

RTO Car Talk – November 9, 2001 Edition

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#### OBITUARY

How about that Enron. This outfit admitted to the SEC that Enron's financial statements for the last four years "should not be relied upon". That frothing, boisterous cheerleader of unregulated electricity markets and national tx freeways spiralled down into the swirling, black vortex of other fallen financial intermediaries like Drexel-Burnham-Lambert in the 1980s and Salomon Brothers in the 1990s. Requiscat in pace, Enron.

In a lengthy, late-breaking press release Friday evening, Dynergy Inc. and Enron Corp. announced a merger (to be accounted for as a purchase of Enron). The combined company will be called: Dynergy Inc.

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#### EAST COAST STATES WORRIED ABOUT RTOs

Shortly after the 9/11 terrorist attacks, the chairman of the GA PSC wrote President Bush asking him to delay FERC's mediation aimed at developing a SE RTO. "In light of the recent tragic events around our nation, I sincerely urge you to postpone any and all action in the RTO mediation process . . . [O]ur national security has been compromised and, therefore, this is not the time to consider or implement any change in the management of our nation's transmission grid."

Senator Ernest Hollings (D-SC) brought a similar letter from the SC PSC to the attention of FERC Chairman Pat M. Wood. "I trust you will take the time to examine these inquiries and respond directly to the public service commission and my office in writing with any significant developments," Hollings wrote to Wood on 10/15/01.

On 10/30/01, staff of the FL PSC recommended that the GridFlorida FUs (Florida Power, Florida Power & Light, and Tampa Electric) not be allowed to proceed with their for-profit RTO. Staff believes that the FUs have not adequately addressed the quantification and timing of claimed benefits. Staff questioned whether a for-profit transco is prudent. (The three FUs estimate that GridFlorida start-up costs would be \$136 million.)

And, of course, the NY ISO claims that the creation of a NE RTO could boost consumer power bills by \$90 million a year. A dueling cost/benefit study done by Mirant Corp., an RTO cheerleader, concluded that a NE RTO would save consumers \$440 million annually.

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#### CONNECTING THE DOTS -- an editorial

I notice that a purpose of last week's Seattle FERC-arama was to "understand infrastructure needs, whether construction is occurring, and what may be preventing investment in infrastructure."

I notice that three heavyweight panelists -- WA Governor Gary Locke, BPA's Tx Veep Mark Maher, and WUTC Comm'r Marilyn Showalter -- all urged FERC to support BPA's request for increased borrowing authority to improve its tx system.

And, I notice that Chairman Pat M. Wood's list of seven "to-do" things contains no specific reference to BPA's need.

FERC should put its mouth where the money is.

End of editorial.

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FERC ORDERS SLOWER MARCH TO THE RADIANT FUTURE

In the dust of Camp RTO, the Seattle FERC-arama and other Important Mtgs, FERC issued an order that slows the RTO process to an "expeditious, yet carefully deliberated, way to complete the development of RTOs". The four chief elements of the order are these:

1. Order 2000's deadline of 12/15/01 for having RTOs up and running is no longer a deadline;
2. In the west, three sub-regional organizations under a larger umbrella organization could be approved if the three have a binding seams agreement;
3. FERC, working with state comm'ns, will perform cost-benefit analyses on RTOs to demonstrate whether and how RTOs may yield customer savings and how many RTOs are appropriate; and
4. FERC will reform the open access tariffs to standardize market design rules and to allow for regional differences. RTOs and other jurisdictional utilities having interstate tx facilities will have to file conforming reformed tariffs.

[Ed. note: FERC Comm'rs seem to have heard the shots fired across their bows by various state regulators and others who dared question FERC's imperious commands. FERC has gained a new sensitivity to state PUC concerns that ratepayers may suffer from for-profit transcos; consolidated, massive RTOs; heterogeneous tx tariffs; and RTO costs exceeding RTO benefits. Thus the unworthy peasants, whom FERC had hoped were inured to what lies in wait, may now be subjected to a slower, more incremental forced march to the Radiant Future.]

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#### MARKET MONITORING

BPA disseminated principles on how a market monitoring unit (MMU) could best achieve "an efficient power market operating in a competitive manner, providing fair and open access to all interested parties, and in which no group of consumers is disadvantaged by market practices". [Ed. note: The Radiant Future.] The list, on how to beef up the MMU in accordance with what FERC and the FUs desire, includes a single, independent, west-wide MMU (for RTO West, Cal ISO and WeCon); the ability to provide the RTOs and FERC with timely information to ensure rapid intervention and effective mitigation when markets fail or are subject to market power abuse; and assistance to the RTOs in enforcing their tariffs and to FERC in its regulatory role.

There is contention as to whether there should be a single MMU in the west. The question is whether one MMU is more efficient and better equipped to monitor markets than are three separate MMUs. As noted by one public power rep, "there is . . . no reason at this point to believe that a single set of market design rules will apply throughout the WSCC". In other words, is a single MMU the best way to analyze a bunch of markets that don't share a single set of rules?

Also at issue are the degree and scope of enforcement powers to be given the MMU. While Enron opposed any enforcement role at all [Ed. note: see Obituary above], many feel it is a natural function, especially given what happened in California. Points raised as to the type of enforcement: to whom the MMU actually reports (e.g., the RTO Board or FERC); and whether the MMU simply issues reports, or recommends corrections, or has the ability to take action, or some combination thereof. (The stage 1 filing had the MMU investigating the cause of any problem and then simply reporting its findings to the Board.)

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#### PLANNING

TransConnect -- Its FERC filing has been postponed until Monday, November 12.

Interregional Coordination -- Several group members were troubled by statements made by FERC Chairman Pat M. Wood at last week's CREPC meetings wherein he suggested that the Western Energy Coordinating Council (WECC) be given the authority to plan and expand the tx system on a region-wide basis. The group opposes WECC having broad planning authority. There seems to be little or no opposition to WECC conducting planning studies, proposing fixes and addressing region-wide reliability

issues. The opposition lies in the potential ability of WECC to compel construction and allocate costs to supposed beneficiaries, or worse, to peanut butter costs to all market participants. This issue will be taken up by the Seams work group.

Congestion Management -- A Montana Power rep gave a brief overview of the FUs' "Convergence" Congestion Management scheme. During this discussion, a Puget rep noticed that there appears to be a misunderstanding among some of the FUs: Montana is under the impression that converting a bi-directional contract results in Firm Transmission Options (FTOs) allocated in one direction only, whereas Puget is under the impression that converting a bi-directional contract results in FTOs for both directions. After making a few phone calls, the Puget rep announced that this is a fundamental disagreement that could "quickly unravel" the FUs' consensus.

Planning -- There is disagreement on the subject of the RTO having planning backstop authority. Some say that a planning backstop must exist in order to address potential market failures (i.e., what happens if tx owners don't upgrade their facilities to alleviate congestion). This camp asserts that if the market is functional, the backstop would not be used. Opponents believe that the mere presence of a backstop will create perverse incentives, causing the market to fail.

A proposal was made to break the logjam: the RTO would have the authority necessary to resolve any market failures. Under this proposal, market participants would have an incentive to participate in regional planning -- if they refuse to help fund the expansion of their tx facilities but try to get a free ride, the RTO would use its authority to push an upgrade through and allocate costs as it deemed appropriate.

The Planning group discussed that proposal at this week's meeting. With a few wordsmithing changes, there appeared hope for a consensus position. The proposal now reads: "The RTO has the authority to take whatever cost effective actions it feels are appropriate if it demonstrates that the market has failed and not resolved chronic, commercial congestion. No backstop will be prescribed for resolving these types of failures." The proposal "acknowledge[s] that the RTO has the authority to exercise its authority to modify the planning process as it finds appropriate."

Cost allocation remains an issue for the Planning group. Because the RTO cannot force BPA to finance a project (that requires government action), then in fairness it should not be able to force the other Participating Tx Owners to finance a project. The RTO can, however, roll the cost of a project into a load-based access fee. The group was unsure whether an IPP, for example, can be charged this type of fee. If not, the true beneficiaries of a tx project may not be charged for the cost of that project. And because system upgrades are so expensive, who will front the cash for these projects? RTO West cannot own facilities, so who will own the new facilities?

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#### BPA/PUBLICS' MEETINGS (Plural)

One meeting was held to discuss how GTAs would be treated by the RTO. If the FUs' proposed congestion management scheme is adopted, most GTAs would not be affected, because the publics served by GTAs would probably not convert to RTO service. In light of the initial descriptions of the new congestion management proposal, publics with PTP contracts would probably convert to RTO service, while those with NT contracts probably would not.

Because some FUs may not turn over the operation of some of their GTA delivery facilities to the RTO, BPA was asked how a possible split in operations would affect GTA service. BPA reps replied that BPA has contracts obligating utilities to deliver power to specific PODs; and those utilities must fulfill those obligations regardless of what facilities are in or out of the RTO, and without imposing additional charges.

BPA thought there might be a problem simply re-signing GTAs as they expire (with or without the RTO), for BPA feels that FERC wants new tx service to be under an open access tariff. This could expose publics served through GTAs to ancillary service charges if they start being served under an OATT. When FERC Chairman Wood was on the Texas PUC, ERCOT rolled everything used for wholesale delivery into ERCOT's RTO, so FERC probably will favor maximum inclusion of facilities in an RTO.

The second BPA/Publics meeting covered the following:

\* Pricing: The FUs have released their new "Consensus" Congestion Management proposal and are working within their companies to determine the proposal's impact on pricing. TBL's discussions with PBL have centered on the use of an export fee and whether PBL would see a cost shift to BPA's customers from the proposal. BPA thought the FUs would see no cost shifts.

A question arose as to what costs would be socialized via an RTO Grid Management Fee (see uplift charge). For example, if existing short-term tx charges are contained in the GMF, BPA would take a big hit. Folks will look at the impacts on the FUs of including various costs in the GMF.

\* Cost/benefit study: BPA sent a letter to public reps regarding BPA's intentions for its promised study. The letter assures the reps that the study will be done and seeks a meeting to discuss questions that should be answered that are not being addressed in the RTO West cost/benefit study.

\* Congestion Management: BPA said there would be a very aggressive schedule to wrap the congestion management model by the first week in January. This project must be finished because other models (e.g., pricing) are dependent on its completion and BPA/FUs want to make a final filing on March 1.

\* 12/1 FU filing: There is a basic disagreement among the FUs at the 11th hour. PGE, Nevada and Sierra object to the "vision" document because it says the west "could have fewer than 3 RTOs." PGE, Nevada and Sierra want to start with three RTOs in the west and work toward one, and want the vision to reflect that.

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#### REGIONAL REPRESENTATIVES GROUP MEETING

\* Description of the FUs' "Convergence" Congestion Management scheme: New tx service would be purchased from RTO West. If the purchaser wants to lock in the price of congestion, it will have to purchase Firm Transmission Options (FTOs). Without FTOs, the purchaser will be subject to real-time balancing energy prices (i.e., it will have to pay the congestion costs, which are basically the difference in price of power at the generator (point of injection) and the price of power at the load (point of withdrawal)).

FTOs are financial rights with no physical right involved. Existing contracts will be handled in one of two ways. Those choosing to convert will be issued FTOs sufficient to cover the tx rights designated in their contracts. Unconverted contracts will be catalogued by the RTO. Cataloguing means that for each of the nonconverted contracts, the RTO will figure out where the points of injection (generators) and points of withdrawal (loads) are and generally when they are used. The RTO will use this info to manage these contracts as a pool so it can net out the rights not being used and sell them off as ATC (tx capacity available for sale).

The RTO is obligated to see that unconverted contracts are met according to most of their terms, and will dispatch (and redispatch) the system in order to ensure this. If an unconverted contract contains rights to change the schedule within the day of delivery, it may or may not retain some of that flexibility. The FUs want to discourage scheduling adjustments after the close of pre-schedule. In order to do so, they may charge the changed schedule additional congestion costs caused by the change. Nonconverted (i.e., catalogued) contract holders may be subject to these charges regardless of the flexibility currently specified in their contracts. Parties with unconverted rights will have a "deadband" within which they can adjust their schedule to accommodate load changes.

Each utility, including FUs, may decide on a contract-by-contract basis whether to convert its contracts. It was pointed out that this is a change from the Tx Operating Agreement which embeds the idea that the FUs would convert all of their contracts.

The "Convergence" Congestion Management scheme rests on the conclusion that the tx grid is overallocated in that more parties have rights to use the system at a particular time than the grid, on paper,

can accommodate. Yet the lights are on. In order to serve all loads, the RTO needs to pool the loads, the resources and the obligations to meet loads. The idea is to retain the efficiencies in the system now (diversity among utilities, cooperative redispatch, etc.) and have the RTO continue to extract that value so that loads are served. In order for this to work, each FU (read: BPA) will have to continue providing the same redispatch that it currently provides to make the system function and will continue to have to bear the cost of that redispatch.

[Ed. note: Read that paragraph carefully. To me it says, the NW's existing tx arrangements work pretty damn well, thanks to BPA and to regional coordination of both the tx grid and generation resources. But we gotta screw it all up and make it cost a whole lot more because FERC says we have to.]

Interesting questions:

1. If an unconverted contract is for load service and if the load grows, does the increment of growth enjoy the same free pass from congestion charges?
2. What happens with forced outages (either generation or tx)?
3. If there is an unconverted PTP agreement with 100 MW of rights, if only 80 MW is prescheduled; and if there is an unexpected load increase (e.g., unanticipated Arctic event); and if the utility uses up all of the deadband provided and needs to schedule the full 100 MW (assuming that the deadband provides less than the full rights), can the utility schedule up to the 100 MW?
4. If the unconverted contract is assignable, is that right retained so that the holder of the unconverted contract may assign it in the bilateral market?
5. FTOs are financial rights tied to specific injection and withdrawal points on the system; they are tradable on a hub-to-hub basis. No one has yet figured out exactly how to make that work, particularly given the nature of the federal system.
6. If you convert a contract but the "Convergent" Congestion Management scheme croaks in three years, does the contract holder get grandmothered physical rights or will there be something else?
7. How does this scheme accommodate a large hydro system?
8. Is the emperor wearing any clothes?

\* Description of next steps: The FUs will pursue an aggressive schedule to compete the congestion management model, planning, pricing, etc., in order to make their filing on March 1. They proposed a "pens up" date in mid-January but got push back from non-FUs who preferred a later date (and less time for review of the tariff and revised TOA) in exchange for more time to develop the models. (This on the theory that we can't complete the work by mid-January and prefer to continue working rather than have the FUs go away and finish it behind closed doors.)

\* Description of FERC's 11/7 order: FERC staffer Mike Coleman laid out his view of the order and goings-on at FERC. The order is a broad vision of where FERC is and where it wants to go. Chairman Wood wants to jumpstart current RTO efforts. It's not a sea change, but FERC is looking at RTOs in a different way than did Order 2000. For example, Wood wants more dialogue.

For now, Wood has backed off the position of four RTOs. Wood is looking at WECC to function as an umbrella organization over the three western RTOs (RTO West, CalISO and WeCon). He wants more FERC staff outreach, technical conferences, NOPRs, etc. Some RTO functions, Wood feels, may be more appropriate for an umbrella organization. A single west-wide RTO remains FERC's goal for the future.

FERC wants stronger federal-state coordination on RTOs. It wants states to comment on how RTOs should go forward.

FERC will at last place an emphasis on cost-benefit studies. Its study may focus on nationwide benefits, but could look at local issues.

FERC understands that it will take a while to get things running. RTO West's target of a March 1 filing will probably be considered sufficiently aggressive. FERC staff is trying to come up with a game plan for Wood.

When asked if FERC would put some teeth in its statement that it wants lower costs, such as by dusting off its cost-of-service model, Coleman had no answer. When asked if we are likely to see a new mandatory pro forma tariff or just common principles that must be satisfied by a tariff, Mike guessed that it would be the latter but that there is an energetic debate among FERC staff on that question.

\* Report on TransConnect and WeCon: A PGE rep was asked whether PGE, Sierra and Nevada are negotiating vigorously with WeCon to undercut RTO West in favor of WeCon. The rep replied that TransConnect is in discussions with WeCon to align their governance in order to smooth the way to a larger organization should that become desirable. They are not talking about bolting from RTO West for WeCon. PGE does not want to preclude discussion of any structure that might work. It subscribes to the three RTOs with an umbrella in the west, but does not want to foreclose any option.

\* Report on Market Monitoring: RTO West, WeCon and Cal ISO are sponsoring a Market Monitoring Workshop on 11/16 in San Francisco. The participants will discuss the usefulness of a west-wide market monitoring unit.