

# Restructuring at the Crossroads: The APPA White Paper and Subsequent Events



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NARUC 2005 Summer  
Meetings  
July 26, 2005

# What Drives “Public” Power?

- Customer-owned, locally controlled
- Emphasis is on maintaining a portfolio of generation assets/contracts that will support reliable and reasonably priced service
- This model has served us well financially over the last few years—our sector has maintained credit stability (even improved slightly), while other sectors of the industry suffered substantially

# Evolution of APPA's Positions

- APPA was an early and strong supporter of FERC's open access transmission policy and ISO formation
- It saw ISOs as a way to:
  - Provide non-discriminatory transmission service
  - Eliminate pancaked transmission rates
  - Obtain a platform for collaborative regional transmission planning and construction

# But a Funny Thing Happened on the Way to Open Access...

- As FERC moved from ISOs to RTOs, the focus shifted to:
  - Implementation of centralized, RTO-run markets for day ahead/real time energy, capacity and ancillary services
  - Use of Locational Marginal Pricing (LMP) to price transmission congestion
  - “No Generator Left Behind” pricing policy patches (e.g., LICAP, RPM)

# The White Paper

- APPA Staff heard discontent of members in RTO regions loud and clear by Fall 2004
- Staff took what it had heard and developed a draft white paper setting out concerns with FERC transmission policies
- The paper suggested “mid-course corrections” for RTO regions and possible ways forward in non-RTO regions
- After 14 drafts and comments by numerous members, the APPA Board approved it unanimously
- It was publicly released on 12/09/04

# The Nub of the Problem

- “APPA members located in RTO regions report substantial, across-the-board problems with spiraling RTO costs, unaccountable governance, lack of understanding of transmission customer and end-user needs and less-than-satisfactory service options. They see more and more RTO services being provided through questionable market mechanisms, and RTO resistance to any questioning of the economic theories underpinning these actions.” APPA White Paper at 6.

# Lack of Long-Term Rights

- APPA noted in the White Paper that Load Serving Entities cannot obtain long-term FTRs to hedge transmission costs associated with both existing and new generation resources (owned or contracted for)
- This hinders public power participation in/purchase of new long-term generation resources, including new base load and renewable resources

# FERC Docket No. AD05-07

- FERC issued May 11, 2005 “Notice Inviting Comments on Long Term Transmission Rights” in Docket No. AD05-07 (focused on rights in RTO regions)
- Over 40 comments filed in late June by many different industry participants
- Comments ranged from supportive to skeptical, but very few “just said no” to exploring longer-term *financial* transmission rights (as opposed to physical rights, which were quite controversial)

# Need for New Transmission Construction

- “Rather than pigeon-holing new transmission facilities as needed for either reliability or economic purposes, the focus should be on how much transmission is required both to keep the lights on and to keep rates to consumers to just and reasonable levels. Instead of leaving most transmission construction to the vagaries of the “market,” an RTO must develop a rigorous regional transmission planning and construction process that ensures the region has a robust (but not gold-plated) transmission system.”  
APPA White Paper at 11-12.

# 4/22/05 FERC Technical Conference on Transmission Investment

- Broad agreement among all (except EEI) that transmission investment is badly lagging
- PJM noted possibility of forming “consortiums” of investors to finance large transmission infrastructure projects
- Last panel was all “public” power; focused on our participation in infrastructure projects
- Reliability v. Economics paradigm was questioned by some
- Still waiting for FERC policy statement on transmission investment...

# RTO Cost Accountability

- APPA members alarmed by increasing RTO development and operational costs
- APPA members have ramped up their own internal operations to cope with RTO operations, adding staff, hardware and software, paying lawyers/consultants
- Complicated (and often erroneous) settlements come very late and can take months/years to resolve

# FERC Moving to Address RTO Cost Issues

- 6/2/05 NOPR on RTO Accounting and Financial Reporting in Docket No. RM04-12; comments are due 8/26/05
- Comments by Commissioners imply FERC sees this docket as a necessary first step in a larger effort to address RTO costs
- PJM has filed “stated rate” proposal
- CAISO undertaking cost-cutting effort
- 7/21 WSJ: RTO costs now exceed \$1 billion annually

# Signs That We Are Not Alone...

- APPA has had more downloads from its website ([www.appanet.org](http://www.appanet.org)) of the White Paper than for any one document in its history; Paper is now on second printing
- CATO Institute came out with its Policy Analysis No. 530, “Rethinking Electricity Restructuring,” less than 2 weeks before APPA’s paper

# More Signs...

- PJMICC Whitepaper was made public in December 2004; identifies many of the same problems
- Progress and Freedom Foundation's December 2004 Commentary: "Electric 'Restructuring:' What Went Wrong"
- Jay Morrison/Christensen Associates' articles in Jan/Feb 2005 Electricity Journal
- April 2004 ELCON Special Report