
Report on FERC's Camp RTO, Day 2

A. Tuesday morning, 10/16: Congestion Management and Transmission Rights. [Ed. note: Kevin is not acting as the Ace Reporting Co.; he is taking notes on what he himself finds interesting/important.]

FERC announced that it will develop a to-do list for after the conference -- with special emphasis on cooperating with states, because states still seem to have some residual rights over the electrical system. Chairman Wood said there is a "collective impatience" that RTOs aren't developing faster, and noted that this is evident from Monday's session: (paraphrase) "The whole market would benefit from standardization across regions" as part of the goal of the "seamless national market". A FERC staffer declared that one of the key questions for today is whether congestion management should be standardized as well.

One panelist, Nancy Brockway (sp?), a New Hampshire commissioner, had the courage to say that vertically integrated utilities worked better than the Radiant Future we are aiming at. She believes the whole point of the RTO exercise is to allow generators in low-price areas (i.e., New Hampshire and Maine) to ship their power to high-price areas (i.e., Boston), while being able to stick everybody else with the real costs of moving the power from the cheap area to the expensive area. She remarked that many of the standardized solutions being discussed (i.e., locational marginal pricing) won't work well in the west with its sparse network and generators distant from load centers. Not to worry, though, she said she had testified earlier before FERC on seams issues and had been ignored then, as well. [Ed. note: Give that woman a cigar! She said the magic words!]

After considerable theological discussion regarding the merits of zonal vs. flowgates vs. locational marginal pricing, the panelists talked about whether existing tx rights should be preserved in FTRs (or equivalent) or whether all FTRs should be auctioned off, with the revenues allegedly flowing back to existing tx owners. There seemed to be consensus that in the interests of "liquidity", all FTRs should be auctioned, with the revenues flowing back to tx rights holders (although one panelist said the RTO should hold on to some of these revenues as a way of compensating the RTO for the "risk" of managing congestion). This would leave the existing tx rights holders at the mercies of the tx market. (Question, class: would public power have benefited if BPA had been auctioned off in 1999, with the proceeds flowing to the publics, with the claim that those proceeds would be enough to pay for future market purchases of power?) A FERC staffer noted that a year ago, people were talking about how to guarantee stable tx rates, but now no one on the panel is talking about stable tx rates. The panel agreed that users should not have a physical right to the tx system in any case, only a financial right.

There was a (very) brief discussion about whether FTRs would encourage expansion of the tx system. Most panelists answered "yes". Someone suggested that generators locating in desirable areas should get FTRs as well. Shmuel Oren, a Berkeley professor, said that expanding the tx system tends to wipe out the value of the FTRs, but others said congestion was so pervasive that FTRs would still be worth something, even after a major tx line is added.

Charman Wood belatedly worried that most panelists seemed to agree on locational marginal pricing as the "standard", but that nobody with any operational experience in the west was on the panel, so perhaps this wouldn't work for the west.

B. Tuesday afternoon: Planning and Expansion

A panel consisting mainly of tx owners opined on planning and expansion. Jose Delgado represented the American Transmission Company, a transco located in Wisconsin created by twenty utilities, including munis and coops. The total investment when ATC was formed was \$525 million, and it is investing \$100

million/year. [Ed. note: GASP.] Delgado used the usual arguments of the advantage of not having balkanized transmission, that the transco is focused on serving customers, etc.

Mark Mahar, BPA, noted that locational marginal pricing (LMP) doesn't work well for the Northwest hydro system. Because hydro isn't used solely for power generation -- it's also used for recreation, fish mitigation, flood control, navigation, etc. -- hydro can't be dispatched purely on the basis of locational marginal prices. Both a FERC staffer and the PJM rep sneered at the idea that managing the Northwest hydro system can't be done purely on a LMP basis.

Mahar noted that for an organization devoted to building tx (like the American Transmission Company), all problems seem to have tx solutions. Mahar argued that a stakeholder process that considers non-tx solutions works better than relying on an organization with solely a tx focus. Delgado, of course, disagreed at length. [Ed. note: Mark Mahar did a good job as a panelist.]

Laura Manz, an employee at one of the utilities in PJM, said that we should rely mainly on the market for developing new tx, but that the RTO should provide a planning backstop. This view was generally shared by other panelists.

Steve Walton of Enron (formerly of PacifiCorp) said it's important to settle the structure of the industry. There have been seven years of turmoil, and no one will make long-term tx investments until the structure is known. He pointed out that FTR rights are currently short-term -- one year in California, five years in New York -- and people building tx lines need longer-term rights. He (sensibly) noted that a planning procedure must not encourage people to underutilize scarce rights-of-way. While the market may support the construction of only a 138 KV line, if it is the last available right of way (e.g., across the Canyonlands or the Cascades), a 345 KV line should probably be built. Who pays for the extra cost? There was some discussion as to whether the market would truly support the construction of major tx projects as opposed to minor upgrades. Mahar said this was a reason for a more centralized planning framework. [Ed. note: Sort of like the one-utility-concept planning we have NOW, and have always had, in the Northwest, eh? RTO = expensive, silly re-invention of the wheel for us in the Northwest!]

Walton plugged handling planning in the IndeGO fashion: local tx is planned and paid for by the local area, while longer lines are paid for by prospective users of the line. Interestingly, the PJM rep said that PJM uses precisely the opposite approach -- the costs of the high-voltage lines tend to be shared across all users, while lower-cost lines tend to be directly assigned. Walton supported LMP, with some modifications to account for Northwest conditions.

One rep (Dworkin(?), a Vermont regulator) made the amusing point that the aficionados of transcos want to rely completely on the market, while simultaneously wanting transcos to have eminent domain authority. In other words, the market is great, except when it comes to acquiring rights-of-way from local landowners. Then you need to be able to force a landowner to sell at a court-ordered (i.e., regulated) price. (Delgado disagreed again.) The Vermont regulator worried about accountability as well. If the RTO is completely independent, how can the RTO be made accountable? Walton said that transcos can't be directly accountable to the general public because transcos have a fiduciary duty to their shareholders. [Ed. note: So won't it be great if the NW is absorbed by InterCo -- the combination of WeCon and TransConnect?]