East Coast Energy Group Meeting
Program
April 16th 2004
Site: Federal Energy Regulatory Commission
10am-4:30pm

Topic #1: Transmission expansion and rights (morning session)
Models of merchant generation, incentives for improving reliability , regulatory aspects, Market power aspects of transmission]

Confirmed Speakers:

- **Kojo Ofori-Atta**, ICF Consulting: transmission, "Transmission: How much should be built and what are the costs and benefits?"
- **Kelly Perl**, FERC: "Beyond the Ten Principles: Merchant Transmission Policy & Why it Still Matters"
  Abstract: *Obtaining FERC approval for negotiated rate authority for a merchant transmission project is almost trivial. A potential merchant transmission provider proposes a project and states its conformity to FERC's 10 principles of merchant transmission, which are contained in the seminal 1999 TransÉnergie filing, the associated order, as well as the NUSCO order. Once these principles are satisfied, negotiated rate approval is granted. However, actually putting a merchant line in service involves many other hurdles, among them funding the line through the sale of physical transmission rights. Moreover, the potential contribution of merchant transmission to the North American transmission supply has not been assessed. This presentation will discuss in-depth the ten principles and argue that merchant transmission policy issues extend well beyond ensuring conformity to the ten principles. Policy responses can include input in areas such as the potential impact of merchant project cherrypicking, the role of merchant lines an RTO/ISO's Regional Transmission Expansion Plan (RTEP), and more generally, under what circumstances merchant energy boom/bust investment cycles are problematic. Policy still matters because merchant transmission is assumed a fundamentally sound idea despite the recent Conjunction Open Season failure.*
- **Frank Felder**, Rutgers University: "Evaluating Reliability Policies and Incentives for Liberalized Electric Power Systems"
  Abstract: *In crafting policies and incentives to improve the reliability of liberalized electric power system, informed policymakers need to understand the costs and benefits of various proposals. I propose a Markov model to estimate the reliability benefits of different reliability policies. This model is then embedded in a cost-benefit analysis that also considers market impacts including the equilibrium implications. Several different policies are contrasted using this proposed methodology and a hypothetical bulk power system. Limitations of the methodology and future research are discussed.*
- **Joseph Cavicchi**, Lexecon: "Current Debate on Merchant Transmission Investment Incentive Regimes"
  Abstract: *During the past few years it has been clearly recognized that little incentive exists to expand the high voltage electricity transmission system. There had been an expectation amongst many that the emergence of transparent wholesale electricity spot markets would provide pricing signals that could spur interest in the development of merchant transmission facilities. To date there have only been a few merchant transmission proposals, and only limited success moving the projects forward as unregulated investment recovery is very uncertain. This problem is the subject of a*

current academic debate where on the one hand Bill Hogan is seemingly working to develop an acceptable approach for relying on financial transmission rights to spur some transmission investment, while on the other hand Paul Joskow and Jean Tirole are suggesting that a more pragmatic approach to the problem is necessary as they argue financial transmission rights' values are distorted. This discussion will review this debate on transmission investment paradigms and compare the two approaches. Finally, a cursory review of what RTOs are actually proposing to resolve transmission investment issues will be presented for contrast with the more academically oriented debate.

Topic #2: Collusive Games in Energy (afternoon session)
Background on collusive games, highlighting some in energy.

Confirmed Speakers:

- **Joe Harrington** Johns Hopkins University: "Mechanisms for Supporting Collusion"
  Abstract: *This talk reviews the repeated game framework for understanding what collusive behavior looks like and what industries are conducive to cartel formation. A range of collusive mechanisms are characterized; all of which are based on the use of threatened credible punishments to deter firms from deviating from the agreed-upon collusive prices. A variety of issues relevant to collusion are raised including demand fluctuations, the presence of firms in multiple markets, and imperfect information which allows "secret" cheating on the cartel.*

- **Steve Gabriel & Debby Minehart** University of Maryland, "Vertical Merger Issues and Collusion in the Natural Gas Market"
  Abstract: *We provide an overview of the natural gas markets in North America prior to deregulation as well as afterwards with the goal of understanding incentives for vertical collusion in the current market. We also discuss vertical collusion in more theoretical terms and analyze the recent case of El Paso Energy.*