

FACT SHEET
ADVANCED NOTICE OF PROPOSED RULEMAKING
WHOLESALE COMPETITION IN REGIONS
WITH ORGANIZED ELECTRIC MARKETS
AD07-7-000 (Item E-3)

Competitive Wholesale Power Markets

For several decades national policy has fostered competition in wholesale power markets.

The Commission's core responsibility is to protect the consumer from market power, balancing competition and regulatory oversight to ensure just and reasonable electric power rates.

The Commission has issued many new regulations designed to foster competition, including Order No. 888, issued in 1996 to remedy undue discrimination in transmission access.

Order No. 890, issued in 2007, updated rules to "close the gap" in remedying remaining elements of undue discrimination. Order No. 2000, issued in 1999, encouraged the formation of RTOs.

RTOs and ISOs operate the transmission grid in certain regions and operate real-time power markets. Some also operate day-ahead markets.

RTOs and ISOs have produced many benefits. Among them are improved transmission reliability and greater coordination and efficiency in the dispatch of resources, especially over broader areas, previously served by separate entities.

Competitive markets have stimulated generation investment, often shifting the risk of investment from customers to shareholders. RTO and ISO markets provide opportunities for renewable energy resources.

Problems with volatility in RTO and ISO prices in the day-ahead and real-time balancing markets have caused concern for both buyers and sellers.

Introduction

The Commission is issuing an advanced notice of proposed rulemaking (ANOPR) to consider potential reforms to improve the operation of organized wholesale power markets administered by RTOs and ISOs.

Recent FERC conferences designed to identify challenges facing competitive wholesale power markets and identify solutions have led to the following proposals.

The Commission asks that interested parties comment in the following areas of demand response, long-term power contracts, market monitoring units (MMUs) and information sharing, and responsiveness of RTOs and ISOs. The Commission will review the comments on the proposed reforms outlined below, and determine whether to follow up with a rulemaking proposal.

Demand Response and Pricing During Power Shortages - proposals

- Require RTOs and ISOs to allow demand resources to provide certain ancillary services in their markets unless not permitted by state law, modify tariffs to let demand resources provide spinning and supplemental reserves without being required to sell into the energy market.
- Modify RTO and ISO tariffs to eliminate certain charges for purchasing less energy in real time than in the day ahead market during a system emergency.
- Amend market rules to permit an entity that aggregates the demand responses of individual retail consumers to bid the aggregate demand reduction directly into an RTO or ISO energy market, unless not permitted by state law.
- Modify market power mitigation rules so that pricing during an emergency can elicit more demand response.

Long-term Power Contracting - proposals

- Require RTOs and ISOs to post information that would facilitate long-term contracts.
- Require or encourage efforts by RTOs and ISOs to develop standardized forward products.
- Dedicate a portion of the ISO's or RTO's website for market participants to post long-term buy/sell offers.

Market Monitoring Policies and Information Sharing - proposals

- Remove the market monitoring unit from RTO/ISO operations.
- Require that the MMU advise the Commission and other stakeholders of any design flaws and report to the Commission any tariff violations it believes may have been committed by the RTO or ISO.
- Regular conference calls among the market monitor, interested state commission and FERC staff.
- Release of offer and bid data, with a lag period. Release would mask market participants' identities.
- Subject to certain limitations, state regulatory commissions within an RTO or ISO

may request and receive information from the RTO's or ISO's market monitoring unit.

- Develop a *pro forma* tariff provision to address all sections relating to market monitoring.

Responsiveness of RTOs and ISOs

- Provide RTO and ISO customers with direct access to the board of directors.