



# **THE RATIONALE AND OBJECTIVES OF AN EFFECTIVE MONITORING PROCESS**

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ACCRA, GHANA



# The Role of the Regulator



# US Energy Markets

## ➤ Market Operators

- Regional Transmission Operators
- Independent System Operators

## ➤ Regulators

- Federal Energy Regulatory Commission
- State Regulators
- Regional Entities



# Federal Energy Regulatory Commission

- Regulates the transmission and sale of natural gas and electricity for resale in interstate commerce to ensure that customers have dependable, affordable energy through competitive wholesale markets



# Federal Energy Regulatory Commission

- Market Power Determination
- Market based Rate Authority vs. Cost-Based Rates
- Merger/sale of assets approval involving regulated providers
- Standards for Operators



# State Regulatory Commissions

## e.g., PUCO:

- Our mission is to assure all residential and business consumers access to adequate, safe and reliable utility services at fair prices, while facilitating an environment that provides competitive choices



# State Regulatory Commissions

- Establish whether local markets are ready for competition
- Price caps and other customer protections in early years of development
- Identify structural problems and remedies



# WHO REGULATES WHAT?

- **Federal Energy Regulatory Commission**
  - Wholesale Markets
- **State Regulatory Commissions**
  - Retail Markets





# REGULATORS

- Vigilant oversight of energy markets, both wholesale and retail
- More than enough to do
- Different markets/players/scopes



# FERC and states should work together

- wholesale flows to retail
- information sharing both ways
- behavior implications/market reactions
- unexplained price movements and market activity around extreme weather



# State Regulatory Bodies

Various structures but...

....duties, activities and products are much the same, on a state-by-state basis, as well as reflective of the federal monitoring requirements.



# Ohio Statute

- Ensure retail electric service consumers protection against unreasonable sales practices, market deficiencies and market power
- Retail electricity prices are strongly correlated to wholesale market prices
- Therefore, wholesale is of concern to the state commissions



# FEDERAL ENERGY REGULATORY COMMISSION

## Office of Enforcement (OE)

“...serves the public interest by ensuring effective regulations and protecting customers through understanding markets and their regulation, timely identifying and remedying market problems, assuring compliance with Commission rules and regulations, and detecting and crafting remedies to address market manipulation and other noncompliance issues .”



# OE Functions

- Principal advisor to Commission on regulation and oversight of energy market structure, performance and compliance of market participants with the Commission's rules
- Conduct analytical studies of market structures and activities to assess the state of the markets, provide early warning of vulnerable market conditions and propose policy for improvement



# OE Functions

- Initiate and execute investigation of possible violation of the Commission rules, standards, orders and regulations; recommend remedies to address violation and pursues remedies through negotiation, litigation or financial penalties.
- Maintains a forum to informally resolve disputes and advises the Commission on Market enforcement and compliance issues



# OE Functions

- Maintain Enforcement Hotline to informally resolve disputes concerning any matter subject to the Commission's jurisdiction, including barriers to competition or price responsiveness to market conditions
- Conduct market research and develop market models and simulation
- Report on the state of energy markets





# Market Monitoring Electricity

- Retail Market
- Wholesale Market
- Corporate Separation
- Consumer Intelligence
- Demand Forecasting
- Supply Estimation
- Supplier Complaints



- Price stabilization/volatility
- Supply
- Behavior
- Service quality/reliability
- Investment in new infrastructure
- Innovative products
- Risk management



# Existing State Role in Wholesale Markets

- Understand the wholesale market
- Understand decisions utilities must make in the wholesale market
- Shape the wholesale market for the benefit of the state's residents and businesses
- Decide value of reliability
- Assure adequate supply for future usage levels
- Land use for new facilities



# Independent Market Monitors

- Under the Independent Transmission Operator
- Generally monitor and report on markets at large and potential abuses
- Detect structural problems
- Identify unusual behavior
- Suggest modifications
- In some instance, impose penalties and mitigation strategies



# What to watch for...

- Transparency of information for effective behavior/response
- Efficient allocation of resources
- Incentives for efficient production as well as investment
- New service options
- Innovation and investment in new technologies



# What we look at...

- Supply Monitoring
- Retail Markets
- Demand Forecasting
- Transmission Data
- Market Confidence



# Why we ALL do it!!

- Independent monitoring improves reliability and fairness
- Transparency ensures fair pricing
- The more watching, the better
- More effective monitoring
- Keeps states from being “Balkanized”
- Opens markets/assures competitiveness
- Keep the lights on and keep the oil/gas flowing



# Questions?