

RTO Car Talk – September 21, 2001 Edition

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#### CONNECTING THE DOTS -- An Editorial

Supporters of dereg/RTO seem generally to believe that a free market for power and open transmission access will solve the problem of congestion on the transmission system.

The plans for RTO West call for Firm Transmission Rights (FTRs) to be granted to existing transmission users. FTRs are rights that allow the holder to avoid RTO West's congestion charges. (One FTR is an entitlement to schedule 1 MW for use of a flowpath in a particular direction for a particular hour.) RTO West will make more FTRs available for sale, probably by auction.

Here, in simple terms, is how FTRs work:

1. Let's say a path can carry 300 MW. Two publics now served on it each have a load of 150 MW. Each of the two publics, then, would be entitled to 150 FTRs. Suppose a third party wants to schedule 100 MW over the path. The path thus becomes congested. Through redispatch or some other action, RTO West can fulfill all three schedules. The two publics, which have FTRs -- "get-out-of-jail-free-cards" -- would not pay congestion charges. The third party would.

2. Suppose the combined load of the two publics is 200 MW. They, then, would be entitled to 200 FTRs. The remaining 100 MW -- translated into 100 FTRs -- could be auctioned off by RTO West to the highest bidder. Moreover, the two publics could sell or trade their unused FTRs, if any.

The supporters of free market/open access assume that because FTRs on a constrained transmission path are valuable, someone (the generation owner, a marketer, the utility with the load, the RTO, TransConnect, TransElect, etc.) will want to build new facilities to get the valuable new FTRs created by the new facilities.

So where's the rub? Well, building new facilities that eliminate congestion will render both the old and new FTRs valueless, for FTRs are worth little or nothing unless a path is congested. Neither the entities holding FTRs, nor those paying congestion charges, have an incentive to build. (Reducing one's own congestion costs is not an incentive, because other users would see their congestion costs reduced as well, and they would not have had to invest a penny. Thus an "After you, my dear Alphonse" attitude -- or a game of "electric chicken" -- would ensue.)

Of course, if the free market/open access truly did work in the electricity world, there would be no need for RTO West to have a "backstop" ability. And to the extent RTO West does attain a backstop role, I bet it will soon play the traditional utility role of building virtually all the transmission in its area, using central transmission planning, prioritizing projects based on the amount of construction money available, etc. Again, a very expensive and needless re-invention of the wheel.

End of editorial.

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#### PLANNING GROUP MEETING

Potential designs for a planning backstop were the big topic. The backstop would be implemented only if the market fails to respond to eroding system reliability and/or chronic significant congestion. Parties fall on both sides of this issue. At least one FU (Avista) has declared that INCLUDING a backstop would be a deal breaker, while another FU (BPA) has said that EXCLUDING a backstop would be a deal breaker. [Ed. note: Isn't it strange that agreement is lacking on this issue when RTO West is in the "finishing touches" stage -- and in light of the propoganda that an RTO is not only needed, but certain to work?]

There was contentious discussion around the issue of allocating the costs RTO West may incur in building to eliminate congestion or to improve system reliability. Here are some of the questions the group has been wrestling with:

- \* What kind of planning authority should the RTO have?
- \* Should the RTO be able to compel construction on a project and allocate the costs to the parties that benefit?
- \* Should the RTO have this authority only if it is assuring system reliability? What if this project is not needed for adequacy, but rather to relieve chronic significant congestion?
- \* What mechanism should the RTO use for allocating costs? What should it do in a situation where it does not have the legal authority to allocate cost to the chief beneficiaries of the project (e.g., to a generator)?
- \* How long will the planning backstop take? If it takes 3-5 years (which soem estimate), will it be effective?
- \* In its initial planning function, should the RTO choose the least-cost plan, or should it present myriad potential solutions regardless of cost? If the state PUCs require least-cost planning and the RTO does not include this as one of its main criteria, will utilities lose money by duplicating planning staff to conduct cost/benefit studies?

The group discussed the TransConnect planning proposal that was presented at the last Planning meeting. The TransConnect-ers present were unable either to answer questions or to negotiate changes in the proposal. Much frustration was expressed by non-Transconnect-ers. The general feeling group is that 1) Transconnect stalled on giving the group any information; and 2) the information provided is incomplete and vague. Questions raised:

- \* How is TransConnect different from any other market participant? What kind of privileges does TransConnect seek?
- \* How does TransConnect plan to recover the costs of its projects? If a utility funds an expansion project needed for system reliability, it will be allowed to recover those costs through its Company Rate. If a utility funds an expansion project to relieve congestion, it can recover those costs through reduced congestion charges. [Ed. note: see the fallacy of this statement in Connecting The Dots, above.] Is TransConnect seeking to recover its project costs through rates regardless of the underlying reason for construction?
- \* What kind of cost recovery mechanism will TransConnect use to finance its internal planning process? Who will pay?
- \* Is TransConnect willing to change the date of its filing? Because the RTO West planning design is not finished, it will be difficult to fashion a TransConnect plan that will dovetail with that of the RTO.

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#### CONGESTION MANAGEMENT GROUP MEETING

Several non-FUs are concerned that "working assumptions" are being solidified and will end up in the filing without being reviewed. Therefore the group is dedicating a half-day next week to discussing different ideas for determining the number of zones and flowpaths to be used. The group continues to work on the over-allocation issue. No notable progress was made on this subject. The group will probably ask the RRG for guidance due to the broad disagreement concerning the direction we should take.

The most substantive discussion revolved around the moderator's straw proposal for the "'Real Translation' Process." This proposal involves a flow chart describing how the contract translation process would occur. Folks are worried about parties negotiating contract translations behind closed doors in order to "get the best deal possible" and purposefully causing congestion. There seemed to be consensus that everyone was comfortable with the parties negotiating the terms of their contracts behind closed doors (i.e., they will define the contract rights). These rights will be translated in an open process in the Congestion Management work group using a set of rules. A question was raised about FERC's code of conduct rules. Whenever a utility's merchant and transmission reps are negotiating, they are bound by those rules. Some would like assurance that these rules are being followed through out this process.

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#### BPA/PUBLICS MEETING

BPA was shown the draft of the publics' cost/benefit letter. This letter addresses the BPA side-study and how BPA ought to proceed. BPAers said they'd get back to us.

The stakeholders' issue of parallel meetings came up, and BPA said it had heard of the draft letter complaining about the FUs making all decisions behind closed doors with no regard for consensus positions made in open meetings. BPA noted that this issue was discussed at the FU meeting and that some FUs felt they needed to be more open. There are a couple of FUs that are reluctant, though. When asked if it is possible for a "silent" stakeholder to attend, BPA said, "No". [Ed. note: Remember that we decided not to have a successor independent note taker at FU-type meetings because it yielded very little of value.]

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#### REGIONAL REPRESENTATIVES GROUP (RRG) MEETING

\* Schedule for RTO filings. There will be a 12/1/01 RTO West filing at FERC to comply with the April 26 FERC order on RTO West and TransConnect. The four items FERC wants addressed are (1) resolution of seams issues; (2) plans for participation in RTO West by Canadians; (3) a framework for formation of a west-wide RTO; and (4) a timetable for achieving a west-wide RTO end state. The 12/1 filing will contain a description of the "western market vision" framework and timetable, a proposed inter-RTO seams agreement and/or memorandum of understanding (MOU), and some additional info (see Seams stuff below). Canadian participation should be OK given BC Hydro's signing on, and Alberta in discussions. The draft compliance filing will be worked on in early October and released to the region for review and comment 10/26-11/16. The final version will be pulled together 11/19-11/29 and shipped off to FERC 11/30 in time for the 12/1 deadline. The more complete filing that will contain the RTO West tariff is still expected by 3/1/02.

\* Collaborative process. Several folks raised concerns that the parallel meetings of the FUs on content group subject areas (like Congestion Management and Pricing) may be undermining the collaborative process. There was an allegation that standards of conduct may be an issue because these meetings appear to include representatives from both power and transmission sides of the FUs. A few stakeholders felt that the proposals emerging from these parallel meetings were effectively done deals that the content groups could only respond to rather than have a hand in developing. In response, FU reps felt that the slow process to date was frustrating; that there had been a request to get some proposals out for folks to respond to; and that there was no nefarious scheme to undermine the collaborative process.

\* TransConnect update. A rough draft of the planning protocol is available on the RTO West website:

[http://208.55.67.64/Index\\_Page\\_TransConnect\\_Filing.htm](http://208.55.67.64/Index_Page_TransConnect_Filing.htm)

Comments are being accepted. TransConnect-ers still plan to make a filing at FERC, but things are delayed by at least a week due to the tragedies of 9/11. They can't provide a schedule for their planned filing, but expect something within the next three weeks or so.

\*Interregional coordination (Seams) and western market vision. In response to the FERC requirement that the RTO West FUs have a plan for the west-wide RTO, the FUs are working with reps from Desert STAR and the California ISO on a Western Market Vision. The vision is that there is one seamless west-wide market with common business practices, no trade barriers and minimum transaction costs. There will be three RTOs in the west (RTO West, DSTAR, and CAISO), with the potential for fewer RTOs in the future. Having three RTOs is necessary because the complexity, size and diversity (load as well as generation) of the western interconnection is needed -- at least initially -- to assure reliable operations. Also, the three RTOs would be able to "capture symbiotic benefits" such as being able to serve as each other's back up.

The three RTOs would enter into a seams agreement, which would be some sort of contractual arrangement or MOU outlining how they would work to achieve this single seamless west-wide market. This MOU would clarify what things would be shared by the three RTOs (such as backup control centers, employee training and human resources, purchasing, and software), those things that would provide one-stop shopping for transmission (such as a single OASIS and ancillary services), and those areas that would need to be common or at least compatible (such as transmission products, pricing, scheduling timelines, reliability standards, and interconnection standards).

Why a single west-wide market? The arguments presented included the usual: efficient markets reduce prices; more efficient use of transmission system through consistent practices; and it would meet the needs of commerce across the west. But the single biggest reason appeared to be because FERC says so.

The proposed timeline for the remainder of 2001 has RTO West proposing its vision and working with CAISO and DSTAR to finalize the common vision, then submitting the vision to FERC on 12/1. During 2002-2003, the three tenors -- oops, the three RTOs -- will work on defining the common products, standards, practices, etc. that will make this Holy Trinity act as One Market. Finally, the RTOs will file their compatible tariff provisions with FERC in 2004 and start implementing their compatible protocols.

The Boards of CAISO and DSTAR, and the principals of RTO West, are meeting regularly on seams coordination. Further, their work is plugged into the Western Market Interface Committee (WMIC) Seams Task Force activities. You can view meeting minutes and other seams info on the RTO West website at <http://208.55.67.64/Stage2SSGWIMain.htm>

It appears that none of the three RTOs is at all interested in a single west-wide RTO at this time.

\* Congestion Management. The RTO West team gave a recap of the summer activities; a summary of where things are at; and a workplan:

Recap: In early June, a consensus was reached to use a flowpath (as distinguished from a contract path) model for congestion management. Since June, the Congestion Management content group has been working to finalize the details of the model and figuring out how to translate rights under existing contracts into firm transmission rights (FTRs) in the RTO world.

Where We're At: Many issues have been hashed out and resolved, others are close to being resolved. [Ed. note: Remember, this is a report by the RTO West facilitators rather than by any stakeholder.] An outstanding issue is liquidity (i.e., can people get FTRs). Work is beginning on translation of rights.

Work Plan: Over the next few weeks, translation efforts (translating existing contracts into FTRs) will be underway (recall that BPA and publics are talking already about NT and PTP rights in preparation for this initial translation of rights). A straw proposal for the "real translation process" was presented and discussed. Several issues were raised by RRGers about this proposal. For example, there were concerns that the rights of existing parties should be resolved privately by the parties to the contract; how those rights are translated into FTRs should be done consistent with a common set of rules; results of private negotiations should not be "modified" by the Congestion Management group as suggested in the proposal. There were some questions about what data might be confidential (if any). It was agreed that the translation process will be adjusted to reflect a common understanding reached at the end of this discussion.

\* Planning and expansion. The RTO West team gave an update on planning. There is a wide range of opinion on the backstop so no consensus yet. The Planning group is exploring the appropriateness of expanding the planning backstop authority of the RTO beyond the stage 1 decisions. The group is wrestling with how to distinguish between (and trying to define) transmission adequacy and congestion. It was noted that Avista opposes expanding RTO West's planning backstop authority.

\* Market Monitoring. The Market Monitoring group will be convening for the first time in many months next week. Key items for discussion are a single market monitoring function for all three RTOs in the single west-wide market, and whether the marketing monitoring function should be expanded beyond that described in the stage 1 filing. Recall that the stage 1 decision had the market monitoring unit (MMU) watching RTO markets (like ancillary services), and reporting on power markets on an annual basis. The MMU would not have an enforcement role and would be distinct from tariff compliance. Given FERC's comments on last year's western power market situation, it appears an MMU annual report on power markets may be woefully inadequate.