

Southeast remains largely bilateral market with sparse trading

FERC 'primer' explores regional generation markets

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The Southeast still largely adheres to the traditional regulated electric utility framework and only “sparse” energy trading takes place there, the Federal Energy Regulatory Commission (FERC) said in a recent report.

FERC recently released its “Energy Primer: A Handbook of Energy Market Basics.” The 140-page document, posted online shortly before Thanksgiving, is a staff report of FERC’s Division of Energy Market Oversight/Office of Enforcement.

The primer provides a detailed overview of energy markets trading - touching on everything from fuel pipelines to energy storage to credit ratings for parties engaged in the energy business.

The FERC document also takes a look at how the electric power business is conducted in various regions of the country.

Virtually all the physical sales in the Southeast are done bilaterally. Long-term energy transactions appear to be a hallmark of the Southeast; wholesale electricity transactions for a year or more outweigh spot transactions FERC staff said in the report.

The Southeast electricity market is a bilateral market that includes all or parts of Florida, Georgia, Alabama, Mississippi, North Carolina, South Carolina, Missouri and Tennessee. “It encompasses all or part of two NERC regions: the **Florida Reliability Coordinating Council (FRCC)** and the **Southeastern Electric Reliability Council (SERC)**,” FERC notes in the report.

Major hubs include **Southern** (NYSE:SO) and **Tennessee Valley Authority (TVA)** systems, FERC said.

“Southeastern power markets have their roots in the 1960s. In the wake of the Northeast Blackout of 1967, the Southeast began to build out its electric transmission grid; there now are several large transmission lines connecting large power plants to the grid,” FERC said in the staff report.

“This was primarily to ensure reliability, but it also had economic consequences. Increased integration allowed utilities to more effectively share reserves, as well as the costs and risks of new plant construction,” according to the report.

If a utility were building a large nuclear or coal-fired generating facility, it would be cost-effective to have reserve sharing agreements with neighboring systems that provided the backup or capacity reserves, rather than building reserves individually, FERC staff said.

The FRCC uses more natural gas- and oil-fired generation than the rest of the Southeast, and it is the only Southeast area where oil is significantly employed.

SERC and TVA areas still rely heavily on coal and nuclear power

Within SERC, the Southern sub-region has historically generated as much as 85% of its electricity from baseload coal and nuclear plants. In recent years, natural gas has become increasingly popular. The pattern began to change as gas supplies increased and prices fell and natural gas-fired power plants began to displace older, less efficient coal-fired generation.

The TVA sub-region has a majority of its capacity and output in coal and nuclear, while the VACAR sub-region has the highest utilization of nuclear generation in the Southeast. Over 70% of this sub-region's output is from baseload coal and nuclear facilities.

Physical and financial electricity products are traded using Southern, TVA, VACAR and Florida price points, the report said. Volumes for these products remain low, especially in Florida, where merchant power plant development is restricted by a state statute.

Many long-term agreements involve full-requirements contracts or long-term purchase power agreements. Spot transactions accounted for less than 1% of overall supply and tend to occur during periods of system stress, usually summer heat waves or winter cold snaps. Even for a large company such as Southern, spot transactions occurred less than 20% of the time, FERC staff said in the report.

Given the bilateral nature of wholesale power transactions in the Southeast, and the small spot market, interest in financial power products in the Southeast is weak. As a result, the **Intercontinental Exchange** (ICE) does not provide a financial product in the Southeast, the FERC report noted.

Since April 23, 2009, Southern has been holding daily and hourly auctions for power within its balancing area. According to the auction rules, Southern must offer all of its available excess generation capacity into the auction, after regulation and contingency reserves are met.

When the auction began in 2009, Southern was the only participant that could sell into it. On Jan. 3, 2010, other entities were allowed to sell into the auction, and Southern became eligible to make purchases in the auction as well as sales. However, activity in the auction has been sparse since its inception.

The Florida Public Service Commission's (PSC) competitive bidding rules require investor-owned utilities (IOUs) to issue requests for proposals for any new generating project of 75 MW or greater, exclusive of single-cycle combustion-turbines.

The bidding requirement can be waived by the PSC if the IOU can demonstrate that it is not in the best interests of its ratepayers.

ABOUT THE AUTHOR

Wayne Barber

Wayne Barber, Chief Analyst for the GenerationHub, has been covering power generation, energy and natural resources issues at national publications for more than 20 years. Prior to joining PennWell he was editor of Generation Markets Week at SNL Financial for nine years. He has also worked as a business journalist at both McGraw-Hill and Financial Times Energy. Wayne also worked as a newspaper reporter for several years. During his career has visited nuclear reactors and coal mines as well as coal and natural gas power plants.

Wayne can be reached at wayneb@pennwell.com.

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