Exhibit No. _____

FEDERAL ENERGY REGULATORY COMMISSION

DOCKET NO. RM99-2-000; ORDER NO. 2000

COMMISSION CONCLUSIONS ON SECTION III.B

BENEFITS THAT RTOS CAN OFFER TO ADDRESS REMAINING BARRIERS AND IMPEDIMENTS

Exhibit No. 728
Date 7-13-00 Case No. EM00000292
Reporter MG

Commission Conclusion

We conclude that properly structured RTOs throughout the United States can provide significant benefits in the operation of the transmission grid. The comments received reinforce our preliminary determination in the NOPR that RTOs can effectively remove existing impediments to competition in the power markets.

Description of Benefits

We conclude that RTOs will provide the benefits that we described in detail in the NOPR, and others that commenters mention. [110] While we acknowledge that the level of RTO benefits may vary from region to region depending on the current transparency and efficiency of markets, the Commission believes that benefits from RTO's would be universal. These benefits will include: increased efficiency through regional transmission pricing and the elimination of rate pancaking; improved congestion management; more accurate estimates of ATC; more effective management of parallel path flows; more efficient planning for transmission and generation investments; increased coordination among state regulatory agencies; reduced transaction costs; facilitation of the success of state retail access programs; facilitation of the development of environmentally preferred generation in states with retail access programs; improved

[110]The benefits described in this section are not intended to include all benefits that RTOs could provide. Some of the principal benefits of RTOs (e.g., more effective management of parallel path flows, improved congestion management) are addressed in later discussions of RTO minimum characteristics and functions.

grid reliability; and fewer opportunities for discriminatory transmission practices. [111] All of these improvements to the efficiencies in the transmission grid will help improve power market performance, which will ultimately result in lower prices to the Nation's electricity consumers.

As stated in the NOPR, we expect that RTOs can reduce opportunities for unduly discriminatory conduct by cleanly separating the control of transmission from power market participants. An RTO would have no financial interests in any power market participant, and no power market participant would be able to control an RTO. This separation will eliminate the economic incentive and ability for the transmission provider to act in a way that favors or disfavors any market participant in the provision of transmission services.

Most commenters support the premise that RTOs can be beneficial in addressing the remaining transmission-related impediments to full competition in the electricity markets. Although we recognize certain differences in perspective about the existence of, or potential for, widespread discrimination by current transmission owners, no one seriously disputes the benefits of a marketplace where service quality and availability are uniform, where users of the network are treated equally, and where commercially important data are readily available to all. Although some commenters support the NOPR proposal only if the costs of establishing RTOs do not exceed the benefits, a subject

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[111] FERC Stats. & Regs. ¶ 32,541 at 33,716-20.

discussed further below, most believe that the benefits listed in the NOPR are accurate and can be achieved through an RTO.

We recognize that some commenters believe that either RTOs alone will not solve all of the identified problems, or individual benefits can be achieved in ways other than creating RTOs. Both of these observations may have some merit. However, we believe that the creation of RTOs is one action that can address all of the identified impediments to competition and provide all or most of the identified benefits.

We also recognize that there are those who worry that the costs of establishing an RTO will outweigh the benefits. We believe this concern fails to account for the flexibility we have built into this rule. While many look at the high costs involved with respect to establishing some existing ISOs and PXs, this rule does not require an RTO to follow any specific approach. For example, this rule does not require the consolidation of control areas nor does it require the establishment of a PX. We are allowing significant flexibility with respect to how and, in some cases, when the minimum characteristics and functions are satisfied. Accordingly, we do not believe it will be necessary to expend the same level of resources that were expended, e.g., in California, to create an RTO satisfying our minimum characteristics and functions. We therefore conclude that the flexibility built into the Final Rule will allow RTOs to create streamlined organizational structures that are not overly costly. Moreover, with five ISOs now operating in the United States, there is considerable experience available regarding

what works and what does not with respect to regional transmission entities. This experience should make it somewhat easier, and more cost efficient, to create new RTOs.

As we stated in the NOPR, by improving efficiencies in the management of the grid, improving grid reliability, and removing any remaining opportunities for discriminatory transmission practices, the widespread development of RTOs will improve the performance of electricity markets in several ways and consequently lower prices to the Nation's electricity consumers. To the extent that RTOs foster fully competitive wholesale markets, the incentives to operate generating plants efficiently are bolstered. The evidence is clear that market incentives can lead to highly efficient plant operations. The incentives for more efficient plant operation can also affect existing generation facilities. Especially noteworthy is the recent experience that indicates improvements in the generation sector in regions with ISOs. Regions that have ISOs in place are undergoing dramatic shifts in the ownership of generating facilities. Large-scale divestiture and high levels of new entry in California and the Northeast are changing the ownership structure of these regions' generators. Access to customers and the presence of competing suppliers are creating the incentives for better-performing plants.

By improving competition, RTOs also will reduce the potential for market power abuse. As discussed earlier, eliminating pancaked transmission prices will expand the scope of markets and bring more players into the markets. By eliminating the mistrust in the current grid management, entry by new generation into the market will become more

likely as new entrants will perceive the market as more fair and attractive for investment. And with more players, the market becomes deeper and more fluid, allowing for more sophisticated forms of transacting and better matching of buyers and sellers.

Estimation of Benefits

The full value of the benefits of RTOs to improve market performance cannot be known with precision before their development, and we do not yet have a sufficiently long track record with existing institutions with which to measure. The Commission staff has estimated a subset of the potential cost savings from RTOs as part of its National Environmental Policy Act analysis. In the Environmental Assessment (EA) for this rulemaking, three scenarios were developed to estimate potential economic and environmental effects of the rulemaking. [112] The scenario analysis was conducted using a computer simulation model of the continental U.S. electric power system over the period 1997 to 2015. [113] The Commission adopts staff's analysis.

The results of the EA modeling present a range of potential cost savings resulting from the changes in modeling assumptions in each scenario. Although this Final Rule does not mandate RTO formation, full development of RTOs as envisioned by the

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[112]One of these scenarios assessed transmission effects only, the second assessed generation efficiencies in addition to transmission effects, and the third posited increased entry of new supply and demand choices.

[113]The Integrated Planning Model (IPM) was developed for the U.S. Environmental Protection Agency by ICF Inc. See 3.3.1 of the Commission Staff's Environmental Assessment in this proceeding.