

RTO Car Talk – August 17, 2001 Edition

INTERESTING TIDBITS

An interview of Alan Richardson, top dog at Scottish Power/PacifiCorp, ran in the August 6, 2001, edition of Restructuring Today. Grab your socks, folks:

"The concept of a 'west-wide RTO is absolutely right,' [Richardson] stressed in an interview recently . . . 'PacifiCorp has people who understand how to make it work,' he added."

On the other hand, he also had these two things to say:

"If you're going to have competition, it's got to bring benefits to the customers and I'm not actually clear at this stage that those benefits are there and available,' Richardson said[.]"

"I tend to sympathize with the old, regulated monopoly,' Richardsaid with a smile. 'Well done, vertical monopoly is probably the best way of delivering cheap electricity reliably to the customers.'"

PRICING

The FUs propose to modify some aspects of the stage 1 pricing model to address certain issues before making the 12/01/01 FERC filing. These issues are (1) recovery of revenues associated with short-term transmission usage; (2) export fees; (3) potential loss of revenues from converted long-term contracts that expire during the Company Rate Period; and (4) transactional scheduling fees. The proposal is intended as a work-in-progress, to begin discussions on whether these ideas are acceptable and workable.

Recovery for lost revenue amounts (revenues previously received from unaffiliated marketers and parties outside RTO West for short-term transmission use); NWPP short-term transfer payments (revenues previously received from utilities within the Northwest Power Pool other than FUs for short-term transmission use); and FU transfer payments (payments FUs make to each other for use of each other's systems for short-term transmission use) will be addressed through a single pool of revenues.

[Ed. note: I think the above paragraph is talking about wheeling revenues that now go to each transmission owner. The issue seems to be this: when RTO West takes over operation of the system, how will the transmission owners be reimbursed for what they used to collect for wheeling?]

The FUs' proposal caps the maximum amount of their short-term transfer payment amounts that would be included in this pool. The FUs making short-term transfer payments to each other will work together to (a) decrease the amount of any short-term transfer payments that exceed the agreed-upon cap; and (b) to the extent possible, shrink the size of the pool. Internal short-term transfer payments (such as PBL-TBL, within a single FU) would NOT be included in the pool.

Finally, the total amount of short-term "lost revenue" in the pool will be added to the RTO West cost recovery requirements (RTO West startup cost, capital, operating expenses, etc.) to equal a grand total cost that must be recovered through a Grid Management Fee. This Grid Management Fee would be applied to all RTO West schedules, including exports. In theory, exporters should pay their fair share of costs and so there is still no separate fee for exports.

[Ed. note: "Grid Management Fee" is a brand-new term. The Grid Management Fee used to be called "uplift charge".]

There are many questions: What is a "schedule" for purposes of applying the Grid Management Fee? How is the level of the cap on the size of the revenue pool going to be determined? Exactly what costs will be in the "Grid Management Fee" and how large are they? How will the size of the pool be limited? What is the impact on the overall cost of transmission (i.e., when will we run some numbers to see dollar impacts)? Will this approach result in lower or higher transmission costs to users?

On the issue of converted long-term contracts: when a long-term converted contract between FUs expires before the end of the Company Rate Period, the long-term transfer payment obligation would end and free up the associated FTRs. RTO West will assign to the FU that provided transmission service under the expired contract all the revenues from future sales of the freed-up FTRs to replace revenues lost from the long-term transfer payments that have ceased.

Stage One decisions that are NOT being modified include the following:

1. The concept of load-based Company Rates;
2. The long-term transfer payment obligations among FUs;
3. The length of the Company Rate Period through 2011 (but publics have asked that the 10-year period begin on the date of RTO startup); and
4. No export fees.

[Ed. note: The Pricing work group is throwing many costs into the Grid Management Fee (nee uplift charge). This means that a number of costs are being socialized -- regionalized -- just like they are NOW, UNDER THE AEGIS OF BPA'S TRANSMISSION ACTIVITIES. What an expensive re-invention of the wheel we are witnessing. On the other hand, the Planning and Congestion Management groups appear to be taking great pains to assure that those who use are those who pay. Which approach will prevail is anybody's guess.]

COST/BENEFIT

A team of techies -- three FU reps, three customer reps, and Bud Krogh -- is interviewing four or five firms today (Friday, August 17). The techies will make a recommendation to the FUs as to which firm ought to be hired to perform the cost/benefit study. The FUs are free, of course, to choose anyone they want.

LIABILITY AND RISK MANAGEMENT

The group addressed the Credit Standards and Policies for Scheduling Coordinators and Guarantors (collectively, "Credit Applicants"), as well as alternate forms of security. The group expects to finalize the Scheduling Coordinator Credit Requirements over the next two weeks and meet again to complete a package of standards, overview and penalty provisions. The final draft may contain provisions on collateral deposits; creditworthiness, exposure and limitations; material adverse changes; impropriety of using energy imbalances for supply; and remedies.

BPA is worried about how collateral requirements can apply to governmental and public entities. BPA is also worried about whether RTO West must be the buyer of last resort, like the Cal ISO which wound up covering the energy imbalances. The RTO is not supposed to be a load-serving entity, yet would become one through the ancillary services. Idaho Power is troubled that it will cost more to do business in an RTO world than it costs to do business now. [Ed. note: !!!]

The group did not conclude its work on the level of detail that should go into the credit requirements, the collateral obligations, and the treatment of governmental entities. There are many questions: Do the transmission owners bear the liability? Does everyone pay the uplift charge [Ed. note: "Grid Management Fee"] or does it come out of the hides of the transmission owners? How will the RTO determine exposure for the purpose of determining collateral? Can the RTO get off the ground if the standards require joint and several liability? Should the RTO have discretion with limits? Should the RTO have control of its tariff? Will the formula guidelines match up with the exposures? How many angels can dance on the head of a pin? What is the lag before the RTO can do something about a problem? Will self-tracking and metering shorten the lag time, compress the settlement cycle, and allow a faster response to a possible short position? Is it fair to risk scarcity for non-incumbents and new entrants? What are the standards and process for reporting imbalances? If an RTO becomes a load-serving entity, shouldn't it be allowed to have generation? [Ed. note: Oh my God, you mean folks other than Alan Richardson may begin to admit that

vertically integrated utilities can be efficient? Or does this question imply that an RTO should be transmogrified into one giant, vertically integrated utility that rules the planet?]