



**Federal Energy Regulatory Commission
February 21, 2008
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher**

**Item E-1, Wholesale Competition in Regions with Organized Electric Markets
(Docket Nos. AD07-7-000 and RM07-19-000)**

"Today FERC takes an important step to strengthen competition in the organized wholesale regional power markets, by issuing a proposed rule to improve demand response, encourage long term contracting, enhance the responsiveness of regional transmission organizations, and clarify the role of market monitors.

We began the competition proceeding more than a year ago. It was our own initiative, not something we began in response to a complaint. We began with a series of technical conferences that took a hard look at FERC competition policy. We placed no limits on our comprehensive review – we examined both competitive wholesale market structures, the organized market and bilateral market structure. We were open to any proposal that promised more effective competition in wholesale power markets.

We did not start with the four reforms we propose today. These reforms represent the best ideas that came out of the technical conferences last spring and the written comments on the Advance Notice of Proposed Rulemaking issued last June. These reforms were produced by the record and are supported by the record.

Why did we begin the competition proceeding a year ago, and why are we acting today? We are acting because we recognize that competition is national policy in wholesale power markets, as reflected in three federal laws enacted over the past 25 years. We are acting because we recognize FERC has a duty to improve the competitiveness of wholesale power markets, to use the regulatory tools Congress has given us to make competition more effective. That is why we act today.

The reforms we propose today are only the latest in a series of reforms FERC has taken to promote competition in wholesale power markets. In the past year alone we reformed our open access transmission tariff to improve grid access by competitors, and reformed our market based rate program to prevent the exercise of market power. I emphasize that both these major reforms were initiated by the Commission itself.

I believe competitive wholesale markets are operating well, and that wholesale competition policy has been a success. Competition policy has assured security of U.S. electricity supply at reasonable cost for 25 years. I believe it represents the best means of assuring security of our electricity supply going forward. Competition policy is not "deregulation" but instead relies on a mixture of competition and regulation.

I recognize that there is concern about electricity price levels. But current electricity prices are driven largely by the cost of fuels used to generate electricity. The cost of natural gas and coal has risen, resulting in upward pressure on electricity prices. The uncertainty about climate change policy, the prospect of changes in U.S. climate change policy, and state policy developments in this area all put significant upward pressure on electricity prices.

FERC is not complacent about the state of wholesale power markets. We seek steady reform to strengthen wholesale competition, encourage generation entry, improve market access and grid access, establish good market rules, prevent market power exercise and market manipulation, assure effective enforcement, improve market transparency, provide contract certainty, reinforce the power grid, and improve demand response. The

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competition proposed rule we approve today makes improvements in some of these areas.

I want to emphasize the action we take today does not represent the last word on competition policy. We are prepared to act to strengthen competition. We will act in individual regional markets, we will act to make improvements on a structural basis in both the organized markets and bilateral markets, and we will act on a national basis.”