



GUIDING PRINCIPLES FOR MERCHANT POWER PLANTS



NATIONAL ENERGY MARKETERS ASSOCIATION

3333 K Street, NW, Suite 425

Washington, DC 20007

Tel: (202) 333-3288 Fax: (202) 333-3266

www.energymarketers.com

Copyright, July 15, 1999

This document reflects the views of the National Energy Marketers Association and does not necessarily reflect the views of any specific member of the Association.

Introduction

The National Energy Marketers Association (NEMA) is a national, non-profit trade organization representing a regionally diverse cross-section of both wholesale and retail marketers of natural gas and electricity. NEMA also represents producers, generators, transporters, and providers of energy-related information, services and technology throughout the United States.

NEMA is committed to working with regulators and all the other stakeholders to implement laws, regulations, standards of conduct, rates, tariffs and operating procedures that (a) provide all customers meaningful choice, (b) implement open, efficient, liquid and price-competitive energy markets, and (c) encourage the development of new and innovative energy services and technologies, at the earliest possible date.

Guiding Principles for Merchant Power Plants

NEMA supports competition in wholesale power markets. In a competitive environment, markets would be able to send price signals to developers when new supply is needed. Market forces would, by nature, limit the amount of merchant capacity. Allocation of scarce supplies to those who value them the most would result in efficient distribution of scarce resources.

NEMA supports competition in wholesale power markets and asserts that merchant power plants developed by independent power producers would provide substantial net benefits to electricity consumers. Competitive markets by their nature and construct are inherently more efficient because they send the necessary price signals to developers that new supply is needed to meet the demand for electricity. In turn, market forces will naturally limit the amount of merchant capacity. As a result, allocation of scarce supplies based on price will result in efficient allocation of resources and will allocate supplies to those who value them the most.

NEMA asserts that merchant power plants developed by independent power producers would bring substantial net benefits to electricity consumers because:

- ◆ independent power producers would meet electricity demands by developing new generation capacity whenever and wherever needed; prices for energy and capacity will be lower because new market entrants would have to compete for market share, as well as for the right to be dispatched;
- ◆ developers, rather than captive ratepayers, would bear the risk for investments in new generation plants;
- ◆ competitive suppliers would not have “stranded costs”, nor would they recover uneconomic investments from captive customers;
- ◆ merchant plants would increase wholesale competition and dilute the vertical and horizontal monopoly market power of incumbent utilities;
- ◆ increased wholesale competition will eventually foster robust retail competition -- when retail competition is introduced.

Statement of Competitive Principles

Members of the National Energy Marketers Association have developed the following principles to promote the development of merchant generation plants by independent power producers. These guidelines promote the best interests of the states as well as their electricity consumers.

1. Regulatory barriers to the development of independent merchant generation capacity should be identified and eliminated at the earliest possible date.
2. Public service commissions should assist state legislatures in identifying and removing statutory and legal impediments to the development of independent merchant generation capacity.
3. Generation ownership and control must be kept separate and apart from ownership/control of the transmission and retail distribution functions.
4. While incumbent electric utilities should not be strictly prohibited from constructing additional generation, public service commissions should adopt a rebuttable presumption that all new generation capacity should be built by independent developers in order to accelerate the transition to competition and to ensure the maximum amount of reliability.

5. All generation, not just new entrants, must compete on price-to-earn dispatch and market share, i.e. - an open wholesale generation market in order to bring maximum benefit to electricity end users.
6. Competitive generation and power marketers must have open, non-discriminatory access to electric transmission services in a way that is comparable to that of the utilities, consistent with federal law.
7. Transmission interconnections for merchant plants must be provided on a non-discriminatory basis, similar to that provided to the transmission owner's generation assets. This includes system impact studies, facility feasibility studies, transmission system upgrade studies, and all related evaluations. Timing for studies and construction of the necessary facilities must also be comparable.
8. All interstate transmission service must be transparently scheduled and obtained on OASIS.
9. Incumbent generation must not constrain the efficient working of the market by receiving an artificial and unfair priority on transmission service (network service vs. firm point-to-point vs. capacity benefit margins).
10. Excess capacity will result in supply exceeding demand, which in turn will result in low prices for end-users. Developers will not risk the downside of low prices due to over-supply unless there also exists potential for higher prices resulting from short supplies.
11. Over-reaction to or misinterpretation of price spikes should be avoided because high power prices of short duration may be of a lower total cost to consumers than the addition of an additional peaking generation facility.
12. The market will ensure availability of supply, while public service regulation will continue to ensure fair play and reliability of regulated distribution services.
13. Since new, efficient, clean-burning generation plants will require new natural gas supplies, additional interstate natural gas pipeline competition should be encouraged. Such competition would provide numerous benefits to all states, , creating gas-on-gas" competition which will result in lower prices and better overall service. Additional interstate pipeline competition would also significantly improve the reliability of natural gas service, which in turn would improve the reliability of the electric system by providing alternative sources of gas in the event of natural disasters or pipeline emergencies.