

# PPL Supports Single RTO for Northeast

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PPL Corporation (NYSE: PPL) said Tuesday (7/24) that a Federal Energy Regulatory Commission proposal to establish a single Regional Transmission Organization for the Northeast is a significant step forward in establishing a reliable and properly functioning wholesale electricity market in the region.

(Photo: <http://www.newscom.com/cgi-bin/prnh/19981015/PHTH025> )

"PPL strongly supports the most comprehensive amalgamation of the existing and proposed Northeast pools, including the establishment of a single RTO," the company said in a statement filed as part of the FERC Mediation on Northeast wholesale market structures. PPL is one of many entities participating in the mediation meetings beginning Tuesday in Washington.

"While there are details that need to be addressed, PPL is confident that a plan can be established that will ensure a proper functioning market and a fully-fledged RTO," PPL's statement said.

Here is the text of PPL's statement:

As a proponent of truly competitive energy markets, PPL Corporation strongly supports the most comprehensive amalgamation of the existing and proposed northeast pools, including the establishment of a single RTO management for the region (the Northeast RTO or NERTO) and the elimination of marketplace distinctions and control area boundaries. Because PPL Corporation is involved in the generation, marketing, transmission, and distribution of electricity, the company brings a unique perspective to these issues. PPL Corporation feels that the principles outlined here form the basis for the development of NERTO and will fairly balance the needs of all parts of PPL Corporation's business and all participants in the wholesale electricity market.

PPL hopes to see improvements as quickly as possible. While there are real details that need to be addressed, PPL is confident a plan can be established that will ensure a properly functioning market and a fully-fledged RTO.

PPL has unique experience in the three critical regions of the proposed NERTO -- PJM, NYISO and ISO-NE. PPL believes that the PJM ISO/RTO has been generally successful and may be the best platform to guide the development of NERTO. PJM, however, has significant problems with its markets and structures that must be resolved in developing NERTO. The Commission pointed out some of these issues in its Order giving PJM provisional RTO status. PPL understands the key elements of the PJM model that must be addressed as it is applied in forming NERTO.

## Statement of Principles

PPL supports the principles espoused by the ONE RTO Coalition. We believe the Northeast energy market demands a single RTO, a single market, a single operator, a single tariff, a single transmission expansion regime, a single interconnection regime and a single independent monitor. PPL does not support interim steps. While there will be differences in the specific implementation details, PPL fully supports the goals of ONE RTO.

## Issues

### Issue 1: Independence

The RTO must be independent of the energy market and of participants in the energy market.

The function of an RTO is to provide transmission service and

facilitate energy markets, not to provide energy or to provide energy markets. Thus, NERTO should be limited to the day-ahead and real-time balancing markets needed today for reliable operation. As NERTO and its energy markets develop, PPL would be willing to consider establishing new limits on the RTO's intrusion in the energy markets, but PPL would tend to want less, rather than more, involvement of the RTO in energy markets.

Even with this limited exposure to energy markets, it is critical that NERTO operate its energy markets with clear and understandable rules and procedures that are on-file with the Commission in order to assure its independence of energy market concerns.

An RTO should not decide what an appropriate price or price-signal is. The market should be making that determination. An RTO should only provide the facilities that allow that price and price signal to be created. NERTO must not have a bias to move price either higher or lower; too often, a price-setting bias has created significant problems, even in PJM. To help maintain its independence in this regard, NERTO should not be given the power to "mitigate" prices that result from the markets it administers. Only the Commission should be able to order price corrections or refunds where lawful and appropriate.

While we recognize the need for the RTO to provide for ancillary services, these should be market-based and allow for self-supply when feasible.

## Issue 2: Governance

The means by which an RTO governs itself is a critical element of its independence. In both New York and New England, the governance structure has lent itself to manipulating the outcomes of the market and decisions of the ISO by market participants. In PJM, significant governance problems exist in the reliability area. Thus, PPL advocates a strong RTO with an advisory committee composed of market participants.

The participants on the advisory committee should include entities with a stake in wholesale markets, which includes generators, transmission and distribution owners, load-serving entities and marketers. Each of the three ISO's has a history of exclusion. For example, PJM has not always fairly included generators in decision-making and NEPOOL has excluded certain end-users. The RTO would also be advised to listen to other views, but its customers are wholesale users.

## Issue 3: Reliability

Reliability should also be addressed by the RTO itself. PPL advocates creating a new reliability area in the northeast, composed of some or all of NPCC, MAAC and ECAR. This reliability area should have its reliability criteria established by the RTO, in consultation with NERC and market participants. Reliability agreements among participants should also be encouraged, so that reliability also becomes part of the competitive environment. However, PPL supports the RTO establishing initial reliability standards based on the installed capacity model used throughout the northeast. The issue of sharing reserves in this regard -- i.e. should Ohio face interruption for problems in Massachusetts -- must also be addressed.

## Issue 4: Monitoring

As presently implemented by the existing Northeast RTOs, the market monitoring function has strayed from its original purpose and has become a tool of ISO management to slow the transition to truly competitive markets. ISO market monitors repeatedly intervene in markets to force prices below competitive and efficient levels in a short-term effort to satisfy a perceived constituency while ignoring the long-term health of wholesale markets, reliability and stable prices. In doing so, market monitors have proposed or implemented highly regulatory and manipulative measures that have little, if any, grounding in sound economics.

The market monitoring function varies considerably among the three northeast ISOs. None of the market monitors is independent; PJM's is fully integrated into the PJM staff and appears to report through the staff to the PJM Board. As proposed, the New England market monitor would be more independent, but would still be within the RTO. Although the PJM and New England market monitors do not have direct remedial powers, the New York market monitor does. His intervention to "mitigate" prices has been a source of great controversy.

We believe that the monitoring function should be fully independent of the RTO. It should report directly to the Commission and its employees should not be employees of NERTO. This is essential as long as the RTO is responsible for the real-time and day-ahead markets. Moreover, a fully independent monitoring position with region-wide responsibility would attract a well-respected lawyer or economist of the highest academic and professional credentials. Such an individual would understand competition and avoid the temptation to micro-manage the market.

The independent monitor's responsibilities should be limited to reviewing the market's mechanisms and identifying concerns. It should not have remedial power. FERC has no authority to delegate its enforcement responsibilities to what are, in essence, private persons. Only the Commission, and not the independent monitor, may impose fines or pronounce individual market participants in violation of a tariff, Commission regulations or the Federal Power Act, including any determination that any market participant has, or has exercised, market power. To the extent an independent monitor determines that individual market participants have engaged in activities that violate the tariff, Commission regulations or the FPA, its conclusions should only be shared with the Commission, and not the RTO. Moreover, any such allegations should only be made where the independent monitor has proof in excess of some minimum due process standard. The very reporting of such allegations will in itself likely interfere with market conduct that may be efficient and could impose unnecessarily great cost on a wrongly accused market participant. These are severe outcomes if the monitor is wrong.

PPL conducts its business in a fair and ethical manner in all of its markets. We stay within the rules and law. PPL supports penalties and sanctions against entities that do not. However, this support pre-supposes a legitimate form of policing (as described above), clearly stated penalties in a tariff, and an opportunity to defend one's actions. Existing market monitoring systems in the northeast RTOs, including PJM, do not today satisfy these criteria.

As a final point on monitoring, the proposed independent monitor must also monitor the RTO and transmission owners, as well as market participants. It should report on inefficient rules or practices and RTO activity that is inconsistent with the RTO's role as an independent, neutral administrator of its markets and the transmission system.

#### Issue 5: Energy Markets

A critical outcome of the mediation should be a single market for the northeast. Market participants do not want the same "design" being run over three or four markets, which will do little to eliminate seams. What is needed is a single market, an objective we believe is achievable.

PPL believes the current PJM markets are the best starting point. The PJM markets provide for both physical and financial transactions and for financial transmission rights. The systems have proven themselves relatively flexible and trouble-free, capable of responding to new needs and conducive to competition. Thus, PPL advocates what has become known as the Standard Market Design -- a nodal locational pricing system with self-scheduling rights including financial transmission rights and a two-settlement system with virtual bidding.

Long-term it is also desirable to amalgamate control areas. PPL recognizes the hurdles to eliminating the several control areas in the northeast in the near term. However, we believe that to reach the efficiency levels and the ultimate unified northeast market, the existing control area boundaries, rooted in the same traditionalism as the ISO boundaries and usually coinciding with them, must be eliminated. PPL believes the final goal should be a single control area coinciding with the footprint of the RTO. Such a single control area will do the most to eliminate the seams issues described in the FERC orders.

Regardless of the resolution of the control area issue, NERTO should be the single point of contact for market participants for all aspects of transmission service. A single, easily used user interface should allow transactions throughout NERTO.

PPL also strongly encourages the Canadian or non-jurisdictional entities in NPCC to join the effort to create the RTO in the northeast AND to include their systems in that RTO. FERC should limit the access to the northeast RTO by any entity not joining the RTO or providing full access to its transmission systems.

#### Issue 6: Transmission

PPL supports full and current collection of all reasonable costs incurred to own, maintain and support the transmission system in transmission rates. In addition, we support creating appropriate incentive rate programs to encourage the construction of new transmission, especially transmission that is needed to integrate NERTO.

PPL supports the voluntary establishment of truly independent transmission companies in the northeast, although we do not advocate mandatory divestiture. If voluntary divestiture occurs, such assets should receive favorable rate treatment. Boundaries between the transmission companies' operations and the operation of the RTO must be clearly defined.

PPL also endorses NERTO as the proper entity to manage the entire interconnection process. NERTO must also control the transmission planning and expansion process, unless independent transmission company structures are created in NERTO. PPL believes the PJM generation interconnection protocol, which was developed by the PJM stakeholders and is in the Open Access Transmission Tariff, should be adopted by NERTO.

PPL specifically rejects the concept of pancaked "PTF" and "non-PTF" facilities in New England. PPL also supports a single transmission rate for the entire NERTO. However, the establishment of a single rate for all of NERTO should be addressed as a "Day 2" issue after resolving the critical issues of governance, energy markets and monitoring structures.

#### SCHEDULE

PPL supports the most rapid movement toward the unification of the NERTO sub-groups that is possible without endangering system reliability. We believe that the following are milestones that should be established as goals of the process:

- September 2001 - Conclusion of mediation. File produced plan, scope and timing of NERTO with FERC.
- October 2001 - ratification of NERTO concepts by existing ISO entities.
- November 2001 - file approved plan with FERC. Creation of advisory participants board and NERTO board of directors.
- December 2001 - approval of plan for NERTO by FERC.
- January 2002 - Begin detailed planning and implementation. Begin creating tariffs and agreements.
- June 2002 - File tariffs and agreements with FERC.
- October 2002 - FERC approves tariffs and agreements.
- December 2002 - initiation of integrated single market in PJM, NYISO and ISO-NE. Dissolution of PJM-W, PJM, NYISO and ISO-NE.
- May 2003 - operation of Northeast Reliability Area. Dissolution of NYSRC and MAAC. Removal of PJMW from ECAR and ISO-NE from NPCC.
- December 2003 - dissolution of NY, NE, PJM, and PJM-W control areas and establishment of Northeast control area.

PPL Corporation, headquartered in Allentown, Pa., generates electricity at power plants in Pennsylvania, Maine and Montana; markets wholesale or retail energy in 42 U.S. states and Canada; and delivers electricity to nearly 6 million customers in Pennsylvania, the United Kingdom and Latin America.

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