



UNCERTAINTY AND VOLATILITY: THE STATE REGULATOR'S DILEMMA

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Challenge

“Stay the course” toward competition and energy market development in the face of volatility and other assorted uncertainties.



Volatility and Upheaval

- Corporate ethics and business practice lapses
- California meltdown
- Enron debacle
- Wash trades and market manipulation
- 9/11 tragedy and security concerns
- Lack of liquidity
- General vitality of overall market



Michigan is Moving Ahead

Retail choice is going forward in Michigan and we are in good company.

Other retail choice states include:
Texas, Illinois, California, New York,
Ohio, Pennsylvania, Maryland, D.C.,
Maine and New Jersey.



FERC is Moving Ahead

It is clear that the FERC is moving ahead with its SMD policy, pleasing some states and alarming others.



FERC Market Design Rulemaking

- FERC Intends to:
 - Establish a network access service for all transmission customers provided by the independent transmission provider (ITP)
 - Establish standard market design including uniform terms and conditions; Elimination of pan caking; and congestion management using LMP



FERC Market Design Rulemaking, Continued

- ITP would operate day-ahead and real-time markets for transmission, energy and ancillary services
- Customers would obtain protection from price volatility by congestion revenue rights (CRR's)
- Each ITP would have a market monitor
- Market mitigation



FERC Market Design Rulemaking, Continued

- ITP will be responsible for demand forecasts – regional reserve requirements would be determined in consultation with a state advisory committee
- Creates regional state advisory committees
- No stakeholder boards for ITPs



State Reaction to SMD NOPR

- July 31, 2002 – 18 regulators in 15 states expressed concern
- August 15, 2002 – 71 regulators in 23 states and D.C. expressed support for the general direction
- August 26, 2002 – southern governors voice strong opposition



Regional Objections Could Result in Gridlock

- Time to move forward on a regional basis
- A regional approach to SMD rollout could advance markets in areas that are ready for competition
- Regions not ready could adopt SMD at a later date, if ever



The Case for a Regional Approach

- Nationally uniform standards are a desirable goal
- However, the realities of the day dictate a regional approach
- Regions of the U.S. are different



The Case for a Regional Approach , Continued

- The regions, just like the states they reflect, seek to protect their rights of self-determination, based on self-perceived best interest
- The regions should not be allowed to accelerate or impede the progress or course of direction of other regions



The Case for a Regional Approach , Continued

A significant number of states and regions are prepared to move forward with the concepts incorporated in the FERC'S SMD, although some changes are anticipated in the final rule.



The Case for a Regional Approach , Continued

Applying one SMD to all regions of the country, simultaneously may result in significant delay for all parties, caused by appeals and litigation.



The Case for a Regional Approach , Continued

FERC's final rules should respect regional differences and regionally developed goals that do not impose a singular solution across all regions simultaneously.