

National Energy Marketers Association



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Competitively Neutral Wholesale Markets Are Critical To The Industry, The Economy And The Nation

On July 31, 2002, the Federal Energy Regulatory Commission (FERC) announced a historic proposal to bring much-needed liquidity and competitive neutrality into the North American energy marketplace. This 600-page proposed rulemaking will standardize the structure and operation of competitive wholesale power markets nationally and assure that severe market dysfunctions such as California's never happen again. NEM is confident that at the end of the day, both energy supply and demand will be competitively priced, liquid commodities within a seamless, national marketplace in which all parties are incented to bring the lowest cost supplies to energy consumers.

The GIGA-NOPR proposes an "Open Access Transmission Service and Standard Electricity Market Design," (SMD) that will be implemented in stages by September 2004. The rulemaking marks an aggressive step to restore public confidence in competitive power markets by assuring adequate generation resources and establishing a standard platform for the exchange of electricity and transmission services.

The structure proposed in the GIGA-

NOPR will yield much-needed, fundamental and far-reaching changes to the wholesale electricity market. FERC has drawn upon best practices and technology solutions from all over the globe to establish the standards for America's new energy marketplace.

Given the crisis in the wholesale marketplace, the FERC proposals to bring standards, uniformity and independent, competitively neutral management to the nation's electricity grid is a significant step to bringing back both investor confidence and financial liquidity. The United States sorely needs new investments in infrastructure, generation and demand-side resources. Given the current credit and liquidity crisis, the FERC's GIGA-NOPR will provide an important part of the solution.

NEM members have experienced many cases over the past three years that demonstrate that discrimination continues to occur in wholesale electricity markets. Transmission owners continue to favor their own generation; inconsistent rules governing transmission limit some transactions while lowering costs for others; the existence of seams between regions unnecessarily raises costs for inter-regional power flows; and many vertically integrated utilities interrupt their competitors' transactions to address reliability problems, while protecting their affiliated generation and its flows.

Additionally, the absence of standard market rules and practices within and between regional markets have allowed discrimination to continue in favor of incumbent utilities and has imposed so many barriers to competitive entry that price competition is virtually impossible and consumers are poorly served as a result.

The new market design will rely on Independent Transmission Providers (ITPs) to provide a standard transmission service called Network Access Service. ITPs will, by definition, be independent and will regulate, dispatch and sell transmission service in both the day-ahead and real-time markets. Transmission cus-

tomers will have the right to transmit power or aggregate resources for resale on a non-discriminatory basis between receipt (source) and delivery (sink) points. All customers who request service will receive it, and those customers who take power off the grid will pay a standard Network Access Charge.

Additionally, a Congestion Revenue Right (CRR) will be created and allocated to customers based on historical usage. These congestion rights will provide price certainty and help to commoditize congestion. These rights will also be sold at auction to ensure correct pricing signals.

To be sure there are many issues to be resolved, and NEM has several task forces working with FERC and state regulators to resolve these issues. It is critical that states, particularly in the South and West, realize that uniformity, liquidity and the mandate for adequate generation resources will ensure against ill-fated experiments that have cost consumers billions of dollars in higher energy costs. FERC's proposal will also prevent many of the practices that led to the collapse of Enron and the trading practices that have seriously undermined our credit and equity markets.

Since its inception, NEM has championed the need for uniform, standardized market rules to lower the costs of delivering energy, eliminate the numerous barriers to price competition and to bring the benefits of competition to even the smallest consumer. Therefore, we applaud the historic effort, analysis and vision represented by FERC's GIGA-NOPR. NEM urges state regulators to support FERC's efforts and to implement uniform standards, information protocols and business practices at the earliest possible opportunity. ■

For information on participating in NEM task forces on Competitive Wholesale and Retail Market Design and/or NEM's Risk Valuation, Management and Financial Accountability task force, contact info@energymarketers.com or visit us at www.energymarketers.com.

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Financial Integrity, Consumer Aggregation Rights Critical to Successful Restructuring

At NEM's recent Annual Membership Meeting and National Restructuring Conference, Sen. Wayne Allard, Congressman Joe Barton, FERC Chairman Pat Wood III, FERC Commissioner Nora Brownell, FTC Commissioner Mozelle Thompson, NARUC President William Nugent and Commissioners Brett Perlman from Texas, Stan Wise from Georgia, Connie Hughes from New Jersey, Bob Nelson from Michigan, Chairperson Catherine Riley from Maryland and Chairman Glen Thomas from Pennsylvania addressed a record crowd of energy, telecom and technology CEOs and experts from the United States, United Kingdom, Canada and the European Union.

Everyone stressed the critical importance of providing true price competition, better service and more advanced technology to all consumers in order to restore the public's confidence in the value of restructuring. Fortunately, NEM anticipated this need months ago and has started circulating a Discussion Draft entitled, "Energy Market Stability Framework," that can bring back both confidence and financial integrity to the energy and equity markets.

The Discussion Draft, developed by NEM's Risk Valuation, Management and Accountability Task Force, is available on the NEM website at [\[gymarketers.com/Documents/Risk_Stawman.PDF\]\(http://www.energymarketers.com/Documents/Risk_Stawman.PDF\). The Draft sets forth a six-part framework for energy market stability. The first component includes a quantitative and qualitative disclosure framework to improve the transparency of information in critical areas and to identify information to be included in regular disclosures to market stakeholders.](http://www.ener-</p></div><div data-bbox=)

A market risk framework is also discussed, the objectives of which are to standardize tracking of key market risk metrics, standardize portfolio valuation and mark-to-market methodologies, and identify best practices for measuring market risk. The credit risk framework similarly seeks to identify and standardize credit risk metrics and best practices with a resultant increase in transparency of both risk and creditworthiness.

In order to quantitatively demonstrate new levels of financial integrity to investors, analysts, rating agencies, regulators and legislators, the Draft also includes a framework for measuring capital adequacy. An audit and compliance framework is discussed as a key component of restoring confidence in the industry. Finally, the Draft recommends a financial governance framework to provide oversight as well as checks and balances.

In another move to inspire confidence and to impress upon regulators the need to permit marketers and consumers to aggregate energy demand across utilities, states and even entire regions, NEM has added Kevin Stoffer, former CEO of Nicor Energy, to be NEM's Executive Vice President for Consumer Advocacy and Aggregation Rights. By recruiting the large, multi-state consumers that are not properly represented in restructuring proceedings onto NEM's National Executive Committee and Policy Development Team, we can ensure that their needs become a priority in NEM pleadings throughout the country.

NEM has intervened for lower energy bills in more than 20 states and is uniquely situated to advocate lower energy costs for

consumers nationwide. NEM has on-the-ground experience with every barrier to competition that has been devised to date. With the expansion of its membership to include consumers as well as marketers, NEM will be positioned to bring energy from the wellhead to the burnertip or the generator to the factory floor at the lowest possible price.

In an effort to further meet the needs of large consumers, NEM is opening a new midwestern regional office in Chicago. This marks a major new expansion for the association and the industry at a time when it is sorely needed.

Also, Bob Dickerman, president of Sempra Energy Solutions, has been named chairman of the executive committee of NEM. Given his extensive background in energy sales, marketing, management, as well as energy trading, Bob will help provide a steady guiding hand for our association during a period of dramatic change in the industry.

NEM strongly believes that regulators, investors, and consumers need to know they are dealing with companies that they can trust now and for years to come. NEM and the NAESB (North American Energy Standards Board) will be holding a meeting this summer in Washington, DC to address the issues outlined in the NEM Discussion Draft.

To join NEM's Risk Valuation, Management and Financial Accountability Task Force contact NEM headquarters at (202) 333-3288, email us at info@energymarketers.com or visit our website at www.energymarketers.com. 

Author's Note: Craig Goodman is a frequent contributor to Power & Gas Marketing and a member of its editorial advisory board. His column appears here regularly.