

**FERC BELIEVES IN MARKETS,
BUT IT DOESN'T TRUST THEM YET
(A QUASI-SERIOUS LOOK AT MARKETS BY
THE BRUDER, GENTILE & MARCOUX
PLAYERS)**

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Turbulent Times: Utility Operations In A
Partially Deregulated Environment

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THE FERC VISION

- FERC believes that competitive markets will produce abundant, reliable energy at a reasonable cost. FERC's restructuring initiatives are based on this premise.



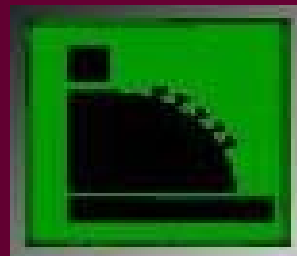
THE PROBLEM FERC IS TRYING TO SOLVE

- FERC does not trust today's markets because of a variety of flaws.



CREDITWORTHINESS ISSUES ARE CRITICAL

- How's your credit?
- FERC is concerned about credit problems in the markets.



CAN WE RELY ON LONG-TERM CONTRACTS?



- Long-term market-based contracts – the markets in operation. Will FERC permit (or even initiate) contract modification?



THE BATTLE OVER "STANDARD OF REVIEW"

- If FERC permits contract modification, what is the standard of review?
 - Public Interest
 - Relaxed Public Interest
 - Just and Reasonable



WHAT IS FERC'S MOBILE-SIERRA POLICY?

- Mobile-Sierra: Is this rule the Rodney Dangerfield of FERC regulation?



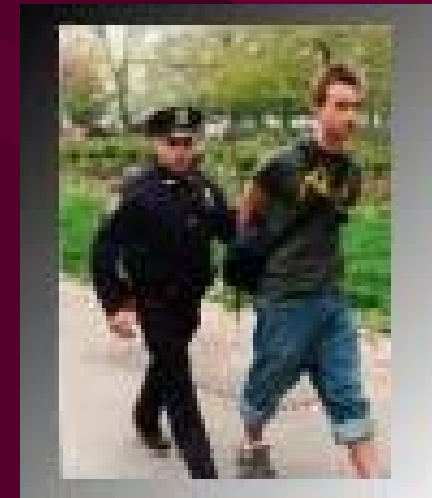
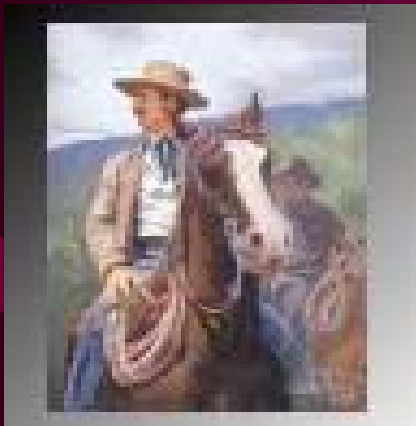
MAKING THE MARKETS WORK



- What kind of remedies can FERC impose?
 - Price caps
 - Must offer conditions
 - Refund conditions
 - Revocation of market-based authority

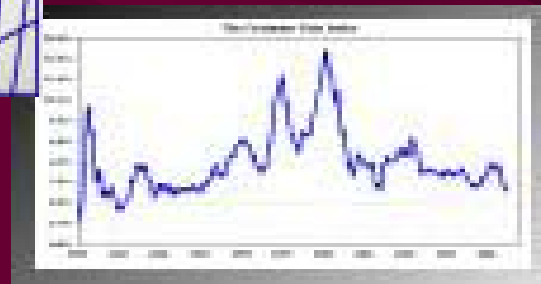
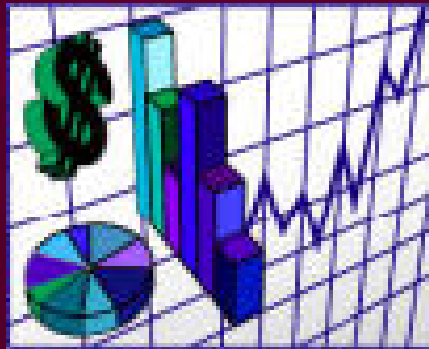
FERC'S REVIEW OF MARKET-BASED TARIFFS

- What's happening to my market-based tariff?
 - Supply Margin Assessment
 - Blanket Conditions
 - Investigation of Market Dysfunctions



ALTERNATIVES TO FIXED PRICES

- Let's peg the prices to an index. What will FERC think?



ALTERNATIVES TO LONG-TERM CONTRACTS

- Perhaps we can sell to and buy from the spot market.



WHERE DO WE GO FROM HERE?

■ Will FERC sort it out?

