BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: : Docket Number

REGIONAL TRANSMISSION ORGANIZATIONS : RM01-12-000

ELECTRICITY MARKET DESIGN AND STRUCTURE :

- -x

Commission Room 2C

Federal Energy Regulatory

Commission

888 First Street, N.E.

Washington, D.C.

Thursday, October 18, 2001

The above-entitled matter came on for workshop, pursuant to notice, at 10:10 a.m., Shelton Cannon, Moderator, presiding.

BEFORE COMMISSIONERS:

CHAIRMAN PAT WOOD, III

COMMISSIONER LINDA KEY BREATHITT

COMMISSIONER NORA MEAD BROWNELL

COMMISSIONER WILLIAM L. MASSEY

APPEARANCES:

HONORABLE GLENN N. ARTHUR
Vice Chairman
Connecticut Department of Public Utility Control

HONORABLE ANGEL M. CARTAGENA, JR.
Chairman
District of Columbia Public Service Commission

HONORABLE MICHAEL DWORKIN
Chairman
Vermont Public Service Board

HONORABLE SAM J. ERVIN, IV
Commissioner
North Carolina Public Utilities Commission

HONORABLE GARY FELAND
Chair
Montana Public Service Commission

HONORABLE EDWARD A. GARVEY
Commissioner
Minnesota Public Utilities Commission

-- continued --

APPEARANCES (CONTINUED):

HONORABLE DAVID F. HADLEY
Commissioner
Indiana Utility Regulatory Commission

HONORABLE SANDRA L. HOCHSTETTER
Chairman
Kentucky Public Service Commission

HONORABLE MARTIN J. HUELSMANN
Chairman
Kentucky Public Service Commission

HONORABLE JAMES M. IRVIN
Commissioner
Arizona Corporation Commission

HONORABLE E. LEON JACOBS, JR.
Chair
Florida Public Service Commission

HONORABLE JUDY A. JONES
Commissioner
Ohio Public Utilities Commission

-- continued --

APPEARANCES (CONTINUED):

HONORABLE JAMES J. KERR, II
Commissioner
North Carolina Public Utilities Commission

HONORABLE LeROY KOPPENDRAYER
Commissioner
Minnesota Public Utilities Commission

HONORABLE LORETTA M. LYNCH
President
California Public Utility Commission

HONORABLE RORY McMINN
Commissioner
New Mexico Public Regulation Commission

HONORABLE ARNETTA McRAE
Commissioner
Delaware Public Service Commission

HONORABLE EDWARD M. MEYERS
Commissioner
District of Columbia Public Service Commission

-- continued --

APPEARANCES (CONTINUED):

HONORABLE ROBERT B. NELSON
Commissioner
Michigan Public Service Commissioner

HONORABLE WILLIAM M. NUGENT
Commissioner
Maine Public Utilities Commission

HONORABLE CATHERINE I. RILEY
Chairman
Maryland Public Service Commission

HONORABLE ALAN R. SCHRIBER
Chairman
Ohio Public Utilities Commission

HONORABLE MARILYN SHOWALTER
Chairwoman
Washington Utilities and Transportation
Commission

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APPEARANCES (CONTINUED):

HONORABLE LAVENSKI R. "VENCE" SMITH
Commissioner
Arkansas Public Service Commission

HONORABLE DONALD SODERBERG
Chairman
Nevada Public Utilities Commission

HONORABLE ROBERT SPURLIN
Commissioner
Kentucky Public Service Commission

HONORABLE GLEN THOMAS
Chairman
Pennsylvania Public Utility Commission

HONORABLE CARL W. WOOD
Commissioner
California Public Utilities Commission

SARAH BARPOULIS
Senior Vice President
PG&E National Energy Group

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APPEARANCES (CONTINUED):

WILLIAM P. BOSWELL
Chairman
Board of Directors, GISB

WILLIAM F. BURKS
Associate General Manager
Electric Systems City Utilities of Springfield, Missouri

DAVID N. COOK, ESQ.
General Counsel, NERC

MICHAEL KORMOS
General Manager of System Operations
PJM Interconnection, LLC

MARTY MENNES
Vice President
Transmission, Operations and Planning
Florida Power & Light Company

HONORABLE PHILIP T. BRADLEY
Commissioner
South Carolina Public Service Commission

P R O C E E D I N G S

(10:10 a.m.)

CHAIRMAN WOOD: Good morning. Could we please join in the pledge to the flag?

(Pledge of Allegiance recited.)

CHAIRMAN WOOD: Good morning. The Commission will come to order to take up day four of FERC Week, FERC RTO Week and I think I would lying if I didn't say this is the panel we've all been looking forward to the most. And I hope the other panelists don't take offense at that. But this is an important part of our agenda is making sure that we and our colleagues at the state level vet the issues that vex us and find the issues that we need to work on and find the issues that we don't need to work on and figure out how to make this nation's energy markets work for nation's energy customers.

And we're honored to have a number of our colleagues here today. The court reporter has asked for her benefit if some of the commissioners who are not sitting with name tags at the table here with us when you say something if you could just introduce yourself. If you could just raise your hand. Our court reporter is right there. If you could just identify yourself for her purposes that would be great.

We've also got some screens here for the home

audience and for the local audience to use to see who's speaking. So, again, we thank you all for being here. Without a lot of further ado, I know that the President of NARUC, our friend Bill Nugent, is the kickoff speaker and we'll let you go, Bill. Welcome.

MR. NUGENT: And I thought this was automated around here.

(Laughter.)

MR. NUGENT: Okay. Well, as the Chairman has noted, I'm Bill Nugent. I'm a commissioner from the Maine PUC and I'm also this year's president and maybe for a little bit longer, I'm president of NARUC. And I'm going to present today comments both from the Maine Commission and for NARUC, particularly for members who aren't able to be with us today.

Now the Maine Commission has already sent the Commission a blueprint establishing a Northeast RTO in which there were suggestions as to how we believe the Commission can more effectively and appropriately achieve its goal of forming a single Northeast RTO while ensuring efficient operation of the current markets for as long as those markets exist.

My colleagues and I offered those suggestions because of Maine's enormous stake not only in the health of the current markets but also in the successful

implementation of FERC's RTO initiative. No state has a greater interest in the success of the wholesale electricity markets than Maine. In the two years since we opened our retail markets to competition, Maine's consumers have been directly and often immediately affected by changes in the wholesale prices throughout New England.

As much as any jurisdiction, Maine cut the regulatory cord between generation and distribution utilities by requiring the complete divestiture of generation. Moreover, Maine has eschewed artificial price controlling devices such as price caps or long-term fixed supply contracts that insulate customers from the prices revealed in wholesale markets. Even Maine's default supply is provided at prices that are set by competitive bid.

The effect of Maine's approach to restructuring has been dramatic. The incumbent investor-owned utilities no longer supply generation service. The standard offerer or provider of last resort market is 100 percent supplied by competitive suppliers. And more than 40 percent of the total electric load in Maine, 43 percent to be precise, has departed the standard offer and is served by the retail competitive market.

If you look at the top categories, the commercial and industrial categories, that figure probably approaches 70 to 75 percent across the board, and I can give you

specific numbers if you wish.

Maine's aggressive adoption of the competitive model, however, came at a price. The prices paid by Maine's consumers are, perhaps as much as any in the country, sensitive to the vagaries of the unregulated market, the wholesale market. Those in positions of public trust in Maine, including the legislature, the governor and the PUC have worked actively to ensure that the wholesale market reflects the economics of supply and demand and does not provide other either inadequate incentives for efficient investment or opportunities for gaming and the exercise of market power. We believe that in New England, considerable progress has been made.

But even in New England, market flaws remain, including the current structure of ICAP, the absence of MSS, Multi-Settlement System and congestion management system, and the lack of effective demand-side participation in the market. These flaws continue to cost Maine consumers and consumers elsewhere in New England millions of dollars above what an efficient market would produce.

It's against this background that the Maine PUC views FERC's call for broader geographic scope to the wholesale market. While Maine's and New England's short-term interest might be better served by insulating our markets from areas where the margins between supply and

demand are thinner, we agree that in the long term, all markets and all the citizens of this part of the country will be better served by regional rather than parochial policies, and by a market that combines the greatest number of sellers and buyers that the electric grid can reasonably support.

Critical to the success of this undertaking, however, is the recognition that the creation of the world's largest wholesale electric market is a complex undertaking that must be carried out in a careful and thoughtful manner. If that's done, the larger market offers some important potential advantages. The broader the area, the more likelihood of varying weather patterns that will permit an area with moderate weather to support an area under duress.

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It may be possible to reduce the overall level of reserves because the probabilities of failure can be syndicated across more generating plants and transmission facilities. And increasing the number of unaffiliated sellers and buyers must have the effect of reducing the opportunities for the exercise of market power.

For these reasons, the Maine Commission is prepared to support all reasonable efforts to move to a seamless, integrated, efficient electricity market for the Northeast on a timetable neither impeded by unnecessary

delays nor driven by unwarranted speed.

Nevertheless, the Maine Commission is gravely concerned about two aspects of the process established to implement FERC's RTO vision. Our first concern is that FERC is placing excessive emphasis on achieving consensus among financially interested market participants and is not assuming direct responsibility for the resolution of issues that will greatly affect the consuming public. While soliciting stakeholder input is essential, relying upon stakeholder agreement usually leads at best to treaties rather than optimal solutions, and at worst to paralysis. We have experience with that in NEPOOL or in New England with NEPOOL.

More fundamentally, the vast majority of electric consumers do not have the wherewithal to participate in the consensus process, which is why the law gives FERC, not market participants, the responsibility to ensure that the markets are designed and operated in a way that furthers the public interest.

Our second concern is that without a clear blueprint for achieving a broader market while in the interim protecting the interests of consumers, great damage can be done to the consuming public and its support for competition in electricity markets. If the immediate needs of the New England market are neglected while parties

struggle to find the perfect state, the cost to consumers and the frustration of market participants may reach the point where political support for restructuring in general, let alone for larger markets, may collapse.

If, on the other hand, FERC immediately imposes a single market structure without the thorough and patient examination of the best way to meld the operations of three markets, each with its own current idiosyncracies and each with important lessons for market efficiency, you will risk adopting a structure that cannot provide market efficiency insurance against the exercise of market power or operational stability.

In the interest of moving quickly but prudently to the broader market, the Maine Commission believes that in establishing a fully integrated market covering the areas now served by PJM, New York and New England, priority must be given to correcting costly deficiencies in the currently existing markets. You should allow the existing ISOs to continue operating within their spheres as the new structure emerges, and you, the FERC, whose direct and active participation as a decisionmaker is absolutely vital, must establish a timetable for the resolution of the issues both in the individual markets where they persist and in the broader markets as it emerges.

I'll just add a word on governance here. While

this is the first panel at today's hearing, I have heard previous days' panels described as a bit odd. Many witnesses speak to the details that are in the subject -- that are subjects of those panels while commissioner panelists speak to broader policy issues and remain silent on the detail questions.

Generally, as you know, we are not especially expert in the details. We decide as you do by gathering and considering evidence through full and open process. Let me make it clear. From my point of view, you have called the signal in the Northeast: A single RTO based on the PJM platform and incorporating the best practices from among the three existing ISOs. The model that emerges from this process must have the confidence of the populace throughout the region, New England, New York and PJM. That, in my view, argues for an equally balanced interim governance board, one that avoids being interpreted as designed or rigged, a word that I used to avoid when I was a lottery commissioner.

(Laughter.)

MR. NUGENT: I used it in my first few press conferences, and I always had to bite my tongue. But anyway, if you want to avoid being interpreted as rigged to achieve a predetermined outcome.

Now after having spoken as a commissioner from

Maine, let me offer some observations from my point of view as president of NARUC, which includes in its membership regulators from commissions in all 50 states and from very distinguished alumni who are in this room. Many of our members are deeply skeptical about the wisdom of your proposal to form four RTOs. That should be no surprise. These are intelligent, hard working commissioners who just don't see what's in it for their constituents.

As a group, they tend to fall into two different categories: Those from states whose consumers currently enjoy low electricity prices, and those from Western states whose consumers have just undergone a pocketbook-jarring ride through some experiments in restructuring.

For the first group, the question is, since it ain't broke, what are you trying to fix? We got low prices. What's in it for us? The second group questions whether you have the knowledge and tools to develop the right fix. The first group's concerns are real and the answer is not readily apparent. The result of establishing a broader, perhaps eventually a national electricity market, works to bring everyone toward national average prices, reflecting locational differences perhaps, but also diminishing the benefits of being located nearer to energy sources and the consequences and away from the consequences of past decisions.

Now Maine seeks a regional market because we're well above the national average price. We want to get down to that. That's progress for us. And we're willing to subject ourselves to a difficult transition period to get there. A move to national average prices is good for us. But for states currently below national average prices or what would be regional average prices, the creation and mandatory participation in a broader national electricity market suggests upward pressure on prices. Not a good thing if you've got to explain it to your constituents.

While this pressure may be offset by greater efficiencies expected in larger markets, my colleagues in low cost states are concerned that the risk is not worth the reward. They, and for that matter I, don't think you've yet made an effective case for benefits to all consumers across the country. Commissioners in the Western states are especially sensitive and there are commissioners who will tell you their own concerns. But they're especially sensitive to untried economic models.

For those commissioners in particular, the FERC must demonstrate that its approach will be measured and prudent and offers true value at the end of the process to the consuming public.

The businesses and residents served by the commissioners in both of these groups deserve, as NARUC has

requested of you, the thoughtful and careful development of both the legal and factual bases for the Commission's proposal for four large regional transmission organizations. At some point, you require political support for what you believe ought to be done. My commissioner colleagues in many parts of the country, plus their constituents, governors, legislatures and others, are for the most part willing to work with you. But you have to tell them what's in it for them. Do that, and I think you'll get the broad-based support that you seek and we all hope that this succeeds and leads us to a better situation.

Thank you very much. Sorry to have prevailed on your time so greatly.

CHAIRMAN WOOD: Thank you, Commissioner Nugent. We have Commissioner Sam Ervin from North Carolina. Welcome.

MR. ERVIN: I thought you'd let somebody that might know what they were talking about go before me, but at any rate, I appreciate the chance to come and be with you this morning. I guess my commission represents a wing of the body that Commissioner Nugent referred to.

As I was thinking what I might could say that might be of some benefit to you this morning, Mr. Chairman, I read a statement of yours that I think may be apropos to where we're coming from. I saw a statement from you in

which you expressed concern about a rift that had developed between some state commissions and this body. I think you referred to it as a minority. My vote count may be a little bit different than yours, but I was never very good at math, and so there's not much point in debating that.

At any rate, I think that you are correct in recognizing that such a rift exists. And I would like to offer you maybe a couple of suggestions taken against the background that Commissioner Nugent gave as to how we might perhaps heal them.

I want to give a little bit of background information. I don't think you need to listen to a description of what conditions are in every state, because we'll be here forever if we do that, and that's not a good use of your time. But at present, electric service in North Carolina that's subject to our jurisdiction at least is provided by vertically integrated utilities that provide bundled sales service.

North Carolina law requires our regulated utilities to have sufficient generating capacity to meet the needs of their customers. They've got to have it. It's up to them in the first instance to determine where they get it, but the obligation is put on them, as it is many other southern states.

For the most part, our investor-owned companies

rely on their own units. The amount of power that they get on the wholesale market compared to their total load is relatively small. Admittedly, we have also a fairly substantial municipal system and a fair number of co-ops, and their involvement in the wholesale market is greater. But unlike perhaps what might be the situation elsewhere, I don't know, those two entities also own a fair amount of generation in North Carolina.

As a result of these factors, there is a concern on the part of my colleagues and me that the percentage of the end user load that's really affected by market purchases at this point is not all that great. Our general assembly has studied the issue of electric competition for a number of years. At this point, I'm not privy to their deliberations, but it's my sense at least that electric restructuring is not going to come to North Carolina in the foreseeable future.

Until such time as we restructure our electric markets, if we ever do, I'm not sure that the percentage of end user load that's served through the wholesale market in North Carolina is going to change a lot. Because of this fact, or at least the presence of this fact, we are concerned that the upside benefit of the most robust and vibrantly competitive market that we're going to have in North Carolina is not going be all that great.

In addition, we have expressed concerns in more formal comments about cost-shifting issues, and I'm not going to get into legal and jurisdictional debates, because this isn't the place or the time for them, but we have those concerns as well.

For all of these reasons, the North Carolina Commission, like many others in the Southeast, and as Commissioner Nugent indicated, has yet to be persuaded that the benefits that may result from your policies that you've enunciated are going to outweigh the costs. In other words, are they going to be a good thing for our citizens? And we question, very honestly, whether that's true or not.

I did not come here today to debate that question. That's not something that I think we ought to be doing. What I want to talk about instead is, given that difference, what constructive suggestions can we make to you as to how to improve your dialogue with commissions like mine, which are frankly very skeptical of your initiatives? And I've got two suggestions to make to you.

I want to preface those suggestions by saying that I don't believe that in many instance the rift that you referred to, Mr. Chairman, necessarily stems from disagreements over policy. I have been around the political process and the regulatory process long enough to understand that reasonable people can differ over substantive matters

and that at some point somebody has to make a decision and the person that has the power gets to make the decision.

I do think, though, that the ability of folks to make decisions and the rift that I think exists is affected by how those decisions are made. The first of the problems that we've had so far stems from a concern that we, to be very honest with you, haven't been given an adequate opportunity to be heard with respect to our concerns. And that may come as a surprise to you, but let me tell you why I say that. And I don't need to remind you I don't think that an opportunity to be heard is really essential to anybody's notion of what due process is.

First, we have consistently had timetables that have been given to us through the process to date that have allowed very little practical opportunity for at least us to participate. And we've indicated this to you in a letter previously, but I want to reiterate it. The Southeastern mediation process, for example, started within a week of the issuance of the July 11 or 12 orders, depending on how you want to date them. At that time, our schedule was already established. Many of our colleagues were in Seattle at the NARUC meetings. Didn't allow a lot of time for us to come and participate even if we had been able to.

Secondly, as we've indicated to you in written documents, we're under legal restrictions as to whether we

can get in and participate in functions like that. Similarly, this function was set after we had set our schedule again. If we had not had some fairly late schedule changes, and Commissioner Kerr, who is with me, and I couldn't have been here with you this morning because we would have been required to be attending to other matters in North Carolina.

Although I don't in any way mean to minimize the importance of RTO issues, they are very honestly a subset of a subset of the issues that we have to deal with. And so it's difficult sometimes for us perhaps to come and meet schedules that are set fairly tightly, and I say that with no disrespect, but just to give you a sense of the practicalities that are involved in participating in the kind of processes that we've had to date.

Finally, and much more importantly, it's my sense that the existing rift will continue as long as you fail to directly and open address the threshold question that Commissioner Nugent referred to, which is in essence, what is the benefit of what you are proposing to do to retail customers in North Carolina? As I read the July 11 or 12 orders, they assume the answer to that question at least so far as the grid South order is concerned, I haven't read the others, we monitored the mediation process. It really didn't have a portion that seemed to me to be addressed to

that issue from what I can tell.

Again, when you ask for comments on the mediation report, the mediation report contained what it contained, and so it was a little bit difficult to comment on issues that weren't in the mediation report. Although the proper resolution of this kind of a threshold issue may be, to use a word I think I've seen used before, self-evident to members of this Commission, it frankly is not self-evident to many Southeastern commissioners. And we urge you to at least keep that in mind. Because we feel like more needs to be done in order to give us any reason to believe that this kind of process will be beneficial to us.

Before I went on the North Carolina Utilities Commission, I engaged in the general practice of law in western North Carolina for about 18 years. And during that time, I've represented clients ranging from people who had speeding tickets to people who were charged with first degree murder and a fair number of utility cases in between.

(Laughter.)

MR. ERVIN: The lesson I learned from that -- and you'd be amazed at what some of them did.

(Laughter.)

MR. ERVIN: My father used to cite to me a poem that he said, as I recall, it went something like this: I oft have heard of Lidford (phonetic) law where in the morn

they hang and draw and sit in judgment after. And the point that I'm trying to make is, that my clients, no matter what they might have been charged with or what kind of litigation they may have been involved in, were usually satisfied with the result if they felt like they had received a fair hearing.

And our concern to date is with respect to these threshold issues, we're not convinced that that's happened. The reason that we're not convinced that that's happened is because we have not seen much evidence so far that the threshold issues that Commissioner Nugent referred to have been addressed. Until such time as those issues are addressed in an open, traditional kind of a fact-finding process, I'm not sure that that rift is going to go away.

A number of Southeast and state commissions, including ours, enforce statues that prohibit transfers of the ownership or control of utility assets without state commission approval. We have two such applications pending before us right now, which was one of the reasons that we couldn't get into the mediation process at all.

Under North Carolina law, at least as I read it, we can't approve any utility's application to join an RTO without finding that retail customers would be better off as a result of this change in the status quo. Put another way, I believe we're legally prohibited from approving a request

by a jurisdictional utility to join an RTO without such a factual demonstration. We will of course have to follow North Carolina law or we're subject to reversal by the courts.

We have recently convened an investigation to look at the kinds of transmission issues that we understand, or at least I understand that you all are concerned with. You should have received yesterday a filing from Leon Jacobs, who is the current chairman of both the Florida Commission and SERUC, which indicates that a number of Southeastern states are together joining to enter into a study of transmission issues. And I understand that somebody was asked to read this into the record. I'm going to do it now, indicating that it is from Leon Jacobs on behalf of SERUC and not on behalf of the North Carolina Commission, but we are a member of SERUC, and so I'll do that since he's not here.

And it states that, quote, "The Southeastern Association of Regulatory Utility Commissioners believe that good policy decisions are made after careful research and analysis of pertinent facts from direct experience. It's important to have an in-depth understanding of the current status of generation, transmission flows, trading patterns and load growth projections before any meaningful cost benefit analysis can be performed in arriving at policy

decisions regarding transmission. We regret that FERC has not chosen to perform such an analysis before setting the course for a single large RTO for the Southeast. However, the Southeastern Commissioners believe such an analysis is critical to good policy decisions. Inasmuch as the aggregate experience of the SERUC Commissioners is significant and applicable to the markets in the Southeast, we're conducting our own. We respectfully ask FERC to delay any further proceeding on a Southeastern RTO until such time as we've completed our study, which will be performed in a timely." And it's respectfully submitted by Leon Jacobs, the president of SERUC.

The footnote to this document reads that Alabama, Arkansas, North Carolina, South Carolina, Tennessee, Mississippi, and Louisiana fully support the study and all the above comments. I also have been told verbally that the Tennessee Valley Authority is in general agreement with that, although someone else is the person that heard that I'm just repeating rank hearsay.

The footnote continues: Georgia, Florida, Virginia and Kentucky fully support the comments as to the importance of and need for the study but do not address the issue of a delay in FERC's proceedings.

In conclusion, and I'm sure everybody will be relieved to know that this long-winded disquisition is going

to stop in a second.

(Laughter.)

MR. ERVIN: The North Carolina Utilities Commission believes that the best way to heal the existing rift is for FERC to slow down and to follow procedures of the type that I've outlined here.

It's our belief that if the facts substantiate the appropriateness of the result that you seek to achieve, no one will be seriously harmed. On the other hand, if those who have concerns about the wisdom of your policy are correct, and those policies are implemented if they can be without an adequate factual investigation, we're concerned that significant consumer injury to our end users could occur.

If we really want to work toward a joint federal-state approach to this, we ask you to take this into consideration and to deal with these concerns directly. I'm afraid that if we don't come to grips with some of these problems that this rift is going to continue and we came to this proceeding today in hopes that we could at least start the process of at least enlightening you as to where we were coming from and listening to where others were. And I appreciate your willingness to listen to us.

CHAIRMAN WOOD: Thank you, Commissioner Ervin. Chairman Thomas from the Pennsylvania Commission.

MR. THOMAS: Thank you, Mr. Chairman, members of the Commission. It's an honor to be here this morning. I appreciate the opportunity to spend some time with you and present testimony on behalf of the Commonwealth of Pennsylvania.

We have formal comments that we have filed or are in the process of filing with you. I would, however, like to summarize some of those comments for purposes of the record. Pennsylvania approaches this RTO process from a position we feel of strength. We passed an electric competition law in 1996 and since then have reaped some enormous rewards from that. Consumers in Pennsylvania have saved $4 billion. No consumer in Pennsylvania is paying more for electricity than they were five years ago, and all consumers in Pennsylvania have a choice.

We've seen an explosion in our green power market in Pennsylvania. Before competition, there wasn't a single wind farm in Pennsylvania. By the end of this year, we're probably going to have five, and that is being solely driven by the demand for green power in the state. A hundred and twenty thousand people are choosing green power in Pennsylvania, and most times at higher prices. So consumers have the choice, they have the options, and they are saving money.

We also have been able to make this transition to

competition without compromising our reliability, and we're very proud of that fact. In the five years since that, we've had an enormous success on the reliability front.

So Pennsylvania feels that we approach this process from a position of strength. But we also know in order to make the most successful and most vibrant market possible, we need to become stronger. And we believe that's exactly what can be accomplished if this RTO proceeding is handled appropriately.

Pennsylvania is proud to be home of a world class system operator in PJM. And utilities are becoming the nation's standard. PJM has added 6,000 megawatts of power since 1996, and it's an increase that's being driven solely by some of the market signals that are being sent in Pennsylvania, and throughout the entire PJM region I should say.

That increased generation capacity will keep rates down for our entire region. And like I said before, this has all been done without compromising our reliability.

Our experience has been a regional experience. However, we do not appear before you today suggesting a one-size-fits-all approach is necessarily the best one. On the contrary, operational and economic concerns may result that RTOs are somewhat different configured at the outset. This should not be cause for fear of delay. It's very

appropriate.

Our experience tells us that gradual transition along with stakeholder process similar to what we're encountering today will move the restructuring process forward and ultimately create stronger markets for everybody. As a general proposition, an RTO must have independent market design, true independence and workable governance, part of which is meaningful stakeholder process.

The Pennsylvania PUC supports the formation of the Northeast RTO. However, that support is contingent upon the development of market rules, operational standards, data interchange protocols and measured steps to resolve seams issues that result in the gradual convergence of three regional markets.

This can and should be accomplished while implementing workable RTO governance and meaningful stakeholder process. If this orderly convergence can be achieved, all states will be served by the new RTO, and they will benefit from that.

For the Northeast, the Pennsylvania, New Jersey, Maryland ISO, PJM Is the most appropriate platform which combined with best practices from other regions will provide the best path for the development of the Northeast RTO. From an economic as well as an operational perspective, this statement is based upon the successful operation of PJM's

markets over the last few years.

Our contention is also based upon our experience with the PJM ISO, the level of trust the ISO engenders, and the level of cooperation we have received as we implemented retail competition. In Pennsylvania it's taken many partners to come to the table to create a successful electric competition program, and certainly PJM has been a valuable partner in that effort.

The PJM and New England ISO standard market models which are based upon multi-settlement, day ahead and real time bidding, self-dispatch and economic and real time price signals will create an energy market that assures the certainty and flexibility needed by regional markets.

In fact, PJM already operates a successful regional energy market. PJM's standard market design is based upon economic principles to the extent possible to establish a stable and reliable wholesale market by the creation of a rational economic signals and rational economic behavior rather than through command-and-control centralized market administration.

We recommend the PJM market to you today because, quite simply, it works. It works because it is well thought out and the end product, the stakeholder participation, it works because it sends the proper price signals. It also works because the PJM ISO is truly independent, which is

essential in maintaining the trust factor. We can't reiterate it enough. The ISO and the RTO must have that independence in order for it to be successful.

PJM also works because the governance of PJM does allow for change, perhaps not as rapidly or in the direction as some would like, but the mechanisms are in place for that change to occur through a thoughtful, deliberative stakeholder process. These tried and proven systems can and should be carried forward in the RTO formation.

In conclusion, we need to reiterate that again we do not recommend a one-size-fits-all application of RTO design. Moving the Commission's forward will be a transitional process, and we understand that. Just as Pennsylvania's markets are in transition, so too will this process.

The Pennsylvania PUC is confident that ultimately we will be able to all arrive at the same point. In reaching that point, however, the PJM market model and governance structure should not be sacrificed for anything less than optimal. The stakes are too high and the issues are too critical here.

While there are areas that are in need of improvement with regard to demand responsive pricing, capacity ICAP issues, as Commissioner Nugent mentioned, and transmission at rates allocation, the PJM standard market

design platform presents a stable, working and scalable structure on which to build a larger regional market.

We thank certainly the Commission for being able to put this event together and giving us the opportunity to attend. Just on a side note, in response to Commissioner Nugent's thoughts about his fellow NARUC members who come from low cost states are concerned about this transition and want to see what the benefits are for them, I mean, I can tell you that Pennsylvania has some of the lowest cost utilities in this country in some parts. We also have some of the highest cost utilities as a matter of fact.

But, however, we believe at the end of the day, when you look at the direction which the Pennsylvania market is headed as well as this issue from a national level that this will create opportunities for all Pennsylvania consumers.

Pennsylvania rates were 15 percent above the national average before we started competition. We are now below the national average for electric rates. We're very proud of that, and we believe that, again, that the success of this RTO process can make Pennsylvania even stronger, and look forward to working and continue to working with you to make that happen.

Thank you for the opportunity.

CHAIRMAN WOOD: Thank you, Chairman Thomas. We

want to welcome back Commissioner McMinn from New Mexico.

MR. McMINN: Thank you, Mr. Chairman, Commissioners. Again, let me tell you that I'm very pleased to be here representing the New Mexico Public Regulation Commission and the state of New Mexico. I feel very honored to be here with this august panel, especially following Commissioner Nugent and Ervin and Thomas.

And they've made statements this morning that I don't think that the New Mexico Commission would disagree with in general. They've hit issues that we find near and ear to our heart, and I think that the issues that we have to deal with are based on the ratepayer. As I stated yesterday, that is our biggest concern is ultimately how is this going to affect our consumer.

RTO design of necessity will cause a separation of assets in our state that serve both wholesale and retail. We have, as Commissioner Ervin has stated within his state in North Carolina, we have laws in effect in the state of New Mexico that require that New Mexico Public Regulation Commission to approve or disapprove those separation of assets. That is a big decision that we have to make.

As Commissioner Thomas has stated in regards to the state of Pennsylvania, we too have low rates and we run the gamut. Our blended mix puts us right at the national average. However, our low side of the state which

politically, Mr. Chairman, happens to be in my home district, is in the neighborhood of 6.5 cents per kilowatt hour on the residential rate. Those people are very concerned about what will happen to them in regards to the RTO formation and also very concerned about whether the formation of a West connect or a Western RTO will drive the implementation of electric restructuring. And as of yet, our legislature has not made that decision.

As you may be aware, we delayed, our legislature delayed electric restructuring in New Mexico. That was supposed to be implemented at the beginning of 2001. It was delayed until 2007. And so we have been going through the process of looking at those particular needs.

Ultimately, and I won't speak much longer, but ultimately, and I don't mean to steal any thunder from Chairman Simmons from Missouri, but I would have to say that one of our big questions that we have is "show me". And we would as a result of that, and you know full well, Mr. Chairman, that I have asked you on behalf of New Mexico and the Western commissions that we would very much like to be participants with you in this process in the West, and we would like to have the dialogue directly with you as commissioners directly with commissioners in regards to these issues. We therefore would invite you to the West at any city of your choosing within the West, hopefully in a

fairly central location such as Albuquerque.

(Laughter.)

MR. McMINN: And we hope you bring lots of cash. But we would welcome the opportunity to host and facilitate a particular meeting. And I'm sure that if you decide to come to the West any of the commissions within the West would be very happy to do so as well.

Again, the major concern that we have is what are the benefits of the RTO formation to the ratepayer. Thank you.

CHAIRMAN WOOD: Thank you, Commissioner McMinn. I'd like to welcome Commissioner McRae from Delaware.

MR. McRAE: Good morning, Commissioners, and thanks for the opportunity to have a conversation with you this morning.

As you know, with four prior speakers, it would be most difficult for me not to be repetitive. But in some instances, I don't think that we can overstate the important concerns that are before us today. I sort of like the way my neighbor, Commissioner McMinn, summarized his remarks with "show me". I guess that's a good beginning point for the concern I want to address. And that principally has to do with process.

Delaware has really not reached a position as to where it is with respect to a Northeast RTO. It seems to be

pretty much a foregone conclusion. But there are those of us still lurking in the sidelines that I think Commissioner Nugent alluded to who frankly are in a relatively comfortable spot with the arrangement they have. Delaware is served by the PJM market, and we have enjoyed efficiency and reliability and don't immediately see where we're headed with a Northeast RTO. That's not to say that there's an objection, but I do think at the very least, we ought to have some understanding of how we're getting there.

Thus far, we've seen a process, a very truncated one, which was over a 45-day period, let's slap together, if you will, a functional RTO on which we can build. And that was basically done, as near as I can understand, by market participants with virtually no significant input from states, which also have an interest in what we end up with as a functioning transmission system.

At this juncture, it remains unclear to me how we plan to proceed with the process of getting to the end point if it's ultimately agreed that that's where we want to be. Now I can believe that in the minds of some people, such issues as cost, market design, startup and operational components, market monitoring, planning, those things can be considered details which we can work out en route to implementation. But from the vantage point of a small state such as Delaware, those details can have monumental

consequences.

As I mentioned in one of our earlier filings, Delaware is a very small state with roughly 785,000 people. Two-thirds of the state is regarded as rural. And I think it's important to take time out to look at some of these parochial issues. I agree with I think it was Commissioner Ervin who said we can't spend all day here talking about the individual state interests. But at some juncture, we're going to need to look at those kinds of things because they are going to have some significance in creating a design that is effective and efficient for all the participants.

I certainly won't talk about the whole allocation of cost and benefits because you've probably heard that from multiple parties. But there are other things besides that that states look at. For example, in our state where we have both transmission and generation constraints in that there's limited generation, only a few suppliers. We're on a peninsula along with Maryland and Virginia and therefore don't have ready access to transmission. There is significant emphasis on reliability.

In addition, we have environmental restrictions which are tied to the fact that Delaware is in a nonattainment area under the EPA standards. And I think we can all agree that being two-thirds rural, most of the major market players are not going to be rushing to the state as a

marketer's paradise. So we don't really present the kind of profile that's going to give us necessarily the success story that Pennsylvania has enjoyed. I certainly am happy for them and what's happened with respect to their development of markets, but I do think the uniqueness of individual states are a factor in this whole discussion of a Northeast RTO. And it becomes a pay-me-now or pay-me-later proposition. We consider it on the front end, or it becomes a problem on the back end.

Now I personally am here to offer my desire, along with the other commissioners in my state, to work with the FERC in coming up with a design that addresses the needs of all states in the assumed Northeast region in a way that all of our consumers benefit.

So, again, I guess I would summarize by sharing the term of my neighbor, show me, and I'll be there to work with you. Thank you.

CHAIRMAN WOOD: Thank you, Commissioner McRae. And Chairman Riley from our neighbor in Maryland. Welcome.

MS. RILEY: Thank you. My friend to my right is often more gentle than I.

MS. McRAE: Truly.

(Laughter.)

MS. RILEY: Truly is right. Mr. Chairman, Commissioners, my name is Catherine Riley, and I have the

honor of serving as Chairman of the Maryland Public Service Commission. I'm here today representing my four colleagues and also with me is Commissioner Max Curren (phonetic). Each of us swore an oath to uphold the constitution and laws of Maryland. But we also swore to uphold the Constitution and laws of the United States of America. I don't know if your oaths contain that, but ours certainly did.

It is a charge to uphold both sets of constitutions and laws which none of us takes lightly. And those people in the press and in the media who want to characterize what states are doing as vulcanization or protecting our incumbent utilities or whatever they want to call us, that's not why we're here.

Yesterday before I left work, which was six o'clock last night, my colleagues further charged me to, quote, "not wimp out" here today, or not back down. So I want you to be very clear, I am not here to affirm your order of July the 12th, nor am I here to help you backfill your woefully lacking evidentiary record, and nor am I here to assist you in complying with the requirements of the Federal Power Act regarding communicating with state commissions.

In probably close to 75 pages of filings over the last four months, the Maryland Commission has expressed its strong views objecting to your process. We carefully laid

out the arguments regarding the legal basis, the evidentiary basis, potential costs and cost shifting, the foolhardiness and the riskiness of your process. So I won't repeat all of that. But I'd like to focus on some key words that I happen to think are awfully important and I think you do too: Our citizens, stability, particular now, and responsibility.

But first I'd like to associate myself with the remarks of my good friend and sister state, Delaware's comments, and much of Commissioner Nugent's and the Commissioner from New Mexico. I also want to associate myself with the poem of Commissioner Ervin.

(Laughter.)

MS. McRAE: And would like it in writing.

(Laughter.)

MR. ERVIN: I can't spell "Lidford".

(Laughter.)

MS. McRAE: But I'd like to tell you before I talk about those three words, I'd like to tell you a little bit about Maryland. As Delaware, we are small. We have five million people. We have the Chesapeake Bay that cuts us in half, and so we do have a peninsula with Virginia and Delaware.

And we are the "M" in PJM. And we're progressive. Because we're small, people often think they can roll over us, and sometimes they succeed. But we have

and do provide real leadership in the public policy arena and not just in the utility public policy arena. And as a state, we're very proud of that. Maryland policymakers committed to regional solutions to electricity supply issues before most other states. And we worked long and hard to further the creation of PJM as an independent ISO.

We supported its RTO filing last October. We supported expansion into PJM West, without coercion. And we supported efforts to resolve seams issues when were asked and when those seams issues were explained to us, which was not often.

Now we did, while being an average price state, we committed to choice in electricity, and we have one of the oldest, established in 1995, and most successful natural gas choice programs in the country. So I dare say we are accustomed to promoting choice, and we are not accustomed to stymieing perceived progressive efforts.

But ladies and gentlemen, we're also not foolish, and we're not hasty. When our legislature enacted electric choice in 1999, they knew, as did we, that it would take time. And with just over one year, effective July 1, 2000, just over one year, we have over 10 percent of our load in two of our four service territories with alternative suppliers.

It is moving very quickly. It's gradual. It's

growing. But I want to assure you, we are committed to ensuring further opportunities for growth. And I dare say you're aware that the Maryland Commission has adopted some of the strongest affiliate rules in the country, if not the strongest.

When California hit, let me say the media, because it hit a lot longer before the folks in the East knew about it, but when it hit during the winter, businesses and citizens and electric officials wanted to know from us what was going on. We went and testified in Annapolis and tried to answer the question, can it happen here? And I want you to know, I confidently assured all those folks, no. And the reason, among others -- I mean, we gave them credit and said we had a good law and all those good things. But the basic reason was, we have PJM.

We have stability, we have reliability, we have limited severe price volatility. While we do have some concerns and we believe and so does PJM that they're not perfect, we believe that PJM was the keystone to the faith and trust of Maryland policymakers and the Maryland Commission in moving forward with choice and believing that choice can work. There are an awful lot of people who don't believe it can work, and they're growing in our view.

But at the same time that we answered those questions, we also warned that there were people who wanted

to undo PJM. This was last January, February and March. There were cases filed here then to undo ICAP price caps and other issues that we consider vital, not inflexible, but vital.

Those of us in the PJM region, and I was not a part of it, so I'm giving credit to other people. They had a vision, they had a plan. And indeed, people in the PJM region have been so trusting of PJM to make choice work that every state and the District of Columbia, who are part of the PJM region, are all committed to choice. I think that speaks volumes of why we are concerned.

We're proud of that fact that we have taken that leadership, and I must tell you it's a little scary, but we've all done it as commissions, we have relinquished to PJM some authority over reliability, transmission planning and price stability. We've already done it.

But then came July the 12th and this rather hastily crafted process that puts uncertainty of key market and pricing issues, among others, it puts uncertainty into those issues where some certainty had existed. The evolutionary process that we envisioned, that we sold to the legislature, is in disarray. Our choice efforts have been affected.

And I think it important to note that it is very possible -- and I did not say this, someone else did at a

hearing recently in Maryland -- that the very process that you all hoped would expedite RTO expansion may well be serving to deter resolution of the very seams issues that PJM addressed in its July 2nd filing with you, and that you may actually be delaying expansion of RTOs. And for those of us who supported expansion through PJM West, we think that's a real possibility.

Our citizens, ladies and gentlemen, deserve better. They deserve to feel protected from the risks and not exposed to additional risks. They deserve an orderly, thoughtful process. They have trusted PJM for a long time. They've trusted its stability and its careful evolution. I used to be a public official, and I want to tell you, I still get stopped in grocery stores, so they may not know you, but they stop me, and they tell me that they're really happy I'm there because they trust me. And it scares me that I may be violating their trust. It terrifies me. Because I've never done it.

Their only glimpse of FERC, which is an unknown acronym to them, their only glimpse really is California. That's when they heard all about you guys. I must tell you, I don't think they trust today that you know better. I don't know that they trust that you've learned. And to date, the process that you have unfolded on this issue provides no reassurance that their fears are groundless.

And I frankly cannot reassure them. And that, too, scares me.

Such a major public policy change deserves all of our best efforts, and it deserves some trust and some faith in each other. It deserves that the great axiom, first do no harm, be our guiding light.

I think it's vital that you all recognize there are two kinds of witnesses, two kinds of parties, and that's basically in my mind on this one about it. There are people who are entrusted with ensuring reliability who are witnesses, and there are people who are not. And those of us who are take it really seriously.

If price volatility, decreased reliability, and uncertainty for our citizens are the outcomes of what some have characterized as the nationalization of electricity, you, ladies and gentlemen, will have to answer for it. And as long as the states are not partners in that effort, and I think we've heard today -- I haven't heard any state yet say it feels like it's a partner -- I want you to know that the Maryland Commission has said they will not accept responsibility for those failures. It is your failure. And we will point to you.

Chairman Wood, you might be interested to know, one of my commissioners recommended that we take out, since we encircle the District, that we take out billboards on

major arteries into the city and put your phone number up there.

(Laughter.)

MS. McRAE: We've deterred, temporarily, that approach.

(Laughter.)

CHAIRMAN WOOD: I should add, we do have an 800 number now that I've gotten here.

(Laughter.)

MS. McRAE: That wasn't the number we had in mind.

(Laughter.)

CHAIRMAN WOOD: I've got one at home, too.

(Laughter.)

MS. McRAE: Now it does not have to be this way. It did not have to be this way. Don't know why it is. Would rather not be here today. I believe we could be real partners. We could participate in real cost benefit analysis, in real solution-oriented processes and testing. But to do that, it seems to me and to our Commission that you must be prepared to make real decisions, not consensus decisions or consensus compromises, some might say, not lowest common denominator decisions. And I think Chairman Nugent addressed this.

But lastly, you must be willing to not go forward

with your super RTO in the Northeast if it is not workable, if it is too costly or it shifts costs too dramatically, particularly to the low and average cost states, or it's technically infeasible. Administrative Law Judge Young pointed to some of the technical problems that may take years to resolve. But ladies and gentlemen, to be willing to do that takes real courage, and it takes real leadership. We in Maryland do not shy away from such a process. We would welcome it.

Such a process would show that we all actually care about all of our citizens and their electric stability and that we have taken our responsibility to do no harm to them very seriously. Thank you.

CHAIRMAN WOOD: Thank you, Chairman Riley. Those are the six folks that have asked to make opening statements. Do any of our other state commissioners wish to add anything? Commissioner Wood?

MR. WOOD: Thank you, Chairman Wood and hello, commissioners. I'd first of all like to associate myself with the NARUC-based remarks of Commissioner Nugent. Our states are, the direction I think that we're going are in different places, but I think that he correctly characterized a lot of the concerns of state commissioners, and particularly in the Western states.

It's regrettable that there are few Western

commissioners that are here today. I think some of them have not been able to be here for reasons of scheduling conflicts and other issues. But I think that Commissioner Nugent correctly identified many of the concerns of the commissions in the West.

The overarching focus for this week is the structure and operation of RTOs. What could be easily lost in this discussion is a recognition of the great divide that exists between the states and the FERC concerning the need for RTOs, the geographic boundaries for RTOs, where they are to exist, and the critical importance of enabling states to continue ensuring low cost electric service and protecting natural resources.

While some in Washington and elsewhere might indulge the notion that what has happened in California and in the West during the past 18 months is a byproduct of mistakes that are peculiar to California, we are all obligated to preserve mechanisms that enable us to respond to the inevitable problems that will plague the market in the future.

It is inevitable that markets will ebb and flow, that reserve margins, to the extent that markets create them, will expand and shrink. If potential suppliers respond to market signals, they will spring to action only once prices are sufficiently high to spur new generation.

As we all know, new generation takes time, time during which unprotected markets will impose punitive prices on consumers.

California and the West could do little to bring short-term relief from the crippling high wholesale rates that have closed businesses, destroyed the creditworthiness of the West's two largest utilities, and created a large deficit within California's general fund.

Only the FERC could have stopped the bleeding, had the levers of jurisdiction to stop the bleeding during the past year, but for various reasons, it failed to do so for over a year until late last spring.

Now the FERC pushes to increase its jurisdiction to encompass not only wholesale generation but almost all aspects of transmission. Since those who manage the transmission system must ensure that supply and demand are in balance, assumption of the transmission jurisdiction brings with it additional assumption of generation management. A single regulatory agency located thousands of miles from many of those it serves almost surely would not have the staff and the flexibility needed to anticipate local challenges and respond in a timely manner when problems do crop up.

We saw this during the last 18 months in the West, and we will likely see it again as other wholesale

markets evolve.

Many of us in the West are concerned that history will repeat itself as the process for developing RTO policy unfold sin much the same way that markets were restructured in California. Read Orders 888 and 2000 and you will observe patterns reminiscent of the California PUC's early restructuring orders. Rather than developing the factual basis for identifying problems and reflecting on potential solutions, these orders salute the idea that competitive markets are superior to regulated markets and announce the conclusion that certain changes are needed to ensure that competitive markets will flourish.

This is the approach that an earlier California PUC used to justify exposing the citizens of the state to a risky experiment called industry restructuring. It is an approach that failed. Order 2000A finds a basis for FERC jurisdiction to impose RTOs in the need to respond to anticompetitive or otherwise unlawful activity.

Here's the beginning of an interesting discussion. Where the Commission discovers a pattern of inappropriate conduct, it is logical to determine the most effective way to correct the problem. It is appropriate to ask if an RTO of some size or scope should be part of the answer. The current push for RTOs, on the other hand, puts the cart before the horse. Rather than impose RTOs in

response to problems, it simply assumes that RTOs are needed. Largely, the only questions go to boundaries and functions.

However, this past Monday afternoon, Chairman Wood asked panelists to consider the absence of an RTO-like central mechanism in the gas industry and comment on the question of whether RTOs are needed in the electric industry. Let me suggest that this question moves the discussion in a health direction and that what follows should not be a rush to test the limits of FERC's authority to impose RTOs of some size or scope, but a more fundamental consideration of the directions of the industry and an investigation of real life problems that may or may not need to be fixed.

Our experiences in California over the last several years have taught us several things about policy development and implementation in this industry.

First, if problems exist, they need to be clearly identified and developed based not on theories but on actual events and practices. There is no substitute for fact gathering.

Then a range of solutions must be explored. In this instance, broad RTOs are certainly not the only answer, and they probably are not always the best.

Third, where there is a real problem, the FERC

should seek a commitment from those in states to develop a solution.

Fourth, RTOs must remain voluntary. By this we mean truly voluntary, not the result of commitments extracted in exchange for other relief a state cannot afford to decline. We say this both because it is good public policy for the states to remain accountable for the adequacy and performance of their transmission systems and because a voluntary approach is consistent with the law.

Fifth, even if it is empowered to mandate a structure for managing transmission resources, FERC must first fulfill its obligation to understand costs, benefits and risks related to its actions. FERC must not draw the nation's consumers into a great experiment without clear knowledge of the potential costs and risks.

Finally, whenever a regional organization is imposed, the states must be granted an active role in governance. States must remain accountable to identify problems and impose solutions when it comes to matters that directly affect the price or reliability of electric service, land use, or the local environment.

There is a reason that states have traditionally regulated in these areas. The impacts are local and the solutions can most effectively be crafted on the local level.

More specifically, in the West, we question the merits of conscripting all the states in a region covering almost half the area of the continental United States into a single, centrally managed transmission system. Where they arise, we can handle challenges of regional coordination within existing institutions. The Western Markets Interface Committee is intensively working on seams issues. It's parent organization, the WSCC, and the new WECC, provide a forum for addressing a full array of regional reliability concerns and for addressing many of the other stated objectives of the RTO process, improving efficiencies of grid management and improving overall performance of the regional grid, and removing opportunities for discriminatory practices.

A mandatory big West RTO would likely disrupt decades of regional cooperation in areas like transmission planning, management of loop flow and coordination of commercial practices.

States within RTO West are successfully working to unite their transmission systems. The California ISO continues to refine its practices as a result of its market experiences. Rather than focusing on a forced marriage of these institutions, we ask you to allow them to grow and improve. We ask you to study with great care the problems that you may perceive and work with us to develop solutions

that are appropriate to the region.

I'm grateful for the conversations that we have had to date and look forward to continuing our efforts to develop joint solutions to the challenge we face in the West and in the rest of the nation.

And I'd also, if I may, like to read a statement from the three Washington State Commissioners who were unable to be here but asked me to present this statement on their behalf. This is from Chairwoman Marilyn Showalter and Commissioners Richard Hemstead and Patrick Oshi:

"Due to a prior scheduled proceeding, the Washington Utilities and Transportation Commission is unable to attend and participate in the Regional Transmission Organization Workshops convened by the Commission in the above-referenced docket during the week of October 15th through 19th, 2001.

"The Thursday, October 18th, 2001 session of the workshops is scheduled to be a meeting with state commissioners. We appreciate that the Commission has scheduled this session to hear from the affected state commissions on important electricity market structure issues. In lieu of our attendance at this session, we offer these brief written comments.

"We believe strongly that the most important objective of electricity policy is reliable service to

consumers at affordable and stable rates. In Washington, like many other states, we have chosen to achieve that objective through locally and state regulated utilities that provide bundled retail service. We believe competitive wholesale power markets are an important tool available to Washington's utilities to help manage a portfolio of resources to keep rates low and service reliable.

"However, competitive wholesale power markets are properly a complement to state regulated retail electricity service, not a substitute for it. Consequently, we urge that the Commission's regulation of wholesale power and transmission should complement, not supplant, the objectives of state and local regulation of retail electricity service in Washington and like our regulation, serve the interests of retail electricity consumers.

"With respect to RTOs, we believe that a transmission organization may improve the efficiency of the wholesale power market if it facilitates management and access to available transmission capacity, coordinates planning and expansion of transmission system enhancement, and enhances the reliability of grid operations. However, it can only do so if it is designed to address the actual circumstances of regional transmission grids. Moreover, it is only on the public interest if it does so at a cost that does not exceed the value of these potential benefits.

"Specifically, the Commission should permit RTO Northwest and the other Western RTOs to develop voluntarily and in a manner that addresses actual regional circumstances and needs, perform an objective and credible analysis of the costs and benefits of any RTO standards proposed that consider specifically the circumstances of the Western grid, transmission ownership and the nature of Western power markets.

"Specifically, the Commission should not prescribe mandatory standards based on circumstances and problems relevant to other regions of the country and not relevant or pertinent to circumstances in the West, force the regions of the West to consolidate into a single RTO, undermine the ability of utilities with retail service obligations to continue to rely on the transmission capacity built and operated by the utility to serve retail customers reliably and cost effectively, or order RTO participation if the benefits of a specific RTO proposal cannot be shown reasonably to outweigh its costs.

"Finally, we have read a draft of Commissioner Carl Wood's prepared remarks for the October 18th, 2001 session, and we wholeheartedly endorse them. Thank you for this opportunity to offer comments on RTO policy. We look forward to discussing this and other energy infrastructure issues with you in Seattle on November 2nd, 2001."

MR. ERVIN: Carl, you added that last sentence.

MR. WOOD: That was the most important one.

(Laughter.)

CHAIRMAN WOOD: Chairman Huelsmann from Kentucky.

MR. HUELSMANN: Chairman Wood and commissioners, I want to personally thank each of you for inviting us here, in particular Kentucky here. Joining me is Commissioner Spurlin and Commissioner Gillis has previously been here. So we've been represented. We believe that this week is one of the most important weeks that we will have in Kentucky. And it also kind of forced me to get on an airplane after September the 11th. And I guess I want to thank you for that.

I wanted to express our support for FERC's initiative to open a nationwide dialogue with stakeholders on the structure and functions of regional transmission organizations. We encourage this. We welcome this dialogue. We stand ready, willing and able to work with you in this regard.

I want to give you a little bit about Kentucky, though. Kentucky's regulated electric utilities have relatively low cost generation and low cost transmission. We are one of the low cost states, and I think Commission Breathitt can help us out on that one.

We strongly support competitive wholesale power

markets, but recent studies show us that there are few if any benefits to be gained from introducing competition in the retail markets in Kentucky. Consequently, there is an expectation that Kentucky will restructure its electric markets. There is no expectation that we will restructure our electric markets in the foreseeable future.

Kentucky is a member of SERU. But our utilities have gone to the Midwest. And so therefore, we feel that we're part of the Midwest. And we do support the commissioner from Michigan's statement on October the 15th of this month.

We support the formation of RTOs as a means to achieve a more efficient, competitive wholesale power market. However, we share the concerns expressed by others this week that there must be one seamless wholesale power market in the Midwest despite the development of multiple RTOs with arbitrary geographic boundaries.

We in Kentucky may be faced with three RTOs -- the Alliance, the MISO, and a public power. And that is of concern to us. We are concerned that increased levels of competition are reducing systems' reliability due to bulk power flows on the transmission grid that's designed primarily to serve the native load in Kentucky.

We urge you to make RTO decisions that will enhance overall system reliability for all users and to

continue the historic practices of allocating new transmission costs to the cost causer.

In conclusion, we welcome the opportunity to work with you and all stakeholders to achieve a seamless and reliable market in the Midwest that truly benefits all end users, whether bundled or unbundled. Thank you.

COMMISSIONER BREATHITT: Thank you, Chairman Huelsmann. And you have the best bow ties.

MR. HUELSMANN: Thank you, Commissioner.

CHAIRMAN WOOD: Are there any other state commissioners? Judy? Commissioner Jones from Ohio.

MS. JONES: Thank you, Chairman Wood. I'm here kind of unofficially representing a Midwest coalition of states that have been working together for some time on RTO issues and of course to represent Ohio.

We in the Midwest support this cooperative initiative and realize that Commissioner Nelson from Michigan and Commissioner Fonda on Monday did present a plan for a cooperative agreement and workings with the FERC, and we certainly wholeheartedly support that and look forward to working more closely with you.

We're very pleased to have this opportunity this week to come and to listen to the many viewpoints that have been expressed in the specific areas as well as around the table today.

In Ohio, restructuring began on January 1st of this year. It's moving along slowly which I guess is not unexpected, even though in Ohio our consumers have had experience with choice through a natural gas choice program that's been underway since 1998 statewide, it has been slow to move. However, we have had and Ohio allows municipal aggregation, which is moving rather well in the northeast and northwest part of the state, and we're expecting that nearly a million customers as of December 1st will be participating in the aggregation.

So it's really very, very important to us that the grid works, that we have the ability to have reliability. When the consumer is asked what is most important to them, as you well know, reliability really tops the list. They're used to it, and one of the concerns that they have is that if they do something different that they might lose that.

The Midwest states have banded together and working on RTO issues specifically. We have, as Chairman Huelsmann said, in the Midwest's there's three RTOs. Within Ohio we have three. We have the Alliance, the MISO, and PJM West. So we have a great concern regard the seams issues which we are quick to acknowledge and look forward to working to resolve.

The panel yesterday afternoon on pricing and some

of the costs and the tariffs, you know, is a key issue. I think that's where we're going to resolve h ow the power is going to flow throughout the Midwest.

I hear over and over again that regulatory uncertainty is one of the biggest barriers to moving forward at this time. You hear it from the utilities, you hear it from transmission owners, and you hear it in general from the states. So I think that it is important that decisions are made obviously carefully, clearly and with a lot of understanding, but that decisions need to be made.

I suspect we might not get it, you might not get it perfectly right out of the gate. However, there is enough I think expertise and enough experience out there that we know what many of the pitfalls are, and hopefully we can move forward in a very responsible way.

One of the other issues that I think that you need to deal with is the independence of the RTO that is put in place. Again, we've heard that through this week and around the table that the system is really subject to terrific gaming if there is not an independent governance in the RTO.

I heard a presentation regarding the transmission flows in the Midwest, and I was really a little surprised to see how the gaming could take place. And obviously, the independence of management of RTO is a key issue.

So I guess those are probably the primary issues from Ohio. And again, I would say thank you for having us here this week, and we do look forward to working closely with you on getting this issue started. Thank you.

CHAIRMAN WOOD: Thank you, Commissioner Jones. Any other? Yes, sir? Commissioner Arthur from Connecticut. Welcome back.

MR. ARTHUR: Good morning. And welcome to the world outside of Texas, Chairman Wood.

CHAIRMAN WOOD: I've been there for a few months. I'm learning it.

(Laughter.)

MR. ARTHUR: I noticed you've got one eye swollen shut, a broken nose and you can't lift your right punch to go forward, but I'm sure you'll come through this struggle on the positive side.

And I also am well aware, having been in the government for quite a while, that there's a lot of inertia, and it takes a lot of energy to, in my case, change the ship's direction even a little bit. And I think you're headed in that direction for some of us, and we applaud you for that.

And I especially want to thank you. I've been here every one of these sessions and almost every one of you have been here for all of these sessions. And I sit on the

bench a lot, and it takes a lot of stamina. But I think also you've had your eyes opened to the concerns and lots of good ideas that have come out of this FERC week, as you call it.

We are in Connecticut a high priced state or high cost state, but we support this move to form an RTO, at least in the Northeast. We certainly have some concerns. But if in fact we go forward, and I think it's a misnomer, RTOs and ITCs. I'm not sure what we're forming. But we would like to see a transparent, efficient transmission system so that some of the low cost power that's located across the country can get to the markets and bring down our cost.

We're looking for that system to increase the supply, decrease the cost and increase the reliability. And I think that's really truly what your goals are. And if you put those out, as I've heard a number of times this week, as a vision and establish goals and let the different areas participate fully to meet what they consider to be their requirements, this thing can go forward.

And I don't mind -- I have my reservations -- I don't mind the Northeast being, if you will, a model to start from. I think you ought to use the KISS principle, Keep It Simple, Stupid, and not try to do too many things at one time so that you have a program or a system in effect

that you can look at. And there's going to be bumps in the road. You're going to have to tweak it, or we are in our individual states. But if in fact what all the economists say, there's billions of dollars to be saved, it can only make our country better.

And I have concerns about gas taking overdominance in our generation field. And I know that's not really under your tutelage or under your responsibilities, but I can only -- you can just imagine we've doubled the chances of some significant incident, either getting a transmission system or get either gas or electricity, and if it gets gas when all the electricity is based on gas, you got a real disaster, and that is a significant concern of mine.

There's lots of things I can say. I agree with almost everything that's been said this morning. And I appreciate your taking it without throwing in the towel and walking out of the room. You've taken a lot of punches, and probably a lot of them deserved.

(Laughter.)

CHAIRMAN WOOD: I do feel like I'm back home in Texas.

(Laughter.)

CHAIRMAN WOOD: This is par for the course for the last seven years of my life. That's why I signed up for

another term. Chairman Cartagena from our host Commission, welcome.

MR. CARTAGENA: Good morning, Chairman Wood, esteemed commissioners, and my sister and brother regulators. As I approach this whole idea of the RTO, a definition that has been attributed to Einstein of the word "insanity" comes to mind, which is continuing to do the same thing you've always done and expect different results.

It is obvious that we needed something different in terms of approaching the development of transmission and in particular the development of transmission that will support competitive markets. And our Commission has certainly expressed or shown its desire to work with the FERC to the extent that we have been present throughout the entire mediation process and even this week have been participating through staff in this desire to come to some kind of consensus or decisions on these issues.

But there are three points. Some of them have already been made, but I thought they were important to sort of bring up again. The first is that at a time when we are considering very seriously what it means to be American, I want to share with you a different perspective on the issue of due process and the law.

I am a first generation American. My parents came here from the island of Puerto Rico back in the

fifties, and as someone who can speak both English and Spanish fluently, I have either traveled to or spoken to many a person throughout Latin America. And I can tell you that one of the reasons I love this country and why this country means so much to me and to people who fight and do whatever is necessary to come here, is because of our respect for and love for the law.

And I think that we have neglected that in an attempt to try and fix something that I think admittedly if we really think about it and look at it is broken. That we have put the cart before the horse. This has been said earlier today, and that we have not thoroughly given due process its respect in trying to make some of the decisions that we deem necessary with regard to RTOs.

I am particularly concerned about this number four without there being any support on whether that's the ideal number. And I am particularly concerned about whether we should be deciding on certain marriages where, as I've stated on many different occasions, where the partners are very clearly incompatible. And I for one cannot in good conscience ask the people of the District of Columbia to pick up the tab on someone else's mismanagement and someone else's mistakes.

And so I think since it's been said enough, I'll stop at the fact that one of the things that has to be

addressed here is that due process must take its course. Granted, it has to be done on an expedited basis, but it has to be thorough and complete.

The second point I wanted to raise is that while we have allowed for and have discussed quite a bit the idea of restructuring on the market side or on the services side of the balance, I don't think that we have given enough time to the idea of restructuring on the government side. I think that we seriously have to admit that we have gotten to the point where the federal-state dichotomy is no longer working.

States must continue to represent the interests of their citizens. There is no doubt to that. On the other hand, I think that the squabbling that has gone for many years on the part of states and the federal government with regards to jurisdiction and all of those sorts of things, they tend to get in the way.

And so I would like to ask that as part of this process that some time be given to the idea of talking about alternative ways of decisionmaking that would take into account the need for an expedited process but at the same time include the states. And some of the things that I've talked about in other public arenas is the idea of federal agencies such as the FERC or the FCC having state delegations where representatives from each state actually

work at the agency and are involve din part of the process.

I have talked about the idea of states getting together and creating regional authorities. For example, such as the New York-New Jersey Port Authority. And I have also talked about the idea of creating smaller bodies, if you will, where states or regions rather have state representatives that are involved in decisionmaking.

And so I would like for us to start to give some serious consideration to the idea of the fact that our decisionmaking process itself, the reason that we are having the conflict we are in today is that our decisionmaking process today is broken, and that we really need to think about having a new way of arriving at decisions. Decisions that as my sister from Maryland I think eloquently said, decisions that are tough but decisions that have to be made.

And the last thing, the last idea that I wanted to share on this morning is while I have deep, deep respect for the community of regulators, I being a member of that community, I would urge us to consider that regulators in many instances throughout history have shown themselves to be poor businesspeople, and that we need to give some consideration to the idea that maybe all we need to do is to make some regulatory and legal changes that will provide incentives to or allow the ISOs to engage in unions on their own where these ISOs would seek to find other ISOs with

similar synergies, similar efficiencies, so that the jolt to ratepayers in the end is not so severe.

Again, I will say that my biggest concern with the proposed Northeast RTO is that unless some time is given to there being corrections in the New York market -- and by the way, I don't want to dump on New York. I should say that I grew up in that area and that when I saw those World Trade Centers go down, it was a part of my childhood that went down with it. Because I can remember the ribbon-cutting ceremony, and I can remember the excitement in our area when those buildings went up.

So it's not an issue of New York per se but rather the fact that if we combine, given what PJM has been able to accomplish with regards to generation capacity and efficiencies and proper price signals and many of the things that Glenn Thomas shared on this morning, that the bottom line is PJM folks are going to take a hit. And I cannot in good conscience allow that to go forth.

And so I would seriously consider asking that either we allow ISOs with similar synergies to just combine on their own, or if we are going to make those decisions that we need that record and we need that cost benefit analysis that is going to show us that with the proper transition, that super RTO can work.

I thank you for the opportunity to address this

esteemed body. Thank you.

CHAIRMAN WOOD: Thank you, Chairman Cartagena. Commissioner Irvin?

MR. IRVIN: This is like a microphone we have in Arizona. They don't work.

CHAIRMAN WOOD: Jim, come up to the table here.

MR. IRVIN: It's nice to know there's stuff in the federal government doesn't work too.

CHAIRMAN WOOD: Lowest bid.

MR. IRVIN: Lowest bid? Is that what it is? Leroy, I don't want to get you in trouble. I can do it all myself. Is it still morning?

Good morning again, commissioners. I got some comments. And I kind of want to take this in a different direction than we've been going. I think that the encouraging things I've heard from the states around, we don't necessarily get in the West, and that's we're not the only ones that object to the mandatory or the way that the orders came down in July of this year ordering certain things that without not only due process, but I'm not sure without the full thought. I think the intent might be a good one, but I think what we're missing out on is too much of where we're going.

And let me take back to where this week has gone. I've been here all week, as some of the other commissioners

have been here, and looked from just a Western standpoint, and I'm hearing the same thing from people in the PJM territory and such like that, and one of the biggest issues that has not been addressed, and that's the jurisdictional issue. What is the jurisdiction of the FERC? I'm sorry, of an RTO. Where does it go? Is it intra? Is it inter? Is it both? Is transmission all the way down to the distribution level, or is it just the lines that connect the regional grid that will serve basically the wholesale market that then serves the retail market?

Those distinctions haven't been made. I hear the utilities. Their desire is twofold. One, they obviously have to make a profit. Two is, they would prefer to deal with less regulation. Both are noble goals, and I don't blame them. If I'm a private utility, I would certainly concur with that.

But the states have a far better handle on the individual needs at the state level, at the individual, at the city levels, at the town levels of what the citizens need and what the pains and sufferings are. And I think when we look at this overall incumbent program, we're losing that hometown. Good government has always not been large government. Large government can oversee, but the best government, and we practice it in states -- the FERC Commissioners have also done that on their state level -- is

it goes down. There's certain things that get deferred onto the city and the towns and the county level that the state doesn't want to handle, and there's a reason for that, because they're closer to home and they can answer those problems.

The RTO hasn't answered that. You know, just the issue that was brought up, the gas issue in the West is similar to the electric issue. We have a tremendous sparsity of infrastructure. We don't have it. The same thing goes with the electric. Because the region is, as Commissioner Woods has properly pointed out, the region is absolutely huge. It represents over half of the continental United States, and we're not even throwing in Alaska in this yet, and they're connected in with Canada. Do we bring them into this program? And if we do that, we've got a whole new set of programs.

So I think the first thing that needs -- and what I'd like to do is start offering some solutions to some ideas of where if the RTO is going to be where we're going to go, and we'll make that assumption, then we need to start breaking this thing down and determine what is jurisdictional issues. Is it all the wires, as has been suggested this week? Or is it that which car nets and connects the interconnect to make regional transmission work to bring the power plants on line and connect them with the

distribution companies to serve the needs of the people?

In the West and in the Midwest, we don't have great retail markets. They're not developed. Certainly some of the markets in the East are far better rated, such as we've heard in the PJM area. But we don't have those markets. The closest we had was in California to a a retail market which the California Commission has now basically said nada mas. It's not there. We don't have any.

We've talked about this. We've talked about what are the benefits to consumers. But yet what the consumers in most of the country is contrary to what we as regulators have promised, and that is reliability and that is low cost, partially due to the California debacle, which the current commissioners that are hear from California had nothing to do with. But what they got was, and Carl hit me on that one, so. But what we got is, we got a tremendous scare that the nation saw. We got blackouts, brownouts, and we got absolute huge increases in price. But we also saw those huge increases in price hit the Midwest as well that customers didn't like. We've seen gas spike prices.

Another issue that has to be addressed that hasn't been addressed has been talked about here is we talk about, and the utilities have spoken to you folks here at FERC about the signal the market is going to send out if the proper pricing is put in, and they've got to send that

signal out so then we can build transmission.

The problem is and the reality is, is there is a lag between the price signal and the time that that transmission can be built. And the real fact of the matter is, a price signal and getting that transmission on line are basically not the same thing. They are not going to fly, because it takes years to develop transmission. By the time that price signal says we need another transmission line in this area, and you go through the political process of filing with the FERC, the state levels, the Environmental Protection Acts, the Forest Service, the cities and towns and counties, you're years down the road. What has to be done is what is the function of the RTO, what it boils down to.

And what I would like to see and suggest and what I'm hearing from my colleagues around the country is that we should breaking this down into workshops to address and identify these individual issues. Break these down into workshops. See where we can find synergy, not consensus, but find synergy on a regulatory what is a best method to work that is going to make the regional support -- and I'm not talking about a huge super RTO in the entire Western United States. I'm talking about let's take a look at and see what the Southwest can do, what the Northwest can do what the Midwest can do.

If the RTO works in the Northeast, as many of the commissioners have suggested, that's great. But clearly I've heard the RTO not working in other areas, including the West, because we don't have the necessary assurances and we don't have that definition of what is in fact going to be this RTO. And we're intruding upon states rights.

The other thing that the FERC has to take into consideration, as we heard from Commissioner Ervin, and I can pronounce your name properly, too, Sam, I want you to know that.

MR. ERVIN: And you can spell it. Your spelling is closer to correct than mine.

MR. IRVIN: Yeah, well. What can I say, you know?

MR. ERVIN: We're not as smart.

MR. IRVIN: I'm not a lawyer. Maybe that has something to do with it. But, you know, we've got to address those issues, as the commissioner brought up, as to what assurances is this really going to be a benefit.

The other thing we have to do is look at and determine, as I mentioned yesterday is, is this for the wholesale market or is this for the development of the retail market? Is it for the development of both?

I would suggest that in certain parts of this country, probably the vast majority of this country, we

don't have a system that can handle the retail market. In small pockets we do. But clearly, as we heard from the Commissioner from Delaware, they are concerned just like we are in the West of rural areas of great distances and small loads. But yet we have to provide this vital necessity to Americans because all states have required this and said electricity is a necessity.

We have to look at the issue as maybe as distributive generation and answer instead of building long-term big power plants. We haven't even addressed that issue in there. And that's definitely a role for states to be involved into that.

So this notion, and I think the biggest fear that I have seen from the order that came out and what I'm hearing from my fellow colleagues and what I hear from my fellow Westerners is that this one glove approach fits all is not only scary, but it is wrong and is a formula for defeat and it's a formula for failure. And it might result into a situation maybe as experienced by California due to their lack of experience before they jumped into this, that could face the entire nation, which would result in mass problems not only politically but disruption into the business community, we are certainly trying to bring back.

So I would urge the Commission to break down into workshops. But before they do that, is to give the

direction and the leadership and to put definitive goals as to what is an RTO, what is the structure, what is the control of that RTO? And let's get that settled first before we move on to the other issues of pricing and things of that nature, because we don't know. And until we know what that structure is, what that control is, what the jurisdictional boundaries and rights are going to be of states and such, I don't think we're going to get off of square one on this thing. And I think we're going to end up into court as we've already seen in other massive acts like that.

So I would encourage this Commission to adopt, as my colleague from New Mexico, McMinn, suggested, is that you the Commissioners make an effort. And unfortunately, is to get out to each region, not only to the West, but to each region, because certainly each region is different and unique and unto itself, as each of you are from a unique, different region.

In fact, Mr. Chairman, Texas is a power utility unto itself. They're almost like an independent country the way they have set up, which is totally different than anybody else.

CHAIRMAN WOOD: I should add that Texas is in all three interconnections, though. So I have to deal with these things, too.

MR. IRVIN: That's right. Another problem. But Texas is a unique system. But it is not that we have the same in all other areas.

So I would certainly encourage that to simply exclude or mandate from the federal government, all states are leery about that. And no state is willing to give up jurisdiction. This isn't an issue about commissioners on various state levels worried about keeping jobs. This is an issue of that we represent the people, and when the blank hits the fan, they don't call the federal government, they call their local public utility commissioner. And they're the ones that have to answer questions.

When the governor has a problem, they don't call the FERC. They call their local utility commissioner, and they say, explain this to me.

And so it is from that standpoint that the states are extremely concerned and will not give up their role as a representative to the people just as we have the House of Representatives and the reason that our Congress is set up the way it is, as we have state commissions, county commissions and cities, mayors, et cetera.

So I would urge the FERC to take that into consideration and start breaking this down and moving in that direction so that we can work together to come up with what is the most reliable, cost effective basis. And if it

happens to benefit a utility over another, then those will be worked out. But as haws been pointed here on numerous occasions, this has to benefit the people, the community and the country, not the sole interest of investor-owned utilities or certain transmission companies that want to grow and take care of shareholders. They will be taken care of once we know what the system is. Thank you.

CHAIRMAN WOOD: Thank you, Commissioner Irvin. Chairman Hochstetter from Arkansas. Welcome.

MS. HOCHSTETTER: Thank you, Chairman, commissioners. I appreciate the opportunity to be here with you today. I have the honor of representing the state of Arkansas, which is unique in several respects. And one of those unique features is the fact that although we are a low cost state in the South, we have the tenth lowest retail rates in the country, we do support the development of regional transmission organizations. We support your efforts and furthermore support the cooperative manner in which you are moving forward.

We do think that RTOs are a key to developing competitive wholesale markets, and we think that that's one of the ways that we can keep retail rates low in the state of Arkansas. However, we do feel that there is a need to do it right.

And one of the issues that I wanted to raise

today to just be brief, is the issue of transmission pricing policy. Because of the unique characteristics of Arkansas being close to natural gas sources -- in fact there's many pipelines that traverse our state -- close to water sources. We have cheap land, cheap labor, folks that are just dying for any kind of economic development, there are a lot of merchant plants that are locating in our state. There are approximately 11 that have announced they will build. Six are under construction.

Within a couple of years, we're going to have twice the amount of capacity in our state that our consumers need. So obviously, half of that capacity is going to be exported off system. Our concern is who pays for the upgrades in existing transmission infrastructure, who pays for new lines. And we would hope that you utilize a cost benefit approach to pricing new transmission systems.

In particular in our state, we would have about 350 million to 700 million in incremental annual revenue requirements for our ratepayers out of a total system build requirement on the Energy system of between $2 and $4 billion to accommodate all these new merchant plants on the Entergy system. That translate to about a 6 to 12 percent price increase to our consumers for the exported capacity, the capacity that they will not benefit from.

So to explain to our ratepayers why they're going

to be paying 6 to 12 percent more for exported capacity that they're not benefitting from if we have a rolled in socialized pricing policy is basically impossible. So we would urge you to adopt a pricing policy that does correlate the benefits with the costs and that in fact would be based on the folks that receive the capacity and the folks that build it and receive the revenues from that construction.

So that's the main point I wanted to make today, that the transmission pricing policy is of utmost concern to us and we hope that you bear that into consideration as you move forward and have this done in an economic fashion.

Thank you.

CHAIRMAN WOOD: Thank you, Chairman Hochstetter. Any other commissioners wish to -- yes, sir? Welcome back. Commissioner Meyers from D.C.

MR. MEYERS: Good afternoon. I'm Ed Meyers from D.C. I support the very same process concerns as voiced by Chair Cartagena, Chair Riley, Commissioner McRae. I also support the general concept of a strong RTO. I'm not sure where these voluntary approaches are taking us. I wold like to get some of those reserve margin benefits.

Commission Nugent mentioned some benefits of climatic patterns. We can get those, too, from the southern end of a Northeast region RTO.

I think standardization would help make market

monitoring work more effectively than it could if there were atomized, you might say, ISOs all across America. We could save on administrative costs. And if we do it right, we can lower prices. However, I must say that what I've just given as benefits are all very theoretical.

And as I started off in my statement, I support our process concerns. I think we're pretty much unanimous here this morning and early afternoon in calling for a further adjudicatory process of the FERC with a rational timeframe before we reach any firm decisions. We do need a factual basis for all further actions.

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I see an expanded stakeholder role with expanded standing for the states, however that is worked out. And what I mean by enhanced standing, I mean working with you in the FERC, however you do that, and also among states in working with the emerging and current RTOs.

There should also be a role for consumer groups in this enhanced standing in working with you on this further adjudicatory process.

Somehow or another, ISOs have to be held harmless in this process. And when I say that, I mean not just for the Northeast Region but just looking at that region, the individual components in that region: PJM, New York, New England, all of us have to be held harmless.

I think the concept that you're developing is good enough that the findings of this further study will produce that outcome. And in order to reach that outcome, I join my colleagues in calling for a cost/benefit analysis. We have to have that, and I am seeing encouraging signs that you are going forward with that, and definitely appreciate that.

In the PJM region we have worked real hard to get our pricing systems down. LMP, license plate rates, all those things you've been talking about all week. We have worked hard to get those working for us. Rather than a blended rate which would tend to hurt us, could wipe out a

lot of the benefits of a regional RTO, and we would not like to see that.

As a matter of fact, I join my colleagues in supporting the PJM model generally in this entire platform.

Finally, I would hope that as we go forward we could add a couple other elements into this adjudicatory process and develop ways to lower price volatility for residential ratepayers and small commercial ratepayers. And also in this process to get market monitoring working right.

These are maybe tangential to in some ways what we've been talking about, but really for us to have confidence that what we're doing is the correct course of action we have to get the price volatility for residential ratepayers and the market monitoring systems in place and working well before we can go forward. I thank you for the opportunity.

CHAIRMAN WOOD: Thank you, Ed.

Are we setting someone up over here? Anyone else? I'm sorry, Commissioner Garvey, Minnesota.

MR. GARVEY: Mr. Chairman, thank you.

I am Edward Garvey, Commissioner from Minnesota. Just so you know, the Mall of America is still there the way you left it standing, Mr. Chairman.

My thoughts are very brief. First let me just sort of say the FERC's got to get it done. Just got to get

it done. Those in the upper Midwest, the companies are moving in and out. It's not working. Get it done. Size matters.

In doing that, you've got to respect regional differences. All the regions are different. They have different infrastructures. They have different designs. We've heard a bunch of states talking about that. In deciding what the size is, you need to understand and size them to affect those regional differences, and simultaneously respect the laws of physics and electrical engineering.

At the end of the day, we need to make sure that we understand that what we're really trying to do is make sure that we provide reliable electricity at low and stable prices. RTOs are merely mechanisms for making sure that gets done and done in a way that facilitates the investments in new transmission, new generation, and demand-side management.

When you get those three things done, we will have a much better electric system throughout the country. Those are my thoughts, and I hope that I have not sort of violated my colleagues' sense of righteousness and correctness on how I do things, Commissioner.

CHAIRMAN WOOD: Commissioner Koppendrayer.

MR. KOPPENDRAYER: Chair Wood, Commissioner

Garvey arrived late and he wanted me to make a statement.

CHAIRMAN WOOD: I saw this going on here.

MR. KOPPENDRAYER: As soon as he arrived, I felt much better because he is much more eloquent than I-- although we do disagree on a lot of things.

(Laughter.)

MR. IRVIN: Does he still arm-wrestle with Jessie?

(Laughter.)

CHAIRMAN WOOD: David?

MR. KOPPENDRAYER: I believe I am on this afternoon, so I will reserve my comments for then.

CHAIRMAN WOOD: Commissioner Hadley, welcome back. I believe you were our first panelists, weren't you, the state commissioners panel on Monday morning?

MR. HADLEY: Yes. Thank you, Mr. Chairman, and just to make a few brief remarks, I guess with Commissioner Wood I am one of the individuals that come from a labor background. One of the old labor songs says something to the effect that you can't know where you're going if you don't know where you've been.

I too share the love for this Country and the diversity of it. We have heard so much of it from the table today that our different regions have due different respectful opinions about this very difficult issue and yet

very important one.

From our perspective in the Midwest, this process has been going on six, seven years, I'm not sure. It's been a long process, not one that just came to our attention, in the sense that the issues that have led us to support the effort for an RTO is because of the very problems that we have been experiencing, and that is where we have been.

RTOs for us is not an end. It is simply a means to get to the end. And that end is to settle some of the issues for a reliable, economic, and efficient, and we would add transparent markets in the Midwest that we currently would question if we have.

We have in essence had a vacuum that is not like saying that we have certainty that the PJM has brought. Instead, we have had the uncertainty. So that led us to, for a number of years, make filings just as high in stacks of paper as any other region asking that you do create in the Midwest a large, single, virtual RTO. We think that is critical to solve the problems that we see there.

From a states' rights perspective, there are states in the Midwest that have chosen to use retail competition and choice as their mode of electrical distribution, and in Indiana we have not chosen that. And in Kentucky they have not chosen that.

We are a low-cost state, and yet we have joined

together as a group and feel that these issues need to be addressed and that an independent, transparent process is necessary, and we see the RTO as a way of getting there.

Our customers do call us. And when the wholesale market is not functioning in a transparent manner when data for monitoring a market is not readily available to state commissions because of affiliate transactions or other issues, the concern gets to the very heart of that reliability and that low cost that we would like to maintain.

We supported Commissioner Svanda's comments about a joint process. We look for ways to find that. Details are always the issue, and we look forward to the process.

Thank you for your efforts.

CHAIRMAN WOOD: Thank you, Commissioner Hadley.

Anybody else?

(No response.)

CHAIRMAN WOOD: All right. Do my colleagues want to jump in?

COMMISSIONER BROWNELL: I will start.

Thank you all for being here, those who spoke and those who are here supporting this dialogue. We think this is critically important, and we understand--I think I can speak for all my colleagues--that, while we are transforming our industries we need to transform ourselves.

Almost all of you have suggested that we need to find different kinds of ways to work together. There are a variety of options out there. There is the joint board option, although I heard today a lot of there are very distinct and important regional differences that need to be understood.

There are regional council options.

There are also options I think that speak to Commissioner Hochstetter's concern about very discrete, important issues that we need to deal with, some of which we have been talking about this week, transmission pricing obviously being critical.

But I would like to hear feedback. You have obviously given this thought, for which we are grateful, about how you would like to see this work. And given the constraints similar to the ones that Commissioner Ervin mentioned in terms of state laws prohibiting certain kinds of engagement in dialogue, just some of the thoughts that you have on this.

Maybe out of respect for my favorite president of NARUC, we will start with you, Bill.

MR. NUGENT: Thank you, Commissioner.

I have supported a closer working relationship between the Commission and the States for some time, particularly in testimony on the Hill. I do so because I

1 think we bring some insight, or more precise insight, to
2 what is going on at the local level. And also because I
3 think we bring an additional resource.
4 I think a fair suggestion, and one that you ought
5 to consider, is the one that was advanced by Commissioner
6 Svanda on Monday's testimony to consider the authority
7 apparently available to you in 209(a) or something, which is
8 the idea of a regional board.
9 Short of that, what you might consider is
10 establishing an advisory panel that would be made up of
11 state interests. And its authority, while it would not be
12 as directly--it would not be statutorily based, its
13 authority would arise from the quality of the
14 recommendations they made to you and your affirmation of
15 those, if they met the, in your view, consistency with the
16 national model that you were trying to develop.
17 The local solution as matching a national
18 standard as you would develop it, and repeated affirmation
19 of the recommendations that would come forward from such a
20 group I think would give it the, if not the statutory
21 authority, certainly an authority that would be a de facto
22 one.
23 I am not necessarily an expert in this area, but
24 I think what we are all reaching for is a way to work and to
25 better inform the decisions that you have to make for

difficult and complex decisions.

MR. McMINN: Commissioner Brownell, if I can add something to what Commissioner Nugent has stated, as I mentioned earlier the State of New Mexico has rules in place in regards to the review of any transfer of asset or sale of assets, and as a result of that those concerns come very close to home when we talk about doing what we are doing.

The point that I think that needs to be made here is that we currently have an open docket and a request for information from those participants in the State of New Mexico in regards to RTO issues.

We anticipate receiving the results of those filings on the 26th of this month, and so we haven't really had the communication with our local utilities that we have in place.

I do have to tell you that, you know, Senator Bingaman is championing an energy bill through the Senate. Senator Domenici is also heading up another bill through the Senate. And hopefully they will have something done by the end of this year.

However, we have been told in meetings that we have had on the Hill: Don't anticipate anything because of the other things that are going on until March.

So the concern we have is that issues that we are dealing with here in regards to RTO issues and other issues

that may be part of those energy bills, or proposed in those energy bills, are not going to come to fruition until later in the year.

So I think in regards to the states' rights issue, in regards to determining what the position of our utilities have and our co-ops have in regards to the RTO and the transmission questions, and in regards to the energy bill issues, I think these are items that are going to flesh out the position that we are going to take. But that fleshing that out will not take place until late in the spring of next year, because not everything is going to come to fruition until then in total.

So I think the advisory panel that Commissioner Nugent presented is probably a good first step and at least allows us to begin the communication process that I think that everybody here this morning has alluded to in almost every speaker's remarks. It's been let's have communication.

Personally I had a meeting this morning with some of the people on FERC's tariff team, which again we feel like is a very important part of this process, and we want our people in the State of New Mexico to know who they are, how to contact them, because we think that is where a lot of this is going to fall and a lot of it is going to lie.

Thank you.

MS. McRAE: Commissioner Brownell, you may recall that a few years ago the former Chairman of FERC, Chairman Hoecker, floated a proposal to the various regions asking that we consider a regional reliability organization.

At that time, I was president of MARUC, which is in the Mid-Atlantic Region, and I sought comment from the various jurisdictions in MARUC. And there was a general consensus that this regional reliability organization could be a vehicle to have federal and state dialogue that could be meaningful for all interests.

And I have the proposal, and you probably have it in your files, but I would be more than glad to share it, because it does outline a plan and offers some subject matter.

COMMISSIONER BROWNELL: Thank you. Maybe for the benefit of our colleagues we will get copies made at lunch and just hand them around so everyone has them.

Chairman Riley.

MS. RILEY: I just wanted to add one thing. The Maryland Commission supported that proposal.

But it is not clear to me. Commissioner Nugent mentioned that it would not be part of statute. It is not clear to me why, with all the interest in statutory authority in the Legislature, in the Congress, why RROs or another concept could not be included in that legislation.

In fact, Maryland has supported amendments to legislation that would include some statutory role, particularly on the NERC, that piece of legislation relative to NERC reliability.

If there is a change in assertion of NERC's reliability authority, which we by the way supported FERC being included in that process, we would think that might be a very natural place to talk about states roles, at least in the reliability piece.

CHAIRMAN WOOD: How do the states participate now in the oversight of PJM?

MS. RILEY: There are better people than me to answer that question. We all assign staff. We all are a part of the various operating committees, and I cannot even remember all the committees, and certainly there is a lot, as Commissioner Brownell knows, but we are part of that stakeholder process.

CHAIRMAN WOOD: Is that true in New England, too, Glenn?

MR. ARTHUR: In an advisory role only. There is an advisory committee that we're represented on, but we also have communications and relationships with the board, ISO Board, that we can meet with them periodically. And we have asked them to keep us informed of what they are thinking about so we have an input in that level.

I was going to say that part of our discussions in the Northeast about an RTO for the Northeast was how would we communicate between the states? Who would be responsible for each one of the states and how those people would be selected?

But I think we also had the idea that perhaps that board of directors for ISO or RTO, whatever we are going to call it, would serve also sort of as an arm of FERC so the decision-making process would be decentralized at least to that area. And the decisions that had to be made, that board would make sort of like coming to 205, and then of course it could always come to FERC. But hopefully that board would in fact screen, if you will, and make decisions and take away all the paperwork you have to do, and then the decisions that there were people who had--or disagreed, I'm not saying rights violated, could come forward to FERC.

CHAIRMAN WOOD: I got the sense from--I know a number of you were not here for Commissioner Svanda on Monday morning, but presented on behalf of a big number of Midwestern Commissioners that over MISO and Alliance Utilities, that I guess, not to stick words in his mouth, but they are the kind of things that we state commissioners can do just fine without help, thanks. And then there's some stuff that we need you to come break the ties on.

And I guess I would love to see some more

fleshing out of that kind of thing. Because you're right. I think several of you said: Well, we don't know all the answers. If we did, California wouldn't have happened. If California knew all the answers, they wouldn't--okay, Jim, you said it. All right.

MR. IRVIN: No, I didn't say it--

CHAIRMAN WOOD: All right. Amen.

MR. ARTHUR: I'm not so sure that would be just commissioners on that board, if you will.

CHAIRMAN WOOD: Right. I mean just fleshing out what that kind of regional--because I think the world that we live in, it's either a state or a federal issue--

MR. ARTHUR: Yes.

CHAIRMAN WOOD: --I think the debate we have been trying to have, and I will give my predecessors credit for starting it, we didn't, ya'all were there, there's a regional solution because the laws of physics kind of drive where this commodity goes. It doesn't recognize a state border. But it isn't coast-to-coast, either. There is something in between.

So we are grappling with how to get that done in a way that is efficient; that, you know, captures the benefits of integrated systems so that the customers actually get some at the end of the line.

And I think one of the things I wanted to get out

of this dialogue was: What is the right balance between ya'all and us, recognizing that, barring a change in the law that either gives it all to us or all of ya'all, or creates a third-body by statute directly, there is a statutory hook that Svanda brought up the other day.

There are other things that may not be as tethered to the statute that I think we could still work through. But there is a joint need here to do this together. And rather than spend another eight years talking about we ought to do it, I am really looking for a concrete idea of how that is done.

And then, to address some of the core substantive issues of exactly what is it done over. Is it done over just PJM? Or is it done over the Northeast?

Is it done with the view of just transmission planning and reliability only? Which the model for that is already out West, that they've set that up to be across the whole half of the country.

Do you move in the competitive open access and put that over a large area? Do you keep that segmented into the smaller areas?

Are there any efficiency gains from putting that into one?

I think I have indicated pretty clearly where I think those are, but we are totally committed to working

through the numbers on that and letting the truth fall where it falls.

But there is a need to grasp a model here, and Svanda put one up with the Midwestern folks the other day, and I very much appreciate that and look forward to talking with my colleagues first.

COMMISSIONER MASSEY: If I could make a comment, too, as someone who, I'll confess, I've had a sense of impatience about this for the reason that Commissioner Hadley mentions, which is we have been having regional conferences about this in various parts of the country for literally seven years now. And lots of process. Lots of process.

And I hear many of you saying we need more process, and I am open to that but at some point what we need is a process that ends up at an end point where we can make decisions carrying out our responsibility under the Federal Power Act and not be stymied because there are differences even within regions about--you guys probably couldn't get together regionally and decide what we ought to do.

And so if we wait for consensus, we will never get it. And I feel like I have been--I am just expressing my frustration. Commissioner Riley expressed hers. I will express mine.

I feel like I have been attending regional conferences starting in 1995 on this very subject of grid regionalization beyond the requirements of Order 888 on how to get states together, how to get utilities together.

Commissioner McMinn, I have chaired conferences in Phoenix five years ago on this subject. And so I just feel like our processes continue and continue and continue, and I have a sense of frustration about that.

And what I would like to do is come up, if we need more process, fine. If we need more input, fine. But I would like to come up with a process that ultimately has an end point where we can make the decisions that need to be made to carry out our solemn statutory responsibility in the public interest under the Federal Power Act, which gives us responsibility for wholesale trades and transmission.

And we could disagree about how far a transmission jurisdiction goes, but now that is our jurisdiction.

I am expressing a sense of frustration to you. I have heard a lot of your frustrations. Now I will give you mine.

We have been talking about this for seven years, and how do we get to an end point where we can make the decisions that need to be made to create these vibrant markets while respecting state responsibilities? That is

the pathway we need to focus on.

COMMISSIONER BREATHITT: I am very pleased that all of you have come here at your time and at your expense to discuss with us your thoughts and concerns, and to hear ours, and you are beginning to do that now.

From your comments I have heard common themes, as Commissioner Brownell has stated, and chief among what I heard are: Show us the benefits. And give us a greater voice.

I hear you. And our work is cut out for us if we are truly listening. I can tell you that I am. How we move forward, though, next with you is going to be very important because I have heard a great level of frustration from you today. And it is important because this next set of moves on the chess board are very critical. And if we are not careful, there could be a stalemate.

We need a win, and we need to make it together. And when I say "we," I am talking about the States, the Country, the state commissioners, the consumers, the FERC Commissioners, the industry, we all need to have a win together.

Because as Bill very eloquently said, we have been doing this now for a number of years. And you come and go. A lot of you weren't here seven years ago, and you have a responsibility currently with your present day jobs to

have a seat at the table and get up to speed and respond to your consumers and your constituencies when you--because a lot of you are elected--but I think that ways that we can do that are to recognize and honor regional differences in RTO designs.

I think we do need to do a better job of our cost/benefit analysis. We had I thought a very eloquent preamble in Order 2000, but that is not easily translated to consumers.

We explained benefits in that, but they may be too theoretical. So we may be--we do need to do a better job of explaining our cost/benefit analysis.

And we also need to see that cost shifts are at a bare minimum and, where they do occur, we need to more carefully explain why we can't--why there has to be some cost shifting. It may be because a congestion management system is expensive to implement, but we need to have the congestion management system.

It may be because software programs, or increased transmission for reliability is expensive.

So I think we do need to explain better when cost shifting occurs, and why it is there, but keep it to a bare minimum.

And we need to help find ways for low-cost states to see benefits and have benefits, but we need you to help

us with the cost/benefit analysis, too, because you are there with the retail piece. And I think that needs to also be factored in.

I think that we can work cooperatively with you. I think we can do a better job of that. And I would like to thank Chairman Wood. He had asked us to clear our calendars about three weeks ago, and we all cancelled courtesy visits, we cancelled speeches, and we added this panel to the week of discussion.

So I hope that you understand that this is important to us. And as one of the Commissioners over here said--I think it was you, Commissioner Arthur, you found it somewhat remarkable that we have been here all four days so far. And I truly am happy that you have flown in today. And I think that there are ways to get over the next hurdle together.

CHAIRMAN WOOD: Commissioner McRae?

MS. McRAE: Yes. I will not belabor this point, Chairman Wood, but I think it is important to mention, in recognition of Commissioner Massey's frustration and my interest in the process, the fact that many of the questions that are on the table now are the same questions that were being bantered about five and six years ago when I came on the Delaware Commission.

And I would say a piece of the issue here is not

addressing the question. Perhaps the states can go a step further in making clear what their needs are, but also I think there has to be some very clear messages on what the vision of FERC is.

And I recall--and I was trying to find out why not PJM, why do we need a super RTO, it was because this is the way to go, and we need open markets, and it seems those same questions are revisiting us again.

And I guess that is why I am very concerned about us working together to establish some process that answers questions and solves problems, so that five years ahead of us we are not having this same conversation.

CHAIRMAN WOOD: Can I ask a follow-on to that, Commissioner McRae?

MS. McRAE: Certainly.

CHAIRMAN WOOD: It was one that struck me in your initial remarks that we sat here my first, second week on the Commission, June the 19th, in a room like this. There were a number of people from different segments of the industry talking about something called seams. It was actually an idea Linda had told me about before I was sworn in here that was of concern to her, and certainly made sense that it should be of concern to me, that you've got abutting regions, particularly in the Northeast where they are the most developed, that kind of like speak in Spanish and

Portuguese. They get along pretty good, but some things are missed in the translation.

And we got a pretty good read from a number of participants on that panel on something called an MOU that was between--

MS. McRAE: Right.

CHAIRMAN WOOD: --the three Northeastern Commissions. And I think with maybe the exception of the one participant, there was a pretty uniform Bronx cheer, I guess, about the progress that was not being made in that voluntary coming together.

MS. McRAE: Um-hmm. True.

CHAIRMAN WOOD: And I just kind of wondered where the states were in that process, and kind of how you differentiate what was going on there or not going on there with the Commission trying to kind of speed the process.

MS. McRAE: Well I will respond directly, and I do believe Maryland has also a perspective. The MOU process certainly had its glitches, and it may be that it would have been in the interests of the states to come to FERC at that time and ask for help in establishing specificity and guidelines.

This is not to say that we meant throw the baby out with the bathwater. There were--because of this marriage that I heard referred to, sometimes the partnership

doesn't work as well and needs some tweaking, or it may need some leverage, a stronger hand that can say: These are the rules. This is the standard. And then we move on from there.

We never got to that process. I guess we still made it, that was construed as, oh, well, we better go on to this next extreme response of establishing a hurried Northeast RTO without considering some interim measures that might have broken the impasse.

And if you will recall, in our request for rehearing one of the points that Delaware made was the fact that there were interim measures that could possibly have yielded a better result than what were looked at even this time with the collision around whether we have a Northeast RTO or not. Is it cost justified, and whatnot.

So that is basically Delaware's response there.

MS. RILEY: If I might, just very briefly?

CHAIRMAN WOOD: Chairman Riley.

MS. RILEY: I have been on the Maryland Commission since July of '99, and been Chairman since November. I am aware of in the two years and some months of very little conversation regarding this MOU.

We were in the middle of electric restructuring. We weren't even hearing telephone cases. I mean we were just swamped.

In June, one of the great folks who works for the Maryland Commission required me to go to Boston and Logan Airport to some meeting. And I sat in that meeting and heard discussions about seams' issues that enlightened me no end, infuriated me somewhat, but I was really glad I went. And I read that you attributed part of this decision to what you learned on June 19th.

I think the interim piece, as Commissioner McRae just pointed out, had you all turned to us after that June 19th meeting as state commissions and said: What are you guys doing with this MOU? Why aren't you more aggressively or actively involved?

You may have done that, or FERC may have done that with some of the commissions. I am not aware at least of Maryland being asked to give it additional attention.

And the fact that you all felt some need to move forward quickly, and I respect your frustrations, Commissioner, I don't object with. I mean I think there is some urgency to resolving some of these problems.

I think it is the way it was done. I mean I think you have heard us all say that. In the end, if resolving the seams' issues--and there are people who believe that is what has to happen, no matter whether there is a Super ITO or not--if those things can be done, if you guys can with our help arrive at decisions

that are not consensus-oriented but are real decisions based on real facts, then I for one, and I think the Maryland Commission, would be very happy and willing to work with it.

CHAIRMAN WOOD: Can I just throw a hypothetical, Chairman Riley? Is it to resolve the seams' issue clearly the great big RTO was kind of a blown instrument?

One of the themes of this week is, you know, I don't know if I have characterized it as an alternative way of getting there, but we are looking at the discrete issues of market design, what could be standardized, certainly what could be regionalized, to address everything from, well, you've seen our agenda for the week, is one route better than the other?

MS. RILEY: I can just tell you, Commissioner, what I sent you a letter two weeks ago I guess in response to a fax, and I was very hesitant to come today. I came only today when I was assured I could say what I had to say.

And the reason, frankly, is that you announced at your first meeting as Chairman that you were going to reach a decision on November the whatever that there has got to be four RTOs.

Now if you are backing off of that, or at least delaying that until this process and this week's efforts

play out in some process that you would like to see happen, and make the States part of that, then I think there is a different outcome.

But if after today you still are going to announce November the whatever that there will be four super RTOs and that on December 15th, if the IOUs aren't players then they violate or potentially lose--then I don't know why we are here.

And I frankly came because I am hopeful that that is not what you intended and that you really do intend to build the bridges that need to be built.

MR. NUGENT: Mr. Chairman--

CHAIRMAN WOOD: Let me address that, please, because it is important.

What I said that we would do in scheduling for November 7th is take up the issues--and I think Commissioner McRae mentioned there was a petition for rehearing from her State as well as the one you wrote--that all those issues would be actually discussed next week by the Commission and taken up in some form of finality on November 7th.

There are a lot of ways we can go. This debate informs me greatly, and I appreciate your frankness and that of all the rest of the table here.

We have got the Northeast, the Southeast, the

Midwest, three very different flavors. I personally indicated my preference that we not rush on the West at our last open meeting, or maybe the one before that.

So, you know, the number four is officially gone, if it ever was officially here. But, you know, my core interest is getting to a seamless national energy market that delivers benefits to customers. That is what my whole career has been about since I was a staff person here. And in the last ten years of my life back home in Texas doing the same thing.

I know it is what a lot of you took the job for, and why you list your number in the phone book, as I do, because people sometime actually have to give you an earful of what they think. But that is what we are here for.

I know there can be some legitimate differences about whether competition as a concept ought to even be on the table. I view that Congress in '92 kind of made that decision at least in part for us that we have got to take that as a given and go from there.

I happen to think in my experience that that is the right decision that Congress made, but we do have a statutory duty to move forward with wholesale bulk power markets.

I would add to that, that deliver benefits to

customers. And I think in working together we can get there. We can take as much time as we need to do that. I have not been here as long as my colleague to the left to have a sense of frustration about it.

I have the natural impatience of youth--although I am getting a few gray ones today--

(Laughter.)

CHAIRMAN WOOD: --but I am used to this format. This is the format that I loved, and I am glad that everybody is pleased and surprised but I hope you all get used to it because this is how you make good decisions, I think.

In a multilateral industry that we deal with, it is coming in with some opinions and being willing to change your mind if you hear a better one. I hope that you feel I am that person, and I am lucky to be with three people who I can vouch for you are open-minded to what is the right outcome.

But I think we are committed to getting to an outcome. And so I want to hopefully impart a sense of thoughtful but urgent progress to you all and ask for your extended hand as we go there.

I want us to have time to interact on a little bit different format so we can get to know each other better. We have arranged for lunch for our commissioner

colleagues and my colleagues upstairs on the 10th floor at the far east end of the building, and would encourage you all to come up there now. And state staff, as well. Folks who are joining you all, please encourage them to come.

Chairman Nugent?

MR. NUGENT: Mr. Chairman, I would like to thank you for the forum that you offered here today. I think a lot of people felt very deeply about the range of views that you heard here today, and we appreciate your openness and willingness to listen. And we look forward to doing that in the future.

Thank you.

CHAIRMAN WOOD: Great. We will reconvene at two o'clock for our afternoon panel. Again, it is in Room 10A7.

(Whereupon, at 12:45 p.m., the meeting was recessed, to reconvene at 2:15 p.m., this same day.)

AFTERNOON SESSION

(2:15 p.m.)

MR. CANNON: Good afternoon, everybody. I'm Shelton Cannon. I think we have recovered from this morning and ready to figure out exactly how to move forward with the states on all these good RTO issues. But this afternoon we're going to roll up our sleeves and get down into some of the nitty gritty of what does it mean to standardize some of these market practices, business practices and others.

We've got a very good panel. With us this afternoon we have Sarah Barpoulis, who is a Senior Vice President with PG&E National Energy Group. Welcome. We've got William Boswell, the Chairman, Board of Directors of GISB. We have William F. Burks, the Associate General Manager of Electric Systems with the City Utilities of Springfield, Missouri. Welcome. Our used to be our very own David Cook who has gone as General Counsel with the North American Electric Reliability Counsel. The Honorable LeRoy Koppendrayer, the Commissioner with the Minnesota Public Utilities Commission. Welcome. Michael Kormos, General Manager of System Operations with PJM Interconnection. And last but not least, Marty Mennes, Vice President of Transmission, Operations and Planning with Florida Power & Light Company.

If I could I'd like to get Marv Rosenberg of our

Staff to kind of frame some of the issues we'd like to structure the discussion around this afternoon. As I've told other panels, this is going to be very free form. We want to just try to keep it conversational.

Once Marv finishes sort of framing the issues, we'll open it up for short opening statements, as short as we can. Maybe we can actually get out of here a little bit early this afternoon, although we've tended to go the entire three hours each time. So with that, Marv?

MR. ROSENBERG: Good afternoon. One of the Commission's goals is a seamless national marketplace for power. Most of the preceding panels have discussed the standards needed to attain this goal. For the most part, the discussions have been on a high level, such as whether there should be a standard congestion management design, and if so, what should the standard be. We've heard many times that the details will be what makes the standards work or fail. Well, this afternoon, we're here to talk about the details.

Once the decisions on standards at high levels are made, business practices and communication standards will be needed to implement them. Once the Commission has made policy decisions and determined the high level of standards, in the past, the Commission has generally relied on industry participants to develop the needed business

practices and communication standards. This has been a successful process, and with only a few exceptions, the Commission has required compliance with the standards that have been developed by the industry.

We followed this model for about 10 years in the natural gas pipeline industry and about five years in the electric industry. And now we're faced with developing standards for RTOs. Some of the questions and issues for the panel are:

What are the business practices and communications standards that are need to attain our goal?

What standards are needed before RTOs are designed?

How long will it take to develop the standards?

Actually the Commission started developing the business practice standards a while ago. In June of 2000, the Commission issued an Advanced Notice of Proposed Rulemaking asking the industry to develop business practice and communications standards to address the seams issues of scheduling power and reserving transmission rights for power that moves across RTO boundaries.

In response, the industry formed the Electronic Scheduling Collaborative. We recently received a report from the Collaborative describing the standards they developed. Mike Kormos, who is on the panel today, is

chairman of the ESC and can tell us about what the ESC has done and what it believes still needs to be done.

Another question is, who should develop the standards? Both GISB and NERC appear willing to fill this role. Last month GISB voted to become the Energy Industry Standards Board which would develop business practices for both retail and wholesale segments of the pipeline -- I'm sorry, of the gas and electric industries. And earlier this week the NERC Board voted to reinvent NERC to develop business practice standards as well as reliability standards. Bill Boswell and David Cook can tell us what's happening there.

And a final question is, how do business practice and reliability come together?

MR. CANNON: Thank you, Mark. Why don't we start with Sarah, and short opening statement.

MS. BARPOULIS: Mr. Chairman, commissioners, good afternoon. My name is Sarah Barpoulis and I'm the Senior Vice President of Commercial Operations and Trading at PG&E's National Energy Group up in Bethesda. Our business interests span interstate pipelines, IPPs, merchant generation, and all facets of the commodity trading within the energy sector.

The NEG is currently active in all of the developing RTOs and operating markets and have been for some

time. In fact, a few years ago I was the first chair of the PJM Members Committee which grappled with issues. As Mike will probably remember, maybe not too fondly, of having access to the hourly market for all participants, which we didn't have at the time. So it seems like we've come a long way in a short period of time.

My objective today is essentially to provide some commercial perspective to the questions. I am a user of the markets, not a designer or an implementor. In that light, my interest and my role in overseeing the trading operations is to ensure that there is a robust, reliable, competitive market that has some longevity.

To this end, I believe it's beneficial that for all stakeholders that the market designs promote and facilitate effective risk management. I want to go back and just hit on the longevity again, because I think it's worth noting. We're in a relatively cyclical, highly volatile, capital intensive industry and I don't believe that any market or any market participant is likely to survive long term without employing some type of risk management.

To implement risk management tools, we generally look for markets which provide a substantial degree of consistency and certainty. And obviously, standardize goes a long way to supporting both of those criteria. So you'll hear a lot from me today on both consistency and certainty.

Let me say at the outset that the NEG fully endorses the Commission's efforts at this point to create four or five, including ERCOT, large RTOs as a way of achieving what we originally set out to do in 888, 89 and now 2000, and as ways of improving and enhancing our risk management tool sets.

We also support the Commission's effort to expedite the conclusion or the implementation of these RTOs. We believe that we need to complete the transition to a fully competitive market in order for the stakeholders to both identify the risks that they hold, because that's been an issue heretofore, as well as being to manage them.

Lastly, as much as I don't like to admit it on the trading floor, markets often respond to perception and rumor, not fact. And to this end, we believe it's of paramount importance that any market design stress the independence of the transmission owner and the market operator and any elements of the market design be applied to all of the market participants.

So with respect to today's topics, and it's not surprising that I would be a larger supporter of standardize of the elements in Order 2000. And while I'm sure we're going to discuss a lot of the details on the panel, when I think about standardization, I break it into three buckets: National standardization or international, across RTO at any

rate; within an RTO; and then an element of standardization where the mechanics may be standardized but the outcome may not.

And so an example of the first might be real time balancing, congestion management using LMP. An example of the second type of standardization might be forward markets for transmission rights where, while we have a preference for financial rights, we could foresee RTOs that are side-by-side having either firm point-to-point of flowgate mechanics, and perhaps both within the same RTO if it didn't become overly burdensome.

And lastly, an example of the third bucket might be something like reserve margins whereby we'd be interested in seeing them calculated consistently, but the targets might themselves be different in different regions due to the different resources in the area.

So to us, standardization is desirable to the maximum extent possible but across regions largely I think due to our desire to implement them somewhat rapidly. And also, we don't know the right answers in some of the specific products at this point.

So far I've dwelled a little bit on consistency. Let me just go back and touch on certainty. Certainty is of great importance to anybody that's attempting to manage risk. To ensure we have certainty, we're an advocate, I

already mentioned of the independence and also of applying the market standards to all participants. But also we look to an end state where the RTO is the central intersection of reliability, market design and business practice standards. And I think that this end state has the greatest probability of resulting in a market that will produce accurate transparent price signals, which is ultimately what will enable us to manage our risk.

Thank you for inviting me to participate today.

MR. CANNON: Thank you, Sarah. Mr. Boswell?

MR. BOSWELL: Thank you. You all got pretty well beat up this morning. So I thought I would treat you to three quotes from Winston Churchill. Churchill first said it is better to have an ambitious plan than none at all. He also said it's one thing to see the forward path and another to be able to take it. And then he told a story about the celebrated tale of the man who gave who gave the powder to the bear. He mixed the powder with the greatest care, making sure that not only the ingredients but the proportions were absolutely correct. He rolled it up in a large paper spill and was about to blow it down the bear's throat, but the bear blew first.

(Laughter.)

MR. BOSWELL: I think it's very good that you're approaching this particular bear in the way that you are,

because frankly, if you don't do it, no one will. And as we have learned at GISB over the past seven years, sometimes the idea of doing a thing is more frightening than the actuality itself. Given what NERC did a couple of days ago at least with their press release, I would also say that we're flattered that so many people think electricity business standards are a good idea.

We think that considering the industry, we've made a lot of progress over the past two years since GISB itself was first approached about entertaining the notion of becoming a broader organization than it is. I think the question now is no longer if but how and who with respect to the electricity industry going forward. And I would say the "who" is really the electricity industry working in conjunction with the FERC.

What GISB brings to the table is a template and a process, and we can be a home and one that's ANSI accredited, by the way, as of last week, and one I think that people trust. But regardless of whether it's us or someone else, I think there are some things that are critical to making sure that a standards organization works, and this we have learned over the past seven years and 500 standards, each of which you all have adopted as FERC standards. That is, you have to be willing to take as many people into the process of deciding these things as you

possibly can to give them a voice, to give them time to consider what it is you might want to do. And ultimately what you have to do is build trust.

I think when you build trust, the following things are necessary. First, any organization that does this has to be independent. It doesn't mean you can't have the sort of public-private partnership that we have with the FERC right now, but you basically have to be independent.

You have to be open. It has to be voluntary. There's been a big debate about voluntary versus mandatory standards. In my opinion, every standard is a voluntary standards unless someone who has the authority to say so says otherwise. That said, we've also found over the years that voluntary standards if they're followed by everyone within the industry become for all practical purposes mandatory because they make sense, not because someone has told them what to do or how to do it.

We also think there has to be a balance of interests. There has to be inclusivity. It has to be consensus based. I do not mean by that lowest common denominator, but rather that a large number of people believe that it makes sense before it's done at all.

We also think that this organization, if there is to be one, should not have an advocacy role. Rather, it should develop practices and not policy. It should be

membership driven, not staff driven. And that if it does all of those things, over time, people will trust it. And if people trust it, then it can accomplish its goals.

Nothing that GISB has done over the past seven years that I've been involved in the organization has come easily. But over time, as we have become accustomed to one another, recognizing that we all went into the room initially with a great deal of suspicion, but as that trust has been built up, we have found that we can accomplish a great many more things than we ever thought we could do when we started out doing it in the first place. And it is much easier to do things now and we can do things much more efficiency and much faster now than we ever could when we started.

And I think the marketplace is better for it. I think we have the sort of transparency that I would hope could be brought to the electricity industry, maybe in a slightly different way. But I'm happy that we've been invited to talk today about how we do what we do. I look forward to participating as a member of this panel, and I've got 12 seconds left, so I'll pass to my left.

MR. CANNON: Thank you. Mr. Burks?

MR. BURKS: Thank you. My name is Bill Burks and I'm with City Utilities of Springfield, Missouri. City Utilities is the largest municipality in the state of

Missouri with approximately 100,000 retail customers. We're both a transmission-dependent utility as well as a transmission-owning utility with transmission facilities up to and including 345 kV.

Our mission is considerably different than many of the panelists you've heard from this week. Ours is one that's pretty simple. It's to provide highly reliable electrical energy to our customers at the lowest possible price. We wholeheartedly support this Commission's state of go of creating a seamless national power marketplace and the chairman's recognition that a purely voluntary approach simply won't get us there.

Missouri has been a border state in many issues. We were a border state in the Civil War. We continue to be a border state in this issue as well. We find ourselves with the SPP, a region as we are a member of the SPP. The SWPA, Southwest Power Administration, who is our control area operator, Kansas City Power and Light and Empire District Electric are also members of the SPP. Also in Missouri we have the Midwest ISO whose members are Utilicore (phonetic) from MOPUB (phonetic). We also have the Alliance. When Amron (phonetic) made the switch from MISO to Alliance, they're a factor in our area. And we have one of the biggest transmission owners in the state of Missouri is AECI. And quite frankly, I'm not sure who AECI is

associated with, if anyone right now.

We have the issue of the Midwest ISO and SPP merger and where that's headed. We have the issue of the Alliance and what's going on there. Entergy, where we trade at the Entergy hub on an ongoing basis and at least it's our understanding that Entergy is moving into the Southeast RTO or at least leaning in that direction.

I want to back up and mention briefly that we as a transmission owner member of SPP, we have worked hard to help move SPP into the RTO world. That has allowed Springfield's participation in that, in that we have our own pricing zone and the SPP governance issue as well. We feel that whatever the outcome of the musical chairs with people bouncing, different organizations bouncing back and forth, that the way it looks to us right now that Missouri will continue to be a seams issue or continue to be a border state if you will.

That brings me to a point of concern that I have or I guess actually better stated, the fear that I have over some of the comments that I've heard over these last several days of these meetings, and in particularly yesterday morning. I continue hearing people talk about the need for standardization and that we're all for standardization, but my standardization needs to be unique. I need a lot of flexibility, and I need my own special standardization.

I hear that same thing back home all the time when we try to improve the way we provide customer service. And quite honestly, I just don't buy that. I guess I would say that flexible standardization just simply won't work. I don't think flexible standardization will any more work than a voluntary mandate will work. And I think we've all seen how well that has not worked. And I would submit to you I think flexible standardization is pretty much the same thing.

To me it makes no sense to toss out the window a good standardized pro forma tariff which is an essential building block to a seamless marketplace. For this Commission to merely set general principles if you will with tariffs to be negotiated by each RTO, or even worse, each ITC, just simply will not get the marketplace -- will not get the benefit to the end consumer that they need. We need to build a platform of standardized tariffs and move towards standardized markets and business practices.

I feel certain that the vast majority of the players in the marketplace want and need this so we can move forward and invest in generation and transmission that this country dearly, dearly needs.

The letting a thousand flowers bloom concept sounds great, but it just won't get us where we need to be. I applaud your efforts this week. I know it's been a long

week for you all and you've still got a day-and-a-half left, but I think you're right on target with seeking input from different market segments working hard to create a partnership with the state commissioners. Hopefully at the end of this process this week that you'll move forward with this effort and give us the necessary direction that we need.

My personal desire is that out of this that you all take a tough stand. And in my area of the Midwest that you come away with one RTO that serves the whole needs of the whole region, and that you set the framework in place that would make it desirable for all market participants to participate and to join in that RTO whether they're jurisdiction or whether they're not shouldn't make any difference, and that we adhere to standardized tariffs and make the hard calls necessary to have broader standardization of market and business practices.

I think there will need to be exceptions, but I think if we start off with a standardized platform, let those RTOs who are seeking those exemptions come back to this Commission, have the burden or proof of why they should be granted that exemption from the standard, and to make certain that in that granting of that exemption, that there will be no loss in efficiency due to that exemption and that the end user, the consumer, will not be harmed by that

exemption.

And the last point that I'd like to make that I think is vital is the information portion of it. We strongly support the fullest possible disclosures of information to the public. Markets thrive on information. Open access to information benefits all, especially the end consumer, and the unequal access to information benefits a select few and certainly invites gaming. And I would like to just say thank you for inviting Springfield to join in this very important dialogue.

MR. CANNON: Thank you. Appreciate the specific sort of pathway of how to get there. That's very useful. David?

MR. COOK: Thank you, Shelton. Mr. Chairman, commissioners and my former colleagues. Thank you very much for the opportunity to participate in this discussion this afternoon. I want to report to you a series of decisions that NERC's Board of Trustees has made earlier this week.

Most importantly, for purposes of this afternoon's discussion, the North American Electric Reliability Council at the very strong urging of its Electricity Industry Stakeholders Committee, has decided to take all necessary steps to become the single organization to develop both reliability and electric wholesale business practice standards. We will do so using a fair, open,

balanced and inclusive process.

There are some significant organization changes that go along with that decision. The Board of Trustees has adopted a new standards development process that changes the voting model that we use for our standards. We have three standing committees. Heretofore, the Operating Committee voted on operating standards, the Planning Committee voted on planning standards, the Market Interface Committee provided advice and comment to both of those. In the new model, all three standing committees jointly form the balloting pool for all of the standards.

We've immediately added two representatives, ISO/RTO representatives to each of the three standing committees. And the Board has directed the organization to move as expeditiously as possible by no later than January 15 of 2002 to adopt a sector-based weighted voting model that our Stakeholders Committee has developed. It was modeled after the PJM voting model.

Finally, for purposes of this afternoon's discussion, I want to commend to you the work that has been done by the Electronic Scheduling Collaborative. You'll hear more about that from Mike Kormos. They filed a status report with you on October 5th. That group has been working diligently with a very balanced, broad-based group since issuance of your Advance Notice of Proposed Rulemaking on

Electronic Scheduling in July last year. They have prepared an important body of work.

Their status report I think outlines the direction you need to go on standards, developing, depending on the pace at which you want to go. I think there are various procedural options that you have. And we can talk about those this afternoon. But there's a significant body of work there that you ought to make use of.

Thanks very much.

MR. CANNON: Thanks, David. Commissioner Koppendrayer?

MR. KOPPENDRAYER: Thank you, and thank you for letting me participate this afternoon. I listened this morning and most of the commissioners that were here this morning are over a period of four years of meeting have become friends of mine and so they were brutally honest when I asked them at noon why I was on this afternoon, and they said it was to make everyone else at the table look really good.

(Laughter.)

MR. KOPPENDRAYER: So they chose me. I just -- the idiosyncracies of the standards and how they will turn out will be something for us as commissioners to participate in and watch the experts present their case to us. But since I have this opportunity to talk to the first

commissioners, I'd like to offer a thought there. That is, that this is a huge issue. It's going to determine how the market in electricity will work in the future, and it's an issue that's going to take really, really strong leadership.

But strong leaders are willing to admit they're vulnerable and willing to admit when a call wasn't right and to change that call. And it's going to take that as well. We don't know all the answers. You don't know the answers. But we'll work at it together and admit to each other when we were wrong.

But it also takes the leadership like yourselves to set the policies first. If the policy and the policy goals are clear, then the standards can be worked out over time. We shouldn't work too hard on standards before the policies are clearly delineated and agreed to to whatever extent that's possible.

And my friends and colleagues also know that I'm a proponent of the marketplace, an outspoken proponent of the marketplace. And being that, I would caution that too many standards and too rigid a standards inhibit the market. And we in government and as policymakers often feel we're mandated to make everything fair. Fair to the consumer. And we're caught in that paradox that a marketplace is not in and of itself a fair system.

So we have to -- however, having said that, the

market is the best thing I know, the best economic system I know of, of driving price as close to cost as possible. So when we go about this whole process of setting standards, I'm reminded in listening to the discussion I have done a lot of traveling in my life, and I went first as an agriculture consultant and then later on to the Ukraine to talk to them about privatizing their transmission system. And I keep hearing this one fellow who was in charge of the committee from the Ukraine who was a former Communist boss saying, he was pounding the table like they used to do, he said, "Not too many rules. The market will work." And I wanted to say come home with me and talk to some of our folks.

(Laughter.)

MR. KOPPENDRAYER: But I think we have to allow a flexible process. And I just in closing I want to offer this one comment that was offered to me by someone in the industry that I called and said what would you say to FERC if you were me? And that was, in the Midwest, you've heard the Midwest referred to quite often, how about thinking about this? And that is, as we go forward in setting standards and defining the policy, we have as you are very familiar with, the Rock Conference. It's a multistate collaborative in which the states get together to work out the systems and the standards that we're going to live by in

the future.

And maybe in going forward we have to think about something like this within the RTO as it becomes defined to have a multistate collaborative to work out the standards amongst themselves with the advice and the policy goals that you set forth.

Thank you, and I'll listen.

MR. CANNON: Thank you, Commissioner. Mike?

MR. KORMOS: Thank you and good afternoon. I'm Mike Kormos, General Manager of Operations for PJM. And as already mentioned, in my spare time I've had the pleasure and the pain of being the Chairman of the Electronic Scheduling Collaborative. And the Electronic Scheduling Collaborative has been for the last year looking to set the business standards for electronic scheduling in response to NOPR. And we did issue the report. And I guess there's a couple of lessons learned I'd like to initially at least share with you from at least my experience in the last year with this group.

Early on in the process we, in early 2001, invited all the proposed RTOs to a meeting of the ESC out West to basically discuss with us how their RTOs were going to operate, particularly the eight functions listed in FERC 2000. And what we found from the 15 RTOs that were there is, we actually had more than 15 different ways of doing it,

because some couldn't make up their mind and were proposing more than one way in certain areas. And that became a very big issue for us and we struggled with that.

And I have to be honest with you, I think it's been a ball and chain on the group's work to date in that it's been very difficult in trying to set business standards, day to day, how you do business, when the market designs can be very inconsistent and in some cases were just not even know. And they were unsure. It's very hard then to drive consensus in a group like that.

The two recommendations I think we made in our report that I hope the Commission would consider is one, we did feel there needs to be some policy decisions made in certain areas. There really needs to be more guidance given to the "how". And again, they go back very closely to the eight in Order 2000, and I'll quickly go through them.

We looked at congestion management, transmission service, whether it's physical contract, whether it's covered or uncovered; grandfathered service; the energy imbalance markets; ancillary services; loses; and then how nonjurisdictional fit into the RTO, so to speak. And I really think what needs to be done is we need to give further definition. It's okay to say you need an energy imbalance market, but I can tell you, there is at least 15 different ways to do that. And without further guidance as

to actually how that energy imbalance market should run, what should be the characteristics of it, what is the basic philosophy behind it, it will be difficult for any group to set then business standards regarding that.

So I would encourage you to look at those areas and where you can provide guidance, suggest that you may want to do that.

The second is then if that guidance is given as to how we can resolve those issues, really there does need to be a formal organization structure to then go about setting business standards, and that was our second recommendation. A group like ours was limited in that we did not have a formal governance, we did not have a formal voting. It was open meetings, one vote, on person. And that works well to build consensus, but I don't think it works very well to set business standards.

So our suggestion, again at the end of our report was that you do support and back and organization. We did not make a recommendation as to which organization, and there are a couple of candidates out there, but that you look at the voting structure on those groups and make sure it's equal representation and that you support it and ultimately backstop that. I think that would go a long way towards then helping the industry then driving out standards for the various things above and beyond electronic

scheduling.

So I look forward to hopefully answering any other questions you have.

MR. CANNON: Thanks, Michael. Marty?

MR. MENNES: Thank you. This seems like a very timely discussion compared to at least this morning. I think you hit the nail right on the head with a lot of us that have been working in industry, because today looking at standards is extremely timely, especially in regards to NERC board action and other activities going on in the business.

I feel that standards are very important in the market, but on the other hand, standards should not serve the market and not lead it. Commissioner Koppendrayer, it must be a short walk between Miami and Minnesota, because I think you really hit the nail on the head. I also feel that standards established today should not become tomorrow's obstacles for creativity and innovation.

And there are times, though, that the Commission does need to focus on a vision, and there are some times that this vision needs to come down and we need to set standards. And I think the big point there is, is when you take the product physical. When you actually have an electrical product, after you've addressed all the business practices, you need a market interface and you need some reliability standards. Those standards in order to keep the

lights on must exist. You need both reliability standards and commercial practices type standards.

I don't think you need standardization everywhere. I was involved with an industry practices group years ago, a commercial practices working group which has evolved essentially into what we now call the Market Interface Working Group, and I've done much work with NERC and Grid Florida. And I think the overall atmosphere is, once the goals are set that will give you the product, whether it's a region-by-region standards or what have you, I think basically once a vision is set, I think you can have national standards, especially when it addresses reliability and keeping lights on and how commercial practices work. But you also need to let those standards be addressed region by region.

And there are many regions in many areas that these standards would be stricter than they would be, or be enforced different than they would be on a larger nation, just because the geographical type of -- we talked this morning. I heard Delaware and others talk about peninsulas. Florida is a peninsula. I think when you get into some of those type of regions, you need to have a national standard above them, but there would be a region-to-region implementation or changes.

I think also that the objectives when it comes to

standardization should be able to look at the present organizations we have in place, the physical plant we have in place, and the people that we have in place, and allow the industry to find ways to go ahead and implement some of these standards with all this existing infrastructure.

As time goes on and as RTOs get larger and larger, to keep the lights on for reliability purposes, I think that we're going to find an industry -- and again, it's going to need a lot of collaborative process, a lot of work -- but the control area system we have right now, whether it be a muni or a co-op or an IOU, has a lot of responsibility for reliability. And somewhere along the line, all these type of infrastructures must either report up or satellite or something like that working with an RTO in order to keep the lights on.

I thank you for your time.

MR. CANNON: Thank you. Questions for our panel? Go ahead. Alice?

MS. FERNANDEZ: I guess I'm going to take up Mr. Kormos on some of his points and maybe ask the panelists. In terms of the standardization of the market design, which a lot of these seem like market design-type issues rather than business practices, to what level of detail would the Commission need to define them?

You could say, for example, you have to adopt

PJM's exact real time market, day ahead market and very similar financial trading rights or FTRs. Or you could say in effect you have to have an LMP system, full nodal with financial hedges.

MR. KORMOS: And to be honest with you, I think you do need to get fairly specific. I think what we found was unless we really do define the basis of the market, whether it is LMP, whether it is flowgate, whether it is a physical versus a financial, whether they're covered versus uncovered schedule, you will have seams at the RTO interfaces if you do not. If they are not the same, you will have seams, and those seams will make it difficult then to standardize business between them. I won't say impossible.

And we looked at four philosophies when we tried to decide if something should be a standard. We looked at the effect on reliability, we looked at the effect on open access. We looked at the effect on market efficiencies, to be able to trade, and we looked at the effect on the process efficiencies. And we freely admit, we stole those from the Market Interface Practices Group out of NERC. That was actually their idea. We adopted them. And I think they worked very well.

But I think if you're really looking to remove the seams, and some of it will depend on how many RTOs you

have. My group did discuss that when we thought we had 15, there was going to be many more multi-RTO transactions. And to the point that there were differences, that you would go from LMP to flowgate to LMP to flowgate, that would really cause issues in trying to schedule, at least in the world we lived in. And that that really was not going to work. I mean, it would be very difficult for somebody to easily do that scheduling and easily automate it and easily make it happen.

To the extent that there are four RTOs, there are obliviously a lot less seams and there may be more ability. We did not really get into the details as to which method would we pick and to the level of details it is. I think there were other panels that you've had.

Again, I looked at your agenda, and you were hitting the topics I think you should have been hitting. And I believe that hopefully you got a lot of that information as to the level there. To be honest with you, the more you can do, the better. The easier it will be then to drive out the other standards.

MS. FERNANDEZ: I'm curious how much of it is something that could be done through like a collaborative process, whichever organization would do it, or how much of it is getting into sort of the economic policy issues that the Commission would need to make the decisions in a

rulemaking?

MR. KORMOS: I think it could be done on two tier. I think the Commission could set policy as to what they expect and what they want and have the industry then respond back with a market design or structure that meets that. That would take time, and we will get there a lot later than we would earlier.

I think if the Commission has confidence in a market structure that obviously would be a quicker, faster way for us to get there.

MS. FERNANDEZ: I don't know if anyone --

MR. BURKS: I'd like to take a quick shot at that. I would agree. I think the more finite you could make the rules coming out of the gate, the more standardized you could make the process, the better it will be.

I think there's almost two sides to that. I think the larger the RTO region, probably in just very general terms, the more open you are to not having to be quite as specific. I think where the real issue comes is on the seams issue when you go from one region to another region. And if we don't have some standardization at that point, it's going to be very difficult to do the business that needs to be done across these seams. There will always be one party that will have an advantage over another party if things aren't standard across those seams.

So from that standpoint, you know, I reiterate what I said earlier. I think we need to start off with a base of standards virtually for all the business practices, and then move from there. I'm not opposed at all. And I think it certainly will be an issue that many of the market participants and the RTOs will need to come back to this Commission and seeking exemptions from those standards. But I think that puts the burden of proof on them to show why they need that exemption and how the marketplace can be improved by granting this particular RTO, this region, an exemption from a standard.

I think it's critical that we all start. And we've all heard the term through this whole process about a level playing field. I think a level playing field is at its best when we all know the rules and we all have a set of rules to start with.

MR. BOSWELL: I think one of the things we've learned over the years is that transparency is a good thing and that it is actually somewhat easier to develop national standards than you might think. That said, there are always going to be situations where the one-size-fits-all doesn't necessarily work.

At GISB what we've been able to do in those situations is say, okay, if you can identify more than one thing that could be done, then let's do that. And it's kind

of like the Chinese menu. You can pick A or you can pick B or you can pick C, each of which is a valid way of doing things. Maybe A is the thing that's most commonly used, but B and C are possible too. Then we will define how you do each of A, B and C. And if you pick one of those three models, this is how you do it. And I think you ought to keep that in mind as you go forward too.

It may very well be that one size does not fit all, but once you've identified those things which fit within the context of the market, then an individual standard-setting organization can do a pretty good job of saying how you do it and get consensus within the industry participants.

MS. BARPOULIS: I think we're at a decision point right out of the box here, because I think to the extent that we are looking at four or five RTOs, we have a different answer than if we are looking at 15 certainly. From an ability to manage my risk and ability to hedge it, a standard is desirable. The market's liquidity probably wont' be infringed upon if we're talking about four to five large RTOs. If we're talking about 15 or a number in that ballpark, all of a sudden you have a question facing the market in terms of how much efficiency and liquidity do you really want to wring out in the name of choice. And there are certainly some issues where we believe that choice can

coexist and an Option A and an Option B are ideal. There's more of those with four or five RTOs than there are, in my mind, with 15.

MR. COOK: I think you'd take the lesson from the gas industry and the nation reaped huge benefits from the standardization that occurred over the space of several years in the gas industry. I recall the early days of the pipeline electronic bulletin boards and the chaos that was there. The Commission gave a clear directive to the industry to standardize, to fix the problem so that the markets could grow and be integrated.

As I recall the statement, either you do it or we'll do it. And the industry got together and did it, first through the electronic bulletin board working group, which, you know, they put together some initial proposals and the Commission put those out as rules, and that gradually evolved into the Gas Industry Standards Board. And it's paid dividends immensely in the gas industry. And I think we need to go in that same direction with the electric industry if you're going to accomplish the market integration that you're talking about. And that's really it seems to me the goal that we're talking about.

MR. ROSENBERG: I've got a question about how long it would take to develop the standards. Let's pick congestion management as representative. Once the policy

decision is made, how long would it take the industry to be able to develop the standards?

MR. MENNES: I can try. Today I think that would be a tough question to answer. I think what we need in the industry for tomorrow is one group that's really accountable to take on that challenge. If you look back in days gone by, we started off with the real time information network and at the time I think it was Dave Noos (phonetic) in NERC agreed to facilitate at what group and it grew into the OASIS system. That took quite a while. I think right now what the industry needs is one voice, one place to go.

Remember the first seams conference that we had up here, you heard from a lot of industry people that it was very difficult for them to have their voices heard at two or three different places. We needed one place to go to, one place to set the standards. Once we do that and once we have a vision in place, I think industry can get together and do it. I think you can do stakeholder groups. I think they can develop it and I think if guidelines are given with the right vision, it can be done.

You asked how long. You still have to, and it doesn't make any difference what process you're in, it's still going to be an ANSI certified process. And just by definition, I don't think that -- well, the process itself will be certified, but the individual results will not have

to go through once the process is looked at.

So I think if guidelines are given there and vehicles in place, it may be months, but it's hard to tell. It would sure be a lot of fun to put a timeframe on it. I know the law people up here say we need this done by such-and-such a date. Can us industry folks ever get together and get something done by such-and-such a date if given timeframes? Yes.

MR. ROSENBERG: We have a two-step process. ONe is first we have to get agreement on what group is going to do it, and I don't know how long that will take. What I was trying to get -- I'm trying to give the Commission an idea of how long it would taken once everything is in place in order to develop the standards, we can get a feeling for how long the whole standardization process with RTOs is going to work out to be.

MR. MENNES: You've got to get the one group in place. And that could be done. The vision -- the bottom line is no matter what group you put in place, the FERC is the final on-top entity. That's for sure.

MR. KORMOS: And I agree absolutely with Marty. You need the one group. Again, I'll go back to it's how much policy direction do you give us? If you look at congestion management, if you say you need congestion management, we will spend a year arguing about what's best.

If you come out and say congestion management needs to be locational prices with financial rights that are auctioned off, I think we'll have a lot more guidance and get a lot more quicker than the standards once we have gotten that far.

Unfortunately, it's an open question. If you told me how much guidance you were going to give us, the more you give us, I think the quicker the issues are off the table for us and the more we just talk about the "how" we do it, how the business works versus debating the philosophy.

MR. ROSENBERG: What you seem to be saying is if we leave it to the industry to determine what congestion management design, it might take years?

MR. KORMOS: I think you've already seen that in action. I mean, we're still debating.

CHAIRMAN WOOD: Michael, let me ask you a question. I'm looking at your report that you graciously filed at our request before this hearing on October 5th in this rulemaking docket. There's a page 27 there that has the list of groupings of issues that you laid out. Eight bullets I believe. If we answered each one of those questions under those eight bullets, what more would we need to do? I mean, I'm kind of looking at the To Do list here and I want to make sure we put on there the To Do.

If the four of us gave you answers to that, based

on your experience working with the groups that -- GISB and NERC and your group all have similar kind of consultative processes involved, how long does it take to get significant enough business standards where transactions can start to take place underneath those standards?

MR. KORMOS: If we had detailed answers, good answers. I mean, you know, that really answered the question -- not suggesting you would give us anything less than that.

(Laughter.)

MR. KORMOS: I really think you're talking in months then versus years. Now we're talking something that in a relatively few number of months if we concentrated at it, we can hammer out the business rules because we know what we're dealing with and we know how RTOs will work, and now we can set those business rules of transacting between it. And that would go a very long way in my opinion.

CHAIRMAN WOOD: Okay.

COMMISSIONER BREATHITT: Michael, I wanted to ask you a question that I haven't brought up in the previous days, and I just asked Shelton what we did in the pro forma 888 tariff on this, because I'm not clear on it. But you're the general manager of system operations for PJM. How does PJM schedule or monitor or coordinate maintenance outages, or do you do that at all? And should that be something that

becomes a standard procedure of RTOs? And if anybody else wants to talk about that, let me know on this panel. Because we haven't brought that up, have we? Is it something that RTOs should do? Are you doing it voluntarily now?

MR. KORMOS: It is something that, again, our membership has provided us. It is in our operating agreement that we do the coordination of both transmission and generation outage scheduling. We have the ultimate ability to deny an outage for reliability purposes.

When it gets into economic purposes, it is a little more of a fuzzy issue in that we can recommend to the asset owner moving the outage into a different timeframe to try to minimize cost, but we do not have the authority to cancel an outage. And when you start talking economics, it does get to be a little bit iffy because on person's loss is another person's gain.

COMMISSIONER BREATHITT: Right.

MR. KORMOS: So how you gauge --

COMMISSIONER BREATHITT: And then there's compensation.

MR. KORMOS: And then there's compensation. Exactly. If you ask somebody to move an outage and he incurs cost in moving that outages, who pays that?

So it is much more voluntary in that nature. Now

we get very excellent cooperation from our asset owners. I would definitely stand up as head of operations and tell you that.

COMMISSIONER BREATHITT: Do you like the way that works? Is that working okay that way?

MR. KORMOS: I believe so, yes. I think we have a very good relation. I think the biggest part, there's a trust built up, I think at least in PJM, that has allowed us to do it on a voluntary basis that both our generation owners and our transmission owners at least respect our opinion. We are independent. We are neutral. We have no axe to grind. So if we cancel an outage because we need to, they understand that. If we ask them to move it, they work with us.

COMMISSIONER BREATHITT: So right now that is just stated in the operating agreement that PJM has with --

MR. KORMOS: Yes.

COMMISSIONER BREATHITT: So you do it both for the transmission outages --

MR. KORMOS: And generation.

COMMISSIONER BREATHITT: And generation outages. And it's more a coordination role?

MR. KORMOS: Yes.

MR. BOSWELL: Let me pick up for a moment on what Mike was just talking about. We found at GISB that the

hardest thing to do was pick winners and losers in an economic sense. So we have said from get-go, we don't do that. We rely upon the FERC to do that, to the extent that you want to do it.

COMMISSIONER BREATHITT: What's the "that"?

MR. BOSWELL: To pick winners and losers economically. In other words, you all make the policy calls and then we try to implement the policy that you have come up with in ways that make sense to the industry as a whole.

I'll get back to a point that I made earlier. This has to be done at the industry level by the people who deal with it on a daily basis. And on a timeframe level, I guess the first batch of standards we came up with, with a lot of prodding from the FERC at the time, was about 183 as I recall, and it took us the better part of a year to do that. But we were able to do it.

Now it took somewhere between four and 600 volunteers to do it. Again, this is driven by the membership of the organization, whichever organization it turns out to be. In our case it was GISB, as opposed to a large staff. GISB has three staff, and they basically facilitate meetings and publish the standards that we come up with. But the standards themselves are developed the people who work with it on a day-to-day basis because they know what works best for the industry as a whole, and then

we present them to you folks and you decide from a policy standpoint whether or not you're satisfied with the result. Up to this point, you have been.

So my hope would be going forward, if you choose to do this on the electricity side, that you adopt the same model, whatever organization ends up doing the thing, because it's been the most effective model so far, and it generates, to use the word I've used before and will use again, the most trust.

COMMISSIONER MASSEY: Are we looking at like a beauty contest between GISB and NERC on who's going to do this?

MR. COOK: No. Bill, it seems to me --

COMMISSIONER MASSEY: I really want to know. MR. COOK: No, I think it's a fair question.

COMMISSIONER MASSEY: On the gas side, we said, you know, do it or we will, and sort of GISB evolved into doing it. And here we seem to be blessed with two different organization, one with processes, GISB, that I greatly respect, and one with reliability expertise that I greatly respect. And the question is, who does this? Do we need to anoint one organization to go forward? You're all going to use the same people aren't you?

MR. COOK: It's the same people. What we heard increasingly in recent months from the electricity

stakeholders is that the reliability standards and the commercial business practice standards need to be worked out together. And it seems to me that you've put your finger on the critical element in terms of the choice of how this moves forward.

And that it's the electricity stakeholders that are the ones who are going to be -- and the same people who are going to be sitting around the table working on these issues. You know, the extensive committee structure that we have now is all the electricity stakeholders. Those are the folks that need to move forward.

I think having a strong statement from you to the industry to get on about standardization is very valuable, and then the industry stakeholders figure out how to do that. It wa son the basis of the industry stakeholders sort of making the strong recommendation to the NERC Board of Trustees that the Board voted to go ahead and take that on.

COMMISSIONER MASSEY: It seems to me that what we're looking at is FERC policy choices with respect to, say, market design, other issues. But there are literally thousands and thousands of decisions that have to be made that we don't need to make nor should we make; that the industry should make them, it seems to me, filling in the blanks among the policy choices that the Commission makes.

MR. COOK: I think so. You will, as you make

some policy choices, you begin to sort of fence things in. It's probably going to be an iterative process. As you make some choices, rule out some things, give some clear guidance on how to move forward. The industry will move ahead to implement that. They are likely to come to some issues that they can't come together on.

I think there needs to be a clear understanding that when they get to that point, rather than just to go around and around in circles, they need to put that issue to you and have you make that judgment, and then things can move on again. That's how I would imagine it happening.

COMMISSIONER MASSEY: Bill Boswell and I have had a lot of conversations about this, and I've made a lot of public statements that when we said to the gas industry, do it or we will, GISB came forth, and as Dave Cook has pointed out, did a really wonderful job of coming up with about 500 standards that this Commission adopted with respect to issues that the industry ought to be deciding, because they're business practices, not us. And I have a lot of respect for the GISB processes, and I know that you have voted to move forward into this area. So I wanted to give you an opportunity to respond to this beauty contest question also.

MR. BOSWELL: I guess they say imitation is the sincerest form of flattery. We didn't kind of fall off the

watermelon truck on this thing. Folks came to us two years ago and said there's a vacuum here, would you guys kindly fill it? Because we don't know of anyone else who can do it. And that started at the retail level, quite frankly, not at the wholesale electricity level which we always perceived to be the more difficult issue to address in some respects, less difficult because there's kind of one-stop-shopping with you folks as opposed to 50 state commissions.

But over the past two years, we got into it precisely because people said, someone needs to do it. No one is doing it right now. You do what you do very well. Can you replicate that on the electricity side? And from a position of I would say armed neutrality when the prospect was first presented to us two years ago, we've moved to the point of saying, beginning about six months ago, this is not only a good idea but it needs to be done.

Now at that point, we were the only game in town because everyone was looking to us to do something, and so that's when we began the process of putting strawmen out and talking to everyone in the alphabet soup of the industry and saying, okay, here's what we're thinking about doing to meet the need that you say you have that you'd like us to meet. What do you think? We've come up with three strawmen now which I think, when you look at 2.1, which is the one on the table that we adopted last month, they're pretty reflective

of what the industry as a whole -- and I refer to the electricity industry as much as anything else, probably even more so -- said that it wanted.

So if we did what we did last month, it was probably because the impetus to do it came from the electricity side of the business. I do not claim any great expertise on the electricity side. I know how gas works pretty well. I certainly know how processes can really produce good results, because we certainly have that to offer. Whether we do it as GISB becoming the North American Energy Standards Board, which is a name we reserved about a week ago if it makes sense to that, or whether NERC does it, whether it's some sort of cooperative venture, it seems to me the more important thing is that it be done. Because it did work for the gas industry. I believe it will work for the electricity industry.

We have this platform that we've created. And if we go forward and adopt the bylaws that went out for public comment a couple of weeks ago at our December 5th board meeting, we want to be in a position to have four quadrants in this new energy standards organization, two retail, two wholesale. My guess is at a minimum, we will start with three of those quadrants. Whether we have the fourth quadrant, the electric wholesale quadrant or not, is really up to you folks and to the electricity industry.

Because any standards that come out of that quadrant have got to be developed by them. The gas industry is not proposing to do that. We never have proposed to do that. What we have proposed is a process that works. And we think that if that process is properly replicated, it will work for the electricity industry as well. So I'm not looking at this too much as a contest. I'm looking at it as something that needs to be done. It probably needs to be done sooner rather than later. And if somebody gets about the business of doing it organizationally and otherwise, you could probably get your first sets of standards sometime next year.

MR. BURKS: Commission Massey, if I could comment on that briefly. I feel I'm in somewhat of a unique position here, sitting right in the middle of this beauty contest. I'm certainly not in the pageant myself.

COMMISSIONER MASSEY: Well, you're quite attractive yourself.

(Laughter.)

MR. BOSWELL: Don't ask, don't tell.

(Laughter.)

MR. BURKS: Well, thank you, Commissioner. What I would like to add to the process is that although we're not in the process at all for writing the standard, I think both of these organizations are quite capable organizations

and very well respected in the industries.

I think the issue is, from our standpoint, we do want to be market participants. We do want to participate in the market to the betterment of our customers and to the betterment of customers as a whole. And we need some sort of electric reliability organization, whether it's either one of these two folks or a third party or whomever it might be to help develop those standards. In response to a question earlier, how long would it take the industry to develop standards on congestion management?

Well, if you throw it out, in my opinion, just straight to the industry without some sort of independent interface, you might as well ask how long is time, what is the time distance of the universe. Because when someone goes to creating a standard that has an absolute financial biased interest in what the standard says and how it operates, you're going to get as many standards as there is market participants. And as Michael was saying earlier about some issues, some of those market participants are going to have even multiple ideas within themselves about how the thing should be addressed.

The point I wanted to make is that, regardless of who writes the standards, I think it needs to be an independent entity that takes input from the industry certainly. But I think that the standards being written in

an independent fashion by someone who just really doesn't have a dog in that fight, if you will, is critical to the process.

COMMISSIONER BROWNELL: Bill, when you started you said that you thought whatever organization, and you thought GISB represented these characteristics, but whatever organization undertook this task should be independent, voluntary, not be advocates, and be membership-driven. Does that reflect what you said?

MR. BOSWELL: Yes it does.

COMMISSIONER BROWNELL: And when you say "not be advocates", do you mean not be advocates for any particular sector's view? Do you mean not be advocates, for example, for one view or the other before Congress? Do you in fact lobby? You said you had a staff of three. That probably wouldn't leave you much time for that.

MR. BOSWELL: They're very busy, but probably too busy to do that. When I say "advocacy" I mean we don't advocate particular positions before government agencies, including this Commission, and certainly not before the Congress.

Now we certainly describe to people what we've done, and we describe to people why we have done it. But in terms of saying to a third party, this body as an example, you should do this or you must do this or you must do it in

a particular way, that's not our role. We don't want it to be our role.

We certainly see a public-private partnership here which I made reference to before, but I think the public-private partnership works best when the private side does one of two things. Either it collectively comes together and says, in order to make the market more efficient, we think things need to be done in this particular fashion, and here's the voluntary standard that we craft in response to that. And number two, once having done that, we give it to you folks just for your own information. And if you think so, too, and you want to make it more than simply voluntary, you have the power to do that.

By the same token, the Commission has asked GISB on occasion to consider dealing with something which has not been a part of our annual plan. And what we do at that point is we take a look at it, we consider the request, and if it makes sense, and it usually does, then we focus some of our resources on that and we try to get it done as quickly as possible. The best example I can think of is 637. Six thirty-seven was added to the annual plan for 2001 as a result of the Commission's request that we look at 637-type issues. And we set up committees and taskforces to do that, and they're doing that right now.

So I see the thing as an iterative process. But in terms of advocacy itself, to get back to the question you originally asked, no, we do not act as advocates to any government agency or to Congress as we go forward.

COMMISSIONER BROWNELL: And in anticipation of your board adopting its action a month or so ago, you have sectors, all of the sectors' representation in place for ah electricity standards board. Is that correct?

MR. BOSWELL: Well, we ourselves do not have it in place. What we ask the electricity industry to do at the wholesale and at the retail level is define what they believe to be the stakeholders were in their quadrants. The organization is currently defined, it's got four quadrants. The gas wholesale quadrant, which is essential GISB; gas retail quadrant, which AGA and others have indicated a willingness to populate; an electric retail quadrant which UVP and EEI have indicated a willingness to help populate; and then the electricity wholesale quadrant.

And we've talked, I know I have, and I know Ray McQuade, the executive director has, and others have as well, with virtually everybody as we went through this process, saying, is what we are attempting to do right now something that meets the needs of the industry, your particular piece of the industry? Does it make sense to do it? Are we going in the right direction or the wrong

direction? What do you think?

I'll go back to a meeting we had with the EEI Policy Committee, which is their CEO-level committee, back in March. And we met with them and they basically said, unanimously, I might add, this is a great idea. Go forward. And make sure you coordinate with NERC as you do so, because NERC worries about reliability standards and we need to make sure that we don't step on each other's toes.

So as we began our discussions with NERC, it was basically along the lines of, well, do we need some sort of memorandum of understanding or protocols established to make this thing work? Does NERC have any interest in being a part of the process as a part of the electricity wholesale quadrant? So we had discussions like that. I'm not sure we resolved the answers to all of those questions. But they were certainly things that we threw out on the table at the time.

And my hope would be, irrespective of which organization ends up doing the thing, that, be it NERC or us, or us acting together with NERC, that it is done in an intelligent and open fashion and that all of the stakeholders are represented. Because we did learn in GISB, if you don't have all the stakeholders represented, you will not get a consensus-driven series of standards or model business practices.

And one of the chief stakeholder groups in this whole process is the end users. End users are a segment within GISB. End users are a segment within GISB. End users have to be a segment within each of the other quadrants that we've described, because they're the ones who are going to, in the case of natural gas, take it at the burner tip, and in the case of electricity, take it at the point of consumption.

COMMISSIONER BROWNELL: Great. Thanks, Bill. In the interest of equal time, David, I ask you the same question. First, do you agree that those four categories represent the characteristics, whatever organization who takes on is?

MR. COOK: Oh, I think so.

COMMISSIONER BROWNELL: And does NERC take advocacy positions? Do you have lobbyists? Do you lobby Congress?

MR. COOK: We are working, I think as you know, on reliability legislation. It's the judgment of several different folks, NERC included, that we need to move to mandatory reliability standards that are enforceable. And to accomplish that end, we need legislation. And we are working on the Hill with the Administration to achieve that end.

The shift that I have seen, and Bill is right

about the discussions that went on at the early part of this year, the shift that I have heard over the last six months is a very strong push from the stakeholder community for reliability standards and business practice standards, market interface kind of issues that Marty mentioned at the point where there deals start to go physical, that that needs to be done in one place. That was the real strong push message we heard from our stakeholders in Vancouver just earlier this week. And that's been the real shift that I've seen in the last several months is really sort of a coming together around that issue.

COMMISSIONER BROWNELL: And does that -- you recently did some reorganization of your stakeholder process or board membership. Is that an effort to get broader different representation to include more stakeholders?

MR. COOK: It's broadening it in the sense of, as I mentioned in my opening remarks, the Market Interface Committee has heretofore had an advisory role, consultative role. They are now part of the voting pool on the standards that get developed.

The end user customers have long participated in our committees. John Anderson from ELCON is on the Executive Committee, for example, of the Operating Committee. And we have that kind of participation in the organization. And the sector model that I described that

we're in the process of now implementing has large customer end-user representatives and small customer end-user representatives.

COMMISSIONER BROWNELL: Okay. And just in the interest of clarification, you said you were working on the Hill with the Administration. Your administration? On behalf of an administration? There are lots of people working on the Hill in reliability issues.

MR. COOK: I'm sorry. I said working with the Hill and the Administration, the Bush Administration.

COMMISSIONER BROWNELL: Okay. Thank you.

COMMISSIONER BREATHITT: Bill, I just want to apologize for chattering with the Chairman while you and Nora were having that great dialogue. I was halfway listening to that and it was partially because Bill had asked such an interesting question about the Commission and the industry should move forward with standards. And I had a side conversation with Pat about how what we want to do here with RTO standards fit in with Bill's question of having the industry I guess figure them out. And so I wasn't being disrespectful. I just wanted to let you know that.

MR. BOSWELL: I went to UVA. Anyone who wears orange is a friend of mine by definition.

(Laughter.)

MR. BOSWELL: So you couldn't be disrespectful.

COMMISSIONER BREATHITT: Well, one of the reasons I wore orange today was so when my eyes got tired, because this is day four, I could look down and wake up.

(Laughter.)

CHAIRMAN WOOD: I talk to her anyway even though it's the color of the University of Texas.

MR. BOSWELL: And I hear the University of Tennessee and Syracuse too.

CHAIRMAN WOOD: Do you all see, kind of based on yesterday's conversation, Esposito and others' panel in the morning, kind of the Commission framing stuff down to a certain level and then these folks kind of taking it and converting that really into kind of business operational language? Is that what we're hearing? Make the decisions on the big stuff and --

COMMISSIONER MASSEY: Yes. I think the predicate for the GISB standards on the gas side was Order 636 and the basic standards for the pipelines that it had, and then pipeline tariffs were developed. But the communications process was still idiosyncratic pipeline to pipeline, and I think we realized that you couldn't move gas seamlessly from one pipeline to another as long as the communications protocols were idiosyncratic for each pipeline.

That actually was the genesis for it. But I see

the business practices standardization role as filling in the blanks because it wouldn't make sense for this Commission to adopt a standardization that emanated from here that included several thousand different standards. Number one, we don't have the expertise. And number two, we should reach that far into the industry. But it is our role, it seems to me, to determine what elements of market design we want to standardize, if that's the way we want to go. And then let the industry fill in the blanks. And I think that is what GISB did on the gas side.

CHAIRMAN WOOD: I would agree with that.

COMMISSIONER BREATHITT: When you asked your question, Bill, to Bill Boswell and to Dave, it sort of made the light bulb go off in my mind about the conversation we were having yesterday about whether or not -- how far this Commission should go in a rulemaking, or if it should do one at all, versus what Peter told us yesterday about how the tariffs were developed on the gas pipeline side, which was pipeline by pipeline, and the customers settled with the pipeline and they came up with their own individual tariffs.

And then in 888, you all did the pro forma tariff. And I guess now we're trying to figure out how we move forward to do the standards that make sense with RTOs and then what Bill was asking you all, what would be your role and what would be ours. And I think after yesterday

and this panel, we are beginning to flesh that out.

COMMISSIONER MASSEY: Yes. As I recall, one of the standards that GISB came up with was how to define "gas day" and various scheduling provisions so that you can move gas seamlessly. And maybe we've defined "electric day", I don't know whether we have or not. Maybe we should. Maybe the industry should. Maybe somebody should.

MR. CANNON: We did define RTO Week.

(Laughter.)

COMMISSIONER MASSEY: Actually, I know in our Order 889 rulemakings we have moved forward on some of these issues.

COMMISSIONER BREATHITT: We did definitions, didn't we?

MR. ROSENBERG: The issue of "electric day" is just as controversial now in the electric industry as "gas day" was in the gas industry ten years ago.

MR. BOSWELL: For those who have forgotten, and I am compelled to remind, as a matter of fact, when you become Chair of GISB you have to remind people of this frequently, Gas Day is 9:00 a.m. Central Clock Time. I mention that, and some of you know the history of this thing, because it was the single most contentious thing that we talked about in the first year or so of GISB's organization and finally agreed upon something that I'm not sure satisfied everybody

and I'm not sure satisfied anybody, but it actually works in practice.

And that gets back to a point that I made earlier. You can reach decisions on these things, and everyone may not be happy, but as long as you meet the super majority test to pass the standard in the first place, people not only learn to live with it but they actually over time become comfortable with it because they're used to it.

MR. MENNES: I'd just like to add to that a little bit. I mean, the business I think is a lot more advanced than we're giving it credit for. First of all, we have issued OASIS business practices. The industry has developed the protocols of the OASIS, how the OASIS works. We have defined "sliding day" and "day". It is extremely important for the electrical business to have standards that are written of how to take a product to market.

Ramping standards are developed. Timing standards of when to ask for things. We got an agreement with the market interface and we have filed -- I think it was accepted by the Commission -- OASIS business practices that talk about the timing of the requests, how the requests link in. And it's very important for the market to be able to go to the various providers or if there's RTOs, no matter what happens, you're going to have two of them. And they need to know the various timing requirements that are

pertinent there, and they need to be standardized. That is the type of thing that needs to be standardized.

I'd like to go back just real quick-like. You asked a question about the generation and transmission standardization in the RTOs. And I think that's something, if you look at Characteristic 4, the short-term reliability and what the authority of the RTO has, it's very important. And a good example of the priority that you asked industry to do or you ask the RTO to do, when we developed the RTO in Grid Florida, to us we took that if the RTO has short-term responsibility for reliability, the RTO must be able to take action and cancel transmission outages, pay direct costs or whatever. We built that all into that.

In the area of generation, because not all the members of a region or an area may belong to an RTO, the nonjurisdictionals may not, we turned that over and got an agreement from our region that they would go ahead and look at the maintenance schedules on a yearly basis and a monthly basis and also on a daily basis and send out reports and work with the RTO. And if there was a generation shortage that could not be taken care of by congestion management -- if congestion management would relieve it, that was a market issue. The RTO would not become involved. The RTO would then become involved with the region and try to solve the problem.

But those are the type of things that, to make sure for tomorrow that the lights are there, that we did address.

COMMISSIONER BREATHITT: And that's part of the Grid Florida? You do coordinate maintenance with the Grid Florida plan?

MR. MENNES: We took the full responsibility of the RTO for the transmission maintenance, and the generation maintenance was coordinated, but the data was gathered by our local reliability council.

COMMISSIONER BREATHITT: Okay.

MR. BOSWELL: This isn't a commercial, but one of the things that we've been working on over the years, as I think you know, is transaction protocols and communications protocols. And what we have found is that what we have done in the gas industry is not gas industry-specific. Some of it's being used in the airlines industry, some of it's being used in the insurance industry right now.

So I think it's possible to replicate those things in the electricity industry without perhaps as much work as you might think, simply because it's simply a way of talking that occurs between two parties. And that really is not dependent upon the type of energy you're talking about. It's how you do it that matters.

And again, whether we end up doing this as an

energy industry standards board, whether the electricity side of the business chooses to do it in another fashion through NERC or some combination of the two, the trick is to make sure that it is done. CFTC, for example, looked at the GISB standards a little while back and decided that it had lowered the amount of transaction time from an average of five days to three days. Think about that. Huge cost savings involved in that. And to the extent that you can do that on the electricity side, good for you. It's good for the industry and it's good for consumers.

COMMISSIONER MASSEY: Well, what steps should -- or step should this Commission take to send a clear signal that this ought to be done? Have we done that? What else should we do? I assume many of you believe that the more standardized the market design is, the easier it will be for the industry to fill in the blanks on the business practices. Some of you may think that a standardized market design is actually a prerequisite for standardized business practices. Others may think, well, you could go ahead with the standardized business practices anyway. But what recommendation to this Commission would you give on what steps we should take to get this standardization of business practices done? Michael, did you have a comment on that?

MR. KORMOS: Yes. I'm probably one who believes that the standard market design needs to be done first,

before standard business practices can be developed. If you're dealing with a market, you cannot really define business rules to deal with that market if they are different, if they are not co-compatible between RTOs.

So I would highly suggest that the first order of business is, standardize the market design. Decide what characteristics you want in that. My personal opinion is, go as far as you are comfortable, and then go a little more. Because I really think that ultimately will be then what easily drives out the business practices, once we all know we're going do business the basic same way, using the basic same tools, then it's much easier for us to then decide what's an electric day, what's on peak, what the timing requirements are. And I think they'll fall out a lot quicker, and we will get to more of a national electric market faster, which I think is your ultimate goal.

MR. COOK: The communications, the standardized communications that we're lacking in the gas industry, really exists in the electric side. Because of the integrated nature of the thing, that kind of thing is there and is being upgraded even as we speak in terms of the next iteration of things.

What's missing is -- there are more dollars and cents issues and some places where you folks need to make some policy calls. I think the Electronic Scheduling

Collaborative has teed some of those up. Some of them are not presented yet in a way that you can decide them, but you've got conference proceedings, you've got rulemaking proceedings and so on that you could move with some dispatch to get the industry views on it and then make some decisions.

And coupled with that, you need to -- you're edging closer to it, but there is not yet the strong message, sort of the Betsy Moeller message, to the gas pipeline industry: Either you do the standardization or we'll do it for you. I mean, you're getting closer.

COMMISSIONER BREATHITT: We tried that with California with refunds and it didn't work.

MR. KOPPENDRAYER: If I could suggest that even in standardizing market design, there has to be flexibility, at least to some degree, given the uniqueness of different geographic areas, and also a consciousness of the fact that when you get too prescriptive in standardizing market design you can have a preconceived notion of what you want the outcome to be which may be a parochial interest in one area that's not good for another.

So that's why I encourage broader policy parameters and then standardization, a process that works itself out, and flexibility like in rate design and other areas.

I'd just like to mention one thing. In all of this discussion, we need to keep in mind that it has to be cognitive of the fact that some of us deal in an international market in the MAPP region and in especially Minnesota, we depend a lot on electricity from Canada. So whatever rules we put in place have to be aware of that.

MR. BURKS: If I could comment on that. I guess I agree very much with what Michael said earlier. I think the Commission needs to go as far as you feel comfortable and then go some more. I think one of the things that I mentioned in my opening, the concerns or possibly even fears that I had was that this Commission just setting general principles and then turning to the marketplace to fill in the blanks or come back to you all from RTO to RTO of how they want the rules made or the business standards made in that area.

And that does give me a lot of concern. Because I think what we'll have is we'll have the stronger players in those areas who have the wherewithal to manipulate the market, if you will, or to help write the rules more than some other players such as myself, have the resources to be there and to have my voice heard. And the rules will be written, and they will be written by those who have the wherewithal to slant them in their favor. And that only those strongest market participants will be heard in that

process.

I would vote for a process that this Commission not just set forth the general principles, that you move and that you set some market standards and you decide how many RTOs need to be out there and you make that a very small number and move forward, and minimize the seams issue so we can all do business across the seams. As was heard earlier, it's going to be a major difference in what the policies and the rules look like whether we're deal with three, four or five RTOs or a dozen or more. They're going to be absolutely different.

But then when you get down to the business standards, the issues that we in the industry have to deal with every day, I think you have to look to the industry to help develop those standards, but I think you have to have that independence interface, whether it's GISB or NERC or some completely different electric reliability organization that's developed or a combination of these two. I think there needs to be that independence layer that helps the filtering process, if you will, to take the incentive from each independent group out of that picture, to help those get developed.

And I think there needs to be standards across the entire RTO spectrum so we minimize the constraints across the seams, so we maximize the ability for the market

participants to actually be market participants to the benefit of the end consumer.

MR. CANNON: Just to follow up a little bit before we get too far afield, I'm hearing a real call for guidance from this Commission on a whole host of issues, from market design, making various policy calls, as much detail as possible, but don't stifle flexibility. Is there an order that you can suggest to us? Or do we need to make a whole host of policy calls in one fell swoop in order for this to go forward? Or is there sort of -- and maybe the experience on the gas side could be useful here. Is there sort of a starting point and a logical sequence to this? And that's open to anybody.

MR. COOK: Marty and Mike and have spent some time focused on those issues.

MR. MENNES: Let me give you a simple example before we get to an answer, because I don't know if I have the answer. If you look at Order 888, you come out with a very basic tariff. And we went to industry, and, okay, implement this tariff. NERC looked at it says, oh my gosh, we're worried about loop flows, we're worried about various things. We develop the standard. And I hate to bring it up. It's what we call Policy 9 TLR. It's to make sure that the lights stay on living with this policy that we came out.

We were able to go ahead and do that. And again,

of course what developed out of that, no one liked the transmission line loading relief procedure. Well, there's got to be a better way to mange congestion, okay? But it's hard to do a standard about managing congestion, like everybody at the table says, when there's no "this is how you do it". Because what you want to do is you want to go in there and say, okay, this is the right way to do things, the wrong way to do things. You match generation. You match it to your load, and if you don't, you're out of compliance.

We have been able I think in the industry to build upon the tariff with a lot of creative things. Like Dave Cook said, we're on version 1.7 going in towards after the first of the year in the OASIS business practices. We keep modifying them. We've been able to develop standards on how to tag a transaction. If I want to do something tomorrow, how to tag it.

The tagging procedure now is all electronic. The time requirements, if you want to start power flowing at five o'clock today you can. It's too late to start it at four. But if you want to start it at five o'clock and cut a deal with somebody, you can get it in, you can get it tagged all the way to 20 minutes after the hour. You have plenty of time. Everybody sees that. The power will flow. Everybody understands it, and the standards are there.

Shelton, to go back to your question, we can develop the standards in business. And I think Mike was right. We can do it in months now. The vision that needs to come down from above needs to be there. How tight it is I don't know. Of course, looking back, my beginning comments were, you hate to go ahead and take a very infant business like this and develop real rigid standards around how to conduct it for congestion or those type of things.

You told us to develop balancing markets. You've told us to do ancillary services markets. I think we can develop all the standards that we need on those type of things. How deep you need to go into the markets again is varied. But I think where Mike and I really agree is that you can't write a standard and get -- well, let me say one other thing that I think is important. When you write standards, you need to be able to write them. Because the people that operate in this electrical business, their telecommunications, quite frankly, I feel I'm as tied to the telecommunication industry as the gas industry, because we have an awful lot of communications controlling everything we do is communications.

But the standards that we develop, we can do it, but like Mike says, if it's really gray, it's going to be really difficult.

MR. CANNON: I appreciate you need guidance and

you need us to go as deep and as far as we can in providing that guidance. But I'm just looking at it from sort of a Staff workload perspective and a Commission workload perspective. Do you need a mega rulemaking which provides policy guidance on 47 different fronts in order to get started? Or is there some logical sequence that we could provide that kind of policy guidance where we could get you started on business practices and reliability practices A through F, and then give you more policy guidance to get through the ones for G through M or whatever?

MR. KORMOS: I think one of the first steps I would recommend is, one, decide how many RTOs there are. I think we have to put that to bed. We have to decide what is the scope, pick them. After that, again, I would highly suggest that you pick a market design, an RTO design and put it out in a NOPR and basically say this is it and then get the input, and if you can, pick one and choose one.

And just anecdotally, I'll offer it to say, realize how deep I really think you need to go is if you look at PJM and New York, and I'll pick on myself, we are both LMP based. We are both financial-rights based. We both run day ahead markets. We both do centralized unit commitment. We both do centralized unit dispatch. Yet we manage to put some nice big seams between us. So don't kid yourself as to how deep you really want to go. Because even

at what we seem to be almost identical, we're not. And the market has obviously recognized that, and we need to straighten that out. And hopefully we will straighten that out.

So again, and that is one of the reasons I really think you want to go as deep as you can and really be as far as the design goes.

And then on the second part of that, the next step is I do believe you need to pick an independent organization. I think the worst thing that can happen to us is if we have two trying to do it and we don't know where to go as an industry. So I really think -- it's a tough decision. I realize that. And the EUC never personally came out and made a recommendation, but I would just suggest that would be the next step so that once the design is out there, we can start to work through an independent organization in developing the standards.

COMMISSIONER BREATHITT: Then the other tension comes in, Michael, along the lines of what Shelton was throwing out to you is some comments that we heard yesterday from the Northwest that because of their hydro stock, locational marginal pricing doesn't work as well for them there. And so we're going to have to figure out where to not make this so hard and fast that the regional abnormalities can be respected.

MR. KORMOS: Obviously you know where I'm from.

(Laughter.)

MR. KORMOS: And I probably can go on as long as --

COMMISSIONER BREATHITT: I know. We heard a lot. We've heard a lot.

MR. KORMOS: I think there are some misconceptions. I don't think that is a true statement, to be honest with you. To be quite frank, I don't believe that is a true statement. I don't think LMP has any difference. I mean, it is based on the fundamental philosophies of power system operations, and that's what I do for a living.

So I don't think that's true. I think you need to find that answer out, though. And again, hopefully through a NOPR or whatever, really find out if there are issues. I would agree. There can always be exceptions. And I think the Commission, once you pick a design and you pick a standard, obviously your job will then be to look at exceptions and weigh -- again, I would suggest the four I looked at: Reliability, transmission accessibility, market efficiency, and process efficiency -- and only grant those that really, truly don't cause problems for the industry.

COMMISSIONER BROWNELL: Michael, just for a moment, would you speak to some of those seams issues that you referred to between New York and the rest of the system?

Because several state commissioners brought that up this morning as an issue of concern for them, and I think it will give us a better idea about why we do need to get to some of these definitions and direction because there's money, a whole lot of money that at the end of the day, ratepayers pay for those seams issues.

MR. KORMOS: The seams issues really revolved around how we basically the model we chose. New York went more of what I'll classify as a BOCA model where everybody bits into the market and then gets selected based on their bids. They really don't sell transmission service as the pro forma definition. The transmission service is inherent in the pricing of their market.

PJM went a little bit different where we actually adopted pro forma where there is transmission service, there is self-scheduling allowed, as well as bidding in, and it's up to the participants to pick and choose how they do. Just that one, what may appear not to be a big difference, really then causes issues and then trying to schedule between the two of us. Because of the timing requirements that are kicked out. In order to effectively run New York's market, they needed to do certain things. And the same way with PJM. And they were unfortunately, in some cases, diametrically opposed as to what happens.

So, again, some of those details really can grow

into be some big problems for people dealing between the markets and the timings.

COMMISSIONER BROWNELL: But are you suggesting that because each of those areas had tao do certain things do kind of protect their own markets or deal with their own market needs that there isn't a solution that benefits both markets? Because that's a question that got raised a lot this morning, if you were here.

MR. KORMOS: I'm not sure if you can say there would be winners or losers. But there are basically two different stakeholder groups who made decisions for various reasons who then want to stay with those decisions. So you're at a governance issue at that point as to -- and that was one of the reasons the MOU had an issue, that there was really no authority to make either stakeholder group change. And quite frankly, both of them got to where they wanted to be for whatever reasons. And I assume they were all valid and good reasons. That became the difficult part about them trying to get people to change.

COMMISSIONER BROWNELL: But if our job is to find the greater good, we need some assurance from the market participants that the answers do not -- they may not be popular with all participants, but they don't purposely disadvantage one participant or one ratepayer group or another.

MR. KORMOS: Absolutely. Yes.

COMMISSIONER BROWNELL: So you think that those resolutions are possible?

MR. KORMOS: Oh, I do. I do believe they are possible, yes.

MR. BOSWELL: If I were asking questions from the other side of the table, what I would probably want to do is the same thing that was done to the gas industry or with the gas industry back in the early 1990s, and that's get senior folks from the electricity industry, both the organizations and the companies themselves, to come sit here and tell you what they think. And then you'll have a pretty good feel as to what the industry believes is going work best for it.

Now I don't mean in terms of the standards themselves, but how they think it might be efficiently done. You haven't heard that up to this point.

And then as far as the NERC and GISB discussions are concerned, when we took our vote on the 19th of September, no one else had expressed an interest in doing any of this. In fact, until two days ago no one had expressed an interest in doing any of this. So we've been proceeding along upon the request of many people in the electricity industry to do something, and we think we have.

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So I'd say talk to the industry. Get them in

here. Do what Betsy did. Wag fingers, whatever you think you need to do, and get some answers.

COMMISSIONER BREATHITT: Bill, tell me what you meant that no one had expressed an interest. Do you mean us?

MR. BOSWELL: No, no. I mean no other organization had expressed an interest in trying to come up with electricity business practices and standards up until two days ago.

COMMISSIONER BREATHITT: Right.

MR. BOSWELL: And that's why we did it. Because people came to us and said, please do something.

MR. COOK: I think it's important to focus on what Bill said. You need to take, if you're going to make a decision and pick, you need to ask the electricity stakeholders what the answer is. Essentially, we asked the electricity stakeholders what the answer is, and that's why the board made the decision it did on Tuesday.

That interest in taking it on formally is quite consistent with the informal role that NERC has been playing in the business practice areas since the Commission an open access rule in terms of the OASIS, what, Working Group? The Market Interface Committee, the Electronic Scheduling Collaborative that we called together and facilitate. But take the pulse of the electricity stakeholders.

COMMISSIONER BREATHITT: And that's what you just said, Bill, right? So you both said that you think we should ask the electric industry stakeholders who should implement business practices?

MR. BOSWELL: Who and how I would say, and I suspect David agrees with me on this. There may be any number of ways of doing this thing. It may not be A or B. It may be A and B. I just don't know the answer to that. But I would suggest that talking with the CEO-level folks from the electricity industry in a forum like this, and talking perhaps with the heads of the major trade associations in a forum like this, which was done on the gas side when GISB came into existence through the Natural Gas Council, is probably a good thing.

I can tell you that a number of large electric companies have expressed opinions on the subject, and I think you ought to hear from them directly rather than filtered through me or through Dave.

MR. MENNES: Just to get my final comment in. I just don't want the Commission to think that we do not have a lot of reliability-type standards in place. If you consider the -- you've heard the number of transactions and what's going on and how the business has picked up and all. All these are just done according to standard delivery guidelines, whatever Mr. Rosenberg has asked us to do on the

OASIS system, whatever other folks have asked us to do, we have a lot of standards in place to do the business. That's why it's being conducted now. So I certainly don't want people to walk out of here thinking, oh, gee, there's this big beckoning for standards.

COMMISSIONER BREATHITT: I know that you've done a lot of that. I think that people are always saying that the electric system in America is one of the most reliable ones in the world. So I recognize that there has been a tremendous amount of --

MR. MENNES: And even ERCOT helps us develop them.

COMMISSIONER BROWNELL: Could I just make a plea, though? We have just a few challenges before us. The industry does, we do, the new participants in the industry do, and I think one of the challenges is to make sure the standards that are in place don't give preference to people who've been there for a while as opposed to new entrants.

But it seems -- I'm happy to listen to CEOs and I'm sure we can have the battling families. But it strikes me that this is a pretty basic decision that the industry participants ought to be able to get to. A well balanced group of industry participants ought to be able to work this out.

I guess we can be Solomon if we need to. It just

-- it seems unbelievable to me that a fundamental decision like this one can't be resolved. I mean, let's get on with the creation of the uniform business standards and not spend another two years on the who does them. This is a market that is crying out, as we've heard the last three days, crying out for some directions, some standards, some final decisions, some certainty. I am just unwilling to devote a whole lot more time to the issue of who.

MS. BARPOULIS: Let me, as an industry stakeholder, try and address Bill's question here. I will echo Mike and others on the panel's comments regarding market design and policy decisions. We have met as stakeholders a number of times over the summer, and we can provide a number of different creative ideas in terms of what the market design should look like. But we're probably at a point whereby we either need some additional guidance or some affirmative decisions from FERC on both the absolute number of RTOs as well as some of the key standards, which hopefully you're gathering this week, ought to be standardized across RTOs and perhaps even some guidelines within RTOs.

Once we have that, then I think we can move over to a central practice or a central body to determine either one or both of the reliability and the commercial practices. And I guess I'd rather pick up on Commissioner Massey's idea

of needing to make a thousand decisions than growing a thousand flowers.

So if we can get to the point where we can identify the body. Up until last week, at least in my wholesale energy sector, we were one of the companies that had gone to EISB and said, nobody is making standards, commercial practices for the electric industry. You know, NERC is doing a fine job on the reliability front, and we would like some help on the commercial practices front.

One of the reasons that we did that was because I not only deal with seams issues between New York and PJM and the other RTOs, I deal with them between electricity and gas. It's not an ideal world for me to have to be able to buy my gas for tomorrow in advance of knowing whether or not my generation unit is going to run.

So having some standard practices across at least these two Btu's, what seemed like a step in the right direction.

All that said, we're not willing to forego any reliability issues. And it seems to me that, I'm not sure if we're judging here the evening gown contest or if we really have a relay race, and at some point we have two bodies that both bring an expertise. I expressed in my opening remarks that I had -- I don't want to use the cliche -- a need for speed, but in terms of being able to manage my

risks, I need to know them, and I need to have the tools to manage them. So I'd like to get there more quickly.

If we can figure out a way as an industry to use both of these bodies, then I think ultimately everybody will win.

MR. BOSWELL: Just to pick up on that, we designed the energy standards organization that I've discussed earlier to have four quadrants for a reason. Because we saw the need for an energy standards organization as opposed to simply a gas or an electric standards organization. And it seems to me both sides, retail and wholesale, need to have a common forum in which they can talk to one another about issues which may overlap, and one organization is probably better than two or three or four organizations.

So that's why we designed it as we did, to have a place where we could all talk to each other and deal with issues in our quadrants to the extent that they were quadrant-specific, and to the extent that they overlapped from quadrant to quadrant to be able to deal with it in that fashion too.

The best example is gas retail and electric retail. Many of those things are going to overlap. But yet we saw the need for two quadrants at least initially, recognizing that they might work together from time to time.

I think the same principle applies to electric wholesale and gas wholesale. We're talking about the American, the North American -- Canada, the United States and Mexico -- energy market. And what better way to handle the North American energy market, gas and electricity, than to do it in one place?

And there may very well be way that, if NERC is willing to undertake the role which we would define as the electricity wholesale quadrant, of working that into a single organization, because the electricity wholesale quadrant, as is the case with every other quadrant in the design that we've come up with, operates semi-independently. The only thing that quadrants have to do is operate at a macro level in exactly the same way: Open and balanced and all the rest of it. As long as they follow those rules, they can move as quickly as they want or as slowly as they want or as deliberately as they want in the context of a given standard or set of standards.

So there may be a way of accomplishing what both organizations I think are after, and that is a more efficient energy market within the United States.

COMMISSIONER BROWNELL: Could I just remind everybody to, at the risk of being preachy, there are a lot of small players who cannot afford to be involved in a cumbersome, two-pronged process. They simply can't do it.

And my colleagues at the state level have made that very clear. So let's keep that in mind too as we resolve this issue.

MS. BARPOULIS: Commissioner Brownell, can you clarify two-pronged as in reliability separate from commercial practices or?

COMMISSIONER BROWNELL: No. I just mean we can't have two people doing the same --

MS. BARPOULIS: Doing commercial practices.

COMMISSIONER BROWNELL: Exactly.

MR. CANNON: Can we test something? I heard David mention earlier that commercial practices and reliability issues are somewhat inseparable. Do others on the panel agree with that?

MR. BURKS: Yes.

MR. KORMOS: Yes.

MR. CANNON: I'm seeing general nodding.

MS. BARPOULIS: Yes. I think when I mentioned the issues might seem between gas and power, I acknowledge that you certainly have a coordination between -- we had looked until last week at NERC for reliability and EISB for commercial practices and acknowledged that there had to be a coordination, particularly in the electric wholesale sector, between reliability and commercial practices.

MR. MENNES: We originally way back when did

establish a commercial practices working group, which is an industry working group, which was not part of NERC. And we spent quite a bit of time trying two figure out what was commercial practice and where was this market interface. And of course we over time, the group of us got together and said, gee, you know, the right thing to do is just go talk to NERC. And we formed an interim market interface group and of course now the business is really part of the NERC environment and the Market Interface Committee is one of the three standing committees.

MR. CANNON: Well, I asked that somewhat as a set up for a question that Kevin Kelly asked me to pose. He had to leave a little early today. And that is, if we go with some sort of multi-sector voting, and if folks are dealing both with sort of market issues and that's going to be first and foremost among some of those sector's minds, and then reliability issues on the other hand, is there some way we make sure that market is paramount here?

Is there some process whereby you establish some baseline of reliability and then figure out what the operating parameters are under that in terms of business practices? Is that kind of the right paradigm to bringing to this?

MR. COOK: I was just going to say I think there's some outside limits to the system that have to be

respected, but I think it makes more sense to work on matters within those sort of outside physical limits in a coordinated fashion rather than to spend time trying to draw the line between reliability side and business practice.

On the TLR rules that we implemented, those congestion relief rules that we have implement the Commission's sort of business practice, if you will, of the curtailment priorities. I mean, as one indication of how this stuff is really woven together. And I think that's how most of them are going to come out.

Marty, do you want to?

MR. MENNES: I just kind of would make a comment on it. At least everything that I have seen, that there's one common thread that I think people really understand that are doing business all the way from the large customers that represent ILCON or where there's a market or a power producer. When we start talking about the various things, we'll keep pushing it and pushing it and pushing it. But the one thread that is always there, we'll call it the USA thread, is reliability. We've got to keep the lights on.

And I think that with the RTOs coming in, that the reliability side will be heard. And I just don't think that's a huge issue, because I think people understand and listen to that and will back off. I think the priority is there, the priority with all the stakeholders is there. So

I think that if the reliability folks, the RTO people can come in and say, hey, this is why it doesn't work or we can't live with this type of practice, it'll work. They'll back off and find a way to negotiate to get it to work.

MR. BOSWELL: I would agree with that. To go back to Potter Stewart when he talked about pornography, you know it when you see it. It's the same thing with reliability. Reliability is very clear on the fringes. It gets a little bit fuzzy sometimes in the middle. But by and large if the thing is truly a reliability issue, that's going to be taken into consideration and resolved in some way, shape or form.

And ultimately, maybe the other question you ought to ask yourself is which came first. Do markets drive reliability, or does reliability drive markets? I've heard the argument made that you really ought to start with the market and then the other stuff will kind of flow out of that, including reliability as well as business practices. Because if the market is to work efficiently, it has to be reliable. And if it isn't reliable, then it isn't market-responsive.

So sometimes I think that's a false argument. Reliability is obviously something that all of us who've worked in the utility industry our lives think about on a daily basis. You want the gas to flow and you want the

lights to be able to come on and stay on when you flip the switch.

But I'll go back to a point I made earlier. I still think to the maximum extent possible, the feedback that we've been getting from folks is that there ought to be one stop shopping. People don't have the time, they don't have the resources, or if they do, they don't want to make use of them, to go to two or three or four different places to get an answer to one question. They would rather go one place and get the answer and deal with it in that fashion.

MR. CANNON: Well, are there any more --

MR. MENNES: To build on that one, then, I think that you can let the markets push reliability and let reliability try to answer. And I think tagging is a good example, although a lot of the market participants didn't like it, you kept pushing, pushing, pushing. And like I said, now we can do transactions in the next hour. It's a very fluid business, but it took a lot of pain to get the tagging in. The reliability folks had to explain why they needed to know what was going on and how the tagging procedures worked. And I think that's a good example.

I think the reliability people can respond, but there's always going to be a point somewhere well, gee, maybe we just can't make it work.

MR. CANNON: Thank you. I'd like to try to end a

little early today if we could rather than pushing it all the way to five. I'm seeing a lot of smiles out in the audience.

(Laughter.)

MR. CANNON: Are there any other questions from Staff?

MR. FLANDERS: My question is how do we put all the pieces together here? We were talking about a standards effort and we were talking about FERC developing guidance. And the next step obviously after standards or in parallel to that is RTO system development, computer systems and so on. Are we stacking up too many things in a line? Does all this have to be linear? When do we get to an operating RTO, and where does standards ever fit into that timeline?

MR. COOK: You need answers to some of these questions before you can design the systems to make it work. But there is in parallel with the Electronic Scheduling Collaborative, there's also an Electronic Standards Collaborative. It's sort of the successor to the OASIS HOW Working Group that is dealing with those questions and is working on how to impalement them and laying the groundwork for doing that kind of thing.

So it's not completely linear, but they can't design the system unless they know what it's supposed to do.

MR. FLANDERS: Are we basically asking some of

the RTO efforts to stop and wait for the standards effort? I'm a little bit concerned with, you know, when we have an ESE process go along, how far can we go with that and how far can our RTO efforts go independent of that? And I guess what I'm hearing is, we need to work on the standards effort. Does that also then mean that the RTO effort needs to kind of wait a little bit for the standards effort?

MR. KORMOS: I think the answer to that, I think we do need the policy decisions first. I mean, standards is -- I think there's two tiers of standards. There is one with the market design and standards for market design and standards for the functionality of an RTO and what will an RTO be required to do. There's another set of standards which is more of what we've talked about here, which is the business standards.

I think we need to design answers very soon, because they will definitely trigger the technology and the systems that need to be built. The other standards can come later. Most of those can actually be put in fairly easily on the fly. I mean, at least from our experience at PJM, that is not as big an issue. But I think the sooner we get the policy and as soon as we all understand exactly what an RTO is and isn't, the sooner then we can then drive and start developing the systems for RTOs.

And then in parallel, we'll start doing the

business standards to make, again, it more fluid between RTOs.

MR. ROSENBERG: Of the body of standards that the ESC has already worked on, how many of those have to be revised based on the new paradigm?

MR. KORMOS: Of the 31 standards we actually submitted, or are 31 areas, I think we only have true consensus in about ten. And the other 20, we might have had majority consensus. We couldn't get to the 80 percent threshold, which was our number. And in some, we just couldn't reach any. And I think two-thirds of them were really more design issues was the reason we really couldn't finally push those all the way to consensus because of some of the design issues.

Because a lot of people were either unsure of what their RTO was going to be doing or their region was going to be doing and therefore were not willing to commit. If you look at things like losses and stuff, that was a big one. Everybody agreed in theory we need a right answer. But depending on what your RTO was going to do drove how you voted and how we got it out.

So I think there is still a lot of work that could be done in those standards even. I think we've got the right areas. We know where we need standards. I think everybody agreed to that. What the actual standard is is

still pretty much needs to be worked on.

MR. ROSENBERG: We still need more input?

MR. KORMOS: Yes.

MR. CANNON: Anybody else?

(No response.)

MR. CANNON: I'd like to thank this panel, unless Dan Larcamp of course has a last minute --

(Laughter.)

MR. CANNON: For tomorrow the attire will be business casual. Meeting adjourned.

(Whereupon, at 4:25 p.m. on Thursday, October 18th, 2001, the meeting was adjourned.)