



Federal and RTO Monitoring of Energy Markets



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Illinois Commerce Commission
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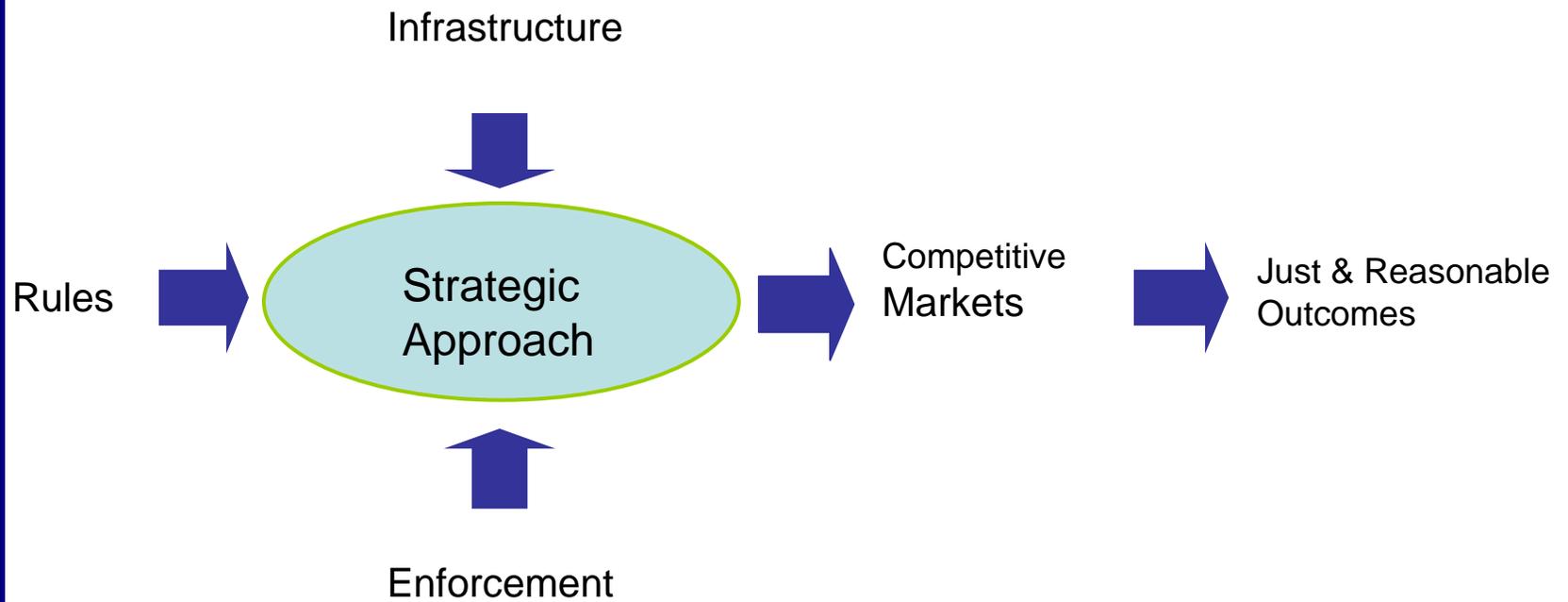
Outline

- Market Monitoring Role in FERC's Strategy
- Market Behavior Rules
 - electric
 - natural gas
- Standards of Conduct
- Audit Program
- Next Steps

(Opinions are Harvey's, not the Commission's.)

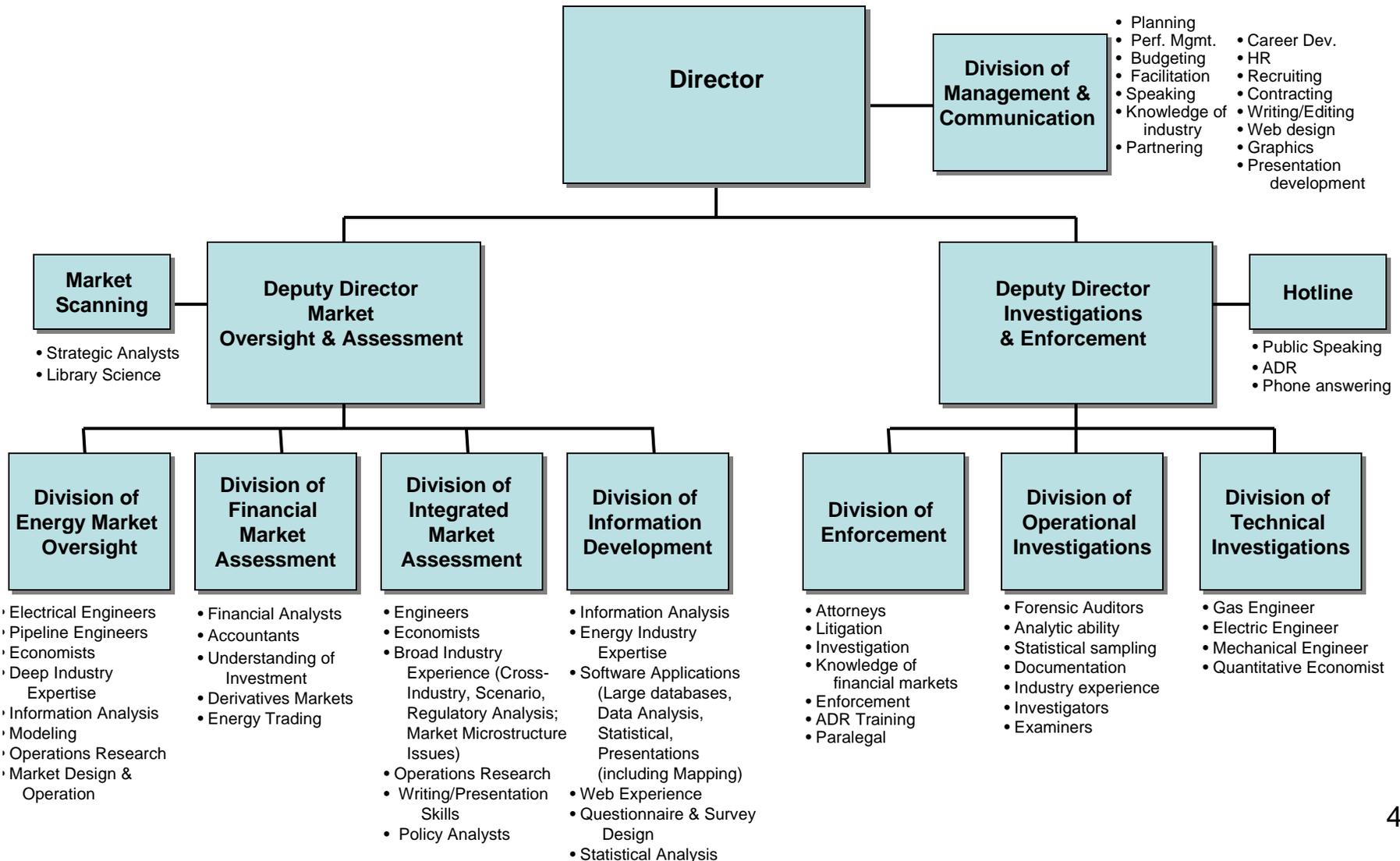


FERC has a 3-pronged strategy.



Office of Market Oversight and Investigations (OMOI)

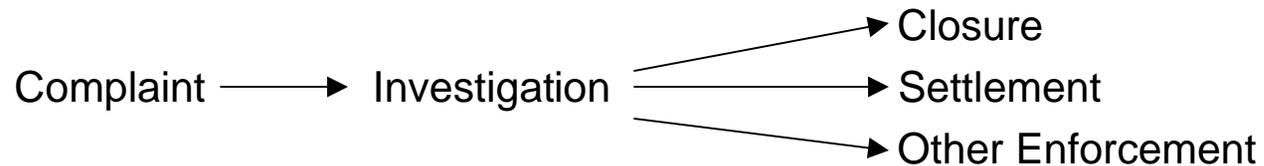
- Knowledge/Skillsets -



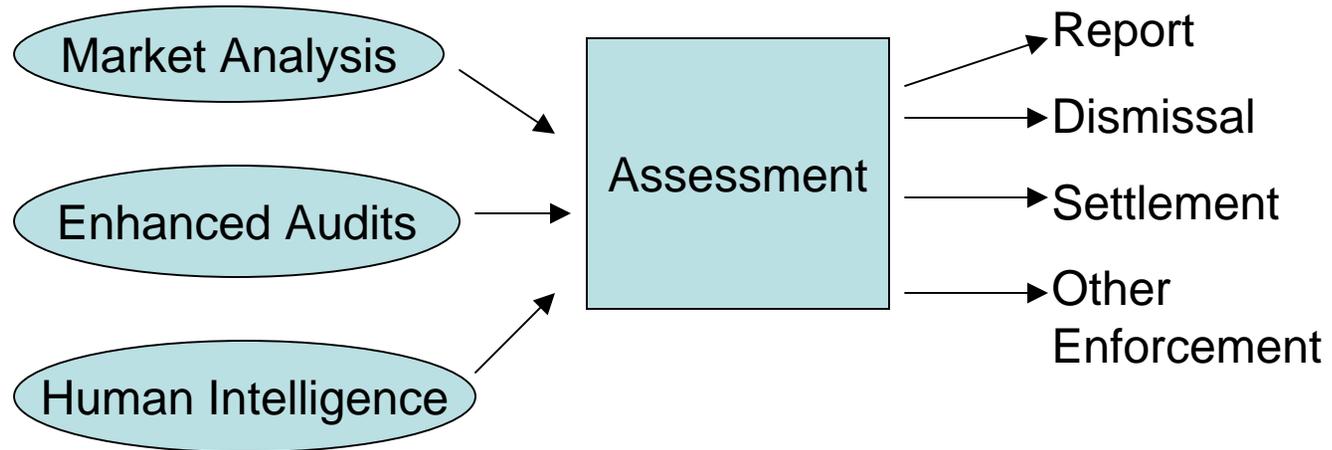


Market Oversight and Investigations uses many tools to assure integrity.

- Traditional Enforcement



- Enhanced Monitoring





OMOI Enforcement Accomplishments to date.

- Compliance Plans: dozen +
- Refunds: \$87 million
- Civil Penalties: \$21 million
- OMOI has also participated in settlements of the California energy crisis, totaling approximately \$628 million



New Market Behavior Rules Highlights (Electricity Markets)

1. Unit operation must comply with Commission-approved rules of applicable market power.
2. Actions/transactions without a legitimate business purpose and that are intended to or foreseeably could manipulate prices are prohibited; no wash trades/false information/artificial congestion relief/collusion
3. Provide accurate information to FERC/ISO/RTOs and MMUs.
4. Voluntary price reporting must follow Price Index Policy Statement and sellers must tell Commission whether they report.
5. Retain relevant pricing records for 3 years.
6. Do not violate code of conduct or Order 889 Standards of Conduct.



Highlights (continued) (Natural Gas Markets)

1. Actions/transactions without a legitimate business purpose and that are intended to or foreseeably could manipulate prices are prohibited; no wash trades/collusion.
2. Voluntary price reporting must follow Price Index Policy Statement and sellers must tell Commission whether they report.
3. Retain relevant pricing records for 3 years.

See 18 CFR 284.288 (pipelines)

18 CFR 284.403 (blanket marketing certificates)

For first time: sellers relying on blanket market certificates must ID themselves.



Highlights (continued) Remedies

- Disgorgement of illegal profits
- Suspension or revocation of authority
- Other civil penalties await Congressional action
- OMOI to review efforts annually



Highlights (continued)

Market Monitoring Units

- MMUs: improve coordination with Commission
- MMUs can enforce matters
 - expressly set forth in tariff
 - involve objectively identifiable behavior
 - subject seller to consequences expressly approved by Commission and set forth in tariff
- Commission responsible to enforce other matters
- MMUs – OMOI to forge close working relationships
- Clear RTO/ISO rules to assist compliance with behavior rules



Standards of Conduct

GOAL: One set of standards of conduct to apply uniformly to natural gas pipelines and electric utilities or “transmission providers”

PRINCIPLES:

- The transmission function must operate independently from its marketing and energy affiliates; and,
- Transmission providers must treat all transmission customers, affiliated and non-affiliated, in a non-discriminatory manner, and cannot operate their transmission system to preferentially benefit an energy affiliate.



Standards of Conduct (continued)

Key Elements:

- Independent functioning requirement
- Emergency exception w/reporting to FERC
- Affiliates identified on OASIS or Internet Website
- Organization charts and job descriptions posted on OASIS
- Employee transfers posted on OASIS or Internet Website
- Standards of Conduct posted on OASIS or Internet Website
- Non-discrimination requirement
- Information sharing prohibitions
- Discounts posted on OASIS or Internet Website



Standards of Conduct (continued)

Important definitions

- transmission provider (TP) (not including RTO)
- energy affiliate (EA)
- marketing affiliate (MA)

Independent functioning

- of TP and MA/EA
- exceptions (e.g., certain personnel, emergencies)

Important postings (on OASIS/Internet)

- names, titles, job descriptions
- certain employee transfers
- potential merger partners



Standards of Conduct (continued)

Restrictions on information disclosure

- TP cannot share with MA/EA
- e.g., transmission, price, curtailment, storage, balancing, ancillary services, ATC, maintenance, customer or expansion information

Tariffs

- non-discriminatory application
- must post discounts

Chief Compliance Officer

- Conference in Houston
- Must be in compliance by September 1, 2004



Audits

- Targeted
 - Complaint-based (informal/formal)
 - Company-specific
 - Issue-specific
- Random
- Added Staff
 - more than 20 accountants from the Office of Regulatory Audits



OMOI Next Steps

- Continuous improvement
 - market surveillance reports
 - oversight meetings
 - seasonal look-aheads
 - definitions of market power, abuse, etc.
- Enhanced auditing
 - targeted
 - random
 - integrate new staff
- Empowering key market participants
 - board members
 - engineers
 - others
- Rapid response to observed anomalies
- More intense scrutiny of less transparent markets
- Expanded teaming
 - MMUs
 - states
 - other federal agencies
 - North American colleagues



Market Integrity is Everyone's Business

FERC Hotline:
1-888-889-8030