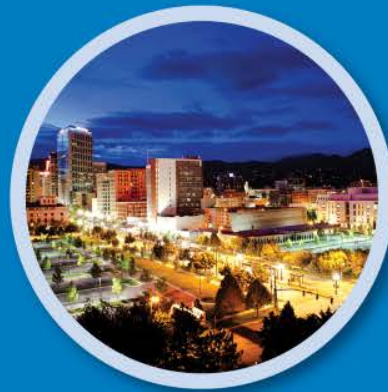


Overview of FERC's Market Based Rate Program

July 5, 2016

Jeffery B. Erb

Assistant General Counsel & Corporate Secretary, PacifiCorp



 **PACIFIC POWER**

Let's turn the answers on.

FERC's Market Based Rate Program

- The Federal Power Act (FPA) mandates that the Federal Energy Regulatory Commission (FERC)
 - approve the rate under which an entity makes sales of wholesale electricity in interstate commerce, and
 - find that rate to be “just and reasonable.”

Previous Cost-of-Service Based System

- Prior to 1992, FERC used a cost-of-service-based system to review and approve the rates for the sale of electricity, as a cost-based rate was viewed as the best way to ensure consumer protection in light of the natural monopolistic nature of electricity generation.
- Under the federal filed-rate doctrine, once FERC has accepted the rate, the seller must adhere to the rate absent a waiver.

Changes to the Program

- As competition began to grow in the industry, FERC moved to a market-based rate (MBR) program for wholesale energy sales, so long as sellers lacked FERC-defined “market power”.

Market Based Rate Program (MBR)

- Under the MBR program
 - upon a determination that the selling entity lacks market power (or has adequately mitigated market power in the relevant markets), FERC approves a seller's ability to sell wholesale electricity at market-based rates (MBR tariff on file).
 - a seller may enter into short- and long-term transactions at negotiated rates and then must file after-the-fact quarterly reports with FERC listing the details of the consummated transactions (the EQR report).
- Under the FPA
 - it is unlawful to engage in wholesale sales of electricity at a rate other than the one approved by FERC (tariff on file).

MBR Authority

- Over the past 25 years, a robust MBR program has developed at FERC such that most wholesale energy transactions are conducted pursuant to a seller's MBR authority.
- MBR authority is granted by balancing authority area – not by company – since it relates to market power in each BAA.

FERC's Market Power Tests in General

- Market Power is reviewed for home BAAs and markets directly interconnected (first tier)
- Horizontal market power
 - Pivotal supplier analysis based on annual peak demand
 - Seasonal market share analysis screens
 - If don't pass, move to delivered price test (DPT)
- Vertical market power (generally satisfied by OATT)

Maintaining MBR

- EQRs
- Change in Status – an MBR seller must file a change in status when there is a change in the conditions upon which FERC relied in granting MBR
- Triennial filings – demonstrations of lack of market power by region; use historic test year

Questions?