

Evolving Nature of Electricity Market Design in the U.S.

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Abstract

The objective of this paper is to examine the FERC vision for achieving smoothly functioning electricity wholesale markets in the U.S. and the path taken toward the implementation of that vision. The FERC Order No. 2000 was a most important initiative that came on the throes of the introduction of the blueprint for open access transmission operations laid out in the FERC Orders No. 888 and 889 in 1996. FERC directed all FERC-jurisdictional entities to establish new transmission structures called regional transmission organizations or RTO's. Subsequently FERC invested considerable time and effort to develop a robust wholesale market via the so-called standard design (SMD) proposed rule making. The SMD was a bold, overly prescriptive and overly ambitious undertaking that failed due to various political, regional and stakeholder pressures, including the opposition of those entities who have yet to accept the notion of markets in the electricity sector. FERC withdrew the proposed rulemaking and replaced it with the less ambitious White Paper on the Wholesale Power Market Platform (WPM). While many of the underlying SMD aspects were kept, the overall effect was to move away from the cookie-cutter approach and to encourage regional differences in the market design arena. This report assesses the thrusts of the SMP proposal and those of its redrafted version as presented in the WPM White Paper. The paper analyzes the key thrusts of the initiatives and evaluates the status of market design in the U.S.