

Summary

The Midwest ISO (MISO) continues to gain momentum that may enable the region's wind energy potential to find its way to distant markets: MISO and the Southwest Power Pool (SPP) have formed a new initiative to spearhead creation of a centrally-controlled spot market; FERC actions have moved forward GridAmerica's and TRANSLink's proposals to operate as independent transmission companies (ITCs) within MISO; and Trans-Elect announced its new Illinois transmission assets would join its recently acquired Michigan assets in operating under MISO rather than PJM.

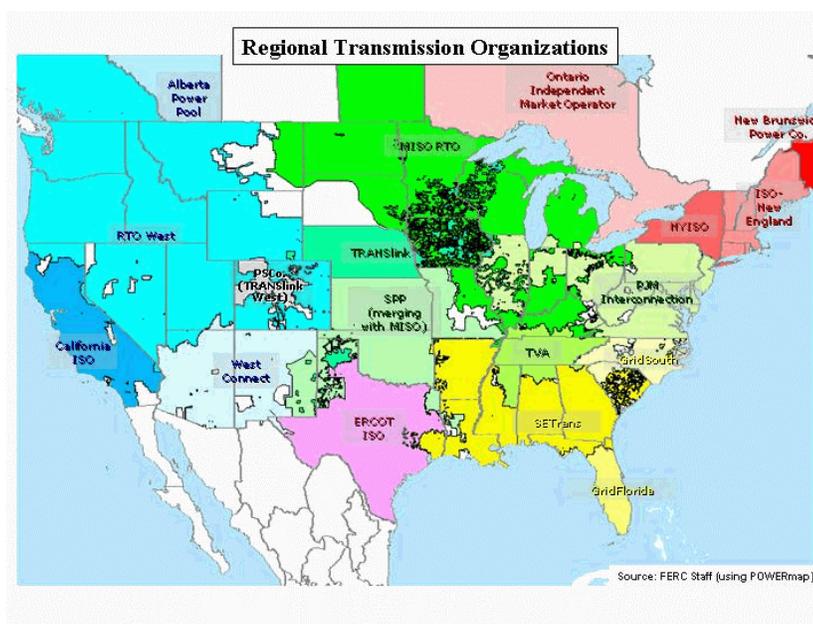
In the West, the Seams Steering Group – Western Interconnection (SSG-WI) held its first formal meeting and then got to tell FERC Commissioners about it. They described SSG-WI's proposed role in the region, outlined a plan of action, and responded to concerns about the entity's ability to compel the West's three RTOs to adopt compatible market designs.

In the Standard Market Design arena, wind stakeholders are letting their views be known on issues as diverse as allocation of congestion hedging rights, inclusion of wind capacity in resource adequacy determinations, management of interconnection queues and the potential benefits of attribute tracking systems. Their comments to FERC are detailed inside.

Regional Transmission Organizations

Latest RTO Map

For those who need a good visual aid to keep their RTOs in order, FERC staffers recently posted a map showing all the RTOs approved or under development as of Jan. 7, 2003, as well as a few "holes". The map is posted at http://www.ferc.gov/Electric/rto/post_rto.htm. Here it is:



The West

SSG-WI Updates FERC

At FERC's meeting on January 29, 2003, representatives of the Seams Steering Group – Western Interconnection (SSG-WI) provided an overview of SSG-WI's organization, processes, deliverables, and milestones while facing tough questions from FERC Commissioners.

At the FERC meeting, SSG-WI representatives faced questioning from Commissioners Wood and Brownell about the ability of SSG-WI to achieve results in the West, given its voluntary participation and lack of authority to compel changes in any of the RTOs. The Commissioners expressed their concern about the intended approach of allowing the three separate Western RTOs to function independently rather than finding a common market design approach for all three.

Commissioners also wanted to know how non-jurisdictional entities such as municipal utilities and rural electric cooperatives viewed SSG-WI. SSG-WI's Rich Bayless said concerns from these groups in the Northwest were about being forced into a market design different than RTO West's, such as the California ISO design.

Commissioner Wood said FERC wants to see more progress on combining the three RTOs into a seamless market. FERC has given initial approval to the region's plan for creating an integrated market, acknowledging the region is fundamentally different from eastern power grids. Wood said despite FERC's growing "impatience", it would try to accommodate regional differences. Working through SSG-WI, the three Western grid operators said they hope to finish a plan for common rules later this year. The work has been slowed by the need to reconcile different system designs.

SSG-WI reported that it held first open meeting January 21, 2003, with about 50 in attendance. At the center of SSG-WI is the Seams Steering Group, which serves as a discussion forum for facilitating the creation of a seamless Western market and for proposing resolutions for issues associated with differences in RTO practices and procedures. SSG-WI recently identified representatives from WestConnect, the California ISO, and RTO West to serve on the Steering Group. In addition, there are five SSG-WI working groups:

- Transmission Planning Working Group – This group plans to issue a report on transaction issues and candidate models for resolving them during April 2003, a report on models testing in August, and a consensus proposal around September. The group has already developed an initial proposal on process for regional transmission planning, and has initiated development of detailed long term planning studies based in part on earlier WGA efforts.
- Market Monitoring Working Group – This group aims to present market monitoring structure options in April 2003 and an initial proposal on data confidentiality in July. It has already developed a recommendation for a single west-wide market monitoring entity, and has proposed that the market monitor will be independent from RTO boards and will have a direct relationship with FERC.
- Price Reciprocity Working Group – This group is tasked with identifying existing and proposed RTO charges and developing assessment criteria by March 2003, collecting financial impact data by July, reporting on price reciprocity options in September, and developing proposals for seams with non-participants by December 2003/January 2004. The group has already identified four viable price reciprocity options – no change, reciprocal waiver of wheeling charges, transfer payment mechanism, west-wide

wheeling charge – and is working with stakeholders to refine this list.

- Common Systems Interface Coordination Working Group – This group aims to provide a seams system implementation plan proposal in March 2003, and a plan for implementation coordination, coordination simulation, and business process modeling by July. Key products to date include a methodology for developing single market interface, identification of options for backup control centers, sharing of training,
- Congestion Management Working Group – This group’s mission is to eliminate seams issues associated with the western RTO congestion management models by identifying and proposing solutions to those seams issues that would have a negative impact on the efficient operation of a seamless western market.

Source: Compiled from SSG-WI – An Update, presentation to FERC January 29, 2003, available at www.ferc.gov; Notes, FERC Open Meeting, SSG-WI Seams Resolution, available at www.ssg-wi.com; and Transmission Report 1/20/03 – 2/2/03, Energy Info Source

The Midwest

FERC Orders Increase MISO’s Reach

A series of FERC orders will allow for service under a single tariff over a broad region covering the Midwest ISO (MISO), Southwest Power Pool (SPP), and MISO’s proposed independent transmission companies (ITCs), and encourages resolution of seams issues between MISO and the PJM Interconnection.

- FERC accepted with modification’s MISO’s revised open access transmission tariff (OATT). The revised tariff, effective December 23 2002, allows for ITCs’ participation within MISO while assuming certain RTO functions. (Docket No. ER03-86-000)
- FERC conditionally accepted operation agreements and an ITC agreement between GridAmerica participants and MISO and a master agreement by and among GridAmerica companies regarding transfer of transmission facilities to the ITC. FERC also determined that National Grid is not a market participant and is sufficiently independent to serve as the managing member of GridAmerica. (Docket No. ER02-2233-001)
- FERC accepted proposed rates schedules to MISO’s tariff for service in the TRANSLink transmission system. The rates are effective December 24, 2002, and are subject to refund pending the outcome of a hearing.
- Finally, FERC granted RTO status to PJM in December 2002, saying it intends to hold PJM and MISO to an October 2004 deadline for resolving seams issues.

Transmission Report, 12/9/02 - 12/22/02, Energy Info Source

TRANSLink Files in 5 States, Signs on Municipals

TRANSLink, a proposed ITC intending to operate under MISO, has made regulatory filings in Wisconsin, Iowa, Minnesota, Texas, and New Mexico. A similar filing will be made in North Dakota before the end of the year, and submissions in Colorado and Illinois during the first quarter of 2003 will complete the filings in all states where certification by regulators is required.

Xcel Energy recently filed with the Minnesota, New Mexico, Texas and Wisconsin regulatory commissions to approve transfer of control of the transmission operations of its utility subsidiaries to TRANSLink through long-term contracts. Alliant Energy and MidAmerican Energy have requested similar approvals in Iowa.

TRANSLink also announced an agreement with the Midwest Municipal Transmission Group (MMTG), an association of municipals served by Xcel Energy, Alliant Energy, Great River Energy, MidAmerican Energy and Dairyland Power Cooperative transmission systems. The MMTG is made up of 119 municipal utilities, including 16 members and one municipal customer of the Central Minnesota Municipal Power Agency, 96 members of the Iowa Association of Municipal Utilities, and six members of the Minnesota Municipal Utilities Association. The agreement enables these utilities to participate in MISO through the TRANSLink ITC.

The agreement will allow TRANSLink to exercise functional control over the MMTG member's transmission facilities, and allows MMTG members to acquire, construct and own up to \$20 million in transmission projects that are incorporated in a regional transmission plan adopted by TRANSLink and accepted or approved by MISO.

Source: TRANSLink news releases, 12/10/2002 and 12/26/2002, available at www.translinktc.com.

Trans-Elect Illinois Announces Switch to MISO

In a filing to FERC, the Trans-Elect ITC said it would opt out of an earlier agreement for its Illinois transmission assets to join PJM. In October 2002, Trans-Elect announced the purchase of the transmission assets of Illinois Power for \$239 million. Under that agreement, the new assets were obligated join PJM through the end of 2004.

On the new direction, Trans-Elect's Paul McCoy said, "This is an important step in satisfying Illinois customers' concerns regarding RTO seams issues that would arise in joining any other RTO besides MISO." Trans-Elect had previously purchased the Michigan Electric Transmission Company (METC) and proposed to operate it under the auspices of MISO, so the move would provide "consistency, efficiency, and clarity to our operations in the Midwest," he said.

Source: Trans-Elect press release, 12/16/2002, available at www.trans-elect.com.

MISO/SPP Create Midwest Market Initiative

MISO and SPP have created the Midwest Market Initiative (MMI) to serve as a focal point for creating a centrally controlled spot market by the end of 2003. The goal is that the MISO/SPP merged interconnection will offer a single system for real-time and day-ahead trading starting December 1, 2003. The MMI held kick-off sessions on January 6 in Dallas and January 8 in St. Louis.

Under the MMI, the current system of bilateral trading based around Midwestern hubs will be replaced by an hourly LMP system. Market design will allow participants to alter nodal bids and offers up to 20 minutes before the start of each hour. The MMI will also coordinate an auction of financial transmission rights (FTRs), allowing non-transmission owners to hedge against the risk of congestion.

The MMI has already begun studying models for allocation of Financial transmission rights (FTRs), and is now implementing a stakeholder process to get responses and suggestions for changes or corrections to models.

Source: www.midwestiso.org and www.midwestmarket.org.

Texas

ERCOT's New Governance Structure

Under new bylaws and amendments, the ERCOT Board of Directors is transitioning to a new structure designed to make it more independent. In the first stage of the transition, the Board decreased from 25 to 19 members during elections held December 17. The Board is scheduled to add three new independent (unaffiliated with any market participants in the ERCOT market) members in June 2003, and then will decrease to a total of 14 members in December 2003. The fourteen will include one representative of each of the following groups:

- Investor owned utilities
- Independent power marketers
- Independent retailers
- Independent generators
- Electric cooperatives
- Municipal utilities

In addition, three consumer directors, three independent directors, the ERCOT CEO and the Chairman of the PUCT will serve on the ERCOT Board.

The changes are being made in response to criticism from members of the Texas Legislature that the outgoing ERCOT Board Chairman was too controlled by other Board members and needed to be more independent.

While ERCOT has received praise for its implementation of wholesale markets in Texas, it has been criticized for problems managing the retail market. In particular, ERCOT's information systems for handling switch requests has suffered numerous setbacks, failures and lost data, and has been blamed, at least in part, for the fact that only about 5 percent of Texas electric customers have switched providers to date.

Source: Transmission Report 12/22/02 – 1/19/03, Energy Info Source

Standard Market Design

SMD and Interconnection Queuing

FERC held a technical conference on SMD-related interconnection queuing issues on January 21, 2003. Two speakers directly represented wind interests: Jim Caldwell of AWEA and Beth Soholt of Wind on the Wires. Their comments are summarized here:

Caldwell defined three interconnection queue issues and proposed a possible solution for each:

- Issue #1: Untimely, Opaque Process – Queue lengths of 18-24 months common, project engineering must be complete before study begins; neither models nor databases nor full results are available to generator. Proposed Solution - Generator self-study option for “energy only” portion of interconnection. Use of appropriate milestones to ensure only active projects proceed to cluster study phase.
- Issue #2: Sequential Study Process – Process is inefficient and yields expensive results for both generator and grid; leads to sub-optimum grid enhancements; problems with “zombie projects”; requires constant “do-overs” as other projects evolve; “out of queue order” studies are required but do not solve problem. Proposed Solution – Class year, open season cluster studies of projects for “deliverability” and congestion analysis portion of interconnection study.
- Issue #3: Worst Case Peak Day Analysis Used Inappropriately – Such analysis requires generator to cure uneconomic congestion; does not allow for use of remedial action schemes and market based congestion management to solve contingency issues and rare congestion. Proposed Solution – Use chronological dispatch model consistent with SMD pro-forma tariff for generator redispatch and congestion during analysis.

Soholt said any solution to the queue problem must provide for a transparent, dynamic, timely process, and must not include queue position as a property right. Her presentation also emphasized the need for new transmission products, such as “semi-firm” or “curtailable firm” transmission products, which could have a positive impact

on the queue. She recommended the following changes to existing queue management practices:

- Implementation of class year cluster studies as pioneered by the New York ISO;
- Use of study assumptions that anticipate SMD and take into account advancements in wind technology – latest generator models, capacity credit, penetration levels, wind forecasting, new transmission products, etc; and,
- Inclusion of more accurate assessments of projects moving forward in the planning process (e.g., MISO process currently only includes projects with a signed interconnection agreement).

Source: Presentations of Jim Caldwell and Beth Soholt for FERC Technical Conference on Queuing of Interconnection Requests, January 21, 2003, available at <http://www.ferc.gov/Electric/rto/Mrkt-Strct-comments/rm01-12-comments.htm>.

FERC to Issue SMD White Paper in April

FERC Chairman Pat Wood announced FERC would issue a white paper on its proposed Standard Market Design (SMD) rule in April 2003. The white paper will reaffirm FERC’s commitment to embrace “the flexibility needed to accommodate regional concerns.”

The Edison Electric Institute, members of Congress, and RTO development groups in the Northwest and Southeast have expressed support for more flexible regional SMD implementation schedules. “To have a level playing field, enhance wholesale competition, and remove economic inefficiencies, we need to get the structure right and then let the markets operate. While this may delay SMD in some parts of the country, it is more important to do it right than do it fast,” said Wood.

Of particular concern is a provision in the SMD proposed rule suggesting that all new transmission construction follow from a competitive procurement process. Wood observed that this provision could slow down investment in the short term, and therefore should not be included in the Commission’s final rule.

Source: Transmission Report 1/6/03 – 1/19/03, Energy Info Source

SMD – January 10 Comments on Wind

Comments on FERC’s SMD NOPR were due November 15, 2002, except for comments addressing the following issues, which were due January 10:

- (1) market design for the Western Interconnection;
- (2) transmission planning and pricing, including participant funding;
- (3) Regional State Advisory Committees and state participation;
- (4) resource adequacy; and
- (5) CRRs and transition issues.

The American Wind Energy Association (AWEA) and the New England Renewable Power Producers Association (NERPPA) separately submitted comments that pertained to these issues.

Market Design for the Western Interconnection – AWEA registered support for accommodation of regional differences in the West “as long as such accommodation is consistent with the fundamental objectives of SMD.” It pointed out, “if accommodation means some kind of ‘balanced schedule’ ‘firm point to point’ world with non-cost based imbalance penalties to ‘enforce good generator behavior’, then intermittent technologies will continue to face insurmountable barriers to entry.” AWEA supported adopting the California ISO’s forecast based method for scheduling intermittent resources as a minimum requirement for all regional markets, including the West.

Resource Adequacy –NERPPA said it “generally supports” FERC’s proposed method for determining resource adequacy, but thinks it doesn’t go far enough, arguing FERC’s requirements should incorporate measures of diversity of supply, not “just the number of available megawatts.” AWEA proposed a method for recognizing the capacity value of renewable resources in a previous filing, and reiterated its support for use of this or a similar method by FERC.

Transmission Planning and Pricing – AWEA urged implementation of participant funding of new transmission projects “only where both transmission planning and transmission cost allocation decision making authority are in the hands of an ITP or other independent entity,” and asserted that the “criteria used to identify the beneficiaries of transmission upgrades should be fair and inclusive.” AWEA pointed out that there are numerous potential beneficiaries of any transmission project, and expressed concern that without these measures costs could be unfairly assigned to new generators.

CRRs and Transition Issues – AWEA expressed a preference for CRRs that are purely financial and compatible across seams. It wants purely financial rights because physical rights (such as scheduling or curtailment priority) would “interfere with the efficiency of LMP price signals”, and “potentially preserve the market power of existing transmission users over new entrants.”

NERPPA disliked LMP altogether, because LMP would “disadvantage renewable generators in certain regions,” and because these generators “can’t respond to locational pricing signals.” NERPPA argued that this is contrary to FERC policies supporting leveling the playing field for new types of fuels or generators.

As an interim measure, until transmission capacity is adequate, NERPPA said FERC should make sure renewable generators are not harmed by the implementation of LMP. It advocates for allocation of sufficient CRRs to allow renewable generators adversely affected by LMP to deliver their power to the trading hub, and to receive the average price. Under this scenario, they argue, “only those units actually harmed by LMP would be protected, and only to the extent of the harm imposed by the LMP policy.” This is a different approach than seeking a wholesale exemption from LMP for renewables.

Source: The AWEA and NERPPA January 10 filings are under FERC Docket RM01-12-000, and can be found at <http://www.ferc.gov/Electric/rto/Mrkt-Struct-comments/rm01-12-comment2.htm>.

More Wind-Related SMD Comments

Following up on previous issues reporting SMD comments related to wind energy, this Update presents excerpts from comments filed by the Kansas Renewable Energy Working Group, the New England Governors Conference, and NREL’s Wind Technology Program.

Kansas Renewable Energy Working Group (KREWG) - “The use of LMP may put such an emphasis upon building more transmission near load centers that little or no capital will remain to provide transmission support for more remote wind energy facilities...

“Competitive and nondiscriminatory access to transmission is important for all new generation, but especially for nontraditional sources. However, competitive and nondiscriminatory access is important only if the transmission is available...

“Although the problem of transmission capacity in remote areas is one already present in the existing transmission market structure, it is hoped that in developing the new market structure of SMD, greater attention could be given to developing pricing structures for CCRs which would accommodate the necessity of placing wind

generation facilities in areas remote from the electrical demand.”

New England Governors Conference (NEGC) – “The NEGC urges the FERC to support the implementation of a consistent generation information system (GIS) that tracks the emission characteristics and fuel/generation source attributes of generation resources as part of any standard market design and RTO development. GIS implementation will facilitate electricity providers’ compliance with varied jurisdictional regulatory requirements, particularly consumer emissions disclosure requirements and renewable portfolio standards, and will improve the liquidity of power from renewable resources.”

Milligan/Porter, for NREL’s Wind Technology Program – “It is no accident that all of the operating wind energy capacity in the U.S. is under tariffs that provide some exemption from energy imbalance penalties, or is encompassed in a liquid, penalty-free spot market such as PJM...

“We recommend that FERC adopt a de minimus requirement that essentially requires ITPs to take wind generation as delivered, without penalty and without need for a wind forecasting program, as long as wind generation does not exceed a certain level, say 5%, of total scheduled generation in the ITP’s day-ahead energy market...

“We also recommend that penalties not be required for inaccurate wind forecasts at this time. Incorporating wind forecasting in bulk power markets is at a very early stage, and some experimentation and design changes are to be expected. Penalties will discourage experimentation and potentially discourage the participation of wind generators and wind forecasting companies, an outcome that we are sure the Commission does not desire.”

*KREWG’s comments were filed October 24, 2002, and are available at <http://www.krewg.org/SMDComments.pdf>. NEGC and NREL comments as reported in *Transmission Insight*, Vol 2, Issue 1, Jan. 2003, Energy Info Source.*

SMD and Congressional Appropriations

The House version of the FY 03 Energy and Water Appropriations bill contains a provision that could hamper FERC’s SMD implementation. The provision was attached by former Energy and Water Appropriations Subcommittee Chairman Sonny Callahan (R-Alabama), who retired after the last Congress. The new subcommittee Chairman, David Hobson (R-Ohio), says the bills from last year have carried over, riders and all. A spokesman said he doubts the bill would be changed at this point during deliberations over a final FY 03 spending package, which is expected to pass sometime in February. Here is the rider:

H.R. 5431, Sec. 504. “No funds appropriated in this Act may be used by the Federal Energy Regulatory Commission to grant any public utility the authority to use market-based rates until the Commission has issued a final order in all market-based rate cases that have been pending before the commission for more than 18 months.”

The Senate version of the bill (S. 2784) contains no such rider. As of February 12, 2003, neither bill had been acted upon since September 2002.

*Sources: Library of Congress, THOMAS, <http://thomas.loc.gov/>; and *Transmission Report 1/6/03 – 1/19/03, Energy Info Source**