

Twenty Years of Market Reformation: Where Have We Been and Where Are We Going?

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Setting the Stage

- 1993 - Four New FERC Commissioners with Moler as Chair -- Massey, Santa, Bailey and Hoecker
- Influenced by:
 - Order No. 636 success
 - EPA Act 1992
 - Electric restructuring in Great Britain
 - Desire to do something significant, not be caretakers
- Four nominees went through Senate confirmation process together/developed strong camaraderie

March to Competition

- 1996 -- Order No. 888
 - Based on Federal Power Act sections 205 and 206 (Commission must remedy undue discrimination)
 - Astute political compromises
 - Stranded cost recovery
 - Bundled retail transmission left to states
 - Brilliant FERC staff support

March to Competition

- 1996-97 -- Key FERC orders regarding implementation of LMP in PJM
- Order No. 2000 -- Defined RTOs, encouraged formation
 - Strong independence requirement
 - Solid definitions of functions and characteristics
 - Platform for regional wholesale markets
 - Voluntary formation: sage political compromise or missed opportunity?
 - RTOs now serve two thirds of U.S. load

March to Competition

- 2000-2001 -- California Crisis
 - FERC had deferred to California on market structure (ISO, PX, no LMP)
 - FERC slow to act in imposing wholesale price cap (CA electricity cost \$7.5 billion in 1999, \$30 billion in 2000)
 - FERC had limited enforcement authority
 - Buy high, sell low – PG&E bankruptcy
 - California crisis still haunts us, impedes progress toward markets (e.g. Arizona)

March to Competition

- 2002 -- Proposed Standard Market Design
 - Reaction to disastrous California market design
 - Influenced by success of PJM
 - Required RTO and LMP in all regions
 - States and incumbent utilities went to Congress – “federal power grab”
- EPCRA 2005
 - Defined market manipulation -- \$1 million per day penalty authority
 - FERC designated as bulk power reliability regulator

Other Significant Developments

- All RTOs/ISOs use LMP
- Retail markets in 17 states plus DC
- Capacity markets
- Demand Response as wholesale market resource
 - RTOs markets provide the platform
 - Controversial pricing (Order No. 745)
- Shale gas revolution
- Energy Imbalance Market -- PacifiCorp-CAISO (and the West?)
- Mid American, Entergy into MISO

Challenges

- Electricity -- highly political
- Federal Power Act -- 1935 law governs 2013 industry
- Bifurcated wholesale market structure
- Stalled movement to retail competition
- Innovation in products and services
- Irrational transmission siting authority
- Federal-state conflicts
- Lack of common vision

Role of HEPG

- Diverse mix of industry, regulators, academics, experts
- Politics left at the door
- Safe place for robust debate
- Relentless and intelligent focus on key issues
- Work is not done