

Competitive Issues Working
Group Meeting
August 11, 2004

Consensus Items of the
Wholesale and Transmission Group

A) RTO/OATT IMPACT ON RETAIL COMPETITION

1) Retail Energy Imbalance and Rules

The Wholesale and Transmission Group recommends no change at this time to the PJM energy imbalance service rules under which all imbalances are settled at real-time spot market prices and there is no other penalty for imbalances. We also recommend that MISO adopt a mechanism similar to that of PJM and that it move to develop the effective markets necessary to allow real-time spot market settlements as quickly as possible.

A) RTO/OATT IMPACT ON RETAIL COMPETITION

2) Capacity Costs and Resource Adequacy

- a) Ownership of generating capacity is highly concentrated within the physical boundaries of the Northern Illinois Control Area (“NICA”).
- b) To the extent that a high concentration of ownership of generating capacity results in excessive capacity or energy prices, PJM, MISO and FERC must take action to mitigate the effects of this potential market power.

A) RTO/OATT IMPACT ON RETAIL COMPETITION

2) Capacity Costs and Resource Adequacy

- c) The Wholesale and Transmission Group supports the integration of American Electric Power (AEP) into PJM scheduled for Oct. 1, 2004. AEP's integration into PJM should make the capacity market more competitive in NICA and thereby lessen the possibility that generation owners in NICA charge unreasonable prices due to the concentration of generation ownership within the physical boundaries of NICA. However, it must be monitored closely to determine whether this actually occurs.

A) RTO/OATT IMPACT ON RETAIL COMPETITION

2) Capacity Costs and Resource Adequacy

- d) The use of demand side management (curtailment, interruptible load, distributed generation, etc.) should be encouraged to minimize local and regional capacity needs of end-use customers and reduce both capacity costs for the end user and the capacity needs for the system as a whole.

A) RTO/OATT IMPACT ON RETAIL COMPETITION

2) Capacity Costs and Resource Adequacy

e) The Wholesale and Transmission Working Group supports PJM's efforts to revise its capacity construct to assure better overall system reliability by appropriately compensating needed operational characteristics such as dispatchable range, quick start capability and cycling capability. It is our position that MISO should endeavor to adopt a similar capacity construct as soon as possible.

A) RTO/OATT IMPACT ON RETAIL COMPETITION

3) Congestion Costs

- a) **Locational Marginal Pricing (LMP)** should encourage construction of generation and transmission capacity where these resources are needed. Since this is a new approach here in Illinois, however, the effects of LMP must be monitored closely.

A) RTO/OATT IMPACT ON RETAIL COMPETITION

3) Congestion Costs

b) **Financial Transmission Rights (FTRs)** should be allocated in a manner that FTRs hedge congestion charges to the maximum extent possible and thereby limit unhedged congestion charges to consumers. So far, unhedged congestion charges to consumers in NICA have been low, but these charges must be monitored closely to determine if changes in policies involving FTRs and congestion are needed.

B) WHOLESALE COMPETITION

1) How Does the RTO Affect the Amount of Wholesale Competition

2) Anticipated Changes Through 2007 Including Diversity of Supply and Price Transparency

a) PJM and MISO will enhance wholesale competition in Illinois. However, the actual effects on pricing should continue to be closely monitored.

B) WHOLESALE COMPETITION

1) How Does the RTO Affect the Amount of Wholesale Competition

2) Anticipated Changes Through 2007 Including Diversity of Supply and Price Transparency

b) A functioning joint PJM/MISO market will significantly improve wholesale competition in Illinois. Therefore, the Wholesale and Transmission Group recommends that such a market be in place no later than January 1, 2007.

C) WHEELING POWER “IN” AND “OUT” OF ILLINOIS

- 1) Transmission Bottlenecks
 - 2) Seams Issues
 - 3) Effect of Distributed Generation
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- a) FERC should adopt transmission rate designs for PJM and MISO which do not result in inequitable or inappropriate cost shifts to Illinois consumers.

C) WHEELING POWER “IN” AND “OUT” OF ILLINOIS

- 1) Transmission Bottlenecks
- 2) Seams Issues
- 3) Effect of Distributed Generation

b) Seams issues should be eliminated to the greatest extent possible so that the wholesale competitive market can be as efficient as possible.

C) WHEELING POWER “IN” AND “OUT” OF ILLINOIS

- 1) Transmission Bottlenecks
- 2) Seams Issues
- 3) Effect of Distributed Generation

- c) Illinois lawmakers, regulators and utilities should take steps to support: (1) national, regional and state efforts to develop a standardized, low cost set of interconnection rules and procedures for the safe, efficient and reliable interconnection and operation of small (less than 20 MW) Distributed Generation Resources (DGRs); and (2) standby and other applicable rates available to DGRs that recognize the value of DGR installations to the system, while reflecting distribution system costs as well as locational hourly energy market prices, to the extent practicable.