

Resolution On Transmission Pricing Policy

WHEREAS, The Report of the National Energy Policy Development Group identified the shortage of transmission capacity as inhibiting the development of a robust wholesale power market and potentially resulting in serious reliability problems; and

WHEREAS, State Regulators are likewise concerned about transmission adequacy, the costs required to support the development of robust competitive markets and the impact on consumers; and

WHEREAS, The investment that is needed to upgrade the nation's transmission grid in order to support expanded wholesale power markets will cost billions of dollars; and

WHEREAS, Notwithstanding the general benefit to the wholesale electric marketplace of encouraging the construction of new generating capacity, and its interconnection to the grid, it is also important to provide proper price signals to encourage optimal demand response and promote economic and efficient expansion of the transmission grid and siting of generation ;
and

WHEREAS, The Federal Energy Regulatory Commission (FERC) pursuant to the requirements of the Federal Power Act and the Natural Gas Act has adopted transmission pricing policies that generally provide for the direct assignment of costs to the cost-causative parties; and

WHEREAS, The FERC has stated such a policy sends the

proper price signals to customers and promotes efficiency; and

WHEREAS, FERC Order 2000 stated the "[m]arket designs that base prices on the average or socialization of costs may distort consumption, production and investment discussions and ultimately lead to economically inefficient outcomes" (Order No. 2000 at pp. 642-3); and

WHEREAS, The FERC has departed, in some instances, from a transmission pricing policy that provides for the assignment of costs to the cost-causative parties; and

WHEREAS, The FERC currently has a number of on-going proceedings addressing transmission pricing, including upcoming rulemakings on interconnection policy and on Standard Market Design for RTOs; and

WHEREAS, State Regulators support efficient pricing policies that result in the economic use and expansion of the transmission systems to support a robust wholesale electricity market, while recognizing that transmission investments needed to maintain the reliability of the existing transmission systems should continue to be recoverable through transmission rates charged to all transmission users; now therefore be it

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC), convened in its February 2002 Winter Meetings in Washington, D.C., hereby urges the Federal Energy Regulatory Commission (FERC) to utilize a pricing policy which provides that the cost of investments, that have been demonstrated, through an even-

handed assessment of transmission, generation and efficiency alternatives, to be needed to maintain the reliability of the existing transmission system is recoverable through rates paid by all transmission customers; and be it further

RESOLVED, That the cost of upgrades and expansions that are necessary to support incremental new loads or demands on the transmission system are borne by those causing the upgrade or expansion to be undertaken except that the FERC should not preclude the assignment of interconnection cost to the general body of ratepayers within a State when that State's regulatory body determines that such allocation is in the public interest..

Sponsored by the Committee on Electricity

Adopted by the NARUC Board of Directors February 13, 2002