

UNITES STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

FILED
01 JUN 19 AM 10:21
FEDERAL ENERGY
REGULATORY COMMISSION

Conference of RTO Interregional
Coordination

Docket No. PL01-5-000

ORIGINAL

Statement of
John P. Hughes
The Electricity Consumers Resource Council
(ELCON)

Thank you for the opportunity to present the views of Industrial Consumers¹ on RTO seams issues.

I speaking on behalf of large multinational corporations with major manufacturing facilities in most of the fifty states.

If all proposed RTOs are approved, it will not be uncommon for my members to operate in 4, 5, 6 or more different RTO systems. Their corporate energy buyers are deeply concerned that each RTO will speak a different language, operate a different market structure, administer different tariff provisions and business practices, and force them to manage multiple, inefficient procurement strategies. Sadly, this is the picture that is emerging.

Competitive markets exist to serve end-use customers. RTOs were conceived as an essential platform for a competitive power market. But if RTOs do not deliver tangible benefits to end-use customers, then we don't want RTOs.

We are not convinced that the RTOs currently under development are on track to deliver the promises of Order 2000. We saw the potential problems several years ago and suggested three separate interconnection-wide RTOs. The Commission was unwilling to accept the merits of that proposal. Instead, a more light-handed approach was adopted based on voluntary compliance and open architecture. What followed was a hodge-podge of proposals that defy logic, especially the logic of the marketplace and reliability.

Order 2000's decision to tolerate multiple RTOs within an interconnection created the seams problem. It has been compounded by the unintended consequences of Order 888, or more

¹ These remarks are also supported by the American Iron and Steel Institute (AISI) and the American Chemistry Council (ACC).

010620-0005-1

AS
ERC DOCKET
JUN 19 2001

correctly, the inevitable consequences of no follow-up rulemaking that parallels Order 636 in the gas industry.

I chaired a small working group at NERC that recommended the need for interregional coordination of RTOs. In Order 2000, FERC adopted the recommendation and it became Function 8. I guess my position today is to warn you that this problem isn't going away and it will not solve itself. There is no "industry" out there that will solve seams problems all by itself and absolve you of the need for regulatory activism. In fact, many of the seams problems are embedded in tariffs and ISO agreements that FERC approved.

So my first point is to urge you to recognize that your policies on voluntary compliance and open architecture are failing. You cannot continue to expect industry consensus to provide the leadership that will get the job done. We urge you to assume that leadership role.

We offer the following recommendations:

The RTO proposals must be consolidated in some rational fashion. You have wisely pushed for a west-wide RTO. We urge you to direct the merger of several RTO proposals in the east.

Next, FERC staff must attend all RTO meetings and you should establish some formal reporting mechanism that provides each of you with timely feedback on the progress—or lack of it. You must also guarantee that stakeholders be involved. Failure to ensure this right is undermining the credibility of both RTOs and this agency.

You should establish more definitive milestone objectives—with the threat of penalties—in all future compliance filings. In your own Order 2000, you enumerate several possible hammers that are available should transmission providers continue to resist your directives. We urge you to use them.

We are deeply concerned with NERC and its failure to rationalize commercial practices with its reliability standards. NERC continues to be dominated by transmission providers, many of whom are also control area operators and security coordinators. Some are using NERC rules to preserve for themselves and their merchant affiliates certain commercial advantages that are denied to other market participants.

There is much industry talk about an expanded GISB that might assume responsibility for commercial practices. Unfortunately, the industry is getting mixed signals from you and this is inhibiting efforts to advance a workable solution.

On a more positive note, a NERC task force has completed work on a new "reliability" model for the industry. The model identifies the root-level functions of the bulk-power markets, and is an excellent tool for analyzing the operating structures of utility holding companies, transcos, RTOs and other new entities to reveal potential commercial conflicts of interest. An insightful companion document on "independence" identifies which service functions in the new model must be corporately separated from retail or wholesale merchant functions to ensure fair

market operation. That's powerful stuff for NERC, but unfortunately NERC will not act on it. This Commission needs to intervene and resolve this important matter.

I strongly urge you to adopt the new reliability model and use it as a starting point for perhaps revisiting Order 888. Staff should be given training on the new model and the agency should phase-in the model's topology in its rules and regulations.

Finally, there seems to be a presumption among some regulators that Adam Smith would frown upon any exercise of regulatory activism. I represent free enterprise including some of the most successful corporations in the world. We want to limit government's role in competitive markets as a matter of principle and practicality.

But there are no competitive electricity markets in the United States today. It is nothing but a costly brawl between the old and new owners of market power. But only FERC can undo the baggage of six decades of regulation.

Thank you for your attention.

June 19, 2001