

POSITION STATEMENT

On Proposed FERC

STANDARD MARKET DESIGN

TAPS supports the pro-competitive, pro-consumer objectives stated in the Federal Energy Regulatory Commission's (FERC) Standard Market Design (SMD) proposal. As transmission-dependent utilities whose objective is to ensure a reliable, affordable supply of power for our customers, we support the FERC's effort to eliminate all discrimination in the provision of transmission service and to foster competitive wholesale electric markets for the benefit of consumers.

At the same time, TAPS has serious concerns about the proposed locational marginal cost pricing (LMP) energy market model in the SMD, given the significant potential for market manipulation and abuse that exists where, as in many parts of the country today, the transmission system is constrained. TAPS believes that the LMP model, with its focus on transmission congestion charges and market-based pricing, will prove to be very vulnerable to gaming and manipulation as the grid becomes more and more constrained and is likely to lead to cost increases for consumers in a number of areas.

Having learned from California that the impact of regulatory change can be both difficult to predict and devastating, TAPS is urging the FERC to take the time and steps necessary to "get it right" and avoid unintended consequences. It is asking FERC to adopt a phased-approach, implementing LMP markets in a region or sub-region only where the following prerequisites are met:

- A robust transmission system under the control of a Regional Transmission Organization (RTO) must be in place to ensure that all customers have reasonable access to a competitive market. Without a strong delivery system, the benefits of competition will not reach consumers. Instead, consumers could face steep price increases.
- Comprehensive, independent market monitoring and mitigation procedures must be in place and fully operational to prevent the exercise of market power and to ensure customers are protected. The objective must be to prevent harm to consumers from occurring, not remedy it after the damage is done.
- The market design must be modified to ensure that load-serving entities (LSEs) with an obligation to serve, and their customers, will be protected from harm as a result of FERC's new market design. LSEs must not lose any of their existing transmission rights upon which millions of dollars of investment in generation are hinged. They also must be able to obtain long-term transmission rights necessary to support investments in new generation, which are essential to meeting growing electric demand and supporting our nation's economic health. This must be done

through an assignment of congestion revenue rights to LSEs that fully protects past generation commitments and encourages such new investments.

TAPS positions on other key provisions of SMD include:

- We support NERC development and FERC enforcement of a resource adequacy requirement. We cannot assume that in an unproven market new generation will be constructed on a timely basis. The alternative to electricity is darkness and closed factories. Adequacy is essential to our economic and social wellbeing and should not be left solely to the market.
- We support FERC jurisdiction over all transmission, including the bundled component of retail electric service. This is the only way to eliminate discrimination and achieve the objective of full comparability.
- We oppose relying on participant-funding for transmission expansion. Getting new transmission built is essential for reliability and for markets to work. Participant funding is completely untested. We believe this mechanism is likely to result in delay and a failure to build much needed new facilities. At the same time, a participant funding regime is likely to increase the already significant market power of the largest owners of existing generation. In any case, the decision to rely on participant funding or other pricing mechanism for new transmission facilities is a complex, evolving, transmission pricing issue that is the responsibility of FERC; legislation is neither necessary nor appropriate.

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