

**Staff Report to the
Federal Energy Regulatory Commission
on the Bulk Power Markets
In the United States**

**Part II
of
Staff Report on U.S. Bulk Power Markets**

November 1, 2000

The analyses and conclusions are those of the study team and do not necessarily reflect the views of other staff members of the Federal Energy Regulatory Commission, any individual Commissioner, or the Commission itself.

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Preface

The reports that follow make up Part II of the Staff Report on U.S. Bulk Power Markets, and specifically review the regions of the Northeast, Midwest, Southeast, and the Electric Reliability Council of Texas (ERCOT). Like Part I, that dealt with staff's investigation of the Western Bulk Power Market, these investigations were directed by the Commission in an undocketed order issued on July 26, 2000. 92 FERC ¶ 61,160 (July 26, 2000). The Commission directed staff to undertake a fact finding investigation of the conditions in electric bulk power markets (including volatile price fluctuations) in various regions of the country. Staff was further directed to (a) determine any technical or operational factors, regulatory prohibitions or rules (federal or state), market or behavior rules, or other factors affecting competitive pricing of electric energy or reliability of service and (b) report its findings to the Commission by November 1, 2000.

Part II of the report, as with Part I (the Western Market), presents certain facts regarding the physical descriptions of the resources, load, prices and input costs in each region in a way that is common among all regions. The focus of the report varies for each region, reflecting the variation in the issues among the regions. The West, for example, is a region that is partially restructured with the California ISO. The Northeast, by contrast, is entirely composed of ISOs. The Midwest and Southeast are currently traditional bilateral markets that are dominated by vertically integrated systems. ERCOT is also in transition to an ISO market.

The overall picture is one of an industry in transition. The issues pertain to regulatory or structural uncertainty, the uneven pace of change, and complex market designs that are still in flux. This, combined with a period of unprecedented economic growth and heavy demand on electricity means that there is a great deal of stress on the current bulk power markets.

Electricity is a commodity with market dynamics similar to many other commodities but is still viewed by many as "different." This is evidenced by the reaction to price volatility in various regions, with corresponding efforts to control prices. Basic decisions about the regulatory model need to be decided so that the industry can complete the transition from a traditional cost-of-service model to a model that uses markets to price the commodity and services. The industry is currently in a hybrid state where the transmission is regulated and the price of the commodity is sometimes controlled through various market interventions.