UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

RTO/ISO Performance Metrics	)	**Docket No. AD10-5-000**

COMMENTS OF RETAIL ENERGY SUPPLY ASSOCIATION ON PROPOSED PERFORMANCE METRICS

Pursuant to the Notice issued on February 3, 2009 by the Federal Energy Regulatory Commission ("Commission"), the Retail Energy Supply Association ("RESA") hereby files Comments on the Commission's proposed RTO/ISO Performance Metrics. RESA submits that, in general, the proposed performance metrics do not go far enough in assessing the RTO/ISO's long-term benefits to customers and markets. In addition, each RTO/ISO should be required to identify in each Tariff filing made the effects of the proposed change on customers and on the market. In support of these Comments, RESA submits as follows:

I. BACKGROUND

A. RESA

RESA is a non-profit trade association of independent corporations that are involved in the competitive supply of electricity.[1] RESA and its members are actively involved in retail electricity markets throughout the United States, including retail markets in each of the Commission-approved RTO/ISOs. RESA appreciates the opportunity to comment on RTO/ISO metrics. Retail energy suppliers rely on fair and

[1] RESA's members include ConEd Solutions; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; Exelon Energy Company; GDF SUEZ Energy Resources NA, Inc.; Gexa Energy; Green Mountain Energy Company; Hess Corporation; Integrys Energy Services, Inc.; Just Energy; Liberty Power; PPL EnergyPlus; Sempra Energy Solutions LLC. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

open access transmission and ancillary service markets. Barriers to competition in wholesale markets can affect adversely retail markets and the efforts of RESA members to bring competition and cost savings to retail customers.

B. Proposed Metrics

The performance metrics proposed by the Commission fall into four main categories: (1) Reliability; (2) Markets; (3) Organizational Effectiveness; and (4) Additional Information. The performance metrics were developed as a result of a Government Accountability Office ("GAO") Report, "Electricity Restructuring: FERC Could Take Additional Steps to Analyze Regional Transmission Organizations' Benefits and Performance," GAO-08-987 ("GAO Report"). As noted by the Commission in the Notice, GAO recommended that the Commission work with RTO/ISOs, stakeholders and other experts to "develop standardized measures that track the performance of RTO/ISO operations and markets and report the performance results to Congress and the public annually," and provide information on what the information gathered shows about the benefits of RTO/ISOs and reflect any changes that should be made to RTO/ISOs to address "performance concerns."

Using these metrics, the Commission proposes to require each RTO/ISO to report annually on efforts made in each of these areas. The Commission's report to Congress will use the metrics to assess RTO/ISO performance and note possible improvements.

A good set of performance metrics will provide direction for an organization. They can drive the organization in the right direction, at the right speed, with effective and efficient use of resources, and with minimal unintended consequences. The performance metrics proposed by the Commission are very much oriented to short-term

operations. They also are mostly "inward" looking to RTOs – tracking the internal processes of RTOS and much less at the effect of RTO performance on the parties that actually *use* the transmission system and the RTO markets. These performance standards should provide clearer direction for RTOs and thus should be modified or expanded to include metrics that address: (1) longer-term and future-oriented reliability; (2) the recognition that RTO/ISO reliability advancements will be tempered by the need to balance the costs and service-related benefits from the reliability upgrade; and (3) the needs of the competitive market place to efficiently meet the needs of customers in the RTO/ISO region.

II.
COMMENTS

RESA appreciates the work of the Commission and others to develop the proposed performance metrics. However, additional metrics must be developed or existing metrics modified to acknowledge a more future looking development of RTO/ISO operations so that improvements can be made to benefit not only RTO/ISO operations, but the actual services provided to *users* of the system – the customers. Metrics must be capable of predicting and assessing future performance and success of competitive markets.

A. Reliability Metrics Require Modification

The Commission has proposed a number of reliability metrics that are intended to ensure that the RTO/ISO developments encourage continued reliability. These metrics require modification. For example, the Commission proposed Reliability Metric E.2 to measure "Actual reserve margins compared with planned reserve margins." This metric, which will measure present (actual) and the past (previously planned) reserve margins,

does not address or react to whether or not the RTO/ISO process is sufficient to encourage or develop adequate new resources for the future.

What is needed is a metric that looks at how well the RTO resource adequacy rules drive investment in new generation resources to meet future load, *in anticipation* of future load. Thus, if the performance according to the metric is poor and the result is insufficient new generation, the RTO will know about it in enough time to correct the situation. The Commission (or the RTO/ISO for that matter) should not wait until firm load is consistently interrupted due to lack of adequate resources to discover that resource adequacy rules have not been working well or as intended.

Further, the various metrics should be logically supportive of each other or, at a minimum, should balance or factor in the effects of one metric on another. For example, metric Reliability E.2 does not fit logically with metric Markets A.1, "Load Weighted Locational Marginal Prices." Presumably, on the Markets side, *lower* LMPs are "better." But the Resource Adequacy construct of some RTOs, such as the Midwest ISO, theoretically relies on *high, volatile* LMPs as the source of and incentive for recovery of investment by new generation. From this example, one can see that simply tracking LMPs in a performance metric does not by itself provide any meaningful assessment of RTO performance – a context is required for each metric and, more importantly, the merit of the set of all metrics should be assessed together, to see if they work logically as a whole.

B. Any Metric Addressing Reliability Issues Should Also Address Costs

"Reliability" is not a single-dimensioned concept. Rather, it is a probabilistic measure based on a determined – but still arbitrary – trade off of cost and level of service.

While reliability is very important to RESA and its customers, the cost aspect of reliability must be included in any meaningful measure of reliability. If only the service aspect is addressed, the RTO will be driven to ignore costs, and thus costs to customers will be driven to unreasonably high levels.

For an example of the magnitude of cost consequences of reliability trade offs, consider the issue of determining the contribution of various loads on an RTO's peak, based on time of peak of the component loads – referred to as "diversity." The Midwest ISO currently uses the smallest possible "diversity factor" when determining required capacity reserves, because doing so gives additional reserve margin for reliability, above what is needed on a statistical basis. In the Midwest ISO region, 1% increase in diversity means about 1000 fewer MW of capacity are needed. Wind generation has been the largest requestor by far for new interconnection service. Wind generation receives a capacity resource credit of 8% of nameplate, and therefore it takes about 12,000 MW of nameplate wind generation to get 1,000 MW of capacity for resource adequacy. If 12,000 MW of wind generation is not needed in the future (due to using a diversity factor 1% higher), then (using an estimated construction cost of $2,000/kW) $24 *billion* dollars of investment would not have to be spent (and charged to end-use customers) -- all based on a seemingly minor decision on "diversity factor."

Absolute reliability at all costs has never been – and should not now be – the goal of an RTO; and therefore the set of performance metrics for an RTO should include some measure of the trade off between level of service (reliability) and level of cost.

C. Metrics Should Measure and Account for Improvements to the Competitive Marketplace

The nature of the competitive marketplace means that end-use customers may not have the same energy supplier forever. Rather, customers may shift from supplier to supplier. The design of RTO markets must be able to accommodate such shifts, not be a barrier to shifts.

RTO services such as proper timing of recording load transfers, efficient modeling of new or revised pricing nodes, speedy market settlements that account for load shifts, and the ability to forecast load in a dynamic supplier environment are examples of abilities that an RTO should have to serve customers in a competitive market. Performance metrics should measure the effect of RTO services that provide the infrastructure for the competitive market, not just measure internal RTO processes. In order for the RTO/ISO markets to aid in the further development of competitive markets, consideration must be given to the effects of RTO/ISO improvements on customers.

D. The Commission Should Require Each RTO/ISO Filing That Proposes Substantive Changes to the Tariff to Identify the Effects of the Proposed Change on the Metric Categories, Markets and Users

What is missing from the proposed metrics is consideration of the trade offs that may arise when one Tariff change causes effects on another RTO/ISO service or feature. Tariff changes made by the RTO/ISO in one area can affect the operations/services provided in others. Sometimes the effects may be inadvertent. Other times, the effects are intentional. If an RTO is to be judged by a set of performance metrics, then for each substantive proposed change in the Tariff, the RTO should address the intended and likely consequences of the Tariff change on the metrics. For example, it may be necessary for reliability reasons to restrict a service offering in a region or area, which

may benefit a reliability metric but be detrimental to a cost metric. Up front acknowledgement in the Tariff filing letter and the tracking of the effects of these changes on performance metrics is absolutely necessary for the RTO/ISO to maintain its direction and focus on performance. RESA, therefore, proposes that an RTO be required to assess the effect of substantive Tariff changes on performance metrics that pertain to (1) reliability; (2) markets; (3) organizational matters within the RTO/ISO; and (4) customers/end users.

III.
CONCLUSION

RESA supports tracking of metrics in order to assess the benefits of RTO/ISO markets. RESA remains ever vigilant and concerned that RTO/ISOs continue to develop competitive markets and provide for open access and non-discriminatory tariff services so that RESA members can serve retail customers in competitive markets. Artificial wholesale barriers affect retail services and the success of retail programs. Metrics devised by the Commission must not only look at past performance, but must look to the future and ensure that the RTO/ISO is prepared to respond to future markets and future circumstances. These metrics also must consider and, at a minimum, acknowledge the cost/benefit analysis that underlies or should underlie RTO/ISO decisions in operating the transmission and providing the services required. Finally, in order to identify and keep track of Tariff changes, each RTO/ISO should be required to track and identify in each substantive Tariff filing, the effects of each change on: (1) reliability; (2) markets; (3) RTO/ISO organization; and (4) end users and customers. This information will be critical in assessing the benefits of RTO/ISO markets.

WHEREFORE, RESA respectfully requests that the Commission consider and implement the recommendations included in these Comments.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on each person listed on the Official Service List compiled by the Secretary in this proceeding

Dated in Washington, DC this 5th day of March, 2010.

/s/Elizabeth W. Whittle
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