

The New Realities of Restructuring – Maybe Not So New

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* Views expressed represent do not necessarily represent those of
the FTC or any individual commissioner.

Overview of Presentation

- New: Can Competition and Reliability Be Reconciled? YES
- Not So New: Market Power Assessment and Mitigation for Market-Based Rate Authority
- Proposal for the Future: What to Do for Market Power Screens and Mitigation?

New: Is There a Trade-Off Between Reliability and Competition?

- Competitive forces can increase, rather than decrease, reliability.
- Customers can rely on multiple sources of supply and demand reduction rather than relying solely on a traditional public utility.

Four Forms of Entry Can Create New Generation Sources or Lower Demand for Generation

- Customer On-Site Distributed Generation (DG)
- Price-Responsive Demand Metering (Real-Time or Time-of-Day)
- Independent Power Plant Entry
- Merchant Transmission

Title XII - Electricity

(Conference Report 11/17/03)

- Possible Recognition of the Importance of DG and Price-Responsive Demand
 - Section 1251 Net Metering and Additional Standards
 - Section 1252 Smart Metering
- Both sections provide parties with new rights and require state commissions to promulgate rules to implement mandates for net metering and smart metering.

Reliability and Merger Policy

- Should costs of potentially anticompetitive mergers be weighed against claims of enhanced reliability?
- Merger Guidelines consider merger-specific and cognizable efficiencies
 - Merger-specific efficiencies are those likely to be accomplished with the proposed merger and unlikely to be accomplished in the absence of either the proposed merger or another means having comparable anticompetitive effects.
 - Cognizable efficiencies are merger-specific that have been verified and do not arise from anticompetitive reductions in output or service.

Case-by-Case Basis

- Plausible examples could include:
 - Consolidation of transmission control area (end to end) to improve reliability.
 - Non-simultaneous peaking between regions where the merging firms would have unique incentives to augment transmission lines to improve reliability.

Not So New: Market Power

- FERC Interim Market Generation Market Power Screen
- FERC Generic Proceeding on Measuring Market Power

What is the Appropriate Interim Market Screen? Some Thoughts

- What is the screen measuring?
- Garbage in equals garbage out.
- Examine both unilateral and coordinated interaction.
- Use a set of screens, recognizing that each screen measures something different.

Proposal for the Future – What is the Answer?

- Should we develop a better screen or should we develop better mitigation for generation suppliers who have horizontal generation market power?
- Both? (simulation, dynamic mitigation)
- Only one, but not the other? (only mitigation)
- None? (allow market based rates when they pass a screen)

Answers Depend on Viewpoint

In discussing the lessons learned about deregulation:

“The advocates of deregulation say that it was not done perfectly – but nothing in this world is ever done perfectly. They would have us compare an imperfect regulated economy with an idealized free market, rather than the imperfect regulated economy with the even more imperfect unregulated one.”

Joseph E. Stiglitz, *The Roaring Nineties* (p. 251).

Conclusions

Competition and Reliability Are Compatible

Market Power Assessments Need to Be As Accurate As Possible

There Are Multiple Paths to Follow in Defining and Mitigating Market Power