



FEDERAL ENERGY REGULATORY COMMISSION

October 16, 2008

Docket Nos. RM07-19-000 and AD07-7-000

Item No. E-1

Chairman Joseph T. Kelliher

Statement of Chairman Joseph T. Kelliher on Wholesale Competition in Regions with Organized Markets

"Today the Federal Energy Regulatory Commission issues a final rule to strengthen wholesale competition in the organized regional power markets. This action is an important step in our longstanding efforts to promote more effective competition.

Competition is national policy with respect to wholesale power markets, and has been for 25 years. Significantly, competition policy has always been bipartisan. Competition became national policy through enactment of three significant federal laws. Two laws were crafted by a Democratic Congress, one by a Republican Congress. Two were signed into law by Republican Presidents, one by a Democratic President. Every President since Jimmy Carter has either embraced or accepted competition as national policy with respect to wholesale electricity markets.

Since competition is settled national policy, our duty is clear – to promote effective wholesale competition and seek steady improvement in wholesale competition.

The final rule we approve today makes a number of significant reforms to organized wholesale markets. One weakness of U.S. electricity markets compared to perfect competition is the lack of effective demand response, which results in greater price volatility and higher average costs. To that end, the final rule makes important reforms to improve demand response, particularly during periods of operating reserve shortage.

The final rule also recognizes that existing market rules that do not allow prices to rise during period of supply shortages are unjust and unreasonable. Prices that do not reflect the value of electricity in a shortage can harm reliability, impede demand response, discourage new entry of demand response and generation resources, and block innovation. In some circumstances, these market rules can increase the risk of reliability problems, and produce price volatility and market uncertainty. We require filings from regional transmission organizations and independent system operators to reform pricing.

It is important to note that these pricing reforms do not relax market mitigation, each of the pricing reforms we propose today include specific mitigation. Regional transmission organizations and independent system operators are free to propose other mitigation.

With respect to long term contracts, the Commission concludes there is no fundamental problem or barrier with respect to long term wholesale power contracts, either inside organized markets or in other regions. Buyers can get long term contracts if they are so inclined, albeit currently at higher prices than they might prefer. However, the final rule includes posting requirements to improve transparency with respect to contracts.

The market monitoring reforms are also important. For the first time, the Commission defines the role of





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market monitors in our regulations, which will provide greater consistency in market monitoring in different regions. The final rule clarifies the respective role of the Commission and market monitors in enforcement. We take care to guarantee market monitors have sufficient independence to perform their roles.

The final rule directs regional transmission organizations and independent system operators to establish some form of direct access to their boards of directors. This is to assure boards of directors are responsive to the concerns of members and customers. I want to express my personal opinion that regional transmission organizations and independent system operators have already made major progress in this area.

The actions we take today are limited in effect to the organized markets operated by regional transmission organizations and independent system operators. There are significant differences in market structure in this country, and there are different challenges in other regional wholesale power markets, such as new entry, market access and transparency. We have taken other action to improve wholesale competition in these regional markets, such as reform of the open access transmission tariff, which should improve access to the bulk power grid, and adoption of the market based rate rule, which should prevent market power exercise. We remain open to further reforms.

This final rule is an important step towards more perfect competition in the organized wholesale power markets, and represents only the latest in a series of actions FERC has taken to improve wholesale competition.

Today's action is an important step, but it is not the final step."