
National Capital Area Chapter

United States Association for
Energy Economics

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<http://www.ncac-usaee.org/>

news

Energy Bill, Energy Bill... Where Art Thou Energy Bill?

Our Next Luncheon at Library of Congress

WHEN: Noon, Friday, November 15

WHERE: 6th Floor, Madison Building—Montpelier Dining Room
Library of Congress (enter from Independence Avenue)
1st Street & Independence Avenue, SE
Washington, DC

SPEAKER: Shirley Neff, Staff Economist, Senate Energy and Natural Resources Committee

We want an energy bill.....we need an energy bill, but for some reason it is as elusive as the love between Romeo and Juliet. And, as with their love, time is of essence.

Congress returns from election recess on 12 November. If a bill is not passed upon their return, all hope for an energy bill this Congress is lost.

So, where does the bill stand in Committee? What issues remain? What are its prospects for passage?

To answer these questions we have turned to our own Shirley Neff, staff economist for the Senate Energy and Natural Resources Committee. As most of you know, Shirley is responsible for all Committee matters concerning energy markets, global climate change, and international energy policy. She also handles energy tax matters for Senator Jeff Bingaman on the Finance Committee. In the current bill, Shirley has been the lead Senate negotiator on the renewable portfolio standard and the financial aspects of the Arctic natural gas pipeline.

Shirley has fought this battle before—in 2001 she was the lead staff person drafting the Senate Democrats energy policy proposal.

Join us on Friday, November 15th at 12:00 pm for networking, with the lunch-line forming promptly at 12:30 and the presentation beginning at 1 pm so we are done by 2 pm.

COST: \$15.00 for members and \$20.00 for non-members—guests are always welcome. Make checks payable to NCAC-USAEE. **RSVP:** By COB Wednesday, November 13 to Ron Planting by phone (202/682-8509) or email (planting@api.org). Cancellations after noon Thursday will be billed.

October Meeting Highlights

**SPEAKERS: Tom Rudebusch—Duncan, Weinberg, Genzer & Pembroke, P.C.
Sarah McKinley—State Relations, Federal Energy Regulatory Commission**

Standard Market Design for Electricity: The Devil is in the Details

The proposed rulemaking on “Standard Market Design” for the wholesale electric market, launched by the Federal Energy Regulatory Commission (FERC) on July 31, has engendered controversy and vigorous debate in every region of the country. At NCAC’s October meeting, the discussion focused on different views of the rule from two quarters:

- Tom Rudebusch, an active participant in New York Independent System Operator (NYISO) committees that is attempting to implement the rule; and
- Sarah McKinley, Manager of State Outreach for FERC.

McKinley outlined the extraordinary lengths the agency had taken to meet with state regulators and industry representatives. On October 2, FERC issued an order acknowledging the need for further technical review of five issues: development of a Western SMD; transmission pricing policies, including participant funding; resource adequacy requirements; the role of state regulators through “Regional State Advisory Committees” (RSAC), and Congestion Revenue Rights. The agency has deferred comments on these five issues until January 10, with reply comments on all issues due in February.

Rudebusch discussed the NYISO template, which he described as closest to the model for an interstate market proposed by FERC. Its features include bid-based markets with marginal clearing prices, and coordinated markets in energy, regulation and operating reserves. The New York ISO includes a two-settlement system, with a Day Ahead Market (DAM), which clears about 95% of the transactions, and a Real Time Market, used for balancing and price correction.

The New York ISO also uses Locational Marginal Pricing for transmission and has developed Transmission Congestion Contracts (TCCs), which are equivalent to FERC’s Congestion Revenue Rights (CRRs).

New York State has a Reliability Council, which sets its Installed Reserve Margin, and makes sure that Load Serving Entities (LSEs) carry enough reserves. Auctions are held, and LSEs are penalized if they do not have enough. New York’s Installed Capacity (ICAP) market is not what FERC had in mind when it wrote its proposal, but it does deal with resource adequacy.

The NYISO also has an independent Market Advisor (Mr. David Patton) and a monitoring unit that reports to the Board of Directors. The New York market also has a \$1,000 bid cap (as suggested in FERC’s proposal), and uses Automated Mitigation Procedures (AMP).

As for governance, the NYISO has a ten-member independent Board of Directors, with three major committees: management, business issues and operating. The Board can change the tariff with a Section 206 filing, but must have concurrence of the Management Committee to do so. All three committees have a five-sector model and 58% affirmative votes are needed to pass a motion.

While New York model is not a total match with FERC’s ideal, Rudebusch contends that it comes closer than any other existing or proposed model. The question he posed is: how close is good enough?

Rudebusch listed five major areas of conflict:

- 1) **Market Design.** The NOPR states that CRRs should follow load, but it also calls for auctions of CRRs. In New York, there are already periodic auctions of TCCs, a significant number of which are assigned to grandfathered contracts. The NYISO is willing to allow CRRs as options, but does not want options to be mandatory. NYISO already collects for losses in dollars and does not want them supplied in kind. New York averages nodal prices by zone and sees no efficiency to be gained by requiring nodal pricing for loads. Similarly, the NYISO sees no advantage to allowing transmission customers to specify a maximum congestion charge that it is willing to pay because it would be difficult to administer.
- 2) **Resource Adequacy.** “No one in New York thinks regional state advisory committees will work,” said Rudebusch.
- 3) **Transmission Planning.** The NYISO sees a strong role for itself in planning facilities, and would issue an RFP for construction. The NYISO does not support participant funding, while transmission owners want participant funding for economic projects and rolled-in funding for reliability projects.
- 4) **Transmission Issues.** The NYISO is likely to defend license plate pricing to avoid lost revenue issues.
- 5) **Market Monitoring.** The NYISO likes the Automated Mitigation Procedures (AMP) that it pioneered and questions FERC’s directive that these would only be instituted “in unusual circumstances.” Generators, meanwhile, would prefer eliminating AMP and establishing an Oversight Board for market monitoring to distance it from an independent Board.

Rudebusch’s basic question is how far FERC is willing to go to allow regional variation. He advocates allowing New York to move forward with the market it has developed, without creating controversy over the differences.

Sarah McKinley countered that the agency was being pushed in two directions. On the one hand, many industry analysts urged FERC to be as prescriptive as possible in order to reduce “seams” between regions. Creating uniform rules would eliminate, to a great degree, opportunities for gaming and market manipulation. Eliminating seams would also increase efficiency, resulting in lower costs.

As one example, McKinley cited the issue of independence of the RTO Boards. New York might like its structure, but New England, next door, demands complete independence.

By the same token, some analysts contend that a single market design for the Western Interconnect—no matter how bad—would be preferable to three regional RTOs with different market designs.

Stay tuned.

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- **Immediate Past President**

NCAC Monthly Lunches—Set your Calendar for the Year!

To help you plan for the coming months, the following dates have been reserved for the NCAC monthly lunch:

December 18—Herman Franssen: Iraq Developments on Oil Markets (to be confirmed)

January 14—**Annual Dinner** (date pending, speaker confirmed)

Speaker: Ian Johnson, Vice President for Environmental and Sustainable Development, World Bank