that's likely to mean that they pass some kind of basic cost-benefit principles.

CHAIRMAN KELLIHER: Pandora?
MS. EPPS: Thank you. With respect -- I just wanted to echo that I do agree with the comments made by Commissioner Ervin. Maybe just a point of clarification; the bullet talks about creating transparency. Maybe we could say "improving transparency."

CHAIRMAN KELLIHER: I think that's true.

MR. HAMILTON: I would agree with Commissioner Ervin and Commissioner Epps, also. The point that we have on the South Carolina Commission, is that we feel that we aren't broke and we don't really need to do a lot of fixing or bring about any other innovations that are unnecessary. We feel like we have an obligation to our customers, consumers, to protect the good rates that we do have in South Carolina. We think they are -- we think our companies are providing excellent reliability. We don't have any great problems.

We are concerned about, when we go into these transmission, who's going to pay for it? We don't think our ratepayers should pay for something where the benefits are going to be for someone else.

These are the thoughts that our Commission is going to carry forward throughout our discussions. Thank you.

DR. GARBACZ: The Mississippi Commission is essentially in agreement with what the previous speakers
have said.

CHAIRMAN KELLIHER: This is one where I agree with Sandy. The ICTs, one of their main purposes is to improve transparency.

The Commission has never mandated them, and I don't think we're going to mandate them, but we would encourage them. We'd want to do it -- there is one in the South already. Entergy has proposed one, as well, so two of three ICTs have actually been proposed in the South.

On transmission capacity expansion, the Commission has had a relevant recommendation in other contexts. As to transmission pricing, we proposed the idea of jurisdictional utilities reporting to the Commission on their transmission investment, their planned transmission investments.

A lot of the data on transmission investments is a little mushy. You have announcements of intent to investors, but then the question is, are the sums invested? What's the progress on some of these major projects?

There's a lot of planning in the transmission area, that sometimes the implementation of those plans is a little bit obscure. So the Commission proposed that jurisdictional employees report on an annual basis, what their investments were in transmission in the previous year, and identify major projects and progress on those major
projects.  

Again, that's just to assure greater transparency. It's the kind of thing that happens on the generation side. 

There's reporting right now to the Department of Energy, where the Department of Energy tracks announced generation facilities and percentage completion of those announced generation facilities. You can look at -- I think it's a quarterly report; it might be annual, but if you look at the reports and you see a project stay at ten percent for a couple of reports, it's probably not going to make it, or it's moribund, at least. It's the kind of thing that can help assess progress of the investment on the transmission side. 

I just wanted to note that we have at least proposed something along those lines to improve transparency with respect to transmission capacity expansion. I don't know if anybody had a reaction to that. Is that a good thing?

MS. HOCHSTETTER: On behalf of Arkansas, I think that's a great thing. That's obviously something that I think you would do, but, outside that context, what you might -- I don't know what the problems would be for this, but what you might at some point also request, is which one of those upgrades are for reliability or incremental growth
purposes, versus which ones are economic upgrade investments
to gain access to more economic sources of energy.

MR. ERVIN: I guess I had a couple of reactions
to the recommendation with respect to capacity expansion.
We might as well get to this now.

Certainly the development of transmission
expansion plans is appropriate. I don't think there's any
question, but that there are endeavors, at least within
North Carolina, that we have supported to try to improve the
process of planning for those expansions.

On the other hand, I'm a little concerned about
getting afield with respect to this expansion
recommendation, because what we're supposed to do is study
security-constrained economic dispatch, and the principles
of -- security-constrained is essentially the capacity of
the system.

I realize that if you change capacity
constraints, that might change the nature of the dispatch, so I can see how you can relate it to the this subject, but
I'm a little concerned that if we get into the extensive
recommendations about transmission capacity expansion, we
may be going beyond our charge.

Sandy and I had a little bit of a discussion
about this before we started. She has a different view. I
wanted to at least state that, so that she and I could get
this started.

MS. HOCHSTETTER: Thank you for opening that up, Jimmy. Actually, I think the charge to the Board in the original implementing document, did talk about ways to improve economic dispatch, in other words, this Board was not just supposed to look at the status quo, but at what improvements might need to be made to economic dispatch.

I think that an enhanced regional transmission planning process that's independent and involving multiple stakeholders, that looked at economic upgrade prospects, is a way to improve the economic dispatch. Obviously, that's something that may or may not be something that some states want to do, but I think that does fit within the parameters of this particular Joint Board in terms of the instructions that we all had to look at the subject.

CHAIRMAN KELLIHER: As I mentioned earlier, the trading hub does have this general authority to ensure greater transparency of transmission services, as well as wholesale power sales. This is an area where we could conceivably have some reporting requirements to particularly explain transmission service denials or transmission management.

We do have now, some authority, and we think transparency is a good thing; we should have it, not just in the area of trading hubs, but on transmission service. We
have some discretionary authority to require reporting to accomplish that.

Any other discussion on this second recommendation?

(No response.)

CHAIRMAN KELLIHER: Let's move on to Establish an ICT to Provide Independent Transmission Planning for Optimizing Transmission Construction for Reliability as Well as Economy and Oversee System Operation. The ICT would help to eliminate some of the concerns raised by independent power producers and transmission-dependent utilities.

MS. HOCHSTETTER: I will agree that this ought to be modified to reflect the consensus of the entire southern region, but it ought to be modified to say where the economics have been demonstrated, the cost benefits, and where the state and federal regulators approve that concept, subject to their individual statutory requirements, etcetera. I think that's perfectly fine.

MR. ERVIN: It seems to me that there's clearly an interest in multiple places within the region on this kind of arrangement as a way to deal with some problems that everybody acknowledges exist, without going whole-hog into RTOs.

As long as the proposals are voluntary and satisfy the relevant regulatory criteria, I don't see any
reason why they might not be an appropriate solution, or
something even, perhaps, like the voluntary planning process
that North Carolina is trying to start as yet another
permutation on this kind of arrangement. It might be
something we could look favorably upon as a potential
solution.

CHAIRMAN KELLIHER: Let me just comment on this,
as well. I think it should be styled more in the form of
encouraging ICTs, than "establish," because the Commission -
believe me, to establish ICTs, it seems we would have to
make a finding that there's undue discrimination and that
ICT is a remedy for that discrimination, therefore, an ICT
is required.

That's not what is coming before the Commission
today. There hasn't been -- a filing hasn't been premised
on undue discrimination and an ICT remedying that undue
discrimination.

It's always been that it will improve the quality
of transmission service; it will improve transparency, so it
seems we should be encouraging ICTs, rather than
"establishing." Any comments? Jeff?

(No response.)

CHAIRMAN KELLIHER: Let's work on down. The
fourth recommendation: Establish an independent monitor to
monitor and prevent market power abuse.
This is an area where the Commission, as you know, over the years, has established market monitoring for the organized markets. The RTOs all have market monitors. They have, actually, a variety of market monitors. They have internal market monitors; they have externals; some have both -- many have both. There's also some market monitors who are individual companies. I think there's one in New Mexico. The Public Service Company of New Mexico, as an aspect of its merger with Texas-New Mexico Power, has established a market monitor.

I think there's perhaps something like six market monitors outside the RTOs in individual companies. So it is something; it's an institution that doesn't exist in the RTOs, and that's relatively sound, but they typically sometimes -- they are for transmission more than for wholesale power sales, but they are like a neighborhood watch.

If they see a behavior that might violate the Federal Power Act, then they warn the Commission that there's a possible violation there. They are really like a neighborhood watch system, if you will.

This recommendation is advanced by SPP, apparently, by Mr. Monroe at SPP.

MS. HOCHSTETTER: I have one thought on this. I think Mr. Monroe's comments were probably more in the
context of SPP as both an RTO and an ICT.

They have an internal market monitor. As a matter of fact, even with the ICT proposal, there would not be an external market monitor in the SPP RTO; there would just be their internal market monitor to perform that function within the ambit of the ICT framework.

So, to the extent that a region or control area decided to use an ICT, this might fit in with that. I'm not really sure that I can see the value of an independent monitor, unless someone can correct me. I'm not sure that there are in the South.

CHAIRMAN KELLIHER: There were some at Entergy. I can't -- I'm not aware of market monitors outside, in the South, other than Entergy, which had a few to look at solicitations.

MS. HOCHSTETTER: That was just in respect to being in full compliance, so it's an ongoing market monitor.

MS. BACA: Mr. Chairman, in those situations where they have market monitoring, independent monitoring, don't they usually do it like in the case that we have with TNM, where they have different jurisdictions, in terms of like the Southwest Power Pool.

CHAIRMAN KELLIHER: I think they would. To my knowledge, they don't report just to FERC; they might report to state commissions, they might report to SPP, or to FERC.
I think they have a variety of reporting instructions.

MS. BACA: I think they have a little bit different reporting jurisdiction. It works better for them, don't you think?

CHAIRMAN KELLIHER: For the ones in SPP and the organized markets? They tend to have broader responsibilities than the ones that relate to one particular company.

The market monitor at PNN has a much more limited role than, say, the market monitor at PJM or MISO, just because in the organized markets, they'll be looking at wholesale power sales, as well as transmission service. I think they just have a broader portfolio.

DR. GARBACZ: If it is established, I'm not sure that the Mississippi Commission is in favor of that. Really, I don't understand exactly why we would need such an entity.

CHAIRMAN KELLIHER: They have been erected sometimes to guard against affiliate abuse, and competitive solicitations. Sometimes I think that is the rationale for some of the Entergy market monitors, to make sure that the solicitation is run properly and fairly.

That's something that doesn't implicate the state when the state is acting properly as a buyer. At least Entergy's jurisdiction didn't oppose --
we didn't oppose. But what I'm essentially saying is, if
the recommendation is to establish, there is more than one
utility in the Mississippi area, and obviously in other
states as well, that may not be interested in opposing this.

MR. HAMILTON: I wonder if possibly we can do
what you did in the point above, and remove "establish," and
put in "encourage."

MR. ERVIN: Another alternative I was going to
suggest, would be to say that in the event that you had some
proposals that might be worth further exploration, that this
might be one of the duties that might be assigned, or that
might not be taken on by one of those entities, so that you
didn't wind up with a freestanding market monitor.

While I can't see anybody being in favor of
market abuse -- that's another motherhood and apple pie
issue; nobody's for that -- I think there's a lot of issues
that have to be resolved in developing such a proposal, and
I'm having a little trouble seeing how a freestanding one
would work. I know this is a component that we proposed.
It's also involved in the SPP and the Entergy proposals, as
well.

So, maybe we could do it perhaps as part of some
of these other. If they otherwise pass muster, people could
think of including this function in there.

CHAIRMAN KELLIHER: So you mean this would be a
function of an ICT?

MR. ERVIN: Or some other kind of entity. It would be a function -- it should be a component of such a proposal of a voluntary nature.

MS. BACA: That's what I wanted to add. In the case of New Mexico, it should be voluntary, as it has been, and I think that, depending on our own circumstances, voluntary, to me, is important.

CHAIRMAN KELLIHER: I agree. I could see how a market monitor might be different than an ICT, because a market monitor could be established under state authority, not federal authority, and the utility -- it could be where the utility doesn't have significant generation and is also a wholesale purchaser. They want to be sure that you're getting the best price for the retail consumers in your state. You have to have a market monitor for this kind of solicitation, and that would have to be a particular state arrangement.

But that would be difficult for an ICT to involve any kind of a review of a transmission service. It is different. It could be the same, but it could also be different, but I agree with the general point that we didn't want to suggest that somehow it be mandated across the entire South.

States can mandate them, if they believe it
necessary to protect retail consumers in the states. We have required them for organized markets.

Okay, any other comments on market monitors?

(No response.)

CHAIRMAN KELLIHER: Seeing none, let's go to Bullet 5, Recommendation 5: Create an energy broker such as the Florida brokers' system or the automated interchange matching system used in the early 1990s.

I have to admit that I'm not fully educated on the Florida broker system.

MR. ERVIN: I've never heard of it. It seems to me that this subset of the trading hub discussion that we've already had, to the extent that I understood what we were talking about, it sounded like they were a form of an interchange mechanism. I, at least, before I say a lot about it, I would like to find out.

CHAIRMAN KELLIHER: Do we have a knowledgeable Florida broker sitting here?

MR. FUTRELL: I'm Mark Futrell of the Commission staff in Florida. I'll give you a brief description.

The broker existed beginning in the early 1980s, and was a cost-based systems where in control rooms in utilities across the state, there was a computer dedicated to the broker. If utilities had excess energy, usually on a day-ahead basis, they would make that energy available, and
others that needed power -- or that was maybe an economical choice -- would make bids, and there would be the opportunity to split savings on purchases and sales.

Through the '90s, as some of the things changed with some of the FERC directives and markets, and we worked bilateral contracts, the brokerage gradually ended about the mid-'90s or a few years after that.

CHAIRMAN KELLIHER: Does the Florida Commission think that it was a good experiment and something that should be encouraged elsewhere?

MR. FUTRELL: It certainly was effective in creating savings for the ratepayers, certainly.

CHAIRMAN KELLIHER: A mechanism to assure sharing, splitting the proceeds?

MR. FUTRELL: Correct, in a way to economically use excess generation and to make it available on a short-term basis.

MR. HOLLOWAY: Just from that description, it seems to me that it's very similar to the MOCAM Power Pool that existed in Order 888, just from the description I've heard.

MS. EPPS: A question to Florida -- can you tell me what you were splitting between -- what was the split between the utilities and --

MR. FUTRELL: I believe it was 50/50. If I'm
incorrect, we have some folks here -- if I'm correct, please let me know. I'm getting some nods here, so I think that's right.

DR. GARBACZ: Mr. Chairman, could I make a comment about that? In the testimony that Mr. Hurstell put forward, he made some indication that they had tried to impose something within Entergy and had gotten to such a point where they thought that the problem was in the split, that there were parties who were coming to the table, that, in effect, were getting a better deal than some other parties, and to some extent, that created a problem in making the process work.

CHAIRMAN KELLIHER: Let me get back to Jimmy's point from earlier. Is this too far afield from security-constrained economic dispatch? This seems to go with how do states assure that when a state-regulated utility makes off-system sales, that there is some kind of good to the retail consumer.

It just seems it's beyond the pale of security-constrained economic dispatch. There's not even a dotted-line relationship between the two. What do you think, Jimmy?

MR. ERVIN: The reason being, as we attempt to practice it, security-constrained economic dispatch -- in the Carolinas, one of the obligations, is to make purchases
that would displace our wholesale generation.

This seems like a formalized level to ensure that that's going to do it. I had an easier time after listening to the discussion we just heard, equating this to security-constrained economic dispatch as practiced in the region, than I did to the expansion issues that Sandy and I were talking about earlier.

Security-constrained economic dispatch is maybe more static than Sandy's viewing it. How do you make the best use of the resources that are available for the purpose of producing the lowest-cost power for sale at retail?

This is maybe not the only way to do it, but it's a way to achieve that economic purchases are, in fact, made, as far as self-generation.

CHAIRMAN KELLIHER: The Florida broker system, did it involve -- was it limited to sales and PSC oversight, if you will, of sales by the utilities, or is it purchased?

MR. FUTRELL: It was purchased.

CHAIRMAN KELLIHER: Sorry, I did not fully appreciate that.

MR. ERVIN: It sounds like maybe, as it was stated, historically, you've always kind of split the transaction savings between utilities. It sounds like a formalized way of doing it.

MR. HAMILTON: Mr. Chairman, as Mr. Ervin just
said, it sounds like I don't think we really have enough 
information on this to make a judgment today as to what we 
would recommend.

CHAIRMAN KELLIHER: This is another area that 
trading hubs could circulate additional information on the 
Florida broker system and how similar it is to other utility 
arrangements.

MR. CLOUD: The operative words seems to be 
"create."

CHAIRMAN KELLIHER: Right.

MR. CLOUD: Explore, study.

CHAIRMAN KELLIHER: Why don't we move to the 
sixth recommendation, unless there are other comments on the 
Florida broker system. Thank you very much for the 
explanation.

The sixth recommendation from the record, is:
Review selected dispatch entities, including some investor-
owned utilities, to determine how they conduct economic 
dispatch. These reviews could document the rationale for 
all deviations from pure, least-cost, merit-ordered dispatch 
and distinguish entity-specific and regional business 
practices from regulatory, environmental, and reliability-
driven constraints.

This recommendation comes from the Department of 
Energy report that was issued shortly after our last
meeting. So, this recommendation is, if you will, a soft
recommendation just to review different practices on
economic dispatch.

It's not requiring any particular action. Any
comments?

MR. ERVIN: Mr. Chairman, I am generally
sympathetic to this kind of recommendation on the theory
that you heard in miniature in Palm Springs the budget
controversy that we hear regularly in our day jobs.

Much of that, it seems to me -- a lot of that --
at some point, there is an answer to whether various things
are or are not happening. If this looks like to be a
recommendation that some sort of study be done to determine
what are the facts, and I don't see why any of us, assuming
we're dispassionate and unbiased, could really have any
concern about doing something like that.

I'll have to say, besides that I thought I was
impressed with the quality of DOE's work, generally, given
the amount of time they had to do it in, they're supposed to
file these reports, but, generally speaking, I was inclined
to do something supportive of a further inquiry, if that was
an appropriate function for the Joint Board.

CHAIRMAN KELLIHER: Any other comments?

(No response.)

CHAIRMAN KELLIHER: Why don't we move to the next
recommendation, and, again, this is from the DOE economic dispatch report: Recommendation that FERC and DOE explore electric power supply association and Edison Electric Institute proposals for more standard contract terms and to encourage stakeholders to undertake these efforts.

Any comments on this?

(No response.)

CHAIRMAN KELLIHER: I'm happy about exploring more standard contract terms, and I'm comfortable with this recommendation. I think there are periodic reviews of some of the standard contracts used in the industry.

I'm trying to see the relationship between revising the standard contact terms and economic dispatch, though. I'm not sure of the connection between the two, really. Sandy?

MS. HOCHSTETTER: It seems like this is one of those recommendations that would benefit from a little bit more definition. I'd personally want to tie the types of contract terms to the particular subject matter that we're exploring.

I don't remember, off the top of my head, which contract terms are being referenced here. It might be that this recommendation just needs to be expanded a little bit better, so that there's some interplay.

CHAIRMAN KELLIHER: We can try to run this down
and send something out to the Joint Board members, about what, specifically, is being proposed with respect to the standard contract terms.

The next DOE recommendation is to -- any other comments on this one?

DR. GARBACZ: I'm not sure this is a proposal to establish these contract terms or something that's industrywide, or we're just exploring that?

CHAIRMAN KELLIHER: I think Sandy's suggestion is that we run down exactly the standard contract terms, if we think that should somehow be revisited. The recommendation is to explore EPSA and EEI proposals for more standard contract terms, to get a feeling for which contract terms are at issue.

DR. GARBACZ: If it's just an exploration process or something like that, that's fine.

CHAIRMAN KELLIHER: I'm struggling with seeing the relationship between economic dispatch and, necessarily, the contract terms that are used for wholesale power sales.

MR. HAMILTON: We are talking about wholesale?

CHAIRMAN KELLIHER: Yes, sir.

The next DOE recommendation is: Review current economic dispatch technology tools. These tools include software and data used to implement economic dispatch, as well as the underlying algorithms and assumptions.
Again, this one seems to be inoffensive. FERC is not a technology agency, but further study of the technology tools for economic dispatch, seems inoffensive.

DR. GARBACZ: It would seem to be kind of related to No. 6. In fact, they seem to be somewhat the same thing, in that you're really trying to get at the same issue.

CHAIRMAN KELLIHER: Right.

DR. GARBACZ: I'm not exactly sure why the two are separated.

MR. HOLLOWAY: At least it seems to me that the reason why they're separated is that there are certain economic dispatch software that different utilities use. It's very complex. Maybe this is just to look at that specific type of software, to see if there's some ingrained error or bias.

I mean, that's the only difference I can see.

DR. GARBACZ: The only interpretation I had was, you're trying to get at these problems in terms of perhaps not actually executing correctly under No. 6 there, and, to some extent, the way you execute is with these models.

CHAIRMAN KELLIHER: Any comments on the technology tool recommendation?

(No response.)

CHAIRMAN KELLIHER: Revising the technology tools seems reasonable. Let's move to the final category of
recommendations. These are additional recommendations by Joint Board members, the first one being: The Commission, FERC, should conclude that there is no single appropriate method for performing economic dispatch, and that the nature of economic dispatch can vary from region to region, depending on local conditions.

Any comments on this recommendation? Yes, sir?

MR. HAMILTON: Mr. Chairman, I'm from South Carolina, and it being Sunday morning, we can put an amen to this one.

(Laughter.)

DR. GARBACZ: The problem with this recommendation is that it seems to kind of cut across. It seems to be somewhat contradictory to some other things that we just passed earlier.

I realize that you only say "review and explore," and so forth, but in Nos. 6 and 8, you're essentially trying to get at, well, there's some kind of a problem here. In this particular recommendation here, there appears to be no problem, and, of course, that's the position of the Mississippi Commission, as well.

MR. ERVIN: I guess I might as well confess to the Joint Board that we submitted this recommendation from me.

(Laughter.)
MR. ERVIN: I have a document that we decided to pull for ease of discussion. I guess the reason that I had suggested that we include something like this, was that we were supposed to look and see whether we believed that the dispatch was being performed in an economic fashion, and that we need to reach some conclusion on that question.

The conclusion I thought we ought to reach on it was, 1) that if there's no single, correct way to do it, in the sense that utility-by-utility economic dispatch is one way of doing economic dispatch, then the use of a large regional bid-based market like you would find in the Day Two RTO, is another way to do it, and that neither is right or wrong in any particular set of circumstances, but, instead, you've got to make a determination as to whether you, in fact, have economic dispatch being performed, based on the circumstances that you find.

You've alluded to the second one. If folks that were performing dispatch for vertically-integrated utilities were, in fact, doing what they said they were doing, then that would be a form of economic dispatch, and it would depend on us to make the judgment if they were or were not doing it.

That may help you a little bit with your point, which was generally, that there's not a single way to do it. What we need in our region is a form of it, but it's not the
I don't know that there's really any inconsistency between saying this and saying that we can do better because we can always do something basically correctly.

CHAIRMAN KELLIHER: This recommendations also reflects that there's more variety in how economic dispatch is performed in the South, than in any other region. Texas does it a certain way; SPP is proposing a balanced market, which, again, is a form of economic dispatch that's different from ERCOT, and the rest of the South typically does it utility-by-utility.

So there's more variety in how economic dispatch is done in the South than in any other region, and I think there's a practical observation that it's unlikely that that variety will disappear in the near future.

Since it exists and is likely to continue to exist, it's probably appropriate to observe that.

MS. BACA: Mr. Chairman, I think, as the only Joint Board member on both the South and the West, I agree with that, and also the West Joint Board stated the same thing. In fact, in their recommendations, they were talking about increasing the regional size of the dispatch regions, not consolidating it, in principle, to a lower-cost dispatch, but inclusion of more generation and transmission
resources.

So that was a big area of discussion that we had in the West Region. I know it would be very supported by New Mexico both on the South Joint and the West Joint.

CHAIRMAN KELLIHER: Thanks. It seems to be the reality and it's always good to recognize reality. Any other comments on this?

(No response.)

CHAIRMAN KELLIHER: Does anyone oppose this recommendation or propose a different approach? (No response.)

CHAIRMAN KELLIHER: Why don't we got to the second recommendation in this category: The Commission should conclude that utilities in the South appear to generally agree in security-constrained economic dispatch.

MR. ERVIN: As I said earlier, Mr. Chairman, I think that what I was trying to get at here, was that we had certain processes described for us at the Palm Springs meeting, and it seemed to me that if dispatch was done as described, that that was certainly within the definition of security-constrained economic dispatch, as I understand it.

I think we ought to be a little bit careful, perhaps, to prejudge an individual factor for purposes of drafting a report. Probably, this ought to be written in a nuanced fashion.
MS. HOCHSTETTER: As a matter of fact, perhaps we should say -- maybe we should say something that, based on the information we currently have, we have no reason to believe that it isn't being performed in that manner, but I don't think we can conclude, at least positively, that is being performed yet in that manner. Does that make sense?

CHAIRMAN KELLIHER: Yes, because otherwise, we can't say that every utility in the South is necessarily performing security-constrained economic dispatch; we can observe that generally it appears to be performed in different ways, but it can't turn into a very specific finding, because we haven't looked at the practices of every utility in the South and we can't be expected to, so we can just make sure that one doesn't appear to be a formal kind of factor. Any other comments?

(No response.)

CHAIRMAN KELLIHER: Let me go to the third recommendation in this area. Do you want to read them or should I?

(Laughter.)

CHAIRMAN KELLIHER: I'll read them, and then I'll turn to the anonymous Joint Board member. The third recommendation: The Commission, FERC, should conclude that unaffiliated generators and other entities that believe that security-constrained economic dispatch is not being
performed appropriately, have recourse at the state
commissions to have unreasonable costs disallowed.

MR. ERVIN: Speaking anonymously, my point here
was that it's not as if there is no recourse somewhere, in
the event that an entity feels as if it is being
discriminated against in economic dispatch. We had one case
within the last couple of years, where an allegation was
made by an intervenor, that the utility was not, in fact,
making purchases that it would have been economic to make,
but, instead, was self-generating.

That's at least something that the North Carolina
Commission does not have a lot of tolerance for, if that is,
in fact, what is going on. And it did seem to me that
particularly if we're going to give them the factual caveat
that you suggested be made, with which I agree, that we also
ought to point out that there are places in which a
generator that feels that it is not being treated fairly,
you also have your anti-discrimination authority.

But there's also the state commissions, and I
think that's something we ought to point out.

MS. HOCHSTETTER: I think, though, Jimmy, that's
a different type of action. There's a different remedy for
that.

I would recommend that we frame this differently.
The remedy for discrimination claims with respect to the
utility's behavior, would be different than cost
disallowance. We'd ask the Staff of the Commission to look
at whether or not the costs were appropriately passed
through, say, for example, in the fuel adjustment clause.

We might want to expand this to talk about both
cost disallowance, which the Commission Staff would want to
investigate, and change its authority. Unregulated
stakeholders don't have any standing to look at that
situation, but, in addition, the discrimination allegation
and any behavioral remedies for that, relative to the
utility, is another thing that the state commission has
jurisdictional authority to adjudicate.

We might want to talk about this in terms of both
different causes of action and remedies.

MR. HOLLOWAY: I have a little bit different
concern about this. That is that, as stated, it sounds like
the state commission can address this problem.

It depends on the state commission. There are
many states that have, for instance, no jurisdiction over
G&T cooperatives, and they own significant transmission in
their states. There are many states that have a broad
presence of public power authorities of some sort or
another, and that have no jurisdiction over them.

I'm not sure, as a flat statement, that this is
always necessarily true.
CHAIRMAN KELLIHER: That's true; it would seem to be limited to state-regulated utilities. If the question is, let's assume that a utility does not engage in security-constrained economic dispatch, that somehow they unfairly deny or they deny lower cost, they decline to purchase from lower-cost suppliers and they prefer to operate their own generation.

What is the recourse? If it's not a state-regulated utility, there's no recourse at the state level. At the federal level, there is some unfair denial of transmission service.

If that's what result in the sale not occurring, then a complaint can be filed at FERC, that, allegedly, there's been a violation, there's been undue discrimination in transmission service, and that's subject to civil penalties and disgorgement of profits.

So, if the non-occurrence of economic dispatch was to result in undue discrimination in transmission service, there's recourse to FERC, but if it's a state-regulated utility and, for some reason, they opt not to purchase from lower-cost suppliers, I suppose, generally, there would be recourse at the state level.

I defer to my colleagues on exactly how a complaint might be handled, but it's probably transmission service, which if it's imprudent is then tantamount to not
purchasing a lower-cost supply.

It could be that the state has generally approved some kind of purchasing scheme for a period of time. I'm not sure how that would play out at the state level, but it would be limited to the state-regulated utilities.

The Commission can only regulate wholesale sales, not wholesale purchases, so if it comes down to the state-regulated utility's behavior as a purchaser, it would seem to be the state province, but there generally would be recourse at the state level. Questions?

(No response.)

CHAIRMAN KELLIHER: The fourth anonymous recommendation, we didn't --

MS. HOCHSTETTER: I would actually like to point out that I said the exact opposite of that in Palm Springs. I do, in fact, believe that economic upgrade prospects are something that are fairly covered under the ambit of the Board's authority.

CHAIRMAN KELLIHER: That's one thing I meant to bring a copy of. Does anybody have a copy of the EPAct provisions? I meant to swing by FERC and pick it up this morning, but it took too long to dig my car out, so I was not able to do that.

But let's take a look at actually the provision. There is some indication -- Jimmy may have it. He's usually
well prepared. We'll take a look at the exact words of the EPAct provision, but we don't have to read it as more limited than it actually is. Let's see what the limitations are.

The final recommendation -- and then we can get to the free-flowing McLaughlin Group kind of debate time. This is open to additional recommendations by the Joint Board members. We'll get to the last bullet here. We can continue to talk about other issues folks might have.

We'll talk about the last anonymous recommendation: Expanding the geographic scope of economic dispatch should not be implemented on an involuntary basis at this time.

Is there general agreement with this recommendation? Jimmy, what do you think about it?

MR. ERVIN: I think we've essentially talked about this one in connection with the first recommendation.

CHAIRMAN KELLIHER: That was something that was said in the meeting in California. From the beginning, we made clear that Commission policy, to be very frank -- the Commission supports voluntary RTO formation. It's not proposing to change that.

We terminated the SMD rulemaking, just to make that very obvious. This recommendation seems to me to be consistent with the Commission's approach, so if it seems
that if you wanted to expand, involuntarily expand the
geographic scope beyond dispatch in the South, it would seem
that it would have to involve some kind of mandate to
establish an RTO or some institution to operate dispatch on
that broader footprint. That does not seem to be in the
cards.

Any disagreement?

(No response.)

CHAIRMAN KELLIHER: Are there any additional
recommendations that haven't -- we don't have to be limited
by the record of the November meeting. Jimmy has gone
beyond the record in some of his recommendations. He's
inferred from the record, some additional recommendations,
but there's an opportunity for anyone here to put forward
some new recommendations, as well. Any comments?

(No response.)

CHAIRMAN KELLIHER: Well --

MR. HAMILTON: Before we close, if I could make a
request, if other commissioners are in agreement, when these
matters that we've discussed today are put in writing, that
we could receive the information and possibly this Board
could meet or have a conference call, where we could discuss
these before the final draft?

CHAIRMAN KELLIHER: Yes. What I'm trying to do
is recapitulate the discussions we've had here. In the
draft study that was circulated, there was a placeholder section of recommendations. What we'll try to do is to fill that in, based on our discussion. We'll also circulate some of the information that I think we need to finish our decisions in some areas, to circulate that information on trading hubs, on the Florida broker system, and I think there's one other area. Wasn't there another area where we were going to circulate information?

I think those are the areas -- contracts, yes, right, exactly. Find out exactly what DOE meant in that recommendation with respect to standard contract terms. We'll circulate that information.

In the meantime, Commission Staff will try to recapitulate our discussion here in the draft studies, and sort of fill in that recommendation section. Then we can have another conversation, perhaps a conference call. It depends on how extensive the discussion needs to be. A conference call might suffice.

What is our timeline for the next step? What's the final action that we're looking, in May, to report to FERC, from the Joint Board? May would be a deadline for wrapping up and sending a report to FERC, so we have some time.

What we'll do after this meeting is get the additional information we discussed, circulated. We can all
take a look at it and take that for a little bit, schedule a conference call, and, contemporaneously, we'll fill in that part of the draft study with respect to recommendations, where we think we are.

And once we have the information, we can have another discussion, and perhaps a conference call would suffice.

I want to thank everyone for coming on a blizzardy day, and I want to thank the Commission Staff for coming and being here. I'm sure they were a little nervous when the Chairman walked in five minutes before the meeting was to begin, but it did take me awhile to dig my car out. D.C.'s policy on snow removal in alleys relies heavily on sunshine and temperature, and we didn't have enough of that this morning.

What else do we have to discuss? Anything?

MR. ERVIN: I think that in terms of trying to draft some proposals, I'd like to talk about trying to get a group on a state basis to try to put a draft together.

I'll be happy to try to do that, so if anybody would like to work with us in an attempt to try to get those recommendations sections of this report drafted, see me afterwards and we'll try to do that.

CHAIRMAN KELLIHER: Great. Okay, I think that's it. I don't have a gavel, so I've to metaphysically gavel
this meeting to a close.  
(Whereupon, at 10:55 a.m., the Joint Board South  
meeting was adjourned.)