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# Oversight of RTOs

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**Presentation to:  
Harvard Electricity Policy Group  
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# About GAO

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Serves as investigative agency for Congress

## Large and diverse organization

- 3,200 staff including accountants, analysts, economists, attorneys, and others
- Headquarters in Washington, DC with 11 field offices

## Broad organizational mission

- Detailed financial audits, program evaluation, policy analysis
- 12 teams with responsibility spanning all areas of government

## Highly valued products (FY 2007)

- \$45.9 billion in estimated financial benefit
- 1,354 nonfinancial benefits
- 276 testimonies to Congress
- About 1,000 products per year
- 66% of products contained recommendations
- 82% of past recommendations implemented within 3-years

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# Work at GAO

## Objectives and Initiation

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### Principal objectives

- Investigate all matters related to the receipt, disbursement, and expenditure of federal funds
- Evaluate the results of programs carried out under existing law

### How work is initiated

- Congressional mandates
  - Requirement in laws, congressional resolutions, conference reports, and committee reports
  - Generally includes auditing federal organizations; providing legal opinions and settling contracting disputes; and, performing analyses
- Congressional requests
  - Leadership requests (Majority, Minority)
  - Committees (Chairman, Ranking Minority) with jurisdiction
  - Individual members
- Self-initiated work
  - Examine current or emerging issues that may affect the nation's future
  - Address issues of broad interest to the Congress, with an emphasis on longer-range, crosscutting, and transformational issues

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# Background on Engagement

## GAO Review of RTO Benefits and Expenses

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Work begun in response to joint request from Committee on Homeland Security and Governmental Affairs, U.S. Senate

- Chairman Joseph Lieberman (I-CT)
- Ranking Member Susan Collins (R-ME)

Letter expressed interest in a broad examination of restructuring and RTOs

- Broad costs and benefits of RTOs
- Do RTOs affect the prices of electricity and related services?
- Specific information on startup and operational costs for the RTOs

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# Background on Engagement

## GAO Review of RTO Benefits and Expenses

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### GAO agreed to provide information on

- RTO expenses from 2002 through 2006 and key investments in property, plant and equipment;
- How RTOs and FERC review RTO expenses and decisions that may affect electricity prices; and,
- The extent to which there is consensus about whether RTOs have provided benefits to consumers

### Work culminated in written report

- Electricity Restructuring: FERC Could Take Additional Steps to Analyze Regional Transmission Organizations' Benefits and Performance, GAO-08-987
- Available online at [www.gao.gov](http://www.gao.gov)

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# Background

## Electricity Restructuring and RTOs

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### Electricity restructuring came in phases

- Traces roots back to at least 1978

### Restructuring expected to reduce prices, improve efficiency, and expand range of services

- RTOs (and ISO, before them) provided way to implement restructuring

### FERC expected Order 2000 to

- Increase efficiency of transmission and generation planning
- Improve reliability
- Reduce transaction costs
- Eliminate rate “pancaking”
- Improve congestion management
- Reduce opportunities for transmission discrimination
- Facilitate state-based retail competition

FERC expected RTO formation would result in annual benefits of at least \$2.4 billion

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# RTO Expenses and Investments

RTO Expenses and Investments Vary Considerably Depending on RTO Size and Functions

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Expenses totaled \$4.8 billion from 2002-2006

- PJM had largest total expenses, but was biggest and executed many functions
- SPP had small expenses, but executed fewer functions

Limited consistent information from RTOs about nature of expenses for most years

- With new Form 1, FERC improved visibility of 2006 (and later) expenses
- For 2006, about 17 percent were for transmission services, about 13 percent for market services, 39 percent for administration, and about 31 percent for other

Investments totaled \$1.6 billion from 2002-2006

- Investments mostly for software and equipment for transmission and market management

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## **RTO and FERC Review of Decisions**

RTOs and FERC Rely Heavily on Stakeholders when Evaluating RTO Expenses and Decisions that May Affect Electricity Prices

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RTOs have unique stakeholder processes to gather and review input

- Stakeholders value input, but participation can take time and resources
- Some stakeholders questioned whether all stakeholders received equal consideration
- Some stakeholders were concerned that inadequate emphasis was given to the potential impact of RTO decisions on consumer prices

Some stakeholders questioned whether FERC's oversight of RTO budgets was sufficient

- RTOs have different budget processes, and FERC conducts limited review of proposed expenses
- RTO reporting of actual expenses via the Form 1 lacked regular review at FERC



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## Views on Benefits of RTOs

Key Participants Lack Consensus on Whether RTOs have Brought Regional Benefits that Outweigh Costs

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Key stakeholders' views vary

- Most agreed that integrated oversight of grid operations was valuable
- Many agreed that integrated dispatch offered value, though some disagreed as to whether benefits were shared with consumers
- Disagreement about whether RTO markets have benefited consumers

RTO-conducted evaluations find value in their own operations

- Different RTOs have approached these evaluations differently

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## Views on Benefits of RTOs

FERC Views RTOs as Positive, but has Not Conducted a Formal Review

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Believes RTOs provide benefits

Collected some data

- RTOs provide data on load, generation by fuel type, and others
- Has a non-publicly available document summarizing selected data

Has not developed a formal process for evaluating benefits

- No retrospective analysis of benefits
- No comprehensive, publicly available performance measures from FERC
- Has not synthesized available RTO data in a way that allows Congress and the public to understand and draw conclusions about their operations

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# Conclusions

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More structured and formalized approach to RTO oversight would be beneficial

FERC's oversight of RTOs as a "utility" may no longer be sufficient

- FERC has routinely overseen RTOs as "utilities"
- While similar in some ways, RTOs are different than utilities
  - Perform some functions that utilities traditionally performed such as managing the grid
  - Perform some functions that are new—developing markets
  - Perform some quasi-regulatory functions such as monitoring markets, imposing penalties, balancing stakeholder interests

FERC oversight of budgets and costs are not consistent

- Wide range in RTO structures and operations could benefit from more regular, consistent review

FERC has not reviewed the benefits of RTOs nor developed standardized measures to gauge their performance

- Lack of comprehensive, publicly available measures contributes to uncertainty about benefits of RTOs and their magnitude

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## Recommendations

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To help ensure that FERC, industry participants, and the public have adequate information to inform their assessment of whether rates to recover RTO expenses are just and reasonable, we recommended that the FERC Chairman take two actions:

- Develop a consistent approach for regularly reviewing expense information contained in RTO budgets, and
- Routinely review and assess the accuracy, completeness, and reasonableness of the financial information RTOs report to FERC in their annual Form No. 1 filings

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## Recommendations (cont.)

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To provide a foundation for FERC to evaluate the effectiveness of its decision to encourage the creation of RTOs and help Congress, industry stakeholders, and the public understand RTO performance and net benefits, we recommended that the FERC Chairman take two actions:

- Work with RTOs, stakeholders, and other experts to develop standardized measures that track the performance of RTO operations and markets, and
- Report the performance results to Congress and the public annually, while also providing interpretation of (1) what the measures and reported performance communicate about the benefits of RTOs and, where appropriate, (2) changes that need to be made to address any performance concerns