

## Summary

Utilities in the Northwest have largely shifted their focus in the past several months to regional coordination and national standard market design efforts. On the regional coordination front, the three western RTOs have reached consensus on what needs to be done to handle inter-RTO congestion in the region. Western lawmakers and business leaders have joined RTO stakeholders in urging the FERC to leave decisions regarding market design for the West to new or existing Western entities.

Utility commissioners of Midwestern states have proposed a new regional entity, called the Midwest Multi-State Committee (or MMSC) intended to give them a stronger, more unified voice within the Midwest ISO and at FERC. The Midwest ISO and Southwestern Power Pool have abandoned their planned merger, and AEP's plans to join PJM will move forward, despite a roadblock erected by the Virginia legislature earlier this year.

In Texas, the legislature is moving forward a proposal to expand authority of the state's public utility commission to compel transmission projects that meet the state's renewable portfolio standard goal.

## The Northwest

### RTO-West Happenings

Activity at RTO-West has been minimal since last December. The participating utilities have filed comments on FERC's Standard Market Design (SMD) docket, but have held no stakeholder meetings for several months. Most attention in the region has been directed at the efforts toward regional coordination under way at the Seams Steering Group – Western Interconnection (SSG-WI) and at FERC's continuing SMD process.

Wally Gibson of the Northwest Power Planning Council thinks this attention on larger, regional issues is appropriate at this time since so many of the local market design work hinges on decisions and activities happening at SSG-WI. He says RTOs should be focusing on seams issues, and awaiting clearer direction on SMD from FERC, before settling on major market design decisions. This approach will help to minimize seams issues upon implementation of the RTO.

*Interview with Wally Gibson, Northwest Power Planning Council, April 10, 2003.*

### Update on SSG-WI

The Seams Steering Group – Western Interconnection (SSG-WI) held a steering group meeting in Folsom, California. The meeting was attended by approximately 60 people, including two FERC representatives.

SSG-WI participants include the three western RTOs – the California ISO, RTO-West and WestConnect. The RTOs and FERC still have divergent views about SSG-WI's authority. Western participants see SSG-WI's role as a forum for coordination and information sharing, with final decision-making authority resting with the individual RTOs, while FERC would like to see SSG-WI invested with authority to compel appropriate regional actions when necessary.

Despite this disagreement, both entities support SSG-WI's efforts and successes to date.

At the last meeting, SSG-WI's Congestion Management Alignment Working Group (CMAWG) announced agreement on a three-pronged approach to managing congestion along seams:

- 1) The RTOs reached consensus that all three western RTOs need to have a single representation of the entire Western network (down to the 230 or 115 kV level), with additional detail within each RTO as appropriate, in order for congestion along seams to be managed.
- 2) The RTOs reached consensus on the need for all three RTOs to share a "standard market interface" used by all entities scheduling transactions throughout the Western region. Details of this how this interface will operate, and who will operate it, are to be determined.
- 3) Finally, the RTOs reached agreement with WestConnect to operate a voluntary redispatch market to resolve problems across WestConnect's seams. WestConnect uses a physical rights model for managing congestion that is fundamentally different from the financial rights approaches proposed in the California ISO and in RTO-West, and that necessitates use of a special clearing function to make the markets work together. According to Wally Gibson, who chairs SSG-WI's CGAWG, the California ISO's MD02 and RTO-West proposals are well aligned in their approach to congestion management in that both use similar, LMP-like approaches. But WestConnect uses a physical rights, flowpath model. The proposed WestConnect redispatch function would serve to clear the net congestion along WestConnect's seams, allowing WestConnect to maintain its physical rights approach.

Other working groups also have been active within SSG-WI. The Market Monitoring Working Group is focusing on several alternative structures for a Market Monitoring Unit (MMU), including a coordination approach, a more formal umbrella with optional, individual units under the umbrella, and the original construct of a single, west-wide MMU. It is putting together an evaluation matrix of these alternatives with the goal of bringing a recommendation to the Steering Group.

Gibson says he thinks all of this activity will eventually be good for wind in the West. He points specifically to the use of load-based access fees and facilitation of geographically large markets for energy.

SSG-WI's next steering group meeting is scheduled for late April.

*Minutes of SSG-WI Steering Group Meeting, March 7, 2003, available at [www.ssg-wi.org](http://www.ssg-wi.org). Interview with Wally Gibson, Northwest Power Planning Council, April 10, 2003.*

## **RTO-West and SMD**

RTO-West's participating utilities and the Northwest Energy Coalition (NVEC) filed comments with FERC relating to how FERC's proposed Standard Market Design (SMD) can be applied in the region. In general, these commenters support the goals of SMD, but remain convinced that the final authority for determining regional market design should rest with new and/or existing state or regional entities. For example, NVEC states that its members remain convinced that "there could be less extensive and intrusive means for regional entities to take up this task than the Commission's SMD."

**Resource Adequacy** – RTO-West filing utilities say there exist regional mechanisms that already provide for resource adequacy in the Northwest, including processes at the Bonneville Power Administration (BPA) and the Northwest Power Planning Council. RTO-West stakeholders say they are willing to explore adapting or supplementing these institutions to enhance the region’s ability to provide for resource adequacy reliably and cost-effectively, but add, “any final rules the Commission adopts under the SMD NOPR should recognize the primacy of these regional mechanisms...”

NWEC points out that the Northwest is unique from other regions in that it already has adequate resources, but has to deal with operational requirements aimed at protecting fish that don’t always allow their use. They describe a “perverse incentive” for BPA to declare hydro emergencies that allow it to violate fish protection standards and generate more energy at peak times. This policy lowers the market price of electricity when market forces call for a higher price. It advocates imposition of a penalty on transactions taken under declared hydro emergencies with proceeds going to fish restoration. NWEC also believes states should be involved in creating adequacy standards, in the design and imposition of penalties for noncompliance, and in allocating costs for expansion in case a backstop or other obligatory approach is used.

**Transmission System Planning and Expansion** – RTO-West filing utilities believe the approach they spelled out in their Stage 2 filing makes sense for the region. That approach was designed to promote market-based solutions while protecting system adequacy by giving the RTO a “backstop authority” to compel projects if the market does not produce a remedy on its own. Under that plan, if RTO-West determined it must use its authority to protect system adequacy, it would do so through a least-cost, public planning process that resulted in an RTO-West mandated project. RTO-West would equitably allocate project costs to those who benefit from it, as long as the benefiting parties would otherwise fail to meet their transmission adequacy obligations.

NWEC also recommends adoption of a voluntary participant funding approach for the Northwest, but maintains concerns about the proposed “backstop authority” of the RTO. NWEC would prefer to develop a system in which the backstop authority were used rarely, if at all, because it is concerned about:

- 1) The high costs of compelling unwilling construction of transmission projects;
- 2) The RTO’s inability to compel non-transmission solutions; and,
- 3) Costs and redundancy of transferring transmission planning functions from utilities to the RTO.

NWEC says the biggest problem in the Northwest comes from the fact that transmission rights are not based on physics but on contracts. It says contracts can show lines are fully loaded even when capacity is physically available. This could interfere with the creation of a liquid market for transmission rights. It points to a need for better treatment of intermittent renewables that are presently charged imbalance penalties, and opposes the balanced schedules requirement and lack of a true balancing market in the current RTO-West proposal.

*Comments of RTO-West Filing Utilities, 2/28/2003, Docket No. RM01-12-000. Comments of Northwest Energy Coalition, 2/28/2003, Docket No. RM01-12-000.*

## **Other News Affecting the Northwest**

**Business Leaders Propose Structure for Western Interconnection** - In comments to FERC filed by the Western Business Roundtable on the future of the Western Interconnection, business leaders proposed their vision of a “Western Market Design.” Under the Roundtable’s proposal, Congress would statutorily authorize a Western regional entity to establish and govern a number of critical elements of market design and function, including, at a minimum: regional planning, regional transmission tariff development and administration of new regional transmission lines, and siting of critical interstate transmission facilities. Governors of Western states would take the lead in proposing the specific structure and composition of such a regional entity. The Federal government would provide funding to establish the Western regional entity. Once established and functioning, funding would be provided through a fee on electricity consumption.

**Northwest Lawmakers want Regional Control** – In a letter to Energy Secretary Spencer Abraham, the Northwest Energy Caucus asked DOE to consider regional effects of its rules. The Northwest Energy Caucus includes all 8 senators and 16 representatives from Washington, Oregon, Idaho and Montana. In the letter, they expressed concerns that FERC will require BPA to join an RTO, hindering BPA’s ability to meet existing contractual agreements. They also said FERC’s SMD plan “imposes a complex and costly model in an effort to solve problems...that either do not exist in the Pacific Northwest or...can be resolved using existing institutions.”

**PacifiCorp Plans for Wind** – In its 10-year resource plan issued in January, PacifiCorp proposed acquiring 1,400 MW of new generation from renewable energy sources, mostly wind power. The plan covers the time period between 2004 and 2014. The 1,400 MW represents 35 percent of PacifiCorp’s planned additions of 4,000 MW of new generation.

*Transmission Report, 3/2/2003, 3/16/2003, 3/30/2003,4/13/03, Energy Info Source.*

## **The Midwest**

### **Midwest Multi-State Committee (MMSC) Proposed**

Midwest utility regulators have proposed a regional structure of their own in response to FERC’s call for comments on how states should participate in RTOs. The proposal was largely developed by Commissioners Diane Munns of Iowa and Susan Wefald of North Dakota, but was joined by the utility Commissions of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, North Dakota, Oklahoma, South Dakota, and Wisconsin.

The proposal evolved from a growing desire of Midwest Commissioners to take a more active role in formation of MISO, and to lead rather than follow in the development of SMD and seams mitigation processes in the Midwest.

The Midwest Commissions “generally support the [FERC’s] proposal to better organize regional state participation” but believe a more flexible approach would be in the public interest. They support the establishment of a Midwest Multi-State Committee (MMSC) to play a role in RTO oversight. The structure of the MMSC derives from a delineation of five areas in which the Midwest Commissions say state coordination is crucial:

- 1) Issues related to wholesale power markets and interstate transmission that are state-jurisdictional and on which the public interest would

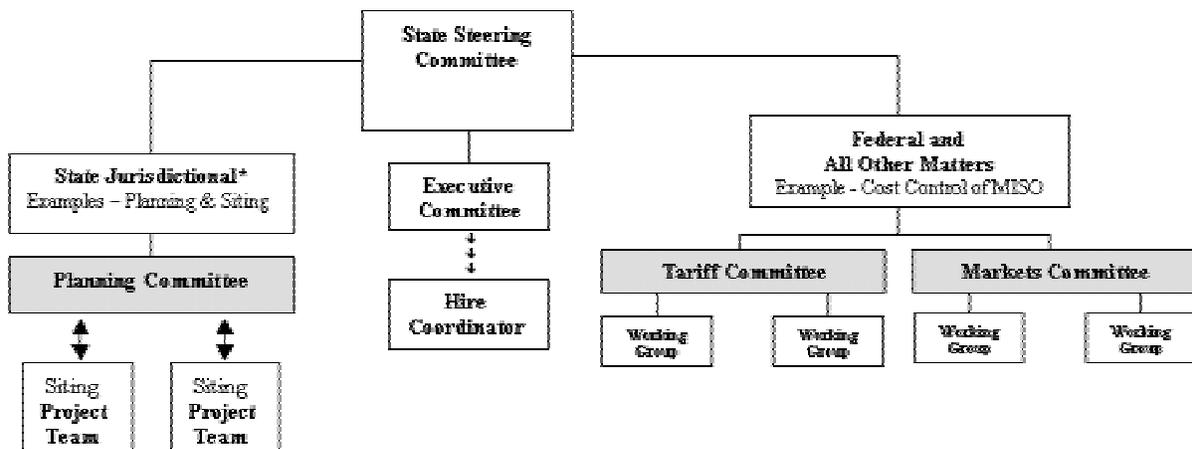
benefit from coordination and/or centralization of analysis and state decision-making;

- 2) Issues related to wholesale power markets and interstate transmission for which jurisdiction is shared between FERC and states or in which jurisdictional clarity is uncertain or evolving and in which the public interest would benefit from avoiding unproductive state/federal jurisdictional clashes;
- 3) Issues related to wholesale power markets and interstate transmission that are arguably FERC-jurisdictional, but for which public interest would be better served if addressed by a regional state organization given state expertise or interest in allocations between and among states;
- 4) Issues that are FERC-jurisdictional but for which the commission would benefit from receiving coordinated, coherent advice from a regional state organization; and
- 5) Issues involving RTO implementation, operation, and oversight in which the RTO would benefit from receiving coordinated and coherent advice from a regional state organization.

The MMSC has already begun meeting and has begun a process to define its structure. Membership in the MMSC would open to all state regulatory authorities and Canadian counterparts.

**MMSC’s Proposed Structure** – The MMSC would be directed by a State Steering Committee to which each member may designate one person. The State Steering Committee would organize an Executive Committee that would hire or contract with an executive coordinator. Operating expenses of the MMSC would come from “appropriate administrative expenses of MISO.”

**A Proposed Structure for the Midwest Multi-State Committee for States in the Midwest ISO Region**



The MMSC is envisioned to have three standing subcommittees. A Planning Subcommittee would address matters that are clearly state jurisdictional, and would form project teams to address siting of particular proposed facilities. Two other subcommittees would address all other issues – one for issues related to tariffs of MISO and member ITCs, the other to address Midwest

market development and seams issues.

The intention is for members of the State Steering Committee or their alternates to give direction to formation of issue statements, which would then be referred to state commissions. State commissions would decide whether to sign on to the group position statements, and would retain the right to file individual state comments on issues.

**Proposed Relationship to MISO** – The State Steering Committee would meet once or twice a year, and hold regularly scheduled conference calls more often. It would select lead states to serve on the MISO Advisory Committee. They would work toward developing consensus positions; advise lead states and Advisory Committee members on MISO action items; and organize coalitions of states to form project teams.

**Proposed Relationship to FERC** – The MMSC would provide information directly to FERC on pertinent issues, bring issues forward needing FERC attention, and support funding of the MMSC through MISO with appropriate provisions to assure independence in decision-making.

**Proposed Relationship to States** – MMSC project teams would work on transmission siting issues, but each state would retain authority for approving transmission siting plans. MMSC project teams would be made up only of representatives of states that are siting each multi-state project, and project teams would define their own goals and processes for reaching them.

The MMSC would encourage participating states to sign Memoranda of Understanding (MOUs) with other states on multi-state siting issues. The MOUs could be short-term to cover specific projects or long-term to cover lots of projects.

Trans-Elect, a proposed MISO ITC with transmission assets in Michigan (Michigan Electric Transmission Co.) and a planned purchase of assets in Illinois (Illinois Electric Transmission Company), filed comments supporting the MMSC concept.

*Comments of Illinois Commerce Commission, et al, 2/28/2003, Docket No. RM01-12-000. Comments of Trans-Elect, 3.31/03, Docket No. RM01-12-000. Interview w/ John Moore, Environmental Law and Policy Center, April 10, 2003.*

### **MISO/SPP Drop Merger Plans**

SPP and MISO announced they have mutually agreed to terminate their planned merger. Discussions began in August 2001 and merger documents were executed in March 2002. Neither organization has precluded future consolidation though they are now informing FERC of the termination of the merger. Though reasons for the cancellation are not completely clear, some attribute the cancellation to economic factors rather than problems associated with making the two markets compatible. The announcement came as a surprise in light of the high level of cooperation between MISO and SPP staff members who have been working together to create unified markets over the past year. Even with the cancellation, this cooperation has yielded a working relationship that should allow the two markets to be very compatible on seams issues moving forward.

*Transmission Insight, March 2003, Energy Info Source. Interview w/ John Moore, Environmental Law and Policy Center, April 10, 2003.*

### **MISO Internal Activities**

**Transmission Expansion Plan** – A new draft of MISO's Transmission Expansion Plan '03 has been out for about a month, and contains wind

scenarios developed previously. The draft plan identifies congestion issues, presents development scenarios that include wind, and shows maps delineating specific transmission projects. The MISO Advisory Committee is scheduled to review the draft plan at its meeting next week, and the plan will go to the MISO Board for approval in June. John Moore of the Environmental Law and Policy Center says he thinks the plan's fair treatment of wind in development scenarios and identification of concrete transmission projects needed to serve wind will go a long way toward promoting ultimate acceptance of these projects within MISO over many years.

**Tariff Development for Intermittent Resources** – MISO's Congestion Management Working Group is working on a tariff specific to intermittent resources based on the approach used by the CalISO. AWEA's Jim Caldwell is the lead in drafting the new tariff. Adoption and implementation of the new tariff is expected in Q3 2003.

*Interview w/ John Moore, Environmental Law and Policy Center, April 10, 2003. Market Rules Development, presentation to the Policy Subcommittee of the Midwest Market Initiative, MISO/SPP, by Richard Doying, February 18, 2003.*

### **FERC Approves MISO Market Monitoring Plan**

In a February ruling, FERC offered conditional approval of MISO's market monitoring plan, despite criticism it does not include a price cap to prevent runaway prices when supplies are tight. In the order, FERC told MISO to proceed with its plan to create a market monitor.

MISO's plan would impose financial penalties on generators found to physically withhold supplies from a tight market beginning in December 2003. The MISO plan is modeled after one used by the New York ISO. MISO is required to file a quarterly report detailing instances of price mitigation, generators involved, amount of megawatt hours mitigated and results by location. FERC also ordered MISO to clarify its definition of economic withholding of supplies by generators. "A more precise definition of terms like 'unjustifiably high bids' and 'artificially high price' ... would be preferable," said FERC.

Neighboring PJM has a bid cap equivalent to a generator's variable costs plus 10 percent when supplies are stretched tight. Several companies had urged FERC to reject the MISO proposal unless it included a safety net, arguing that MISO and PJM policies must be compatible. FERC agreed to hold a technical conference on the issue.

*Transmission Report, 3/16/2003, Energy Info Source.*

### **AEP to Join PJM, Despite Virginia's Opposition**

The Virginia General Assembly passed a bill earlier this year aimed at preventing AEP from joining PJM. The bill would have prevented Virginia utilities from turning over control of their transmission lines to RTOs before July 1, 2004, with the goal to protect Virginia's ability to ensure reliable electric service at affordable rates by keeping the electric transmission system under state control.

Subsequently, the Virginia State Corporation Commission denied AEP's request for expedited permission to join PJM, instead requiring the utility to do a rigorous cost-benefit study of its plans to join PJM, analyzing the move's implications for all parties, including effects on reliability of electric service.

AEP objected to the delays, saying AEP had relied on instructions already in state law to join an RTO and that the company had invested a great deal of

money to do that.

Next, utility commissioners in Pennsylvania, Ohio, and Michigan asked FERC to direct AEP to turn over its transmission assets to a “regional, multistate transmission company,” i.e., PJM, in order to override the Virginia SCC and state law.

In March, FERC approved the transfer of AEP’s and Commonwealth Edison’s transmission assets to PJM in dockets ER03-262 and ER03-263. In the order, FERC gave both utilities 30 days to list the assets that would be transferred.

*Transmission Insight, March 2003, Energy Info Source. Transmission Report, 3/2/2003,3/16/2003, 3/30/2003,4/13/03 Energy Info Source.*

## **TRANSLink Status Report**

TRANSLink is an independent transmission company (ITC) that operates under MISO. Its original applicants were Alliant Energy (WI), MidAmerican Energy (IA), Xcel Energy (MN), Nebraska PPD (NE), Omaha PPD (NE), and Corn Belt Power Cooperative (IA). Since then Southern Minnesota Municipal Cooperative (MN), Dairyland Power Cooperative (WI), Great River Energy (MN), Muscatine Power (IA) and Rochester Public Utilities (??) have joined, along with the Midwest Municipal Transmission Group, with 119 municipal utilities in Minnesota and Iowa. TRANSLink now has 40,000 miles of transmission lines linking 35,000 MW of generation, and serves distribution companies with 7.7 million customers in 14 states, making it one of the largest transmission companies in the nation. It is slated to be operational by Q3 2003.

Audrey Zibelman, president and CEO of TRANSLink Development Company, which is charged with starting up TRANSLink, says TRANSLink is different from other ITCs in that it is “multi-state, multi-system, made up of both publicly and privately-owned utilities...We tried to put together a management structure that allows for consolidated management of integrated systems without the necessity of companies having to sell or divest their assets in order to participate.”

*Transmission Insight, March 2003, Transmission Report, 3/30/2003, Energy Info Source.*

## **Regulators Oppose Transmission Sales**

**Xcel Sale to TRANSLink** - TRANSLink member Xcel Energy is finding opposition from the Minnesota Attorney General’s office over its plans to transfer assets to TRANSLink. Attorney General Mike Hatch called the proposed transfer a “back door attempt at deregulating energy in Minnesota” that will probably raise the price consumers pay for power. This view contradicts that of the state’s Commerce Department, which has said TRANSLink would “be in the public interest for a number of reasons.” Xcel says the proposal would have no effect on rates in Minnesota until at least 2006, the next time the company can ask for a rate increase. But Hatch said the deal won’t benefit Minnesota customers, and that area of Xcel’s business no longer will be subject to the same type of state regulatory oversight it is now.

**Illinois Power Sale to Trans-Elect** - Illinois Power pulled its application to transfer its transmission asset to Trans-Elect from the Illinois Commerce Commission. They pulled the filing ahead of an upcoming Illinois Commerce Commission hearing on the issue, in which ICC staff was to recommend against the sale citing concerns about Trans-Elect’s service plans and independence. ICC staff said Trans-Elect wouldn’t have any obligation to serve a limited number of large commercial customers now served by Illinois Power, and also that there is no certainty the company will remain an ITC. A Trans-Elect official said the company plans to continue offering service to the

large customers and to remain independent. These large direct-access customers represent about 10% of the load on the Illinois Power system.

Trans-Elect and its subsidiary Illinois Electric Transmission Company, decided to first answer FERC's concerns, and then refile in Illinois. At issue are a number of conflicting state and federal requirements surrounding the sale. One issue concerns Trans-Elect's plan to have Illinois Power's workers service and maintain the transmission lines for five years. Expressing concerns about independent ownership, FERC suggested that agreement be limited to just one year, but that conflicts with requirements in Illinois designed to protect union workers in the event of an asset sale. Illinois requires that companies keep the same workers on the job for three years.

*Transmission Insight, March 2003, Transmission Report, 3/30/2003, Energy Info Source.*

## **Other Wind News in the Midwest**

**Kansas** - Renewable Energy Systems said it signed a deal with Sunflower Electric Power Cooperative to buy power from the first 30 MW of a wind facility to be built in Wichita County, Kansas. The project is planned to be as large as 100 MW. In a separate deal, Kansas Wind Power and Padoma Wind Power won approval from the Butler County Commission for a wind farm south of Beaumont, to be built by Elk River Windfarm, LLC.

**Oklahoma** - Western Farmers Electric Cooperative announced an agreement with Blue Canyon Windpower to purchase all the electricity from a proposed 64 MW wind project. Blue Canyon is co-owned by Zilkha Renewable Energy of Houston, Texas and Kirmart Corporation of Wichita Falls, Texas. The project will consist of 39 turbines that will be owned and operated by Blue Canyon, and is expected to be operational by the end of 2003.

**South Dakota** - Governor Mike Rounds announced a plan to introduce legislation offering tax incentives to development companies bringing wind power to South Dakota. The legislation would reduce or eliminate some taxes for wind energy companies, such as property taxes, state sales tax, and the contractors excise tax, based on sliding scale.

**Iowa** - Governor Tom Vilsack proposed a state goal of 1,000 MW of renewables over the next 10 years. In his State of the State address he proposed creation of the "Iowa Values Fund" dedicated to "partnering with private investment to begin the transformation of our economy." He suggested the state commit \$500 million to the fund over the next five years.

*AWEA Windletter, January, February, March 2003*

## **Texas**

### **Texas Committee Moves Bill to Expedite Wind Transmission Projects**

On April 8, the Committee on Regulated Industries of the Texas House of Representatives approved HB 2548, which expands the Texas Public Utility Commission's authority to compel construction or enlargements of facilities not only to ensure safe and reliable service for the state's electric markets, but to "meet the State's RPS goal for renewable capacity as well. The bill has not been scheduled for reading on the floor of the House. It was the only one of about 10 bills relating to renewable energy that passed out of the committee.

*Interview w/ John Hoffner, Policy Committee Chair of the Texas Renewable Energy Industries Association, April 9, 2003.*