



UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Before the Michigan Public Service Commission
Case No. U - 11290

Electric Restructuring

Comment of the Staff of the
Bureau of Economics
of the Federal Trade Commission (1) (2)

August 7, 1998

I. Introduction and Summary

The staff of the Bureau of Economics of the Federal Trade Commission (FTC) appreciates this opportunity to respond to the invitation to comment of the Michigan Public Service Commission (MPSC) concerning electric industry

We agree. We note that FERC and several states are considering use of computer simulation models. We also note that other states, such as California, Maine, and New York, have adopted structural measures (including divestiture) to assure that their citizens and businesses receive the full benefits of increased competition. These benefits include lower prices, improved quality, and access to new technology and services.

In addition, the MPSC may wish to guard against one unintentional consequence of stranded cost recovery which could create artificial incentives to deter entry and potential economic distortions in consumers' future energy purchasing decisions. These issue are discussed in Section III of this comment.

II. Remedial Steps Identified in the -2(em)-15(ed) Is

participants need to have trust in the objectivity of the ISO. For example, if incumbent vertically integrated utilities can

Remedy Proposal 6: Establish a "code of conduct" governing the relationship between utility companies and their affiliates.

market power facing Michigan customers. In conducting such a market power analysis, the MPSC may wish to distinguish between present market power and likely future market power, since technological and institutional changes may materially alter generation market power. If a detailed study raises substantial generation market power concerns, the MPSC may wish to adopt structural remedies to supplement or replace behavioral rules. A carefully formed ISO may be one attractive structural mechanism through which to implement retail competition and enhance wholesale competition. One criterion for an effective ISO is likely to be significant geographic size, with numerous generating facilities and firms. A large ISO of this type is apt both to alleviate generation market power and to enhance reliability.

Respectfully submitted,

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August 7, 1998

1. This comment represents the views of the staff of the Bureau of Economics of the Federal Trade Commission. They are not necessarily the views of the Federal Trade Commission or any individual Commissioner.
2. This comment represents the views of the staff of the Bureau of Economics of the Federal Trade Commission. They are not necessarily the views of the Federal Trade Commission or any individual Commissioner. Inquiries regarding this comment should be directed to John C. Hilke (303-844-3565).
3. The staff of the FTC has previously commented on electric power regulation to the Federal Energy Regulatory Commission (FERC) in Docket No. PL98-5--

6. FERC's Inquiry Concerning the Commission's Policy on the Use of Computer Models in Merger Analysis; Notice of Request for Written Comments and Intent to Convene a Technical Conference, 63 Fed. Reg. 20392 (1998).

7. Federal Trade Commission, "Analysis of Proposed Consent Order to Aid Public Comment in In the Matter of PacifiCorp et al.," FTC File No. 971-

much more narrowly defined pricing zones. PJM's approach is termed "locational marginal pricing" or "nodal pricing." Locational marginal pricing is a transmission pricing system that attempts to take full account of transmission loop flows. Loop flows are a complication of the physics of electricity (electricity follows the path of least resistance) that results in transmission congestion arising in places and at times that are counter to the intuitive, traditional view of transmission as a point-to-point delivery of electric energy. Locational marginal pricing assesses congestion charges based on the transmission congestion caused throughout the transmission system by a particular transaction.

18. A "direct access contract" is an electricity supply contract between two parties: a generator on one side and a distributor, marketer, or final customer on the other. In this context, the MPSC staff seeks to ensure the disclosure of the terms, prices, and conditions of direct access contracts between incumbent utilities and their customers (affiliates, in particular).

19. The concerns expressed in the NEPOOL Comment were generalized in our May 1, 1998 ISO Policy Comment to FERC. The NEPOOL Comment and the ISO Policy Comment can be accessed through the FTC's website (<http://www.ftc.gov/be/advofile.htm>).

20. Our comment to the Public Utility Commission of Texas, which elaborates on these points, can be accessed through the FTC's website (<http://www.ftc.gov/be/advofile.htm> (V980013)).

21. The descriptive information here is derived from company submissions and from discussions with MPSC staff.

22. Because the stranded cost recovery fees are applied on quantity of capacity at peak load periods won at auction, the Michigan bid process may reduce bidding on these peak-demand distribution rights.

23. Fuller exposition of these aspects of stranded cost recovery is contained in our comment to the Louisiana Public Service Commission, which can be accessed through the FTC's website (<http://www.ftc.gov/be/advofile.htm> (V980018)).