

RTO Car Talk – October 13, 2001 Edition

DELEGATION LETTER

NW delegation members sent a letter to FERC expressing their opposition to a west-wide RTO; their worry about a shotgun marriage between RTO West and WeCon; and their request for a cost-benefit analysis. Senator Gordon Smith (R-OR) and Representative Dennis Rehberg (R-MT) did not sign the letter due to timing problems (they did not disagree with the delegation).

BPA/PUBLICS MEETING

The 10/3 D.C. hearing before by the NW delegation went well. One FU rep who testified compared the FUs to a dysfunctional family (with TransConnect being the most dysfunctional of the family members).

In talks with FERC staff, it became evident that FERC wants to standardize RTOs, and is apparently looking to PJM as a model. Yet Commissioners Breathitt and Massey assured the BPA's RTO West reps that they should just keep chugging full speed ahead. On the other hand, there is a published statement somewhere implying that FERC wants to standardize governance. Stay tuned.

As to Camp RTO (10/15-10/19), the panelists are not supposed to deliver prepared statements, but should engage in a dialogue with FERC commissioners and staff. A number of "starter" questions have been provided to the panelists, but are not publicly available. People not anointed as panelists can submit written comments 15 days after the conference. The BPA panelist plans to argue that RTOs need a strong planning role. There is some real worry that there will be a move to brand as "economically inefficient" the maintenance of existing contract rights in an RTO (c.f. the Mirant study).

TransConnect is still on course for its 11/1 filing with the apparent intention of preempting RTO West in the planning area. TransConnect will evidently request that RTO West (and everybody else) give TransConnect "deference" in planning within TransConnect's "footprint" -- which sounds larger than the mere service territories of the TransConnect utilities.

Meanwhile, WeCon is planning a 10/15 (!) FERC filing, apparently by taking the Dead STAR materials and changing all the references from "non-profit" to "for-profit". Most disturbingly, TransConnect and WeCon seem to be cooperating closely; TransConnect joined WeCon in briefing FERC commissioners and staff. TransConnect may be changing its governance structure to "harmonize" with WeCon, and there may be a move to merge the two into an entity called, "InterConnect". Tri-State and Basin cooperatives will oppose the WeCon filing, mostly because of pricing issues. WAPA will not be part of the WeCon filing due to a lack of public process.

MARKET MONITORING

Love is in the air between FERC and market monitoring. After batting its eyelashes for some time, FERC is finally signalling its intentions with regard to what was, only a few months ago, an ugly duckling. FERC's Scott Miller, at last week's mtg, made clear that market monitoring was indeed the swan that could produce workably competitive markets. [Ed. note: I deploy hapless PPC staffers to RTO mtgs. One of them slipped a cog, so filled this paragraph with allusions to The Love Boat.]

FERC wants to draft a formal rule to strengthen the role and scope of market monitoring via measures currently used by the securities and commodities industry. Elements under consideration: a high degree of independence from the RTO; a more direct relationship with FERC (that could be as direct as allowing the market monitoring unit (MMU) to go directly to FERC without the RTO and market participants knowing); and the ability to speed up action when problems arise (in response to no one stepping in early enough when California's problems began).

To ensure that RTO West's market monitoring function gains FERC approval, the group is developing methods by which the currently "light" version of the MMU filed in stage 1 could be strengthened. On the

"to-chew-on" list are the establishment of "bright-line" measures; and the ability of the MMU to implement a rule change, without FERC approval and good for 90 days, in the case of "extraordinary" market problems. (A bright-line measure is a pre-determined action that automatically takes effect based on a pre-determined trigger.) Many wondered whether granting the MMU unilateral authority to implement changes, even if only temporary, is such a hot idea, while others questioned the definition of "extraordinary".

The effectiveness of a single, west-wide MMU was taken up, although discussion centered more on timing and process than on merits. The current proposal starts with three separate MMUs and then gradually enhances the common functions over three years until all eventually morph into *One*.

PLANNING

Originally, the group intended to ask the Regional Representatives Group (RRG) for a vote on the planning backstop issue. But because no congestion management model has been recommended yet, an RRG vote was not sought. The group argued the pros and cons of giving the RRG planning backstop authority for chronic significant congestion. The main arguments are

Proponents

- Markets are not perfect, especially markets for very expensive transmission lines (free rider issues, market power issues, liquidity issues especially for small utilities, over-use of generation solutions because of high fixed costs resulting in increased stress on the system; and eventual reliability issues).
- If we do not need the backstop, it will not be used. It will simply be a tool that the RTO can use if it needs to.
- The backstop will not be a lean, mean planning machine -- it will involve a public process, FERC and probably alternative dispute resolution. Therefore the backstop will not be a desirable option for those who don't want to work out a plan with other utilities.

Opponents

- Markets work; look at the successful subscription process for gas pipe lines. We don't need a backstop.
- A backstop will send the wrong signals to the market. [Ed. note: Wait a minute! I thought the market was supposed to SEND signals, not RECEIVE them!] Instead of working out their own problems, utilities will wait for the backstop to kick in and then fight the RTO on cost allocation. The utilities will play chicken with the RTO -- they may bet that they can get the RTO to allocate costs to other entities.
- Even if the RTO uses the backstop, it will not necessarily be able to allocate the costs to the right parties. Generators will benefit from transmission expansion, but the RTO cannot allocate costs to them because of jurisdictional problems.

The three options for planning backstops are

- (1) A least-cost backstop for adequacy/reliability purposes. The transmission owner would be responsible for guaranteeing the adequacy/reliability of its system. If the system is inadequate, the RTO could allocate the cost of an appropriate expansion to that owner (i.e., the loads would pay for the project).
- (2) Adequacy backstop as described in (1) above, plus an additional backstop to relieve chronic significant congestion. If the RTO deemed that chronic significant congestion exists, it would put out for bids for a project and allocate the cost to those who benefit.
- (3) Complete planning authority, which would allow the RTO to optimize the system in a least-cost manner.

CONGESTION MANAGEMENT

The group has narrowed down to three the proposed solutions for the over-allocation problem. The challenge is to find a way to translate existing transmission contracts into FTRs without giving parties too many or too few rights.

Everyone agrees that the fundamental principle in translating rights is preserving the ability of entities to serve their loads. In order to do that, entities need a certain level of flexibility (in case a generator goes out,

etc.). To provide them this flexibility, most models over-allocate rights. The group found this to be the case with the flow path model that they have been working on for the past five months. When existing contracts were converted to FTRs using flow distribution factors, many paths were over-allocated (the rights allocated on those lines exceeded the lines' ratings).

Some believe that the over-allocation is not too large, and that using a financial mechanism could solve this problem. In other words, the RTO could accept all schedules, net out the rights, and increment/decrement where necessary such that existing contract obligations are met and no socialization of residual congestion occurs.

Others believe that the flow path model is too complicated. They are proponents of moving to a hub and spoke model where rights are issued from injection points to market hubs, and from hubs to points of delivery. The RTO would run the flow path model "under the table" just as is done today. The RTO would accept all schedules and use the balancing energy market to "make everything work". One option is to have all existing rights translated annually on a single feasible dispatch into financial rights. This would provide people with a high degree of flexibility. Another option is to use a financial mechanism and have existing rights exercised at the time of pre-schedule while requiring parties to provide the RTO with an informational declaration of how they plan to use their rights for the next year. This would give parties flexibility up to the pre-schedule. With this information, the RTO would have a better sense of how the system would work and what rights it could auction off monthly or weekly.

The group is still ironing out details so that it can either reach consensus or ask the RRG for guidance.

REGIONAL REPRESENTATIVES GROUP

* Cost-Benefit Analysis report to the RRG

The contract with Tabors Caramanis & Associates, which will perform the study, will be completed soon and posted on the RTO West website. The official work group will meet next Wednesday to discuss data and related issues. [Ed. note: A small group of BPA customers has already met to discuss how to approach next Wednesday's mtg.]

* Congestion Management report to the RRG

In early June, the FUs decided that the congestion management model would be based on flow-distributed physical rights (flow paths). Since then, the group has worked on refining and testing this model. As a result, the group discovered a significant over-allocation problem. Thus the group has proposed three possible solutions. Unfortunately, the group spent five months working on details of the flow path model, but only two weeks on the injection/withdrawal model. (A detailed description of the options appears above under the Congestion Management work group summary.)

* Planning and Expansion report to the RRG

The group developed three options for RTO West's planning backstop, but the option selected may depend on which congestion management model is chosen. (The detailed description of the options appears under the Planning workgroup summary, above.)

At the RRG mtg, an FU offered a fourth option -- to leave this decision up to the RTO board when the board is formed. The idea is to give the board direction to "let the market work", but not to preclude the board from stepping in if and when the market fails. [Ed. note: another admission that "the market" is not trustworthy.]

Since FERC strengthened its language on Planning, the resistance to RTO West having backstop planning authority for transmission reliability/adequacy purposes has crumbled. The debate now is whether the RTO should have the planning authority to fix chronic significant congestion, as detailed in the Planning workgroup summary, above. [Ed. note: The proponents arguments seem largely based on experience, while the opponents' arguments seem largely based on theory.]

* Market Monitoring report to the RRG

A sub-group of the Market Monitoring group is developing plans for an independent, west-wide MMU. Some feel that this is a clear step towards a west-wide RTO. And with wedding bells possibly ringing for WeCon and RTO West, folks are becoming more cynical than ever. The RRG will discuss this issue in more detail after next week's FERC RTO "workshop". (A summary of the group's work appears above.)

* Seams report to the RRG

At least nine groups were formed to address various Seams issues (only four are actively meeting; the others are moribund for the time being).

As noted, a sub-group of Market Monitoring is working on a proposal for an independent MMU.

The Price Reciprocity group has been discussing the merits of three options for eliminating wheeling out/wheeling through charges. These options are 1) reciprocal waving of wheeling out/wheeling through charges; 2) using a transfer payment mitigation model (like that used to deal with RTO West transfer payments); and 3) replace all wheeling charges with a uniform west-wide wheeling charge. Data are being collected to test the magnitude of the transfer payments.

The RTO Common Systems Interface Committee (formerly the Joint Systems Group (!!)) is working on communication issues between the three RTOs (like scheduling/OASIS interface, backup control centers, etc.).

The WMIC (Western Market Interconnection Committee) Congestion Management work group [Ed. note: Egad, CAN you believe the name of this work group?] is drafting a paper to define how the different RTO Congestion Management models will operate at the seams. It is addressing the differences between the financial and physical rights models, and is including different transaction scenarios.

* Report to RRG on the NW Energy Caucus Hearing of 10/3

Reports were positive. There was some concern that not all of the delegation members were completely up on RTO matters, though folks agreed that all of the staffers are very knowledgeable about the issues. The delegation reiterated its support for RTO West's non-profit status; the NW's anti-west-wide RTO position; the need for a through cost-benefit analysis; and BPA's requests for increased borrowing authority for transmission improvements.

* Report of upcoming meetings

Camp RTO will be held next week (10/15-10/19); many NW folks plan to attend.

The Committee on Regional Electric Power Cooperation (CREPC) will meet on Western RTO Developments on 11/1 and FERC is holding a conference on Energy Infrastructure on 11/2. Both meetings will be held in Seattle at the WestCoast Grand Hotel. The CREPC meeting is informational. The goal of the FERC conference is "to identify regional infrastructure issues and their implications to future economic development in the region."

* TransConnect matters reported to the RRG

TransConnect plans to file on 11/1, and does not intend to wait for RTO West's planning and congestion management issues to be resolved. It does, though, intend to have a face-to-face discussion with the RTO West Planning group regarding TransConnect's planning protocol. This is an improvement over the Planning group's earlier communications with TransConnect (the group was able to provide TransConnect with written comments only, because no TransConnect rep could or would speak for TransConnect).