

Regional Electricity Markets

Because 70 percent of the power sold by municipal electric utilities nationally comes from power purchased on the wholesale market, the smooth operation, fairness and openness of these markets is indispensable to public power in providing reliable and reasonably priced electric service to their customers. Unfortunately, changes in the management of regional electricity markets have put public power utilities in the position of trying to deal with a system that is largely both unfair and uncompetitive.

With the passage of the Energy Policy Act of 1992, federal energy policy started a major shift toward promoting greater competition in the wholesale markets. However, competition was hindered because only a handful of utilities owned and controlled a large portion of the region's transmission. In order to counter this trend, the Federal Energy Regulatory Commission (FERC) promoted the formation of Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs).

Five RTOs/ISOs were formed to control and manage the transmission systems in various parts of the country, including the Midwest Independent System Operator (MISO). RTOs do not own the generation or transmission facilities that provide electricity to the wholesale power system, but each RTO has the authority to:

- develop the rules to administer the energy markets;
- determine which generators will operate in the market;
- determine the need for requested transmission services; and
- oversee the billing of suppliers that made market purchases.

The goal of RTOs was to act as a “regional referee” for all participants and to provide consumers with lower prices for reliable electric service. The RTOs have also:

- eliminated pancake transmission rates;
- begun the development of an ancillary service market; and
- created incentives to build needed transmission

The Energy Policy Act of 2005 (EPAAct 2005), further strengthened the RTOs by passing several key provisions:

- mandatory reliability standards;
- federal backstop authority for transmission siting;
- added FERC authority to prevent market manipulation; and
- preservation of long-term transmission rights for load-serving entities.

However, several recent developments in RTO regions have created obstacles to public power systems' role as providers of reliable and low-cost electric power to their customers, including the following:

- added costs in bringing non-RTO generation into an RTO market to serve a utility's load; (crossing over an RTO “seam” adds as much as 20% to the cost of transmission);
- difficult, complex and costly Locational Marginal Pricing (LMP) schemes that create incentives for needed transmission and generation investments;
- lucrative market prices that provide a disincentive for sellers to enter into long-term bilateral contracts that would provide predictability and price stability;
- volatile and unpredictable prices that can put a financial strain on a utility

- if prices spike during a period when the system has significant exposure to the market; and
- escalating RTO administrative costs.

MISO, which operates transmission lines in 15 states and the province of Manitoba, Canada, has been severely criticized for its pricing practices, administrative costs, and focus on energy market issues rather than reliability. At the behest of Minnesota municipal utilities, Congressman James Oberstar (D-MN) requested that the U.S. Government Accountability Office review MISO practices to determine whether MISO provides value to its market participants. Others followed suit and GAO is currently reviewing RTO/ISO practices across the country.

Congress should hold oversight hearings on the functioning of the wholesale electricity markets and work with state public utility commissions, FERC, and the RTOs themselves to develop policies that will solve various problems in wholesale electricity markets so that these markets will meet the needs of load-serving entities, benefit electricity consumers and produce an electric utility industry that can support a robust economy.

Specifically, Congress should encourage FERC to take the following steps:

- **develop strategies to contain spiraling wholesale power costs;**
- **aggressively monitor wholesale power markets to prevent market manipulation;**
- **ensure that long-term transmission rights are protected; and**
- **adopt policies that encourage the formation of stand-alone, multi-ownership transmission companies.**