

Part I

QUOTE OF THE WEEK -- regarding Enron, of course.

From the 11/10/01 NY Times: For years, Enron used its political muscle to push relentlessly to deregulate the nation's electricity business. Its achievement, explained a nameless Enron exec, was to create a "regulatory black hole". That black hole fit nicely with Enron's "core management philosophy -- to be the first mover into a market and to make money in the initial chaos and lack of transparency."

[Ed. note: Helloooo, FERC and state regulators! Get a clue! Dereg is guaranteed by the Marketing Heavy Hitters to rip off consumers!]

BPA/PUBLICS' MEETING

A rep from the Salt River Project (one of the original Desert STAR participants) has passed the word that WeCon is in vigorous negotiations with RTO West to the end that WeCon will be the west-wide RTO. BPA denies knowledge of any negotiations.

The FUs' list of "must-haves" for their filing on 3/1/02:

- "Conform further work to the 'seams vision.'" This "seams vision" is for the "duration of RTO West," or at least of the seams agreement among the RTOs, and of the pricing proposal's duration. This is a PGE, Sierra and Nevada (and maybe BC ydro) "must-have"; their goal is to establish a west-wide RTO.

[Ed. note: PacifiCorp backed off its statement that it wanted a west-wide RTO. But PGE, also headquartered in Portland, makes no bones about desiring a west-wide RTO. PGE has a tightly integrated system within the PNW, and Intertie access to California, but no direct connection to the north, east or desert southwest. So it wants a big RTO, perhaps for the same reason that what's left of its parent company -- Enron -- does/did. See the nameless Enron exec's statement above.]

- Revise the Tx Operating Agreement to reflect new agmts as to pricing, congestion mgmt (including losses), maintenance, liability, contract rights and obligations, planning, etc.
- Inform and educate the states on how RTO West would operate. Some attendees asked what the FUs thought the states needed to know inasmuch as they have been involved in the process. The assertion that the states are knowledgeable was vigorously challenged by one public power rep, who said the WUTC Comm'rs have "their heads in the clouds."
- Confirm BPA's authority to participate in an RTO through enabling legislation. There are two issues here: the tax impacts of BPA participation (these include business and property taxes); and the FUs' unease created by the fear that BPA will bolt at the last minute in the absence of legislation. The FUs are not planning for separate legislation, but will look for a likely bill to take advantage of. BPA continues to rely on the DOE opinion regarding its authority to join an RTO.
- Complete the RTO West cost/benefit analysis. No indication was given that BPA intends to complete its cost/benefit analysis by 3/1/02.
- Complete credit policies with associated risks and consequences. This is an issue for the IOUs and Scheduling Coordinator-wannabes.
- Resolve liability issues. Avista wants a limitation on liability.
- Address default load service (this is part of the liability issues -- what happens if a Scheduling Coordinator goes belly-up and strands a load?); imbalance energy (i.e., redispatch energy for the RTO to draw on to meet existing contracts and other needs); and excess capacity obligations (i.e., if there is excess capacity after the RTO serves load, is it auctioned off or used to serve load growth; who gets paid and where does the money go).
- Demonstrate fulfillment of FERC's Order 2000 requirements. If any of the required functions are shifted to WECC (the bigger, "new improved" WSCC), there may be a problem for the necessary demonstration.
- Address WECC's role and get some comfort (from FERC presumably) that RTO West won't be folded into WECC.

Public power said it would like to know the following:

- What agreements between non-FUs and others would be drafted to memorialize non-FU rights.
- BPA's role as Scheduling Coordinator for its existing customers.
- The allocation of the Grid Management Fee (nee uplift charge) to BPA.

COST/BENEFIT ANALYSIS GROUP MEETING

For "administrative reasons", the FUs have not yet signed the contract with Tabors Caramanis & Associates (TCA), the consultants doing the analysis. (Some money was given to TCA so it could start work before the contract is officially executed.) The statement of work was updated to reflect the fuS' new congestion mgmt proposal ("Convergent" Congestion Mgmt).

The "RTO West losses methodology" was the subject of heated discussion. The TCA contract's statement of work reads as follows: losses are "currently assumed to be average system for two areas within RTO West, namely, the Province of British Columbia and the rest of the RTO West geography."

That methodology is the product of FU closed-door discussions. The cost/benefit group mtg is the only place where the methodology has been disclosed.

Non-FU reps were informed that the FUs are still debating whether average loss factors over large geographic areas should be used (this would massively harm BPA and its customers), or whether an incremental loss factor should be used (this would more accurately reflect the physics of the electrical system).

The treatment of losses could move more more dollars around than anything done in RTO pricing. Thus non-FU reps hope that there will be a public dis cussion of the various loss proposals. In any event, the cost/benefit treatment of losses should mirror what is actually proposed for RTO West.

Non-FU reps want a high level of output detail from the MAPPS runs (hourly, by bus) so as to allow for alternate analyses. FU reps said the info would be provided by hub, and not every hour -- thus a greater aggregation.

The group discussed how to handle the market power portion of the analysis, which can be affected by whether TCA assumes that utilities will serve their existing loads, or assumes that retail open access will be in effect. This is complicated by the fact that Oregon will allow some degree of open access, whereas Idaho and Washington won't. Another knotty issue is whether TCA should assume that all existing tx contracts will be converted to RTO service.

The TCA contract's statement of work lists many possible sources of improved reliability owing to the existence of RTO West. Eminent people will be hired to make sure they agree with the reliability analysis portion of the cost/benefit study. It was unclear whether the actual reliability study will be done by TCA or by someone else.

A recent survey done by CEIDS was distributed. That survey estimated that the cost of outages nationally is \$104-\$106 billion/year (this survey was done before last year's rolling blackouts in California).

No one knows how FERC's recently-announced cost/benefit analysis will fit into all this.

The last issue raised was whether a transfer of control of federal assets (BPA's) to RTO West, a nonfederal entity, would make those assets subject to local property and other taxes (this could result in an additional cost of over \$100 million/year). One FU rep made the interesting argument that the analysis should assume no change in tax status, because if in reality there were a change, the RTO wouldn't be viable. The final decision: the risk of a change in tax status must be considered.

CONGESTION MANAGEMENT GROUP MEETING

The group discussed the FUs' "Convergence" Congestion Management scheme. Group members came up with about 20 major issues that the proposal does not address. Interested group members will draft brief lists of problems pertaining to each issue, and brief descriptions of proposed solutions. The group as a whole will review the problems/solutions. If anyone out there would like to weigh in, or simply see the 20 issues, e-mail margotl@ppcpdx.org and she will send you the Official Matrix.

Part II

a report of the Market Monitoring Unit mtg held in San Francisco last Friday.

MARKET MONITORING WORKSHOP REPORT

How to monitor a single, west-wide market was the subject of a San Francisco workshop. Industry reps; state and consumer agencies; and FERC itself weighed in. Common messages were the need for the Market Monitoring Unit (MMU) to be independent; the need for objective standards; the need for strong state involvement and participation; and the need for core functions such as identifying the necessary changes to market rules and responding to market participant concerns regarding, and oversight of, RTO actions.

Some of the more interesting thoughts from the day:

** The need for stable and certain rules (Dynergy) v. the ability to fix a design flaw via a rule change. Dynergy, taking a direct jab at PJM (which has changed its rules a number of times), said that an element of a "good RTO" is rule certainty and stability. Generators simply won't build if they face unstable rules. PJM responded that, while it is good to have stable rules, it is more important to have the ability to change the rules should a design flaw be detected. Dynergy asserted the importance of allowing the market to self-correct. If there is any feeling that self-correction might occur, a rule change is the last thing that should happen. A company will always find a way, when faced with a rule change, to maximize its profits, which will only lead the MMU to change the rules again, which, as one can see, only creates a vicious cycle, the point being that it is crucial not to be reactionary to what conceivably might be a short-term problem that will be worked out in the long run.

[Ed. note: Meanwhile, during the life of that "short-term" market flaw, the Enrons -- now Dynegys -- of the world make beaucoup bucks from the chaos.]

** Dep't of Justice. The MMU should stay in touch with DOJ. Even if it is not clear that an anti-trust violation has occurred, DOJ can ask questions to help analyze the behavior to determine if one has.

** Dick O'Neil of FERC. Lessons learned from RTO operations are that hedging and forward contracts are not bad; good market design is crucial; the ISO/RTO ought not have any electric asset positions; and boom and bust regulation must be avoided. From these lessons, one can determine those practices that have failed: zonal pricing; sequential markets for ancillary and energy; ask-bid pricing; and ignoring market power. Those that have worked: day ahead markets for transmission rights and generation capacity/reserves; market power mitigated via options contracts; day-ahead markets for reliability; and bilateral deals. O'Neil made a strong push to have the off-RTO markets working and for not penalizing entities for being in them.

** California's perspective on what went wrong there (Anjali Sheffrin, CaI ISO). The CaI MMU did well its job of detecting market design flaws/inefficiencies and of identifying measures to mitigate them. The problem was that the only role of the MMU was to do just that, issue reports. The lack of direct communication and coordination with FERC and the state regulators, and the undefined responsibilities of each, compounded the problem. It takes all the regulatory agencies and the MMU working cooperatively to ensure efficient and competitive RTO markets. The market monitor must also have the authority to take action.

** Administrative solutions v. cost-of-service rates. Anjali Sheffrin, Cal ISO, stressed the need for clear and objective standards for determining whether rates are just and reasonable, and the need to overhaul the criterion used for granting market-based rate authority to sellers. The question was asked: Why not return to cost-of-service rates, if the alternative is a set of administrative solutions such as those posed by Sheffrin? FERC responded that, without a demand side to the market, there must be a set of rules to deal with the fact that no demand response exists. Sheffrin said that one absolutely has to get the structure right, which includes demand side responsiveness. Until this exists, rules such those suggested by her must be in place.

[Ed. note: If there is no "demand side response" -- no "demand side to the market" -- only a supply side -- why does FERC insist on imposing competition/deregulation/RTOs? The train may have left the station, but it's running on fumes. We are braiding our gimp into fantastically complex lanyards of no use whatever, but we just keep braiding away.]

** One of Dynegy's elements of a good RTO: a broad geographic scope. The powerpoint slide for this statement read, Think about it: the NW experienced a 50% rate increase while California rates stayed 10% below 1996 levels.

[Ed. note: Doubtless I'm missing Dynegy's point. California rates stayed 10% below 1996 levels BECAUSE THE CAL PUC ORDERED A 10% RATE REDUCTION THE MOMENT RETAIL DEREG TOOK EFFECT. For that very reason, two of the three big IOUs in California went BANKRUPT, or nearly so. The third, which was finally able to get out from under the 10% rate reduction order, was able charge market rates -- and its consumers resorted to civil disobedience owing to their high electric bills.

[What is Dynegy saying? We need a west-wide RTO so that consumers/voters will pay rates that are 50% higher than they are now? Or so that utilities will go bankrupt while marketers suck up huge profits? No wonder the Dynegy/Enron merger is a good match.]

RTO West, Cal ISO and WeCon must now consider how to incorporate the lessons learned and how to avoid the problems encountered by others. Issues they must resolve: enforcement -- who and to what extent; how to establish a balance between "process" for market rule changes and the need for quick relief/action; organizational structure, physical location, and funding and fiscal responsibility; whether bilateral contracts should be monitored; clarification of FERC-state jurisdictional issues; how to establish effective MMU-state relationships; and whether to establish a west-wide MMU with independent authority (outside of the RTOs), a single independent authority with three on-site staffs for each RTO, three separate units with an overarching "committee", or three separate MMUs with some coordination.