

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

National Overview Cont.



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.

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.