November 5, 2002

Honorable Pat Wood, III, Chairman
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

RE: FERC Docket No. RM01-12-000

Dear Chairman Wood:

The Maine Public Utilities Commission appreciates this additional opportunity to share our views of the Commission's initial pricing proposal for network upgrades and expansions as described in its Notice of Proposed Rulemaking on a Standard Market Design. We believe that the Commission has correctly identified some of the major barriers to transmission system expansion. As stated in the NOPR, "mismatches between those who benefit from the new facilities and those who pay for them, particularly when the two affected sets of customers are served by different transmission providers, are often more than enough to make sure the new facilities do not get built." We are in the throes of just such a situation in New England and can, from experience, testify to the accuracy of the NOPR's observation. We are supplying a discussion paper and written responses to the Commission's questions on transmission expansion that provide more detail, but we would like to take this opportunity to emphasize the central principles that should guide the Commission.

THE COMMISSION'S PROPOSAL TO ALLOCATE TRANSMISSION EXPANSION COSTS TO PROJECT BENEFICIARIES IS APPROPRIATE.

Proposals for transmission system expansion are nearly always motivated by economic factors. Studies demonstrating that project benefits exceed project cost of the expansion are routinely produced at transmission siting proceedings. Transmission projects that are economic will not become any less economic if those who will receive the benefits are also called upon to pay the costs Where costs are spread too broadly, however, project development will be more difficult because those who will be asked to pay, but who will see little or no benefit, are likely to resist development and payment. To the extent that socialization has worked in the past, it has worked because the benefits of lower cost generation made available by the new transmission have been shared as well. With the advent of LMP, however, transmission as well as energy must be locationally priced.

ROLLED-IN PRICING FOR EXPANSIONS IS FUNDAMENTALLY INCONSISTENT WITH LMP AND SMD

The Commission's proposed rule for a standard market design provides the framework for competitive wholesale electricity markets that correctly places both the burden and the rewards of congestion in the hands of the generators or load interests responsible for creating or for relieving it. The design should work well both in states that have moved to retail competition and those that have not. Generators who incur the expense of locating in difficult load pockets will receive higher prices, and load interests who incur the expense of developing load response programs will receive greater savings due to the congestion pricing attendant with LMP. Rolled in pricing, however, thwarts the economic incentives that LMP is designed to provide, because it taxes consumers who do not directly benefit from transmission expansion to relieve congestion. Spreading the costs beyond those who benefit blunts the incentives for those who should have the greatest economic incentive to relieve the problem. Moreover, rolled-in pricing for transmission tilts the economic balance in favor of transmission as against other solutions, such as demand reduction and new generation, to locally high prices.

We hope these comments and the written material we are submitting will be helpful. We will submit additional comment on this issue in our January comments in this Docket, and we thank you for the opportunity to participate in this technical conference.

Sincerely,

Thomas L. Welch Chairman	William M. Nugent Commissioner	Stephen L. Diamond Commissioner