

## ALLIANCE OF STATE LEADERS PROTECTING ELECTRICITY CONSUMERS

November 22, 2004

For Immediate Release

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### **Flawed FERC Report Underestimates RTO Costs** **Since 2000, RTO Costs Have Soared 143%**

The Federal Energy Regulatory Commission's staff report on the costs of Regional Transmission Organizations fails to reflect the real-world costs of existing RTOs, according to an analysis prepared by the Alliance of State Leaders Protecting Electricity Consumers.

Recent data reveal that the cost of RTOs is increasing 20 percent each year and has jumped 143 percent since 2000, according to the Alliance analysis. The experiences of GridSouth and Grid West show that significant costs to establish an RTO were omitted by FERC and could amount to \$50 million to \$70 million more than FERC's estimate of \$70 million, the analysis added.

The Alliance commended FERC for its effort to quantify the costs of RTOs but found the report's conclusions greatly flawed. "Unfortunately, this report raises more questions than it answers and sheds little light on this very important topic," the Alliance analysis said.

Alliance Co-Chair Jim Kerr of the North Carolina Utilities Commission added: "FERC missed a golden opportunity to provide insight into the actual costs of RTOs. FERC remains committed to an electricity agenda based too much on abstract theory and too little on hard numbers. As a result, the FERC report falls far short of being useful."

The FERC study ignores many of the costliest functions of real-world RTOs, Kerr noted. "No corporate number cruncher would finalize a budget estimate and ignore part of the costs to start and run a business. But that is exactly what FERC did in its RTO study."

The FERC Staff Report on Day-1 Regional RTO Costs is flawed for a number of reasons. The report failed to include all of the costs incurred by up and running RTOs, or Day-2 RTOs. Instead, FERC limited its study to hypothetical RTOs, called Day-1 RTOs, which perform only some of the functions of an actual RTO. In fact, the Alliance analysis notes, "there are no Day-1 RTOs" and FERC has forced RTOs to perform the standard market design functions of a Day-2 RTO.

"Given this policy direction, it is not clear why the Day-1 RTO costs estimated in this report are relevant to anything or anybody," the Alliance study said.

### Key Parts From the Alliance Analysis:

- FERC's cost estimates are for a mythical Day-1 RTO that does not represent the real costs of any existing RTO.
- The report's focus on the cost to establish and operate a Day-1 RTO is inconsistent with FERC's persistence on requiring Day-2 RTO market functions and resulting costs.
- FERC's cost estimates fail to reflect the actual cost experience of existing RTOs. In fact, the cost of RTOs is increasing at 20 percent per year and has increased by 143 percent since 2000.
- Based on actual experience in the Southeast and Northwest of the U.S., FERC's \$70 million estimate understates the cost to establish a new RTO by a factor of two.
- FERC's claim that the benefits of a Day-1 RTO exceed its estimated costs is unsupported. The FERC report mistakenly compares estimated costs for a Day-1 RTO with benefits claimed for a Day-2 RTO.

The Alliance analysis is one of a number of commentaries filed with FERC that have raised important questions about FERC's staff report on Day-1 RTO costs. Other important analyses include the comments of the American Public Power Association on Notice of Inquiry, FERC Docket No. RM04-12-000, and the Public Power Council's response to the FERC staff report.

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