

## The West

### **SSG-WI Gets Nod from Western RTOs**

The three western RTOs have signed a memorandum of understanding that provides a framework for cooperation and names the Seams Steering Group – Western Interconnection (SSG-WI) as the forum for such collaboration. The MOU states that SSG-WI will be the forum for developing consensus positions among the staffs of the three RTOs, which would then be recommended to the governing boards of the respective organizations. The RTO Boards of Directors would retain final decision-making authority.

SSG-WI has already created a number of working groups to identify solutions to common problems associated with power grid efficiency. In its September Orders concerning the western RTOs, FERC acknowledged that SSG-WI was providing a valuable forum for resolving seams issues in the West, and encouraged the western RTOs to continue their progress through SSG-WI.

### **NW Municipals Want Review of RTO West Costs and Benefits**

In a November filing, the Public Power Council, a coalition of municipal utilities in the Northwest, asked FERC to reconsider its decision to delay review of a cost-benefit analysis of the proposed RTO West. FERC's September Order on RTO West said that the Commission wouldn't look at a cost benefit analysis until the final stage of planning.

The Public Power Council objected, saying the RTO could raise the cost of power for customers, and arguing that FERC "has skirted the obvious ultimate finding that the Northwest will be harmed, or at a minimum, will see no benefits from the RTO West proposal." It urged FERC to compel a cost-benefit analysis before any further work proceeds. The Montana Consumer Council agreed, not that "in refusing to consider cost/benefit issues until the final decision stage of this proceeding, the Commission effectively renders moot what is, instead, a key preliminary determination."

### **CAISO Implements AMP, But Delays Start of Day-Ahead Market**

The California ISO began operating with new market rules on October 30, 2002. The new market rules replace the FERC west-wide market power mitigation that began in June 2001 and expired in October 2002. The centerpiece of the rules is the new Automated Mitigation Procedure (AMP), which automatically lowers bids offered into ISO markets that are too high. AMP uses three different tests to see if bids are out of line with the market, and only when bids fail all three tests are they automatically lowered. The new rules also require all generators located outside of CAISO's system to bid in at \$0 and be price takers on the system (these bidders therefore are not subject to the AMP).

Meanwhile, CAISO told FERC that it wouldn't be able to eliminate its balanced schedule requirement in time to meet FERC's January 31, 2003 deadline. CAISO would prefer to wait until fall 2003, citing concerns about mistakes, flaws, and higher costs that could result from making the change too quickly.

### **California IOUs to Begin Procuring RPC Renewables**

Beginning January 1, 2003, California's investor-owned utilities will once again be able to handle their own power procurement, leaving behind a stopgap procurement method implemented in response to the state's electricity crisis. They will also be responsible for purchasing energy from renewable resources as required by the state's

renewable portfolio standard. The California Public Utility Commission is charged with verifying that the IOUs procure 1 percent incremental renewable energy in 2003.

## **The Midwest**

### **MISO, SPP File Combined Tariff,**

The Midwest Independent System Operator (MISO) and the Southwestern Power Pool (SPP) have filed a combined tariff filed with FERC. MISO and SPP say the new tariff:

- Eliminates pancaked rates for transactions that occur between MISO and SPP customers;
- Preserves the zonal rate structure under MISO and SPP tariffs;
- Preserves existing rates for certain long-term firm SPP service agreements; and,
- Preserves grandfathered contract provisions under both organizations' tariffs.

### **MAPP, SPP to Form New Reliability Organization**

The Boards of the Mid-Atlantic Power Pool (MAPP) and SPP have passed a resolution to create a new regional reliability organization (RRO) under NERC. The new organization will replace the existing MAPP and SPP Regional Reliability Councils. It specifies a transition mechanism that allows members to continue under their existing regional reliability standards until the new RRO develops its own standards, and ensures that each member of the new RRO will have a voice in the development of the new standards. The resolution also calls for an open and balanced stakeholder board that reflects the diverse interests of the region and includes Canadian participation, to govern the new RRO.

### **GridAmerica ITC to Join MISO**

MISO and GridAmerica have executed an agreement that would allow GridAmerica to operate as an independent transmission company (ITC) under MISO. GridAmerica consists of Ameren, FirstEnergy subsidiary ATSI, and NiSource subsidiary Northern Indiana Public Service.

Under the agreement, GridAmerica would be managed by an independent managing member (National Grid), and would perform a number of functions normally performed by the RTO regarding operation, planning, and provision of transmission service for transactions that both source and sink within the GridAmerica footprint. In addition, GridAmerica would perform contracted services in support of MISO responsibilities and provide consulting services to assist in identifying opportunities for technical innovations within the entire Midwest ISO. If the agreement is approved, the parties are aiming to have GridAmerica operational within MISO by April 2003.

If approved, GridAmerica will become the fifth ITC operating or seeking to operate within MISO. The others are American Transmission Co. (ATC), Detroit Edison's International Transmission Company, TransElect's subsidiary Michigan Electric Transmission Company, and TRANSLink (a group of six investor-owned and public power utilities that includes MISO members Alliant Energy and Xcel Energy's Northern States Power).

### **Wisconsinites to Fund Migration to ATC and MISO**

Wisconsin's Public Service Commission has approved We Energies' request to recover costs of formation and operation of American Transmission Company (ATC) and MISO. Wisconsin Act 9, passed in 1999, encouraged the state's utilities to transfer ownership and control of their transmission assets to an independent transmission company. ATC began operating in 2001 and became the holder of almost all of the transmission assets once held by contributing electric utilities, including We Energies. ATC is operating as an independent transmission company within MISO.

### **Arrowhead-Weston Line Costs Go Up**

The 345 kV Arrowhead-Weston transmission line, which would expand transmission capacity between Minnesota and Wisconsin, is expected to cost more than double original estimates. The project began development under Allete and WPS Resources,

but American Transmission Company (ATC) is considering taking over the project. ATC is already slated to be line's operator once it is completed.

Developers blame the cost increase on more aggressive environmental safeguards, increased payments to landowners, new construction materials, and a more than 2-year delay in getting the project off the ground.

Duluth MN to central WI. ATC building a case to have the project rate based. Winning approval for the first time required a lengthy process involving lots of stakeholder opposition from environmental groups and property owners. Reopening the issue shouldn't take as long procedurally, but risks giving opponents a new target. Construction is still at least a year off.

## **FERC and Standard Market Design (SMD)**

### **SMD Delays Continue**

FERC issued its Notice of Proposed Rulemaking (NOPR) on standard market design on July 31 2002, with a deadline for comments of Oct. 15 2002, and anticipated completion of a final rule in December 2002.

On September 10 FERC revised this schedule, extending the deadline for comments on the NOPR to Nov. 15 and for reply comments through Dec. 20. At the same time, FERC announced its intention to hold technical conferences and reserve a week in January 2003 for addressing remaining issues of concern.

On October 2 FERC revised the schedule again, pushing back the deadline for comments on certain SMD issues to January 10, 2003, and extending the deadline for all reply comments to Feb. 17 2003. The November 15 deadline for comments remained firm, however.

With all these schedule shifts, it is now anticipated that a final SMD rule will not be issued until mid-2003.

### **FERC to Address Interconnection Queue Issues**

FERC has announced that it will hold a technical conference in Washington, D.C., on January 21, 2003 to discuss specific issues related to interconnection queuing practices and procedures, such as:

- Whether interconnection queue position should be treated as a property right;
- Whether FERC should introduce due diligence requirements to prevent cancelled or delayed plants from delaying other units in the queue;
- How to manage the queue to best serve regional infrastructure planning, grid management, and infrastructure development while improving certainty for infrastructure developers;
- Whether FERC should standardize queue management practices across regions and RTOs or establish a set of national core principles;
- The most effective method for analyzing impacts of uncertain combinations of loads and generators on the grid;
- Current ISO/RTO interconnection queue management practices;
- Whether small (<20 MW) generator impacts on the grid warrant different analysis and queuing treatment for small generators; and,
- Interconnection queue experiences.

## **SMD Comments Related to Wind Generation**

This section summarizes comments related to wind and renewable generation filed on or before November 15, 2002 in response to FERC's SMD NOPR.

### **American Wind Energy Association (AWEA)**

The American Wind Energy Association submitted SMD comments that emphasized the following points:

- The final rule should explicitly recognize that wind resources have capacity value for meeting resource adequacy requirements.
- The final rule should hold firm on requiring load to pay transmission access charges, and it should require that congestion revenue rights (CRRs) follow the load.
- The final rule should explicitly allow averaged multi-hour block bids for transmission service.
- The final rule should exempt intermittent generators from all charges for uninstructed deviations.
- The final rule should exempt wind generation from AMP mitigation measures because variable cost-based prices are not appropriate for resources with near-zero variable operating costs.

### **National Wind Coordinating Committee (NWCC)**

The NWCC took the opportunity to point out that many elements of the proposed SMD were consistent with principles developed by the stakeholder organization over the past several years. It noted that a number of provisions would benefit incorporation of wind power, including:

- The proposed network access transmission service, which would help wind generators "avoid having to choose between firm point-to-point transmission service and non-firm point-to-point transmission service," and would help wind generators in regions where "the transmission systems appear quite congested, even though operations data shows that the congested routes may only be congested for a few hours per year."
- The assignment of transmission access charges to load, which would benefit wind because wind energy has lower capacity factors than other generating technologies.
- The proposed incorporation of the California ISO's wind scheduling and settlements provisions, which would benefit wind generation as well.

The NWCC did list several concerns, including:

- It requested clarification on the "additional charges" proposed for uninstructed deviations in real time from schedules, expressing concern that FERC approval of such charges could "open the door for continuation of energy imbalance penalties" that pose a "formidable entry barrier to wind energy generators".
- It also questioned FERC's apparent delegation of the administration of capacity markets to the North American Energy Standards Board (NAESB). The NWCC requested that FERC direct NAESB to follow the recommendation in the staff working paper that wind energy be eligible as a capacity adequacy resource.

- Finally, the NWCC supported the creation of markets for electricity derivatives such as the generation attributes that may be unbundled and traded separately from energy, and recommended that FERC ensure the tools are available at a regional level to implement such policies and thereby support green power markets.

#### **New England Renewable Power Producers (NERPPA)**

NERPPA's comments focused heavily on which methodology for calculating line should be used, and supported use of a marginal cost approach as opposed to FERC's recommended average cost approach. NERPPA pointed out that an average line loss approach would be particularly burdensome to small renewable resources, since losses attributable to long-distance transactions would be averaged in with all others. It pointed out that many NERPPA members' facilities are located deep within the transmission and distribution systems, where "they offer great savings to consumers." NERPPA noted the inconsistency of FERC's recommended approaches to congestion management and line losses, and stated that the principle of consistency would argue for marginal cost approaches to each.

NERPPA also:

- Argued that the ISO/RTO Board should be comprised of individuals who have expertise in alternative technologies such as renewable energy production;
- Agreed with the proposed inclusion of the California ISO's scheduling option for intermittent resources as part of SMD; and,
- Supported widespread implementation of an ISO - New England style GIS.

#### **Project for Sustainable FERC Energy Policy**

On behalf of a number of public interest organizations (PIOs), the Project for Sustainable FERC Energy Policy's comments broadly endorsed FERC's SMD initiative, saying the NOPR "provides most of what is required to assure that renewable resources have the opportunity to compete in wholesale power markets," including:

- Eliminating rate pancaking;
- Providing for both real-time and forward energy and ancillary services markets;
- Establishing pricing policies that support competitive markets and treat intermittent resources fairly;
- Requiring planning processes that are open to all resource options;
- Providing that transmission access charges be paid by load; and,
- Incorporating the California ISO approach to scheduling intermittent generators.

In addition, the PIOs recommended that that FERC adopt a fundamental set of scheduling requirements that would:

- Allow wind generators to schedule both in day-ahead and real-time energy markets with day-ahead scheduling supported by validated energy forecasts;
- Require that independent transmission providers provide an intermittent resource forecast program unless the wind generation in their region is low;

- Provide regular forecasting and scheduling updates for wind facilities up to 30 minutes before real-time; and
- Eliminate energy imbalance penalties for intermittent generators participating in the independent transmission provider’s forecasting program.

Finally, the PIOs recommend that the Commission require implementation of generator information systems (GIS) “comparable (or superior) to the one used by ISO-New England to support market based renewable energy attribute trading, as well as state programs on energy product information disclosure and generation portfolio standards.”

## Other News

### ISO-NE and NYISO Withdraw Merger Proposal

The proposed merger of ISO-New England and the New York ISO is on hold. The two ISOs cited opposition from stakeholder groups, the delayed schedule for issuance of the SMD rule, and uncertainty about litigation if the merger were approved as reasons for the withdrawal.

In comments filed at FERC, the merger proposal was opposed by the Attorneys General of Connecticut, New Hampshire, Maine, Massachusetts and Vermont, who argued that “consumers in New England are likely to absorb significant cost increases to their electric bills for at least the first six years of the merger.” The Connecticut Department of Public Utility Control, the New York State Consumer Protection Board (CPB), and others also opposed the merger. In general, New England states were concerned that most of the benefits would accrue to New York, while the New York CPB felt that most of the benefits would occur anyway, even without a merger.

### A New Kind of Transmission Pricing?

TRANSLink, an ITC planning to operate within MISO/SPP, has proposed a new way to price transmission that combines the license plate and postage stamp approaches.

License plate rates have the advantage of providing for the same cost of service for native load whether it is served from generation on the local utility system or from other systems in the RTO. The problem with license plate rates is that they don’t recoup the embedded transmission costs of exporting and “through” transactions on the local grid, causing native load to subsidize these transactions. This in turn could undermine investment in new facilities that serve through and out transactions because the builders of those facilities won’t have a good way to recoup costs.

Postage stamp rates, on the other hand, produce cross-subsidization in the other direction. Since all costs on the system are averaged together, postage stamp rates tend to favor investment in lower-density, higher-cost transmission systems because they are being subsidized by higher-density, lower-cost systems.

TRANSLink’s approach is to divide transmission facilities into two categories: those that are used primarily to serve long distance transactions (TRANSLink calls these “Highway” facilities), and those that primarily are used to take electricity from generators to Highway facilities or to loads and distribution systems (these are “Zonal” facilities). They then apply a postage stamp rate to the Highway facilities, and a license plate rate to the Zonal facilities. Thus, every transaction’s transmission fee is comprised of a Highway and Zonal component, depending on which type(s) of facilities were used to execute the transfer.

The compromise approach could benefit remote wind generation currently under license plate pricing models by providing additional financial incentives for investment in transmission facilities that primarily serve long-distance transactions.

## **Texas Makes Progress on Transmission Lines**

A partnership between the Lower Colorado River Authority (LCRA) and American Electric Power (AEP) plans to complete about \$500 million in transmission projects over the next five years. Under the plan, LCRA will finance and own the transmission system improvements while will AEP build and maintain them.

The two companies have already been working together on a major project in West Texas. In that project, LCRA and AEP will develop a \$90 million, 150-mile portion of a proposed high-voltage power line, pending approval from the Public Utility Commission of Texas. The new line will improve system reliability in the San Angelo area as well as statewide, and will deliver wind power from West Texas to help meet the state's renewable energy goals.

Four more transmission projects are progressing ahead of schedule by Oncor (a TXU subsidiary), two of which will help deliver power from wind farms in West Texas to consumers in North Texas.