
Workgroup mtgs held last week (other than Market Monitoring and Pricing) will be reported in a later Car Talk.

FERC CHAIRMAN PAT WOOD SPEAKS

FERC chairman Pat Wood outlined his plan for pushing what he wants in the way of RTOs in a memo to Commissioners Massey, Breathitt and Brownell. A subsequent press release clarified some items. Key points of the memo:

- * The goal is to have a seamless national power marketplace.
- * Get the RTOs in Northeast, Southeast, and Midwest up and going (MISO/Alliance will have a status report in early October, and mediation judges have issued reports for NE and SE).
- * Provide guidance for the West. Continue with RTO West and encourage Desert STAR to "join forces". Audit the operations of the Cal ISO and make recommendations. Because the western governors are moving toward region-wide transmission and resource planning, "it is not as imperative that a single Western Interconnection RTO be pursued at this time."
- * By November, indicate which RTOs are approved.
- * Begin a rulemaking process on market design and market structure to translate the Order 2000 RTO functions into protocols for the RTOs and have a FERC-led workshop in October. According to the press release, a series of FERC-led workshops conference will be held in Washington, D.C., October 15-19 and will focus on core RTO issues such as congestion management, cost recovery, market monitoring, planning, etc.
- * By 12/15/01 -- the date RTOs were supposed to be up and running under Order 2000 -- all jurisdictional utilities must either join an approved RTO or lose all market-based rate privileges. [Ed. note: Let's see, the privileges so far are blackouts, bankruptcy, civil disorder, volatile wholesale prices, increased retail prices, lawsuits, fear, loathing, etc. Gee, I'd hate to lose THOSE privileges.] No mergers will be approved for those that don't join an RTO. If a jurisdictional utilities refuse to join, FERC will "need to take a hard look at the transmission rates they are permitted to charge to ensure that they are just and reasonable and recognize the interdependence of the power grid." Though worded to apply to jurisdictional utilities, one wonders when transmission-owning publics will be sucked into the RTO world.
- * Complete cost-benefit studies "to demonstrate to those for whom the balance is not self-evident that RTOs yield significant customer savings." The possibility that a cost-benefit study could demonstrate net costs to consumers was not mentioned, nor were potential cost-shifts addressed. [Ed. note: Read that quotation carefully. It says to me, "For you honyonkers out there who don't believe that RTO = benefits, we'll have make sure we have a bunch of phoney numbers we can wave in your faces."]
- * State regulators must be brought into the October market design workshops and NOPR (Notice of Proposed Rulemaking) process.

Wood ends by saying, "This is how FERC made successful, smart policy on the gas agenda a decade ago. And it is how I propose we get the RTO ball across the goal line."

[Ed. note: I find it troubling that Wood analogizes the RTO situation to gas pipelines. As I understand it, natural gas was never a vertically integrated industry. Suppliers, pipelines, distributors and end users were connected merely by a daisy chain of regulated contracts. Thus FERC's "deregulation" of the gas industry was, at bottom, a process of untangling and re-writing contracts. There were no ownership issues about making interstate pipelines contract carriers. While the gas unbundling processes (FERC Orders 380, 436 and 636) were ultimately successful, the starting points for these two industries are so different that it seems irresponsible to suggest that the success can replicate itself in the electric industry. Moreover, the physics of electricity is very different from that of natural gas (lots of slop in pipelines); and natural gas operationally does not pose the same risks that electricity does.]

Here is the website address for the Wood memo:

http://www.ferc.gov/news/discussion_papers/rto_progress.pdf

While specifics won't be available for a while, it appears that RTO West isn't going to get rolled into a mediation proceeding with Desert STAR and CAISO for a west-wide RTO immediately. There is an expectation that RTO West and DSTAR will work together, and discussions to resolve seams issues have been in progress for some time. It is premature to presume that RTO West's efforts in the content group areas of Congestion Management, Pricing and Planning will be trashed in the FERC workshops. FERC has been hinting for some time that market monitoring should be strengthened, so this modification should not be a surprise.

A big question for the in Planning group is what impact the Western Governors' Association's (WGA) ideas will have on RTO West's Planning proposal. For the WGA goals/ideas/plans/etc., see

<http://www.westgov.org/wga/initiatives/energy/index.htm>

FERC will hold four open meetings in different parts of the country to identify energy infrastructure problems and their implications for regional economic development. The first such energy infrastructure meeting is scheduled for November 1-2 in Seattle, to coincide with the WGA Committee on Regional Electric Power Cooperation (CREPC) meeting.

In another agenda item, FERC noted its concern about the electric transmission constraints and associated costs, and the threat to reliability. FERC staff told the Commissioners that constraints on Path 15 in California cost customers an estimated \$73 million in a one-month period, and constraints on the Central East Interface in New York State cost customers an estimated \$19 million in a one-month period. FERC said that infrastructure issues will be high priority and that it will work with federal and state authorities to solve the problem. Does this mean that FERC will help BPA to obtain additional borrowing authority for some much-needed transmission?

In Order EL01-74-000, FERC approved the establishment of the Western Electricity Coordinating Council (WECC). The Western Systems Coordinating Council (WSCC), Western Regional Transmission Association (WRTA), and Southwest Regional Transmission Association (SWRTA) will transfer their operations to WECC. The goal of WECC is to coordinate regional transmission planning in the western United States.

FERC Docket No. RM01-10-000 (proposed rulemaking) would adopt one set of standards of conduct (SOC) to govern the relationship between regulated transmission providers and ALL their energy affiliates. The current SOCs restrict the ability of interstate natural gas pipeline and electric transmission provider to give their marketing arms preferential treatment over non-affiliates, but those standards do not address the sharing of confidential information with all energy affiliates. Thus FERC's proposal would require transmission providers' employees to function independently from the providers' sales/marketing folks and energy affiliates AND the prohibition on preferential sharing of transmission information would be expanded to include all energy affiliates. So, we have "Standards of Conduct 2" -- SOC it 2 me. Comments are due 45 days after the proposed rule is published in the Federal Register.

MARKET MONITORING

For the first time since last winter, the Market Monitoring group met. The stage 1 model was reviewed. FERC had been suggesting for many months that it was interested in RTOs having strong market monitoring units (MMU) and BPA reps said Steve Wright was interested in such a stronger role for the RTO West MMU, but none of the BPA reps present could explain what that meant or had any proposals (they were still reviewing internally).

One approach to having a seamless set of three RTOs in the West was to have a single MMU shared by RTO West, DSTAR and CAISO. There might be savings associated with shared systems, employees and overall costs. A single MMU shared by all three RTOs might be more independent. There were concerns

that the single MMU could be a slippery slope to a single RTO and that a single MMU could miss subtleties of the different market rules of each RTO (such as different congestion management schemes and FTR allocations). The facilitator asked if there were volunteers for participating in discussions with CAISO and DSTAR reps to explore the single MMU concept. There is a strong push at the FU level for the single MMU idea, and both CAISO and DSTAR were willing to discuss it.

Many attending though that it may not be appropriate to stray too far from the stage 1 model. Some folks were particularly concerned about the RTO MMU getting involved in enforcement of rules and monitoring power markets. At least one person thought that it might not be worth it to spend too much time on changing things because it is likely that FERC would be providing some direction very soon on market monitoring. FERC now has a person responsible (Scott Miller) for getting a handle on market monitoring and what it all means.

PRICING

Recall last time the pricing group met, the FUs presented a proposal for a modification to the stage 1 Pricing proposal that introduced the Grid Management Charge (GMC -- see uplift charge). The FUs were to refine the proposal and have some details at this meeting. The group reviewed a spreadsheet (illustrative example) of this proposal involving "pooled" short-term revenues. Therein, the short-term revenues of all participants are pooled -- subject to a cap -- with the cost of the pool being shared by all transmission users through the GMC. This was deemed necessary because transfer payments under the stage 1 model were very large for the year 2000 test year. The appropriateness of using the year 2000 as the test year became the focus of much criticism, but there was no consensus on an alternative so the year 2000 remains "it" for the time being.

In summary, each transmission owner will still have the Company Rate per stage 1. Long-term transfer payments will also continue. But short-term transfer payments, lost revenues, the Northwest Power Pool access charge, and the RTO West operating costs would go into a pool and be collected from all transmission users through the per-schedule GMC. To encourage utilities to reduce the size of the short-term transfer payments included in the pool, there would be a limit on the amount that could be included, with utilities penalized financially for any amounts over the limit.

The upshot is that loads would pay the appropriate Company Rate plus the GMC. There's still no export fee under this proposal; exporters would pay any applicable transfer payments plus the GMC. It's possible that regional loads will want costs pushed out of the Company Rate and into the socialized GMC, while exporters will prefer to push costs out of the GMC and into the Company Rate.

Strong caveats remain, and there were several "oops" in the spreadsheet. By way of illustration, the BPA pre-RTO company rate was \$18.58 for loads, and the post-RTO company rate was \$21.00 for loads, for an increase of roughly 13%, versus a region-wide average company rate increase of 8%. Without knowing exactly how the GMC would be calculated, it's hard to say what that translates to, but 1/2 mill was tossed out as a ballpark figure. In this example, the RTO West operating cost was estimated as \$75 million. [Ed. note: This paragraph shows the real meaning of those "significant customer savings" that Pat Wood's memo so cavalierly asserts will result from RTOs.]

As noted, the modified Pricing proposal continues to lack an export fee. Recall that the stage 1 pricing proposal had no export fee subject to there being price reciprocity with other RTOs. So, RTO West, DSTAR, and CAISO folks have been working on options for price reciprocity. Four options were considered, with the FUs preferring the first two: (1) reciprocal waiver of wheeling out/through (i.e., export charges) among approved RTOs; (2) replace wheeling out/through charges, not GMCs, with inter-RTO transfer payments; (3) replace wheeling out/through charges with transfer payments between transmission owners that are members of different RTOs; or (4) replace all RTO wheeling charges with a uniform west-wide wheeling charge. The group voted for the first option. A price reciprocity "seams" group meeting of reps from the three RTOs is planned for October 4.

A paper surfaced with a Pricing proposal for reserve prices for new transmission facilities. There was little time left in the meeting, and most of that was spent criticizing the proposal as inappropriate or unnecessary in light of the current activities in the Planning group and the Congestion Management group.

CONNECTING THE DOTS -- an editorial

Follow the money. At bottom, the supporters of dereg/RTO smell dollars. If buyers, they want to buy at the cheaper of market or cost. If sellers, they want to sell at the higher of market or cost. Customer service is nowhere in evidence.

Editing RTO Car Talk is one of the more depressing activities on earth -- probably next to actually attending the endless RTO meetings. In my view, what state regulators and all utilities (especially publics) are doing is picking up the shovels FERC and others thrust at us so we can dig our own graves, thus keeping our brains from thinking of what will happen when we reach the depth of six feet. This is madness. Cast off your chains and revolt!

End of editorial.