FERC’s Standard Market Design: The ITC Perspective

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Worrying Indications

- U.S. transmission system is fragmented and designed for vertical integration.
- Market environment requires more transmission.
- Low and falling transmission investment levels.
- Neighboring areas exhibit highly disparate pricing.
- Took 5 years of investment in UK.
Don’t Forget ...

- The whole success of the markets depends on adequate transport to:
  - Deliver effective competition in generation
  - Eliminate market power

- The stakes are high!
SMD

- Does SMD mean LMP?
- LMP is fine as far as it goes.
- What is missing?
Elements for a Successful SMD

- Locational signals.
- Balancing mechanism.
- Incentives to encourage sufficient transmission to be built.
- Incentives for “active” management of existing transmission assets.
Elements for a Successful SMD, (Cont.)

- Forward planning process with projected congestion magnitude.
- Identification of transmission upgrades and implementation of required upgrades.
- Vigorous and compatible merchant and regulated approaches.
- Sensible transmission tariff designs.
Planning Standards

- NE – plug and play without LMP.
- NY – Plug and play with LMP.
- PJM – Deliverability with LMP.
- ITC’s system assessment for reliability and economic needs.
What can an ITC do?

- Forward planning
  - 5 Year Statement
  - Plan for system expansion to address reliability and economic needs.
  - Projected market scenario will help guide planning process.
What can an ITC do? (Cont.)

- Invest in transmission infrastructure.
- Maximize throughput and assure operational efficiency.
- Provide transmission independence from market participants.
- Reduce impact of market power.
How (Why) Does an ITC Achieve its Goal?

- Because incentive rates create a direct link between performance and the bottom line.
- Creates corporate culture that fosters innovation.
- The result is investment and more efficient operations.
Questions?

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