

Mission Statement:

The UTC protects consumers by ensuring that utility and transportation services are fairly priced, available, reliable, and safe.



Washington Utilities and Transportation Commission

Beginning of Independent Power Producer (IPP) Industry

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Presentation Outline



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History

- Prior to 1978, there was virtually no generation by IPPs. Traditional electric utilities owned the generating facilities, the transmission lines, and the local delivery systems.
- In 1978, Congress Passed the Public Utility Regulatory Policies Act (PURPA), which established a class of non-utility generators, called Qualifying Facilities (QF), which were permitted to produce power for resale. Not all IPPs are QFs.
- Purposes of PURPA were to reduce the United States' dependence on foreign energy sources, to foster conservation of energy, and to address discrimination by electric utilities in their purchases of power from and sales of power to QFs.
- A QF is a generating facility that produces electricity and another form of useful thermal energy through the sequential use of energy, and meets certain ownership, operating, and efficiency criteria established by the Federal Energy Regulatory Commission (FERC).

PURPA

- Under PURPA, electric utilities are required to purchase power from QFs. State commissions implement this requirement differently. Some states require electric utilities to purchase power from QFs at the state commission-established avoided cost; other states commissions (like the WUTC) require a bidding process where the commission-established avoided cost serves as a benchmark.
- The provisions of PURPA allowed for the development of an industry of small power producers.
- The IPP industry further expanded when Congress exempted certain wholesale power generators from provisions of the Public Utility Holding Company Act (PUHCA) and certain provisions of the Federal Power Act. PUHCA imposes restrictions on a utility holding company's investments and sale of securities. The exemption allowed holding companies to more easily invest in wholesale generators (called "exempt wholesale generators" or EWG).

IPP Access to Transmission



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- IPPs had greater access to transmission beginning in 1992 when Congress passed the Energy Policy Act of 1992.
 - The Energy Policy Act expanded the jurisdiction of the (FERC) to order electric utilities or other electricity generators that own power transmission facilities to provide power transmission services (wheeling) to unaffiliated or third-party applicants for wheeling.
 - FERC could not require wheeling to end-users; only to wholesale suppliers of electricity.

Growth of IPP Industry



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- After 1992, the IPP industry grew due to relaxed investment regulations and access to transmission.
 - The industry expanded beyond the QFs that emerged following the passage of PURPA in 1978. IPPs became a more viable business enterprise.

FERC Rules Requiring Nondiscriminatory Wholesale Wheeling



- In 1996, the FERC enacted rules (Order 888) to address what the FERC believed was discrimination in the provision of wheeling.
- The FERC enacted a standardized Open Access Transmission Tariff that all companies wheeling power were required to follow.
- The purpose of FERC Order 888 was to require equal access to transmission services, which was intended to foster competitive bulk power markets, which in turn would lower electricity rates.
- FERC Order 888 required utilities to unbundle their wholesale generation and transmission services, and required separate rates for wholesale generation and transmission.

FERC Rules Requiring Nondiscriminatory Wholesale Wheeling



- FERC Order 888 also required open access to unbundled retail transmission services in cases where the utility volunteered, or was ordered by a state commission, to provide unbundled retail access. This required the affected retail customer to purchase its unbundled transmission service under a nondiscriminatory tariff.
- FERC Order 888 expressly did not apply to bundled retail transmission (i.e. no separation of retail generation and transmission services), because this would implicate the division of jurisdiction between the FERC, which regulates interstate power transmission, and the states, which regulate retail electricity service to customers.
- Traditional electric utilities (non-QFs) began to rely more on IPPs to obtain power to serve their load, and invested less in generation.
- FERC Order 888 facilitated continued growth in the IPP industry.

FERC's Proposed Rules Imposing Standard Market Design



- In 2000, the FERC proposed rules that would impose open access requirements to the transmission component of a traditional utility's bundled retail sales, in addition to its wholesale transactions.
- The FERC's rules would eliminate the traditional vertically integrated utility model in favor of a wholesale power market from which all retail providers would purchase electricity.
- These requirements would prevent the utility from giving priority to the transmission of power to serve its native load. FERC believed that favoring native load is unduly discriminatory.
- The FERC proposed to order a mandatory and standard market design in order to create competitive power market, and would impose electricity pricing based on demand.

The Debate Surrounding the FERC's Proposed Standard Market Design and the Future of IPPs



- Many state commissions, including the WUTC, have argued that the FERC does not have jurisdiction over the transmission component of bundled retail sales.
- The WUTC and other state commissions believe that the standard market design is not the best solution for some regions of the United States, such as the Pacific Northwest.
- The Pacific Northwest is unique because of its dependence on hydropower, which does not fit the demand-based pricing model of standard market design.

The Debate Surrounding the FERC's Proposed Standard Market Design and the Future of IPPs



- Some state commissions, including the WUTC, believe the best way to ensure the continued viability of the IPP industry is to retain the traditional vertically integrated utility model, which will give the IPPs solvent “paying customers” for their power.
- Long-term purchase power agreements (PPA) with utilities will allow IPPs to attract investors and the capital necessary to make the financial commitments to grow their facilities.