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Opening Statement
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Thank you for inviting me to appear before you at this important hearing representing my company, PNM Resources. Our industry faces multiple significant challenges and needs your leadership to ensure robust electricity and gas markets overseen by a consistent and logical federal regulatory regime.

By way of brief background, my company is in the interesting position of having one foot in competitive wholesale and retail markets and the other foot in more traditional, vertically integrated regulated retail markets. We provide competitive retail and wholesale services, as well as regulated delivery service, in Texas; we provide vertically-integrated, regulated retail service in New Mexico; and are a supplier of competitive wholesale services in the California, Nevada, and Arizona markets.

Operating in these varied markets has convinced me of the efficacy of competitive markets. It has caused our company to develop a discipline on cost, efficiency and productivity and a responsiveness to customers that we did not fully demonstrate previously. This was not just for the benefit of our competitive customers but permeated our regulated business and assets and, I believe, is a key reason why since 1994 we have had 4 rate decreases and no rate increases in our regulated market while operating without a fuel clause. Simply put, I believe in the value of effective competitive markets.

I believe the biggest challenges we face in strengthening these markets include:

Regulatory Uncertainty – What’s important is to have clear and fair rules by which market operations will be guided and disciplined. In this regard, I laud the Commission for its OATT order that clearly lays out how the important issue of transmission access will be regulated to provide transparency and efficiency. Similarly, I strongly support most the principles on transmission pricing that have been enunciated, particularly the treatment of project development risks and cost recovery. Having still painful memories of 8-digit write-offs of transmission projects that survived numerous legal appeals and received all approvals - but for one - I have been more than cautious on new transmission projects.

The NOPR on Standards of Conduct represents the kind of thoughtful approach that we need on difficult issues. We all recognize that most of the country is in a hybrid market regime with competitive wholesale markets and regulated retail markets which can create a tricky minefield. The proffered approach to address state IRP concerns is on point, necessary – and appreciated. Its application to wholesale loads of the regulated utility must be approached carefully. In my

opinion, unless a wholesale customer has specifically delegated the supply planning function to the providing utility thru contractual terms, it represents a load distinct from the obligation-to-serve retail load and should not be covered by the IRP carve-out.

As we look forward, the biggest areas of uncertainty are around the public policy issues of GHG regulation, the degree of mandatory renewable requirements and cost recovery of rate based investments.

On renewables, I believe one of the most important things that can be done to advance renewable generation is to ensure there is a fungible and robust market for both the power and the REC's that does not know state boundaries. The notion that a resource is only renewable for a state RPS if it is located in that state is to doom the renewable industry to always being a stepchild of government handouts, rather than being the vibrant market-based industry it can be. To the extent that this is successful, we will see 20-30% of generation in certain parts of the grid being intermittent renewables, which will challenge the technology used for grid management.

Strained Infrastructure – We face a time when both the technology of our T&D and communications infrastructure needs to be upgraded and the quantity of that infrastructure must be expanded, but where the economics of this expansion may not always be clear-cut in the eyes of the regulator or that other issues, like siting or environmental, cloud the justification. With the growing focus on intermittent renewable sources, the justification for expensive transmission expansion becomes more complex.

In some instances, the policy of participant funding can make it too expensive on a developer, yet rolling it into transmission rates can be difficult to justify to other transmission customers and, more particularly, to retail customers over which this commission does not have jurisdiction. The tools in your toolbox are not as broad as I, for one, would like because, for me, 75% of my transmission rate base is subject to a different set of rules.

Need for State/Regional/Federal Coordination - both of the items discussed above raise the issue of the need to keep plugging at communications between states and the Commission. The outreach you have conducted has “healed some wounds” and can bear fruit as states continue to see the value of robust wholesale markets with sound access rules and incentives for infrastructure expansion.

Different kinds of market structures can coexist so long as seams issues are addressed and fundamental mandatory reliability standards are enforced. While market structures may migrate over time to a more or less consistent structure, this migration process can be good. In the southwest, WestConnect – which now covers 13 utilities in 8 states - has plotted a logical, stepwise path that has

developed strong state support. Unlike most other areas of the country, much of the critical transmission in our region is not owned by FERC jurisdictional utilities. We must maintain the engagement of both these owners and our state commissions as we methodically examine the costs and benefits of different steps that can be taken to improve the efficient functioning of the transmission system. WestConnect:

- implemented a common OASIS site for transmission information and reservations;
- implemented an open participatory stakeholder process to disclose TTC and ATC calculations and logic;
- is serving as a focal point for regional planning coordination;
- is developing a pricing experiment for short-term transactions that will eliminate pancaked rates for transactions across multiple systems;
- is studying the ability to create a “virtual” control area that is intended to capture the benefits of a single control area that could accommodate higher penetration levels of intermittent resources.

In closing, we believe properly structured competitive wholesale markets benefit both competitive and regulated retail utilities and this Commission must continue to approach its oversight of the wholesale market with its focus on mandatory reliability, fair and open access, market transparency, regulatory certainty and relentlessly managing the “regulatory seams” in the hybrid regulatory model we live in.