Setting the Stage

• 1993 - Four New FERC Commissioners with Moler as Chair -- Massey, Santa, Bailey and Hoecker

• Influenced by:
  – Order No. 636 success
  – EPAct 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”

• EPAct 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