
FEDERAL ENERGY REGULATORY COMMISSION



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NEWS RELEASE

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STAFF REPORT ASSESSES THE COSTS OF RTOs; A 'LESSONS LEARNED' APPROACH IS RECOMMENDED

Establishing a new Regional Transmission Organization (RTO) should require an initial investment of between \$50 million and \$70 million with annual revenue requirements of between \$50 million and \$70 million – or less than 20 cents per month for the average residential customer, according to a new Federal Energy Regulatory Commission staff report presented to the Commission today.

The staff's analysis was prepared at the request of the Commission in an effort to assess widely divergent estimates of the costs for establishing and operating a new RTO. Some stakeholders in RTO formation efforts have cited costs as a barrier to establishing new RTOs.

The analysis presented to the Commission finds RTO costs are not as high as many believe – less than one-half of 1 percent of an average residential power customer's bill – and can be minimized by taking a "lessons learned" approach. These costs will be offset by eliminating redundancies and efficiency gains that result by the transferring functions from integrated utilities to an RTO, the Commission said.

"Numerous studies have consistently shown the benefits of RTOs. Today's staff report should allay many concerns regarding the costs of creating and operating a new RTO from the ground up," said Commission Chairman Pat Wood, III. "These costs can be minimized and we've learned from experience the real and tangible benefits that RTOs provide for customers," the Chairman added.

The staff's analysis is based on information from audits, Form No. 1 data, and interviews and data responses from existing RTOs and Independent System Operators. The report looks at the costs of a so-called "Day One" RTO, in which the independent grid operator's functions include open-access transmission service, congestion management, ancillary services and interregional planning. The report did not assess the costs of a so-called "Day Two" RTO, which would involve all the functions of a Day One RTO as well as operation of a bid-based, security-constrained market with economic dispatch, locational pricing, and financial transmission rights or capacity markets.

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The staff concluded that a Day One RTO would cost an average residential customer about 0.02 cents per kilowatt-hour, or about \$2 a year, and that cost would be more than offset by cost savings available because of RTO operations. Taking a “lessons learned” approach to forming an RTO would result in costs even lower than that average.

Many of these costs are for reliability-related functions, such as transmission service, scheduling and available capacity determinations, redispatch for congestion management, ancillary services, planning, parallel flow mitigation and interregional coordination, the staff analysis determined. “We note that performing such functions on a regional basis is likely to bring reliability benefits; however, measuring such benefits is beyond the scope of this study,” the report said.

In analyzing the past RTO startup experiences, the staff analysis found that primary cost drivers were (1) incomplete market design; (2) changing plans at mid-course; (3) poor project management; and (4) extensive delays. Interviews with RTO managers identified significant costs from incomplete planning related to software design. Using off-the-shelf software available in today’s market and learning from the experiences of other RTOs should greatly reduce these costs.

Another important finding of the staff analysis was that, while each grid organization used Generally Accepted Accounting Principles, investment costs and annual expenses were reported differently. This finding led the Commission to issue a recent Notice of Intent on standardization of RTO cost reporting designed to facilitate cost oversight by the public and the Commission (RM04-12-000).