

RTO Car Talk – November 30, 2001 Edition

\*\*\*\*\*

BPA/PUBLICS' MEETING -- Two Subjects

\*\* 1. Cost/benefit study: BPA plans to hire Tabors Caramanis & Associates (TCA) to do BPA's cost/benefit study. (This is the study pertaining to BPA's principle that any RTO it joins must provide "[d]emonstrable end-use consumer benefits in each affected state.") TCA is the consultant now doing the FUs' cost/benefit study.

The group reviewed in detail most items in the memo that the publics sent to BPA regarding what the publics want to see, or have concerns about, in the FUs' cost/benefit study. BPA was receptive but non-committal. Among the highlights:

- a. Model runs will generate hourly data on a bus-by-bus basis.
- b. The GE MAPS model assumes that the price of hydro is always \$5/MWh. This has implications for redispatch, for the model will always dispatch hydro (the cheapest resource) first. It also does not match reality.
- c. With regard to losses, the "with RTO" case assumes losses are calculated by weighted average for two zones in the RTO West area: Canada and the U.S. Publics object to the use of weighted losses. The current FU proposal, as we understand it, is to punt the issue to the RTO board and make no decision now. Publics took the position that the base case and the "with RTO" case should be the same and that different loss methodologies should be tested as sensitivities. (Publics prefer to see the current loss system maintained, i.e., everyone pays the losses that are incurred on the systems that they use).
- d. BPA believes that TCA can complete BPA's study by 2/21/02.

\*\* 2. Workgroup process: The FUs have concluded that the Congestion Management workgroup will not be able to resolve issues in time for the FUs to make their stage 2 filing deadline of 3/1/02. Thus they have decided to take the following course of action:

For the next two weeks, the FUs will go away, lock themselves in a room, and produce a draft that is a "filing quality, descriptive narrative of the model".

The FUs will bring the draft back to either the RRG or the Congestion Management workgroup for reaction. It is unknown whether the substance of the draft will be open to debate or whether the draft will be offered simply for refining.

Publics would like the draft to be such that it (a) allows a person to follow the money from beginning to end of each transaction (through the rates, etc.); (b) provides a clear demonstration of how publics' existing tx rights are preserved and can be exercised; and (c) contains a market design so that incentives are made clear.

\*\*\*\*\*

CONNECTING THE DOTS -- an editorial on GE MAPS

I have seen power point slides of BPA's plan for its cost/benefit study. Evidently TCA will use the GE MAPS computer model for BPA's study, just as TCA will use it for the FUs' cost/benefit study. (This model was used, I believe, by PacifiCorp a few years back for the IndeGO cost/benefit study.)

I am not a computer wizard. But I'm gonna give you my viewpoint anyway.

The GE MAPS computer model is huge. It is bigger than the real tx system, and it takes longer to run than real time. It is used to model the system now under the aegis of the Western Systems Coordinating Council (WSCC), with each major facility modeled in great detail, including constraints. The model tries to

develop, for 11 western states and two Canadian provinces, the least expensive dispatch of all generation to total system load, given tx costs and constraints.

The program is run by putting in all tx costs and all constraints imaginable (pancaking, congestion, etc.) afflicting the western tx system. The model then computes the total production cost of all western generation. With those two sets of information, the model then develops the economic dispatch of generation. Next, the constraints deemed to be fixed by RTO West are removed, and the program run again. The difference in total cost between the two runs is announced as the savings from RTOville.

Since when do today's electricity market prices track electricity production costs? Ask the folks in San Diego! Plus, my guess is that a person skilled in running the program can make the model do the bossa nova with just a little tweaking.

I have been under the impression that BPA wanted to show that RTO West would provide large reliability benefits. Indeed, EPRI told BPA last April that EPRI estimated that the reliability benefits would be upwards of \$800 million. But the power point slides seem to indicate that reliability will be treated as a somewhat ethereal subject.

End of editorial.

\*\*\*\*\*

#### CONGESTION MANAGEMENT GROUP MEETING

The group and its work will be displaced by the FUs and their work, as described above.

Another big motivator for the acceleration in process seems to be the fear that FERC will issue a blanket RTO template to be used by all regions. All RTO West groupies acknowledge that, in light of the unique nature of the tx and generation systems in the NW, being forced to use a default model based on something like PJM's LMP (locational marginal pricing) model would be horrible.

The group's discussions focused on the FU's "Convergence" Congestion Management scheme. Many of the issues were mentioned in the 11/12/01 edition of Car Talk in the RRG MEETING section. Here is a sampling of more issues:

1. How will the RTO address the fact that currently some systems lean on other systems -- some tx owners now redispatch to fulfill the some of the contract obligations of other tx owners?
2. BPA is planning tx upgrades and expansions, many of which will be completed before RTO start-up. The costs of these projects will be rolled into BPA's company rate. These projects will create excess capacity that will in the future be used for load growth and new customers. According to the "Convergence" scheme, because BPA will not be using this excess capacity on day one of RTO West's life, the RTO will auction it off in the form of Financial Transmission Options (FTOs). It is expected that the revenue from these sales will go to offset uplift charges. If this is the case, BPA's customers will in effect be paying to reduce uplift charges.

[Ed. note: READ THAT, FOLKS! BAD NEWS FOR BPA CUSTOMERS!]

3. Some think that FTOs are not hedges that exempt entities from congestion costs. They think FTOs are simply credit against the real cost of congestion that is trued-up after the fact. In other words, if you buy an FTO for \$5 and congestion ends up costing \$6, the RTO sends you a bill for \$1. If the real congestion cost is \$3, the RTO credits you \$2 or maybe writes you a check. On the other hand, other folks are under the impression that you don't actually have to have a schedule between the two points that you bought FTOs for. You can then use the credit from one injection/withdrawal pair against another schedule. [Ed. note: This sounds like a recipe for gaming.]

4. Under the "Convergence" scheme, it appears that all pre-existing contracts (PECs) will be translated into injection and withdrawal points. Most of the language defining the relationship between the tx owner and

tx customer is in the tariff and business practices rather than in the contract with the RTO. So, for instance, when excess ATC (available tx capacity) exists, will a PEC holder that can use alternate PODs without additional cost lose the right to use those PODs, because the right exists only in its tariff? Can the RTO ask Participating Tx Owners to change their tariffs?

5. How many buses will each hub have? Will a hub price be the average of the bus prices? If so, how much will this obfuscate the reality of the system?

6. Some group members suggested developing a long-term, cost-based tx product. Others objected because they felt such a product would not reflect the amount of risk that the RTO would be exposed to. [Ed. note: Those "Others" are doubtless arguing for market rates, or a high rate on equity, or incentive rates, or some other method of increasing existing tx rates. TransConnect members come to mind.]

7. When an entity builds a tx facility that provides system-wide benefits exceeding the capacity of the facility, does the entity have the right to all the capacity created? If so, and a tx line over which the entity was awarded some capacity croaks, are its FTOs reduced or does it retain those rights? If it retains those rights, who loses rights?

\*\*\*\*\*

#### MARKET MONITORING GROUP MEETING

The group hopes to have a proposal by 12/15. The proposal would be placeholder until the broader west-wide market monitoring group (RTO West, Cal ISO and WeCon) has developed a plan for a west-wide market monitoring unit (MMU). The proposal will probably

- create a direct reporting relationship between the MMU and the appropriate federal, state or provincial regulatory agency, while recognizing there may be instances when board involvement is desirable (the stage 1 proposal required the MMU to report directly to the board);
- expand/clarify the language on those markets to be monitored to include both RTO West markets and whatever other markets the MMU believes necessary to assess market conditions, although specifying that the MMU should rely on the work of an independent monitor of these "other markets" if such a monitor already exists;
- increase the scope of the MMU to include monitoring the RTO's compliance, to the extent the RTO is able, with FERC-directed market power mechanisms and the RTO's own market power mitigation measures and to report potential market power abuses to the appropriate entity; and
- defining the relationship between tariff compliance and the MMU.

The group discussed whether the MMU should be an internal part of the RTO (as in the stage 1 filing); separate from the RTO; or a combination (like the Cal ISO, where the internal MMU consists of RTO staff who gather and evaluate data, while the external MMU consists of independent "experts" who review the internal MMU's reports and advise the ISO CEO and board).

A big issue is whether the MMU should have the authority to institute temporary rule changes in an emergency. Those in favor feared that FERC could not act quickly enough. A number of FUs and marketers oppose giving the MMU this authority.

\*\*\*\*\*

#### REGIONAL REPRESENTATIVES GROUP MEETING

##### 1. Compromise Planning Proposal

The facilitator provided the Planning group's compromise proposal for planning and expansion. The RTO would have backstop authority to force construction and to allocate the costs of construction for the purpose of fixing a reliability problem. It would not have backstop authority to order construction to relieve commercial congestion unless the failure of others to construct was caused by a market failure.

Questions were raised about the ability of the RTO to veto a project that, for example, under-utilizes a tx corridor (thus precluding future needed projects or that precludes another project that would provide greater system benefits, etc.)

## 2. Congestion Management: Process Going Forward

Instead of a collaborative process, the FUs will closet themselves and write a draft which they will present to the content group on 12/19. After a discussion regarding the need to see the pricing and planning proposals concurrently with the congestion management proposal, the FUs agreed to consider moving up the dates for the drafts of the planning and pricing proposals.

Not all details of the proposals will be resolved for the FUs' 3/1/02 filing. The broad outlines and some details of the proposals will be fixed, however.

[Ed. note: Apparently, the "final" FU filing will consist of half-baked, untested ideas that FERC will be overjoyed to implement. Get ready to grab your socks and wallets, publics.]

## 3. Cost/Benefit Study

The timeline calls for completion by 2/8/02. Marilyn Showalter, WUTC, has been asked to be on one of the panels for FERC's cost/benefit study. FU reps have contacted Showalter about what RTO West is doing.

## 4. Seams Status Report

The FUs' final draft was distributed without discussion.

## 5. Market Monitoring Workshop (in San Francisco)

Individuals reported on the workshop. Everyone seems to have had a lovely time.

An RRG meeting is tentatively scheduled for 12/19, subject change, because the Congestion Management group is using that day to review the FUs' draft proposal.