

ALLIANCE OF STATE LEADERS PROTECTING ELECTRICITY CONSUMERS

November 22, 2004

The Alliance of State Leaders Protecting Electricity Consumers is attaching its commentary on the October 2004 Federal Energy Regulatory Commission Staff Report on Day-1 RTO Costs. The Alliance commends FERC for its effort to quantify the costs of RTOs. Unfortunately, the FERC report raises more questions than it answers and sheds little light on this very important topic. The report focuses on abstract, theoretical guesstimates rather than the real world costs of establishing, maintaining and operating RTOs.

As a result, FERC's cost estimates fail to reflect the actual cost experience of existing RTOs. Since 2000, the costs to operate existing RTOs have increased 143 percent and are growing 20 percent each year. Based on the actual experience in the Southeast and the Northwest, the cost of establishing an RTO is approximately double FERC's \$70 million estimate.

FERC's analysis is flawed for a number of reasons. FERC underestimates RTO costs by including certain RTO costs while disregarding numerous other costs. These limited costs, or Day-1 RTO costs, do not reflect the true costs to establish and operate any existing RTO. No Day-1 RTO exists. The total cost of an RTO, or Day-2 costs, includes all the functions necessary to operate an RTO. The FERC report fails to include costs accruing from standard market design functions and locational marginal pricing. It is surprising that the FERC report was not based on the actual Day-2 costs incurred by every RTO. The commission has never allowed an RTO to complete only the functions included in the Day-1 cost estimates. **Given FERC's policy directive, it is not clear why the Day-1 RTO costs estimated in the FERC report are relevant to anything or anybody.**

The Alliance believes the FERC study on RTOs raises important issues. The Alliance commentary provides a detailed response to the FERC study and highlights the key points summarized here. We join our colleagues in the public power community in raising concerns about the actual costs incurred by every operating RTO in the country.

We appreciate your interest in this important energy policy matter and hope you will find the Alliance's attached commentary useful and informative.

Sincerely,

James Y. Kerr
North Carolina Utilities Commission

Loretta Lynch
California Public Utilities Commission

