

The Consumer Protection and Cost Accountability Act of 2008

RTO Responsiveness and Governance Working Group
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Background

- **2007/2008:** National public power campaign linking wholesale markets to electricity cost increases
 - ISO/RTO decision-making and conservative approach to reliability contributing factors
- **New England Congressional Delegation** receptive to issues
 - Maine concerned with transmission cost allocation and capacity market costs
 - Massachusetts concerned about out of market costs in SEMA area
- **May 2007:** Sens. Collins (ME) and Lieberman (CT) seek national review of ISO/RTO and market costs by the U. S. Government Accountability Office (GAO)
- **February 2008:** Senator Sanders (VT) introduces legislation requiring cost benefit analysis for market initiatives and ISO/RTO decisions
 - ISO position paper (March 2008)
- **September 2008:** U.S. GAO Report issued to Senate Homeland Security and Governmental Affairs Committee

S. 2660: The Consumer Protection and Cost Accountability Act of 2008

- **Requires that ISOs and RTOs have:**
 - An express mission to keep energy costs low for consumers
 - Rules that fulfill this mission
- **Requires that FERC:**
 - Approve ISO/RTO rules based on a Cost Benefit Analysis demonstrating benefit -- or a determination that the cost is de minimis
 - Conduct biennial audits and annual reports to Congress on ISO/RTO performance

ISO Position: RTO Mandate for Providing Low Cost Energy

- Mandate that ISOs and RTOs have a mission to keep energy costs low
 - **Requirement is unnecessary...**
 - Current mission for *efficient markets* is the mechanism that provides for the lowest cost electricity -- over the long term for the overall region
 - **Requirement is harmful to the operation of the wholesale markets...**
 - Prices must reflect supply and demand conditions, in all areas of the system, to promote appropriate investment and consumption actions in the marketplace
 - Without markets to determine prices, the industry will default to regulation for compensation and investment decisions and put the risks back onto consumers

ISO Position: RTO Mandate for Providing Low Cost Energy (cont.)

- **Requirement is detrimental to the long-term energy policy goals of the region...**
 - Markets that reveal high prices when demand is highest provide incentives for the development of demand response
 - Markets that reveal high prices when generator input fuels are expensive provide incentives for the development of cheaper fuel sources such as wind and solar
- **... and could deny entry of resources that can lower price volatility and reduce emissions**

ISO Position: Cost Benefit Analysis

- Mandate that FERC approval of market rules be based on a Cost Benefit Analysis
 - Requirement is ambiguous...
 - How should this be applied?
 - In what timeframes should this be applied? Is it a long-term or short-term test? How does it treat impacts that change over time?
 - What if costs and benefits vary in the region?
 - What if stakeholders disagree with the results?
 - Even if well defined, benefits are difficult to quantify and results driven by assumptions about the future

ISO Position: Cost Benefit Analysis (cont.)

- Requirement undermines the regional stakeholder process
 - Cost and benefit information should inform stakeholder consideration of issues -- but should not be the determining factor for market design decisions
 - New England's stakeholder process is the Cost Benefit Analysis
 - Participation of six industry sectors, agencies from six states and nearly 400 participants
 - Decision making that can take into account uncertainties and possibilities about the future --- and broad policy goals for the region
 - Cost estimates provided for large market initiatives today

ISO New England Position on S. 2660

- Consumer protections already exist within the mission and governance structure of ISO New England and through FERC responsibility under the Federal Power Act
 - *ISO New England's mission* for efficient markets is consistent with the goal of providing lowest cost energy to consumers – over the long term
 - *The Stakeholder process* is the best form of Cost Benefit Analysis and should be relied on by FERC in considering tariff changes
 - ISO New England provides cost estimate information and formal analysis on major initiative to inform the process
 - *Ultimately FERC approval* of ISO decisions based on its responsibility to ensure just and reasonable rates for consumers

GAO Observations Regarding Analyzing Costs and Benefits

- FERC and RTOs emphasize the stakeholder process when reviewing decisions that affect electricity prices
- A review of 13 expert studies indicate that there is disagreement about the benefits of RTOs and markets and the affect on prices
 - Empirical analysis a challenge
- GAO concludes standardized performance metrics would help reduce uncertainty and disagreement about RTO and market benefits