

Standard Market Design, RTO West, and Western Power Markets

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Introduction

- **Why Do Standard Market Design (SMD)?**
- **What Are the Key Parts of SMD?**
- **What Else is FERC Doing?**
- **How Do RTO West and SMD Relate to Each Other?**
- **How Will Seams Issues Be Solved in the West?**
- **How Does SMD Protect Customers?**

Why Do SMD?

- **Scene: Western North America, 2000-2001**
 - Market Fails in California
 - Prices Rise by a Factor of 10
 - Stay High for Months at a Time
 - Crisis Spreads Throughout the West
 - Crisis Implicates Other Markets and Industries: Gas, Water, Emissions Credits, etc.
 - Investment Becomes Extremely Difficult
- **Scene: Houston, Fall 2002**
 - Enron Fails
 - Under the Rock: Market Manipulation
 - Market Credibility Fails
- **Summary: What Investors Call Country Risk?**

FERC's Response Since June 2001

- **Immediate Relief**
 - Price Mitigation
 - Must Offer Provisions
- **A New Strategic Plan**
 - *Make Markets Possible*: Promote a Secure, High Quality, Environmentally-responsible Energy Infrastructure
 - *Make Markets Work*: Foster Nationwide Competitive Energy Markets as a Substitute for Traditional Regulation
 - *Make Sure Markets Work*: Protect Customers and Market Participants through Vigilant and Fair Oversight
- **Two Major Initiatives**
 - Standard Market Design
 - Market Oversight and Investigation

What is SMD?

- **Key Features**

- Independent Transmission Providers
- More Standardization in Markets
- Better Market Pricing
- Better Market Safeguards

- **Timing**

- Rule in 2003
- Implementation in Stages
- RTOs Already in Progress

Key Parts of SMD:

Independent Transmission Providers

- **Purpose**

- No Discrimination
- Greater Credibility

- **Nature**

- Same Basic Requirements as RTOs
- Except for Scope
- Mandatory, not Voluntary
- Keys are True Independence and True Operation of System

Key Parts of SMD

More Standardization in Markets

- **Purpose**
 - Facilitate Trade Around the Continent
 - Lower Engagement Costs
- **Provisions to Get Similar Market Structures**
 - Day Ahead
 - Real Time
 - Transmission, Based on Locational Marginal Pricing
 - Alleviate Seams as Much as Possible
 - Encourage Standardized Business Practice
- **But: Balance with Regional Flexibility**
 - Hydro in Northwest
 - Regional Agreements

Key Parts of SMD

Better Market Pricing

- **Purpose**
 - Increase Efficiency in Operation
 - Get the Right Investments at the Right Place at the Right Time
- **Provisions**
 - Day Ahead and Real Time Markets
 - Makes Prices Transparent
 - Solves Short-term Dispatch Issues
 - Provides Basis for Long-term Prices, Settling Derivatives
 - Open to RTO West Proposal With No Day-Ahead Market
 - Locational Marginal Pricing
 - Gets the Right Operational Price Signals
 - Gives Signals for Investment
 - Participant Funding for Transmission (Optional)

Key Parts of SMD

Better Market Safeguards

- **Purpose**
 - Avoid Market Meltdowns
 - Avoid Market Power
 - Re-establish Confidence in Energy Markets
- **Market Mitigation**
 - Load Pocket – Must Run, Constrained Bids
 - Safety Net Bid Cap
 - Resource Adequacy Requirement
 - Optional Mitigation of Persisting Problems
- **Market Monitoring**

What Else is FERC Doing?

Market Oversight and Investigation

- **Two Tiered System**
 - Market Monitoring Units (MMUs) for Each SMD Market
 - FERC Office of Market Oversight and Investigation (OMOI)
- **What Are MMUs?**
 - Independent Market Experts at Market Level
 - Independent of all Market Participants
 - Independent of ITP Managers
 - Report to ITP Board and FERC
 - Report on Market Performance, Problems as They Arise, and Perform Investigations within the Market
- **What Is OMOI?**
 - New Office Within FERC
 - Staff of 110 by FY '04
 - Wide Range of Expertise to Understand Markets and Remedy Problems
 - Understand Markets, Analyze Problems and Recommend Fixes, and Remedy Individual Behavior Problems

How Do SMD and RTO West Tie Together?

- **Basic Idea: RTOs are the Way to SMD**
- **RTO West Filing**
 - Very Close to SMD in Most Ways
 - Cooperation in Northwest is Impressive
 - Later Orders: Commission Will Not Revisit Issues it Doesn't Flag in RTO Order
- **Importance of Seams Issues**
 - All the Western RTOs Have Made Progress
 - But It's Different
 - And We know that Incompatibilities can Cause Trouble
 - Best Place to Resolve Differences is in the West, not Washington

How Will Western Seams Issues be Solved?

- **Seams Steering Group – Western Interconnection (SSG-WI)**
- **Immediate Job**
 - Lay Out Market Design Elements in Western RTOs
 - Decide Which Need to be Standardized and How Much
 - Report to the Commission
- **Longer Term**
 - Propose the solutions
 - Oversee the Overall Western Market
- **Tension**
 - Want Answers Fast
 - Want Answers that Work for the West
- **A Question: How Will We Do Regional Regulation?**

Customer Protection In SMD: A Personal Perspective

- **Reliable Service**
 - Resource Adequacy Requirement
 - Incentive for New Construction to Meet Native Load
 - Regional Planning
- **Protection Against Market Power**
 - Resource Adequacy Requirement
 - Load Pocket Mitigation
 - Safety Net Bid Cap
 - Optional Mitigation for Periods of Market Stress
- **Native Load Protection**
 - Continued Access to Cheap Generation – but Montana is Special Case
 - Participant Funding for New Transmission
 - Initial Allocation of Congestion Revenue Rights (CRRs)
- **Environmental Protection**
 - Demand-side Markets
 - Intermittent Resources
 - Locational Marginal Pricing
 - Enables Customer Orient Green Power Programs

Conclusion

- **Nobody Can Afford Another Meltdown**
- **SMD and RTOs Are the Way to Avoid That**
- **To Work, SMD Must Fit the Region**
 - Solve Seams – SSG-WI
 - Regional Committees, Multi-State Entities
 - Leadership from State Commissions
- **Please Write or Call**
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