


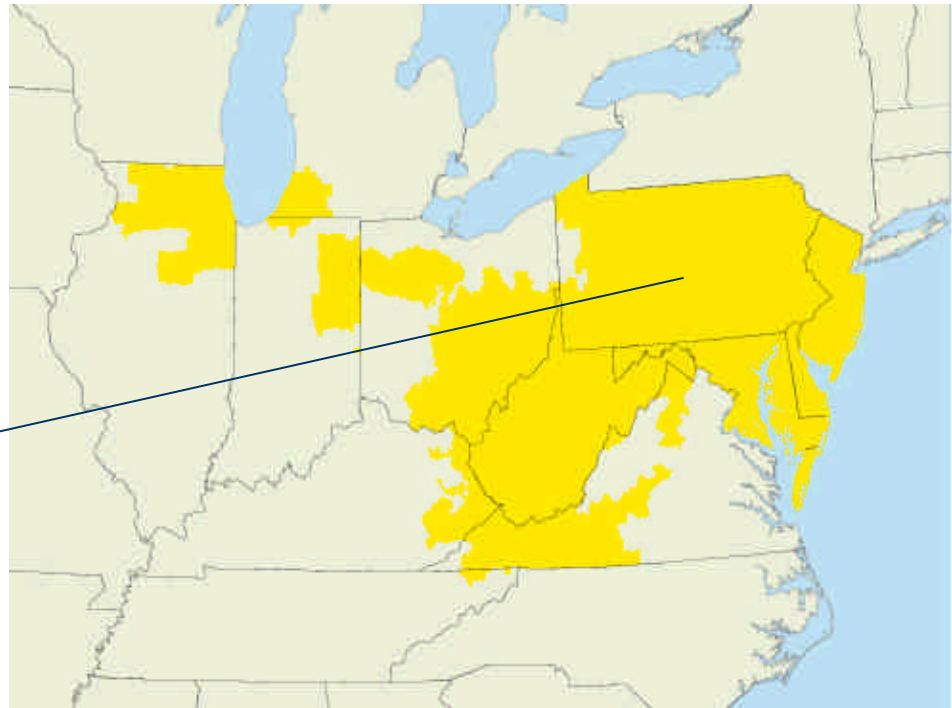
REGIONAL & STATE ELECTRICITY MARKET ISSUES

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Power Exchanges and Regional Markets

- PJM service territory
- FERC jurisdiction
- All or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and the District of Columbia.



Power Exchanges and Regional Markets

- Population - 45.3 million
- Generating sources - 1001, with diverse fuel types
- Generating capacity - 137,490 MW
- Peak demand - 110,700 MW
- Annual energy delivery - 625,000 million MWh
- Transmission lines - 49,970 miles
- Members/customers - more than 330
- PJM, acting neutrally and independently, operates the largest wholesale electricity market in the world.

Power Exchanges and Regional Markets

- Almost all of the states in the PJM region have restructured their electricity utility industry and deregulated generation.
- This means that, within certain regulations, generation can be built anywhere by anybody in these states.
- The energy output is sold either as a bilateral contract or in PJM's open market.
- But the states' responsibility of retail rates are still in effect, and retail rates eventually are dependent on wholesale market prices.

State Relationship With PJM

- During the creation of PJM as an ISO in 1997, stakeholders recognized that it was important to include and keep state utility commissions informed of all matters.
- Any action in the wholesale energy markets and transmission area ultimately affects the retail end-use electricity customers.
- These end-use customers' retail rates are under the jurisdiction of the state utility commissions.

State Relationship With PJM

- In 1998, PJM and state utility commissions in the PJM region signed a Memorandum of Understanding (MOU) to create a State Commission Liaison Committee.
- The State Committee is a direct channel of communication between PJM's Board of Managers and all state commissioners in the PJM region.
- With the current expansion of PJM, a new Organization of PJM States has been formed that includes all 13 jurisdictions.

Open access

- Since the restructuring of the electricity industry, the Commission no longer has jurisdiction over the generation of power.
- Jurisdiction only over electric companies distributing electric supply to customers.
- Transmission is a federal matter – FERC.
- PJM does not own any transmission assets.
- The transmission wires are still owned by the electric companies in each state, or in some cases, multi-state companies.

Open access

- Among many of its functions, PJM prepares a regional transmission plan that takes into account the needs in its service territory.
- The electric companies build or improve to meet the requirements of that plan and recover the costs through FERC-approved transmission rates.
- Open access is mandatory under FERC Order 888.

Open access

- Basic concept of open access is that the company that owns the transmission wires shall give equal access to any generating company without any bias/favoritism towards its generating affiliate.
- Information for open access has to be available equally all market participants.

Interconnection standards

- Two types – large and small generators
- FERC jurisdiction
- Industry standards
- State participation and input
- Cost causation and “free rider” issue
- Planning process

Capacity and Reliability

- Nearly all states have in their enabling statutes the need for “safe and reliable” service.
- Again, reliability standards are administered on a regional level.
- In most cases, state commissions have accepted PJM’s expertise in this matter but have not given up its responsibility of reliability standards.
- That is, if a state believes it needs more reserve margin for reliable service, it can set a higher reserve margin.

New electricity suppliers

- Affiliates of generating companies.
- Companies without any generation.
- Brokers and aggregators.
- Licensed as retail electricity suppliers by state based on different criteria such as financial and technical capabilities.
- Have to be or have relation with members of PJM to procure electricity in the wholesale market.

Power purchases

- Bilateral contract.
- Spot markets: Day ahead or hourly.
- Under default service, could be acquired in a competitive process such as an auction and/or bids.
- Obligation to ensure reliable delivery – possible penalties for non-delivery.

Important Issues

- Clearly define jurisdictional powers and issues.
- Do not create unnecessary rules and regulations that may hinder the development of an energy market.
- Regulatory role does not necessarily mean enforcement all the time; these days the role is more “fluid” – a regulator needs to be informed.

Important Issues

- While enforcement of regulations to prevent abuse is still key, the first action during an outage is not necessarily “to point fingers” but rather to ensure that the utility can restore service immediately.
- The regulator can provide reasonable information to legislators and other government officials as well as the public.
- Create a “living” document that each party endorses/approves; “living” indicates the need for constant revisions.

Summary

- Important issues for Commission:
 - Customer education
 - Safe and reliable service
 - Monitoring energy industry
 - Interaction with other states
 - Interacting with elected leaders, legislators, other appointed officials, and community