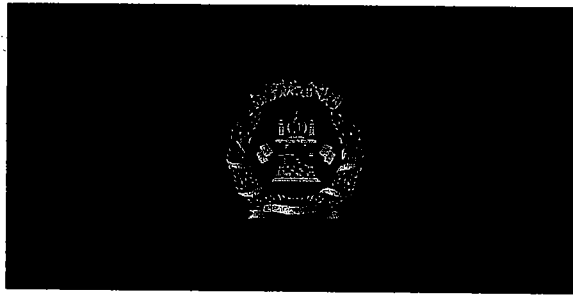


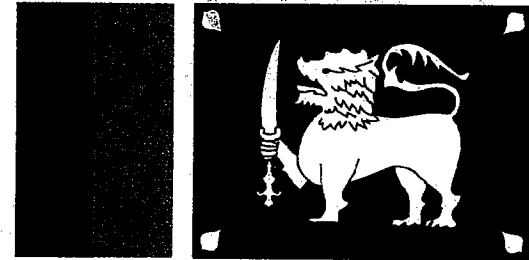


Federal Energy Regulatory Commission

# Welcome to FERC



Afghanistan



Sri Lanka



Pakistan



Federal Energy Regulatory Commission

# South Asia Regional Energy Policy Executive Exchange

Hon. Faizulla Zaki

Hon. Sayed Mahmood Husamudin Al-Gailani

Hon. W.D.J. Seneviratne

Hon. Rai Aziz Ullah

Hon. Muhammad Shah Khagga



Federal Energy Regulatory Commission

# Role of the Regulator in Implementing U.S. Energy Policy

William J. Froehlich, Esq.  
Special Counsel, Office of Enforcement  
Federal Energy Regulatory Commission  
Washington, DC 20426  
(202) 502-8488  
[william.froehlich@ferc.gov](mailto:william.froehlich@ferc.gov)



Federal Energy Regulatory Commission

# Today's Topics

- What is FERC
- How is FERC Organized
- FERC's Staff and Budget
- History Basis for Regulation
- What FERC does and does not regulate
- FERC's Statutory Authority
- Participants to US Electric Industry
- Recent Changes in the US Electric Industry



Federal Energy Regulatory Commission

## What is FERC?

### FERC Is An Independent Government Regulatory Agency

- Independent from undue *political party* influence
- Independent from undue influence by *President and Congress*
- Independent from undue influence by *industry participants*



# Independence

- Political Party
  - No more than 3 commissioners from one political party
- President and Congress
  - No review of FERC's decisions by President, Department of Energy or other agencies
- Industry Participants
  - No private discussions of open cases
  - “Due process” requirements are enforced
  - Restrictions on FERC employees: stock, gifts, future employment



# Why?

- To give investors and consumers confidence that the regulatory process and decisions are fair.



## How is FERC Organized?

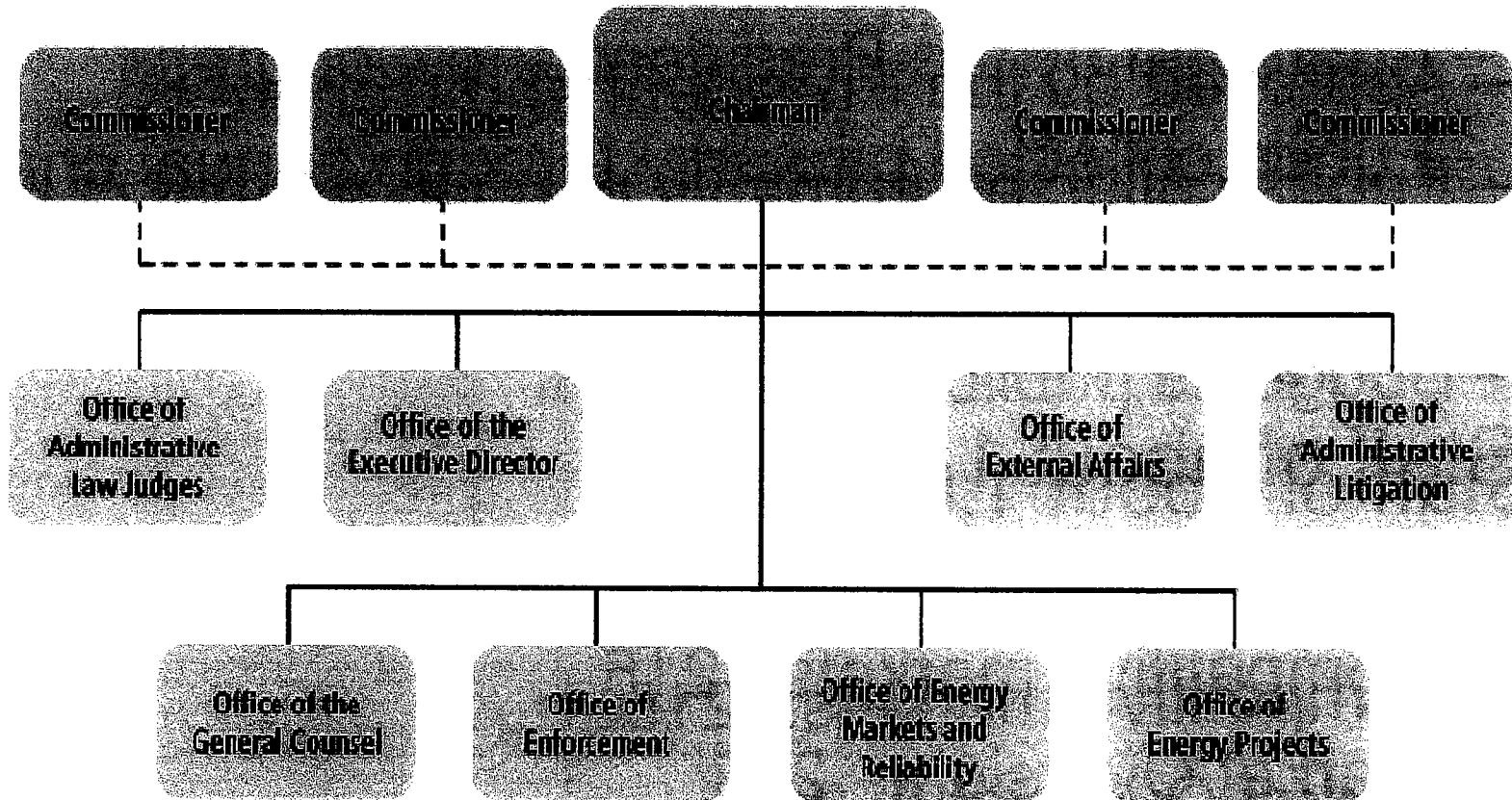
- There are 5 commissioners
  - Nominated by the President, confirmed by the Senate, President designates Chairman
  - Each commissioner has a 5-year fixed term, with one term expiring each year
- The Chairman sets the biweekly Commission agenda
  - Orders voted out by majority rule



Federal Energy Regulatory Commission

# FERC Organizational Chart

## Federal Energy Regulatory Commission



May 14, 2007

USEA:SARI/ENERGY



Federal Energy Regulatory Commission

## FERC's Staff and Budget

- Budget of \$230,800,000 (FY 2007)
  - Approved by the President and Congress
  - Funds collected primarily through annual charges and filing fees
  - Budget is publicly available
- Staff of about 1,320
  - Energy Infrastructure: 892
  - Competitive markets: 215
  - Market Oversight: 213



# Historical Basis for Regulation

- Monopoly Evils
- Discriminatory service
- Stock manipulation
- Insider dealing
- Predatory pricing
- Leveraging / Tying
- Poor service
- Benefits of Regulation
- No wasteful duplication of facilities
- Universal service
- No undue discrimination
- Regulation serves as a surrogate for competition



# Goals of Regulation

- Consumer protection
  - Just and reasonable rates
  - No undue discrimination
- Encourage competition
- Balance the interests of all affected parties
- Multiple opportunities for public input
- Rates and terms of service known in advance





# U.S. Two-Tiered Regulation

- Regulatory authority over rates for service charged by investor owned utilities is divided between the FERC and the State Regulatory Commissions (PUCs).



# What Does FERC Regulate?

- **Electric Power Industry**
  - Interstate transmission rates and services
  - Wholesale energy rates and services
  - Corporate transactions, mergers, and securities issued by public utilities
- **Natural Gas Industry**
  - Interstate transportation rates and services
  - Interstate gas pipeline construction and oversee related environmental matters



# What Does FERC Regulate? (con't)

- **Oil Pipeline Industry**
  - Interstate transportation rates and services of crude oil and petroleum products
- **Hydroelectric Industry**
  - Licensing of nonfederal hydroelectric projects
  - Oversee related environmental matters
  - Inspect nonfederal hydropower projects for safety issues



# What FERC Does Not Regulate

- Finance investments
- Set enforceable electric reliability standards  
(*North American Electric Reliability Corporation*)
- Regulate pollution produced by electric generators (*Environmental Protection Agency*)
- Regulate safety standards of nuclear generation  
(*Nuclear Regulatory Commission*)
- Regulate pipeline safety standards (*Department of Transportation*)



# FERC's Statutory Authority

## AREA REGULATED

- Natural gas transportation rates and services
- Electric wholesale and transmission rates
- Hydroelectric licensing and dam safety
- Oil/ liquid petroleum products pipeline rates

## STATUTE

- Natural Gas Act
- Federal Power Act
- Federal Power Act
- Interstate Commerce Act



# Federal versus State Regulation

- **FEDERAL JURISDICTION**
- **FERC**
- Wholesale (sales for resale) transactions
- Rates, terms and conditions of interstate transmission service
- Hydroelectric licenses and natural gas pipeline certificates
- **STATE JURISDICTION**
- **State Public Utilities Comm.**
- Retail (sales to end-user) transactions
- Rates, terms and conditions of local distribution and retail transmission services
- Certificates for construction of new electric generation and transmission facilities



# What the State Public Utility Commissions Regulate

- Establish *retail* franchise areas
- Develop and enforce *service quality* standards
- Review and approve *retail* tariffs
- Monitor and approve *planning* of the transmission system and generation facilities
- Approve *construction* of non-hydro generation and transmission facilities



Federal Energy Regulatory Commission

## Participants in the U.S. Electricity Industry

- **Investor-Owned Utilities -- 239**
  - Own the vast majority of generation (68%), transmission (80%) and distribution (78%)
- **Local Government (Municipalities) and Co-ops -- 2,921**
  - Own 13% of generation and 12% of transmission, 22% of distribution
- **Independent Power Producers -- 1,934**
  - Own about 12% of generation



# Participants in the U.S. Electricity Industry (continued)

- **Federal Government**
  - Owns 6 Power Marketing Administrations with 7% of generation and 8% of transmission
- **Electric Power Marketers**



# Recent Changes in U.S. Electricity Industry

- Grid users multiply
- Growing number of non-utility generators
- Utility divestiture of generation
- Mergers
- Grid regionalization
- Some states adopt retail choice
- Well structured regional wholesale markets, i.e. PJM



# Regional Transmission Organizations (RTO's)

- An RTO is an electric transmission system operator
  - *independent* from power market participants (buyers and sellers of power, and owners of generation facilities)
  - controls transmission facilities in the region
  - responsible for providing transmission service that is reliable, efficient, nondiscriminatory



# Purpose of RTO's

- Improve efficiencies in transmission grid management
- Improve grid reliability
- Remove remaining opportunities for discriminatory transmission practices
- Improve market performance
- Facilitate lighter-handed regulation and let the market operate



## Minimum characteristics of an RTO under Order No. 2000

- Independence
- Scope and regional configuration must be sufficient to perform required functions
- Operational authority for the transmission facilities under its control; there must be a security coordinator
- Short-term reliability



Federal Energy Regulatory Commission

# Minimum functions of an RTO under Order No. 2000

- Tariff administration and design
- Congestion management: must have a plan within one year of start-up
- Parallel path flow
- Ancillary services
- OASIS
- Market Monitoring
- Planning and Expansion
- Interregional Coordination



Federal Energy Regulatory Commission

# Thank you for your attention!

- Check out the these web sites:
  - FERC: <http://www.ferc.gov/>
  - EIA: <http://www.eia.doe.gov/>

William J. Froehlich, Esq.  
Special Counsel, Office of Enforcement  
Federal Energy Regulatory Commission  
Washington, DC 20426



# Using the FERC web site

- **General FERC Information: [www.ferc.gov](http://www.ferc.gov)**
- **Statutes:**
- **<http://www.ferc.gov/legal/maj-ord-reg/fed-sta.asp>**
  - From that page there are links to:
    - Natural Gas Act, Federal Power Act, NGPA, Energy Policy Act of 2005 and other statutes
    - A searchable Code of Federal regulations
    - Order No. 636, Order No. 888, Order No. 2000
    - Rulemakings, Policy Statements, Major Orders, Staff Reports and Accounting Guidance



## Other Useful Sites

- United States Senate Committee on Energy and Natural Resources:  
<http://energy.senate.gov/public/>
- U.S. House Committee on Energy & Commerce:  
<http://energycommerce.house.gov/>
- National Association of State Energy Officials:  
<http://naseo.org/>