

**Remarks of Commissioner Linda K. Breathitt
Federal Energy Regulatory Commission**

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Good morning! I am delighted to have the opportunity to participate in today's discussion, and it is a great honor to share the podium with my fellow regulators from Canada and Mexico. From my perspective as a member of the Federal Energy Regulatory Commission, cooperation among neighboring energy regulators is increasingly important in an era of energy market reform and emerging competition. Our countries enjoy and depend on a cooperative and friendly relationship regarding the trading of electricity and other energy products.

Never before have electricity markets been as complex as they are today. What we are seeing in the United States - and elsewhere in the hemisphere - is an unprecedented volume of trading by many new types of entities, from power marketers and brokers to independent power generators.

However, the new electric marketplace brings with it some new complications and challenges that regulators and policymakers must address.

In the United States, the primary focus of federal regulators today is the continued development of competitive wholesale electricity markets. At the same time, many U.S. state governments are grappling with issues related to competition in retail markets within their jurisdiction. The effort to open wholesale electricity markets to competition has been underway for the past ten years or so, and 2002 promises to be a banner year in this regard.

By way of background, FERC issued two groundbreaking orders in 1996 - Order Nos. 888 and 889 - which established the foundation for competitive wholesale power markets in the United States. With these rules, FERC ordered all transmission-owning public utilities to open up their transmission systems to allow them to be used on a non-discriminatory basis by all wholesale electricity customers. The Commission's goal was to ensure that customers have the benefit of competitively priced generation.

In December 1999, FERC issued a broad and far-reaching order - Order No. 2000 - stating the Commission's intention that all transmission-owning

entities in the United States should participate in independent Regional Transmission Organizations (RTOs) in a timely manner. It has been the position of the Commission that RTOs will reduce barriers to access to the transmission grid and will address many of the remaining impediments to full wholesale competitive markets. We have found that RTOs may eliminate undue discrimination in transmission services that can occur when the operation of the transmission system remains in control of vertically-integrated utilities.

In Order No. 2000, the Commission recognized the international nature of power transactions and the increased need for cross-border collaboration. We strongly encouraged the participation of Canadian and Mexican entities in the formation of RTOs and are grateful for their comments and advice. Our Final Rule recognized the sovereign authority of the Canadian and Mexican governments over entities and over transactions that occur within their borders. Nevertheless, we continue to believe that the expansion of electricity trade in the North American bulk power market will require that regional institutions, such as RTOs, include all market participants so that everyone will enjoy direct access to market information and the benefits of regional coordination.

Several other significant developments have occurred in the industry over the past several years. Apart from the development of RTOs, these include the rapid development of planned generation resources; the tremendous growth in the volume of electricity trading; and the accompanying new stresses and strains on the transmission system and on new electricity markets. Of course, in a country as large and diverse as the United States, these developments have not unfolded in "lock-step" in every region; and in the past few years, we have experienced some instances of market dysfunction and price volatility. Certainly bulk power markets, not yet being fully mature, have experienced "growing pains" during this transition period.

In an emerging competitive marketplace, regulators are called upon to achieve a delicate balance. FERC must continually gauge these fledgling markets to determine when to stand back and let market development take its course, and when it is necessary to take action to address specific circumstances. Achieving the appropriate balance in a politically charged environment is, perhaps, one of the most difficult task regulators can face. In order to address market imperfections, I believe the Commission must concentrate its efforts primarily in three areas. First, regulators must make sure the rules governing these new markets are appropriate and effective.

Second, we must expand and enhance the Nations' transmission system and ensure that it is efficient and that access to it is open and nondiscriminatory. Third, we must concentrate on increasing the supply of electric energy in the marketplace.

FERC's regulatory agenda this year is a challenging one. We have committed to continue the RTO development effort, which means making important determinations in pending RTO matters; developing standards for a standard market design and structure; and addressing business protocols and practices. The objective in developing a standard market design will be to achieve a balance between standardization of "best practices" to minimize "seams" between markets and to maximize transparency and throughput, and regional flexibility to allow markets to benefit from innovation and to address, for example, regional cost concerns.

In a separate process, FERC has established proceedings to standardize interconnection procedures and to reexamine our standards of conduct for energy affiliates. In an attempt to better understand the derivatives positions of jurisdictional entities, we have proposed reporting requirements for derivatives. In addition, we are conducting regional meetings with industry

participants and state regulators to discuss infrastructure issues. Finally, there remain unresolved issues from the crisis in California and the West that we will soon be addressing.

In all of these endeavors, we must remember that natural transmission regions and markets do not necessarily stop at the border. It makes sense to me that North American markets must work cooperatively with each other, to plan together for expansion, congestion management, and bulk power pricing. Canada, Mexico, and the United States are evolving into a more common energy marketplace and, therefore, should benefit from the efficient and economic operations of our interconnected energy systems.