

December 3, 2002

The Honorable Pat Wood III
Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Dear Chairman Wood:

As the Commission begins to develop the final rule on Remediating Undue Discrimination through Open Access Transmission Service and Standard Electricity Market Design, the Energy Working Group of the Coalition of Northeastern Governors (CONEG) would like to share with you our perspectives on several components of the proposed Standard Market Design (SMD).

These comments draw upon the CONEG Governors' longstanding concerns for reliability throughout the region's electricity system; workable competitive markets; and a balanced approach that ensures environmentally sound production, improved delivery systems, and efficiency and demand management practices. Equally important, the Governors believe that the federal and state governments must act as partners to provide a regulatory framework that ensures equity, fairness and access to markets; vigilant market monitoring; recognition of regional differences in energy markets; and interstate cooperation as these markets emerge.

The CONEG states believe that agreed upon market rules are needed for the emergence of effective and efficient electricity markets. The Commission's proposed SMD rule is an important step in that process. As the Commission refines its proposed rule, the Northeast states urge the Commission to build upon the extensive foundation for competitive markets that has been created in the Northeast region.

In reviewing the proposed rule, the CONEG Energy Working Group offers the following comments:

- The SMD should provide for a strong partnership role for the states in developing market rules and tariffs, overseeing the operation of the market, setting the resource adequacy standards, and participating in regional system planning. Specifically,
 - ▶ the SMD must strengthen the role of the states in monitoring the performance of the markets. States must have reasonable access, consistent with appropriate confidentiality safeguards, to data collected by the market monitor, including market data and operating cost/marginal cost data;
 - ▶ states must be active participants in the Independent Transmission Provider (ITP) planning process and in reviewing ITP operations; and
 - ▶ states, having the ultimate responsibility for generation and transmission siting, must have a major role in regional system planning.

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- The SMD must avoid the potential for a bias toward transmission expansion as the primary means to meet future electricity demand and electric system requirements. Demand response programs and distributed generation must be given increased emphasis in ITP planning and operations.
- The SMD must enable greater use of renewable resources, and should require the identification of the source of generation in market transactions in order to enable the development of a “green” electricity market for those customers desiring such products.
- The governance of the ITP must be independent while still ensuring meaningful stakeholder involvement.

As the Commission moves forward on this historic rulemaking, the CONEG states stand ready to provide additional information on the concerns and the role of the Northeast states in developing effective competitive energy markets. On behalf of the CONEG Energy Working Group, I appreciate the opportunity to share their comments with the Commission.

Sincerely,

/os/

Anne D. Stubbs
Executive Director