

RTO Update

Friday, October 25, 2002

Summary

This edition of RTO Update focuses on three areas:

- RTO activities in the Western Interconnect. With recent FERC action on all three western RTO proposals, as well as ongoing work on development of a standard market design (SMD), a clearer picture of how western RTOs will ultimately operate is beginning to emerge. Most significantly, the actions show FERC's willingness to embrace regional flexibility for the West.
- SMD activities at FERC. FERC has extended the deadline for comments on its SMD proposal until mid-November, but some renewable energy stakeholders have already filed comments on issues related to SMD. This briefing provides a summary of comments filed by AWEA and others.
- Continuing evolution of the Midwest ISO. MISO is considering wind in its long-term transmission planning process, the Dakotas are getting their first large wind farms, and upcoming workshops provide forums for stakeholder participation.

The West

FERC Takes Action on Western RTOs

In a series of orders issued this month, FERC provided guidance to RTO formation activities in the Western Interconnection. In three separate orders, FERC approved key elements of proposals submitted by the RTO West and WestConnect filing utilities, and addressed a number of outstanding issues concerning the California ISO's market redesign proposal.

With the issuance of these orders, FERC has now provided guidance on all three proposed RTOs in the West, and has stated its intention that the three RTOs, along with other regional stakeholders, will "work cooperatively to identify common commercial practices among the proposals as well as potential market design elements that could create seams between the organizations." FERC directed the western RTOs to work through the Seams Steering Group – Western Interconnection to address these issues.

In its orders on RTO West and WestConnect, FERC noted that there is broad overlap of issues between the RTO proposals and FERC's pending notice of proposed rulemaking on Standard Market Design (SMD). FERC endorsed the idea of regional flexibility for the western RTOs within the overall SMD framework, saying that it "intends to take all appropriate steps at the final rule stage of the SMD rulemaking to ensure that, to the extent we have already approved or conditionally approved RTO elements, these approvals remain intact."

FERC Approves Key Elements of RTO West's Stage 2 Proposal

On September 18, FERC unanimously approved much of the RTO West Stage 2 proposal that had been filed in March. With the approval, it is likely that the RTO West proposal will serve not only as a framework for RTO formation in the Northwest, but that it will guide development of the entire western market as well. FERC's order indicated approval for the:

- RTO West governance proposal as modified in the Stage 2 filing;

- License plate pricing proposal, including the length of the transition period;
- Congestion management proposal (with some modifications) reflecting the use of LMP and financial options to hedge congestion charges;
- Use of catalogued transmission rights (CTRs) with voluntary contract conversion;
- Planning and expansion proposal with some modifications;
- Framework for interregional coordination and seams resolution in the Western Interconnection through the Seams Steering Group - Western Interconnection (SSG-WI); and
- Market monitoring proposal with certain modifications for RTO West.

FERC deferred on other issues. Among the most significant, FERC:

- Rejected the provision that the Transmission Operating Agreement (TOA) would automatically govern in a conflict between the TOA and the RTO West Tariff and deferred addressing most of the provisions in the proposed TOA until the RTO West tariff is filed;
- Required certain modifications to the proposal for tariff administration and design, and required the Filing Utilities through a stakeholder process to develop standards for interconnection for RTO West as a whole;
- Determined that on the issue of limiting liability, the filing utilities may propose provisions when the tariff is filed; and
- Confirmed its commitment to address the cost benefit issue when it renders a final decision on RTO West.

RTO West Reaction

Bud Krogh, who leads the effort to form RTO West, attributed the success of RTO West's proposal to "four critical factors." They are:

- FERC's acceptance of the need for regional flexibility in the West,
- The intensive collaborative process to develop the RTO West filing among all regional stakeholders,
- The involvement of the Northwest Congressional delegation in the ongoing development of RTO West, and
- FERC's clearly stated policy that the RTO West order would drive the development of further details on congestion management, scheduling protocols, facilities, and cataloguing of transmission rights.

FERC noted that it would look at the RTO West filing as "both informing and being informed by the proposed [SMD] rule." According to Krogh, "such a strong endorsement of the RTO West proposal by the Commissioners suggests that the RTO West order will not only drive further work on RTO West but also be useful in further development of the Standard Market Design (SMD) model." He sees an opportunity for RTO West to help shape SMD development to benefit the West.

RTO West – What's Next?

The RTO West filing utilities have been reviewing the order and are developing a plan for follow-up steps. Working groups have already begun churning out new proposals in the areas of ancillary services, cataloguing of transmission rights, accounting for losses, market operations, and metering and controls.

Their next submission to FERC is due in mid-December, at which time RTO West is to: 1) codify the Memorandum of Understanding and Cooperation between the parties to expressly define their commitments and the forum by which issues will be resolved,

and 2) provide FERC a list of pending issues before the Steering Group and timeline for resolution of those issues.

FERC had ordered a compliance filing to follow in mid-March 2003, in which the filing utilities were to have completed: 1) a tariff, 2) a detailed ancillary services proposal, and 3) a list of their transmission facilities together with the proposed disposition of each facility and the reason for such disposition. However, FERC later clarified that the compliance filing was not necessary on procedural grounds, and agreed that the September 18 order gave the RTO West filing utilities sufficient guidance for modifying and supplementing their proposal to fully comply with Order 2000.

FERC Approves WestConnect

FERC gave preliminary approval to the WestConnect RTO on October 10. WestConnect is the proposed for-profit independent transmission company (ITC) consisting of Arizona Public Service, El Paso Electric, Public Service Company of New Mexico, and Tucson Electric Power. In the WestConnect order, FERC approved WestConnect's proposed:

- License plate rate for an interim period;
- Use of a grid charge to recover WestConnect's operations;
- Voluntary conversion of existing contracts;
- Procedures for addressing parallel path flows within the region;
- Ancillary services provisions;
- Market monitoring proposal; and
- "Day One" congestion management proposal.

FERC also approved, subject to certain modifications and clarifications, WestConnect's proposed governance structure, interconnection process, long-term congestion management proposal, and planning and expansion proposal.

FERC Extends Comment Period on Western Interconnection, Other Issues

In a FERC notice on October 2, the Commissioners extended the comment period on issues concerning the Western Interconnection to January 10, 2003. In the notice, FERC reaffirmed its belief that the Western Interconnection was unique from other regions of the country due to:

- Its heavy reliance on hydroelectric production, based on agreements and international treaties affecting agriculture, fishing and recreation, environmental concerns;
- The large role of public power, and the difficulties that could come about if public power doesn't join an RTO;
- Large potential changes in transmission prices for long-distance purchases, which would create hardship for some customers, as well as operational anomalies brought about by distance related issues, including large loop flows.

Some western regulators have requested FERC to consider a separate, or at least a flexible, market design for the West, and FERC's rulings this month have been supportive of this concept. Other issues affected by the lengthened comment period include: transmission planning and pricing; Regional State Advisory Committees (RSACs) and state participation; the SMD's proposed resource adequacy requirement; and congestion revenue rights (CRRs) and transition issues.

California Passes Aggressive RPS

The California Legislature and Governor have enacted a law creating a renewable portfolio standard (RPS) that requires utilities to source 20 percent of their electricity from renewable sources by 2017. The bill would double the contribution of renewables to the California electricity supply.

The law mandates that California's retail electricity providers must increase by at least 1 percent per year the share of their electricity that comes from renewable sources. The 20 percent goal is to be largely met by 2012 and entirely met no later than 2017.

A recent poll conducted by the Public Policy Institute of California shows that 85 percent of California residents favor a state policy that requires doubling the use of renewable energy over the next decade.

Standard Market Design

FERC Extends SMD Comment Deadline, Announces Work Sessions

FERC has extended the deadline on SMD comments from October 15 to November 15, and has scheduled four work sessions to address outstanding SMD issues:

- Nov. 4, Portland, OR – To address unique characteristics of western markets, and aspects of SMD for which regional flexibility may be appropriate for the West.
- Nov. 6, Washington DC – To address pricing proposals for network upgrades and expansions, to clarify the definition of participant funding and seek consensus on types of facilities that should be eligible for participant funding.
- Nov. 19, Washington DC – To address the resource adequacy requirement proposed in SMD NOPR, including: the sufficiency of proposed penalties; the function of the resource adequacy requirement in areas that have retail access, and how to accommodate regional variations in proposals to satisfy the resource adequacy requirement without interfering with state jurisdiction.
- Dec. 3, Washington DC – To address issues associated with the transition to congestion revenue rights (CRRs), such as ensuring that native load and LSEs receive sufficient CRRs; guarding against use of CRRs to exercise market power; and the possibility of regional variation on how rights are allocated to load.

AWEA, NERPPA Comments on SMD Options Paper

AWEA filed brief comments relating to FERC's *Options Paper for Resolving Rate and Transition Issues*. The filing supports the concept of allocating embedded costs of the transmission system to load, with wholesale transmission revenues credited to load to offset costs. AWEA states that it prefers this option because it is simple, it avoids rate pancaking, and it maintains neutrality toward different generation technologies (as opposed to distance-related charges to generators which disproportionately impact remotely sited generators like wind).

The New England Renewable Power Producers Association also commented on the *Options Paper*. The group:

- Supports the principle of load paying access charges but wants this principle to apply to all transmission facilities, not just those that have transferred control to the RTO. NERPPA argues that small generators in New England are subject to rate pancaking unless this issue is resolved, since most are directly connected to non-pool transmission facilities and must take transmission service under the local utility's OATT, which comes with wheeling charges to move the power elsewhere, including to pool transmission facilities.
- Says access charges should not apply to exports and wheel-throughs, because doing so would result in pancaking. Rather load should pay the access charge for the transmission system in which the load is located.

- Argues that some transmission rights should be initially allocated to renewables, and that compliance with state RPS and voluntary green markets should not be hindered by transmission rights policies.
- Notes that renewable generators are often located on the “wrong” side of constrained interfaces, and that adoption of LMP, while having certain advantages, should not simultaneously disadvantage renewable resources which bring benefits in environment, security, transmission, etc. While other resources can respond to the incentives LMP provides, “renewable power is immune” to such incentives since it is limited by the availability of wind and other natural energy resources.
- Argues that measures of system reliability must consider not only “market prices and signals” but also factors that are not accounted for in these signals, such as long- and short-term pricing, the potential for market manipulation, benefits of fuel source diversity, environmental effects of generation, etc.

Project for Sustainable FERC Energy Policy Comments on SMD Environmental Assessment Requirements

The Project for Sustainable FERC Energy Policy filed comments on FERC’s working paper titled *Scope of Issues to be Addressed in the Environmental Assessment of the Proposed SMD Rule*. The Project’s filing indicates general support for the SMD rulemaking, but also:

- Argues that required environmental assessments should include not only potential adverse effects of SMD implementation from higher levels of fossil generation, but also positive effects of demand response and renewables. Also argues for a strong focus on: 1) determining environmental impacts of fully utilizing existing coal generation fleet, whether to meet new interregional demand or demand growth that could result from SMD implementation, and 2) determining levels of mitigation that could be provided by demand response and renewables, and strategies for encouraging additions of these resources (such as RPS, goals, incentives, etc.)
- Proposes inclusion of mitigation measures in SMD, and points out that previous environmental assessment regarding Open Access rules in the 1990s fell short of actual emissions that resulted due to increased coal generation, leading to a determination that a full environmental analysis was not warranted. Argues that full environmental analysis should be considered this time.
- Proposes that FERC should investigate: 1) effects of market price volatility on resource investments – particularly in demand-side and renewable resource investments, and 2) whether facilitating long-distance transport will result in more coal-by-wire and/or more remote renewable generation.

Congressional Opposition to SMD?

Restructuring Today reported that an alliance of US lawmakers from Northwest and Southeast states, lead by Sen. Maria Cantwell of Washington state, are worried about what they see as FERC trampling on states’ authority through its proposed SMD. They see SMD as a federal grab for more authority that could raise electricity rates in their regions while other regions pay less. The group is weighing options to derail or delay FERC including using the annual FERC funding bill to send a signal that SMD is not wanted.

The Midwest

MISO Plans Consider Wind

In preparing transmission expansion plans covering 2003-2007, the Midwest ISO is considering four scenarios. MISO’s baseline scenario includes current and forecasted information from transmission owners and the MAPP Sub-regional Planning Groups such as loads and firm transmission service commitments, designated generation

resources to serve load, and projected transmission plans. The other scenarios consider high gas, high coal, and high wind. The high wind scenario would result in increasing the proportion of wind and other renewables in MISO's fuel mix from about 14 percent to 19 percent over the planning period.

**NWCC Plans
December Workshop**

The NWCC is planning its third workshop on transmission issues in the Midwest. The workshop is intended to foster stakeholder input into MISO's transmission planning process. The workshop will be held in St. Paul, Minnesota on December 5. More information on the workshop can be found at:
<http://www.nationalwind.org/events/transmission/overview.htm>.

**FERC to Hold
Midwest Conference
on Infrastructure**

FERC is planning a conference on Midwest Energy Infrastructure to be held November 13 in Chicago. The conference will focus on the adequacy of electric, gas, and other energy infrastructure in the region.

**AEP Commits SPP
Assets to MISO**

On September 13, MISO and AEP jointly announced a Memorandum of Understanding (MOU) that will result in the transfer a portion of AEP's transmission facilities to MISO's functional control. Transmission assets covered by the filing are facilities owned by AEP operating companies Southwestern Electric Power Co. and Public Service Company of Oklahoma, which currently operate within the Southwest Power Pool (SPP).

Under the agreement, AEP will apply for membership in MISO as an individual transmission owner, but reserves the right to later transfer functional control of these facilities to an independent transmission company (ITC) that would also participate within MISO. AEPSC is to remain in MISO through the end of 2004, but has the right to withdraw after this period without being subject to an exit fee. AEPSC also has the right to withdraw within 30 days if other MISO transmission owners or ITCs withdraw from MISO resulting in AEP/SPP not being directly interconnected with a remaining MISO member; or if a portion of MISO transmission facilities are removed that has a material impact on AEP's business interest.

**Basin Electric, MDU
Announce Dakota
Wind Projects**

In September Basin Electric Cooperative and FPL Energy LLC announced an agreement to build 80 megawatts (MW) of wind energy – a 40 MW wind farm in each of the Dakotas – bringing Basin Electric's wind portfolio to over 85 MW by the end of 2003. The output will be used to serve load growth in Basin Electric's wholesale member systems territories, which stretch from Canada to Texas.

In August Montana-Dakota Utilities Co. and Dakota I Power Partners announced their plan to develop a 20 MW wind farm in Dickey County, N.D. Dakota plans to construct 13 1.5 MW wind turbines in close proximity to an existing 41.6-kilovolt transmission line. The project's output will be dedicated to Montana-Dakota's customers on its integrated electrical system, which serves portions of North Dakota, South Dakota, and Montana. Project construction is expected to be complete by the end of 2003.