
FEDERAL ENERGY REGULATORY COMMISSION

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NEWS RELEASE

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COMMISSION PROPOSES INCENTIVE PRICING POLICY, HELPING TO SET THE STAGE FOR A MODERN POWER SYSTEM

Development of regional transmission networks got a boost today with the Federal Energy Regulatory Commission's proposal to allow additional percentage points on a utility's return on equity when it participates in a regional transmission organization (RTO), divests its RTO-operated transmission assets, or pursues additional measures that promote efficient operation and expansion of the transmission grid.

New technology leveraging existing assets will be facilitated as this helps to strengthen the nation's economic backbone for the future and create much needed investment and innovation necessary to today's digital economy.

The Commission is committed to achieving the goal of a robust infrastructure for the future and bringing all customers into the winner's circle of lower prices and enormous cost savings. Today's proposed incentives will help encourage needed investment in transmission infrastructure and improve grid performance, the Commission said.

The Commission has made clear its belief that lost opportunities for investment, few new technical advances, congestions problems and other shortcomings linked to financial disincentives have scarred the industry. Department of Energy studies show that competition facilitated by open access transmission currently saves customers almost \$13 billion per year. DOE estimates that millions more could be saved annually by relieving transmission congestion.

Key elements of today's proposal include:

- an incentive adder for all public utilities equal to an additional 50 basis points on

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its return on equity (ROE) for participation in an RTO.

- an additional 150 basis points for divestiture of transmission assets.
- a generic ROE-based incentive equal to 100 basis points for investment in new transmission facilities. These incentives would be subject to a cap equal to the top of a range of reasonable ROEs for a proxy group consisting of the transmission owners participating in the relevant RTO whose shares are publicly traded.

To encourage participation in RTOs and the formation of Independent Transmission Companies (ITCs), the Commission proposed a December 31, 2004 deadline for utilities to qualify for the incentives. A public utility would qualify for the RTO incentive as soon as it had transferred operational control of its transmission facilities to an approved and operating RTO. Customers benefit when transmission services are overseen by RTOs, independent of market participants.

When qualified, public utilities could receive the incentive for RTO participation until December 31, 2012, as long as the utility remains a member of a Commission-approved RTO. Public utilities could receive the incentive for independent ownership until December 31, 2022.

The incentive for RTO participation is available to public utilities that have already turned over operational control of their facilities to a Commission-approved RTO, but not yet received the 50-basis point incentive.

Among other issues, the Commission seeks comment on what other levels of independence could merit incentives above these incentives. The Commission also asks for comment on actions other than investment in new facilities that should receive incentives.

Today's proposal furthers the goal of Order No. 2000—the Commission's voluntary call to form RTOs—and the recently proposed standard market design (SMD) rule. In Order No. 2000, the Commission stated that it would allow innovative rate mechanisms for RTOs.

RTOs, along with standard market rules, will eliminate rate pancaking, improve congestion management, more accurately reflect available transmission capacity and provide for more efficient planning for transmission and generation investment.

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Comments on today's proposal, Proposed Pricing Policy for Efficient Operation and Expansion of the Transmission Grid, are due within 45 days after the proposed policy's publication in the Federal Register. Comments should be filed with the Office of the Secretary, Federal Energy Regulatory Commission, 888 First Street, NE, Washington, DC 20426.

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