Summer 2002 Assessment Report Summary

Office of Market Oversight and Investigations

July 17, 2002
Introduction

• Recent OMOI internal analysis of energy market

• Regional/National Markets
  – Improvements
  – Concerns

• Action Items For OMOI

• Future: seasonal assessments before the relevant cooling or heating season
National Overview

Overall electricity markets fair to good

Market Improvements:
- Regional reserve margins adequate
- Demand responsiveness increased but disappointing
- New electric transmission infrastructure development
- Closer to large regional energy markets; much work remains
- Significant market design improvements

Key Concerns:
- Financial health of market participants
- Potential for extreme weather
- Security threats
- Generator availability
- Possibility of unintended consequences from new market design and rules
- Transmission constraints and service quality
Current OMOI Approach:

• Monitor factors that may affect market performance this summer.

• Coordinate monitoring with others.

• Provide periodic updates to the Commission.

• Provide the Commission with real-time information on major market developments and make recommendations as necessary.
More favorable supply and demand conditions. Serious market problems.

Concerns:
- Market friction for trades among sub-regions
- Supply/demand balance
- Declining demand response
- Competition for gas capacity
- Electric transmission infrastructure
- Forecast for above normal temperatures

OMOI Actions:
- Actively monitor electricity markets.
- Recommend that the Commission establish a staff presence with the CAISO MMU.
- Propose a technical conference.
Increased merchant presence and improved generation and transmission infrastructure. Competition issues.

Concerns:
• Lack of broad regional markets
• Transmission service quality issues
• Transmission constraints
• Forecast for above normal temperatures

OMOI Actions:
• Monitor progress of Dominion integration into PJM.
• Monitor compliance with the Commission policies.
• Examine patterns of reported negative behavior.
• Develop plan to inform market participants about complaint procedures.
Improved generation capacity, transmission infrastructure, and market rules. Load pockets remain.

Concerns:
• Load pockets
• Low margins in Ontario
• Fossil plant availability in New England
• Drought

OMOI Actions (in coordination with NE MMUs):
• Focus on load pockets.
• Monitor possible market power.
• Discern effect of market mitigation on new investment.
• Evaluate market rule changes.
• Examine seams.
Midwest

Strong market fundamentals and active RTO and independent transmission company formation.

Concerns:
• RTO transition
• Transmission schedule curtailments
• MISO export fee

OMOI Actions:
• Monitor impact of utility decisions to join particular RTOs.
• Monitor seams.
• Examine TLRs.
• Focus on the effect of export fees.