Can Merchant Co-Exist?

- Well functioning markets provide market incentives that drive merchant investment
- Merchant financing is not based on regulated rates (rate base)
- May need regulatory backstop for cases of market failure
- Absent meaningful and transparent pricing, merchant investment is not practical, since there is no way to know where transmission is cost/beneficial
Transmission Investment Model

Merchant
- Voluntary
- Non-regulated return

Hybrid
- Voluntary
- Regulated return

Regulated
- Mandatory
- Regulated return

Merchant and Regulated investments are appropriate
Hybrid is more difficult in a market paradigm

Supporting the Merchant Business Model

- Imposing regulated obligations on merchant participants thwarts the market-driven business model
  - Mandated, regulated return obligations are different from voluntary, market-driven projects
  - Rules must preserve merchant property rights
- Identify the default transmission builder before formulating an RTO
  - It is not the merchant
Supportive Infrastructure

- An intrusive/overactive central planning coordinator can have a chilling effect on merchant investment
  - Integrated Resource Planning with competitive solicitations for identified problems will preempt market based solutions
  - However, a functioning market is required
- Merchant generation began on this path over a decade ago – we are still “unwinding”
- Competition for projects is second best to competition for investment

Property Rights

- New investment cannot be allowed to erode the property rights of existing investment or infrastructure
  - Financial - Need to assure that new incremental investment does not reduce the transfer capability and lower the existing quantity of rights without compensation
  - Physical - Need to assure that physical plant is adequately compensated
PJM Decision

- PJM purports to identify “unhedgable” congestion, or congestion for which there is no available financial rights for delivery price certainty
- Is the role of the ISO to insist on upgrades which help some market participants while harming others?
- Have we conceded before we begin?

Stop the Erosion

Insistence that the regulated backstop invade the competitive arena is problematic:
- It perpetuates the myth that transmission is not a competitive entity capturing the same economic rents driving generation and demand-side solutions
- It slows the paradigm shift that transmission is a “first-instance” competitive investment – not just a backstop
- This could slow the technology and innovation breakthroughs of market-driven thinking