

RTO Car Talk – September 22, 2000 Edition

THE FILING UTILITIES (FUs) met early this week in a 2-day closed session ("Camp RTO") to hammer out, by themselves, proposals for what their FERC filing will contain. They will meet in D.C. with FERC in a private, pre-filing conference on 9/28.

THE PUBLICS AND BPA met Wednesday morning. BPA/Mark Maher briefed the publics on the highlights of Camp RTO. Surprise! The FUs changed PLANNING Backstop so that the RTO performs planning but does not compel construction. Reps of remote and vulnerable publics believe that this guts the Planning Backstop proposal that the Regional Representatives Group (RRG) agreed on earlier this month. BPA, in this editor's opinion sheepishly, noted that remote publics could simply file a 211 request. (More details of this change are discussed below in the RRG mtg summary.)

BPA reported that open issues remain in PRICING (imputed transfer payments, facilities inclusion) and CONGESTION MANAGEMENT (Firm Tx Rights -- FTRs -- for load growth). With respect to GOVERNANCE, BPA's position was that there should not be a weighted allocation of votes for Board candidates based on load size, a position the ITC (Independent Tx Company: Puget, Montana Power, PGE, Avista and Sierra Resources) advocates. The cost-benefit analysis and report were still not available.

We credit BPA with keeping publics informed.

THE RRG met Wednesday afternoon to have a look-see at the proposals the FUs presented. Documentation was minimal. Many issues must be resolved before the filing date (10/16).

1. PRICING: A confusing, disjointed presentation. The Company Rate will last until 12/15/11 (this is how cost shifts will be minimized through 2011). Many open issues.

2. PLANNING: BPA had already warned us: the RTO will plan, but not compel, a tx owner to construct necessary facilities (RRG consensus was that the RTO could compel, and the costs would be rolled into the Company Rate). Presenters said that the RTO would assess the capability of the system on a regular basis and report its findings to the marketplace. Incentives to build would be provided through the congestion management process. If there is a problem on the system and the tx owner "chooses not to resolve an identified problem, the RTO must ensure that no others are impacted [sic] by this decision." So unless the owner's decision has an impact on others, the RTO cannot compel the owner to construct facilities the owner decided not to build. When asked whether the load has any recourse, presenters (in this editor's opinion, cavalierly) declared that service can be requested and the requester can open its checkbook.

Another modification in this proposal is a requirement that the RTO develop region-specific reliability criteria, consisting of "adaptive long-term planning and expansion": the RTO plans for the next 5 years, then Participating Tx Owners (PTOs -- currently, the FUs) planners do expansion studies coordinated by the RTO.

3. CONGESTION MANAGEMENT: A pre-existing contract holder or a load service obligation (i.e., public power tx contracts to serve load) may elect to either receive FTRs or the auction revenues associated with the FTRs. Express rollover rights in existing contracts will be honored. Pre-888 and 888 open access contracts associated with firm power service to loads are deemed to have rollover rights and will be honored as long as the rollover rights are exercised.

The publics' straw proposal on FTRs for load growth is that unencumbered FTRs, up to the existing Total Tx Capacity (TTC), will be allocated to pre-existing contract or load service rights holder before the annual auction. The FUs have made no decision on this issue yet. (In plain English: a tx line has a capacity of 100 MW. 90 MW are used up by utilities serving load. There are thus 10 unencumbered MW, which

could be either auctioned off (marketers' position), or allocated for load growth purposes to those utilities already using the line to serve load (publics' position).

Before the annual FTR auction, rights on an overallocated path will be reduced pro rata, based on the feasible dispatch used in the conversion of pre-existing contracts. If a customer elects not to convert to RTO service, the party responsible for scheduling the non-converted contract must provide clear instructions to the RTO on how to administer the non-converted contract. The FUs have not yet decided on a process for this administration of non-converted contracts.

The monthly blocks of FTRs for converted contracts will be based on non-coincidental monthly peak and off-peak loads, 1998-2000. The rights-holder can sell its excess FTRs on the secondary market, but a GTA customer of BPA cannot receive FTRs until the customer's transmission service is converted to RTO service.

4. GOVERNANCE: By-laws are in final editing. Board members cannot be market participants or members of the RTO. There are still issues of voting and the makeup of the transmission dependent utility (TDU) class (which class is where the publics will be represented). No employees of the ITC may sit on the Board. Final materials, when available, will be on the RTO website.

NON-FILERS (publics, tribes, environmentalists, marketers) met with Mike Coleman of FERC on Thursday. He said there appeared to be no major omissions in the FUs' proposal as far as FERC filing requirements are concerned. Once the filing is made, the comment period is 30 days. Ex parte begins officially when the filing is contested (which, unofficially, is likely the day of the filing). If a Tariff is not included in the filing, it will be considered a "staged" filing. FERC will tell the FUs what is necessary for the filing to have critical mass to warrant FERC action. FERC would like a non-litigious process, so it may hold informational and/or technical conferences in the region to resolve issues. The following are topics specifically discussed with Mike:

1. FACILITIES INCLUSION: Several folks were confused over what was included vs. excluded from the RTO, and how the tx and distribution functions/facilities would be split between the RTO and non-RTO. Mike said FERC's "7-point test" was intended for stranded cost purposes, not for the purpose of determining network facilities to be included in the RTO. There are 3 keys: (a) RTO facilities should include those needed for operational control to assure reliability; (b) assurance of consistency and comparability; and (c) flexibility, so that as transmission changes over time the RTO can modify the grid to assure goals are met. This means, to this editor, that some facilities used to deliver wholesale power to publics may not be included in the RTO; the monetary implication is unclear at the moment.

2. PRICING/EXPORT RATE: FERC will need to be persuaded one way or the other on this one. Supporters of the "no volumetric export rate" (they want to pay a flat transfer payment, rather than payment based on usage, for use of Intertie -- mainly marketers selling outside the region) believe that they pay their fair share of tx costs through those flat transfer payments and getting what is effectively nonfirm service. Non-supporters (e.g., Seattle, PNGC) are troubled that, because the exporters must use both Intertie and Regional Network, they do not pay their fair share of total tx costs, particularly operational and administrative costs. Although some supporters agreed that losses (one of the key operational costs) were not addressed, other costs were covered through the transfer payments. The FUs propose a transfer payment.

3. PRICING/TRANSFER PAYMENTS: The issue was that an acceptable imputed transfer payment arrangement must be developed or else the Company Rate will take the hit. The proposal that transfer payments could float or be fixed goes only part way to solve the problem. The FUs have made no decision on a solution.

4. PRICING/ANCILLARY SERVICES: BPA, likely to be the 900-lb gorilla in the market in ancillary services, has cost-based rates while the FUs propose that ancillary services be priced at market. The concern is how to assure that the cost-based rates are preserved. Mike said he believed FERC has

not allowed market-based rates for ancillary services, and expected no change in that standard. So FERC would have to look closely at this issue. The problem is this: how do you verify cost-based rates for a non-jurisdictional utility?

5. CONGESTION MANAGEMENT/FTRS: Mike said that load service obligations and reliability are of paramount importance. Market-based costing and FTR auctions must not jeopardize load service. Public power is pleased that FERC embraces this principle. Whether the principle will continue in practice, once the RTO is established, is another question.

Some marketer/non-filers were not worried about exempting smaller publics from the FTR auction and support FTRs for load growth. They were not happy that larger IOUs could hoard transmission and thwart competitors. One non-filer, however, claimed that smaller publics should be forced into the auction for their own good, so that they would know the value of their FTRs. It was pointed out that a smaller utility's scheduling coordinator would have the job of letting the utility know how valuable the FTRs are. (Editor's note: good luck, Declo, Drain, Albion, Minidoka and the like.)

6. PLANNING/BACKSTOP: Most non-filers were upset that the change in the RRG consensus position reached earlier this month resulted in a significantly weakened planning backstop, which could decrease reliable service and access in more remote areas. According to what Mike said, the FUs' proposal may be at odds with FERC's direction on this issue.

7. GOVERNANCE: The FUs' proposal effectively gives tx owners a double bite at the apple (via ITC reps being in the owners class, and ITC members being in the TDU class), and, worse, allocating votes based on "size". This tilts the balance in favor of large tx owners at the expense of publics. Interestingly, Steve Weiss pointed out that the region has a history of balance between publics and IOUS, which is a good thing. The proposal, if adopted, would kill that balance. We hope we have convinced Mike that the FUs' proposal is unacceptable on this point.

8. SUPREMACY OF THE TARIFF: Marketers disagreed with the proposal that the tx operating agreement (TOA) trump the Tariff and the integration agreements. They feel the Tariff should reign supreme. Further, tx owners should not be entitled to higher rates of return due to "higher risk" because joining an RTO actually results in lower risk -- they should get less FERC candy. One public urged that key items be included in the contracts rather than in the Tariff because the RTO Board could simply change the Tariff.

9. COST/BENEFIT: At the beginning of the meeting, Mike noted that it doesn't matter what a cost/benefit analysis shows, FERC has decided that RTOs create benefits; RTOs are good; therefore RTOs will form up. At the end of the meeting, tribal reps said their position is that (a) BPA has been the historical RTO and the region should be treated differently; (b) threats to tribal trust and treaty obligations could mean tribes would oppose the RTO; and (c) tribes do not want to see recent gains in forming utilities and renewable resource development go down the tubes because of the RTO.

Several other non-filers said an analysis showing that only Canada (or only Alberta) would benefit would throw FERC's assumption (that RTOs are good) into a cocked hat. Mike tried to assure folks that he did not intend to be flip in his earlier comments, merely that FERC assumes that RTOs = benefits.