

Summary

- ✓ Small generators are not happy with FERC's Small Generator Interconnection NOPR, saying the proposed rule ignores much of the consensus developed between small generators and transmission owners during the ANOPR process. California wind generators seek clarification that repowering an existing facility or changing contract terms would not trigger a reevaluation of the interconnection.
- ✓ The choices of former Alliance companies about which RTO to join, MISO or PJM, and whether they can obtain approval from states to do so, has created such a tangle that FERC held two days of hearings at the end of September on the issues and options for resolving them. But in addition to some constructive input, the hearings produced even more uncertainty, with transmission companies announcing their need to reassess their own RTO commitments depending on the decisions of others.
- ✓ In the West, the Seams Steering Group – Western Interconnection (SSG-WI) completed a west-wide transmission study with a renewable energy scenario, the California ISO received FERC's approval on its market redesign proposal, and RTO West worked toward finalizing high-level consensus documents describing Day 1 implementation of the proposed RTO.
- ✓ In Texas, ERCOT began \$157 million in upgrades to the transmission system around McCamey – increasing capacity in and out of the area enough to handle existing wind projects there.

FERC

Small Generators Blast Interconnection NOPR

The Small Generator Coalition (SGC) filed comments on FERC's Notice of Proposed Rulemaking (NOPR) on Standardization of Small Generator Interconnection Agreements and Procedures. In the filing, the SGC, which is made up of public interest organizations and small generation resource advocacy groups, says these groups are "disheartened that the NOPR not only fails to propose procedures that will facilitate small resource interconnection, but it proffers rules and agreement provisions that would inhibit their interconnection and limit their access to energy markets."

The SGC's comments note that many SGC participants believe small generation would be better served if the rule were simply withdrawn and the docket terminated entirely. They argue that FERC's framing of the issue as "balancing the competing interests of maintaining grid reliability and encouraging increased generation" is fundamentally flawed, since "the compatibility of small resources with the grid was proven long ago – there are literally thousands of such small resources in place and operating in the United States, safely interconnected with the grid." Specifically, the SGC objects to:

- *The NOPR's rejection of SGC-proposed technical screens for small interconnections.* The SGC asserts the proposed rule will result in a failure to accommodate the minimal impacts of small resources.

- *The NOPR's misapplication of screens proposed during the ANOPR process.* The SGC contends that few, if any, of the smallest resources would receive the low-cost, super-expedited treatment intended for them. Instead, they say the NOPR adopts the “ultra-conservative and technically indefensible” screens proposed by transmission and distribution owners.
- *Insurance requirements in the SGIA.* The SGC says the proposed requirements are “both onerous and wholly out of proportion to the impacts of small resources...” and argues that the “NOPR imposes the same types of insurance requirements on customers proposing small wind turbines that are imposed on nuclear power plants.”
- *The imposition of dispute resolution processes to small resources.* The SGC argues that only large developers and utilities can afford to undertake litigation or formal arbitration as called for in the NOPR.
- *The NOPR's failure to define criteria for pre-certification of small generation and interconnection equipment.* The SGC argues that FERC should have adopted consensus agreements from the ANOPR process on the certification of small generation and interconnection equipment by national testing laboratories, and on the creation of a registry of pre-certified equipment to help eliminate unnecessary controversies over the safety of small equipment.
- *The NOPR's proposal to lump small resources into a single interconnection queue with large generators.* The SGC says a single queue will likely “ensure that small resources are accorded little attention or that they are held hostage to the study and cost allocation requirements related to large generation projects.”

The SGC also argues that cost allocation provisions in the NOPR would result in pancaked wheeling charges on energy produced by small generators – along the lines of the charges in New England for use of “non-PTF” portions of the grid.

Finally, the SGC asserts that jurisdictional limits stated in the NOPR would assure that few if any such resources would be able to actually use the rule’s provisions. “Other than in the mid-Atlantic region where PJM handles interconnections, there may be no other region in the country where small resources could interconnect on lines covered by utility OATTs. Further, the new jurisdictional test may undercut PJM’s existing small resource interconnection rules that are a model for expedited interconnection.”

Joint Comments of Public Interest Organizations & Small Resource Advocacy Groups (“Small Generator Coalition”) on the Small Generator Interconnection NOPR October 3, 2003, Docket No. RM02-12-000.

California Wind Asks for Clarification on Small Interconnection Triggers

The California Wind Energy Association (CWEA) separately asked FERC to clarify that a change in a generator’s contract status, or the repowering of a facility occurring at the time of contract conversion, would not by itself trigger an obligation to file a new interconnect request with the transmitting utility, provided that the plant capacity is not materially changed. CWEA notes that FERC provided equivalent clarification to large generators in Order 2003.

Comments of the California Wind Energy Association, October 3, 2003, Docket No. RM02-12-000.

Extension Granted in Order 2003

On October 7, FERC moved the compliance deadline for its large generator interconnection order (Order 2003) from October 20, 2003 to January 20, 2004. The extension applies to independent and non-independent transmission owners alike, and is intended to allow affected entities time to assimilate provisions of Order 2003 into tariffs and to ensure proper implementation of its provisions.

Some southern utilities, along with the national associations of municipal and cooperative utilities, had requested that FERC go further and issue a stay against all or parts of Order 2003, arguing that implementation could threaten system reliability, result in unfair allocation of costs, and other problems. FERC rejected these arguments but did grant a three-month extension.

FERC, Order Denying Stay and Granting Extension, Docket Nos. RM02-1-000 and RM02-1-001, issued October 7, 2003.

Kelliher and Kelly Confirmed as FERC Commissioners

The Senate confirmed the nominations of Joe Kelliher and Suedeen Kelly to fill vacant seats on the FERC. Kelliher, a Republican senior policy advisor to Energy Secretary Spencer Abraham, acted as the DOE's representative on Vice President Dick Cheney's Energy Task Force. Kelly, a Democrat and former New Mexico state utility commissioner, teaches at the University of New Mexico and practices law in Albuquerque.

Transmission Report 10/27/03-11/09/03, Energy Info Source.

The Midwest

Region, FERC Grappling with MISO/PJM Choices

In late September FERC held two days of hearings in an attempt to clarify and resolve some of the complex issues involving former Alliance companies' decisions to join either Midwest ISO (MISO) or PJM. The inquiry was intended to explore impediments to these utilities in joining MISO or PJM and to advance proposals for resolving those impediments.

Background. A brief background sets the stage for the current tangle. In 2000, as a FERC-imposed condition of its merger with Texas-based Central and South West Corporation, AEP agreed to place its transmission assets under the control of an RTO. Instead of choosing either the forming Midwest ISO or the existing PJM Interconnection, AEP joined with other utilities and proposed to form the for-profit Alliance RTO, a plan FERC ultimately rejected. In 2002, FERC approved the former Alliance utilities' commitments to join either MISO or PJM while requiring MISO and PJM to develop a joint a common market by 2004. In 2003, FERC accepted revisions to the PJM tariff that would allow AEP, Commonwealth Edison, Dayton Power & Light, and Virginia Electric and Power Company to join PJM. Subsequently, however, the Kentucky Public Service Commission and the Virginia legislature prevented transfer of AEP's transmission facilities to PJM, while at the same time, state legislation in Ohio and Michigan required AEP join an RTO. Currently, several companies are still evaluating their options, switching their allegiances between MISO and PJM (see stories below) while frustrating the RTOs and grid advocates who seek stable and reliable regional markets.

The Hearings and Subsequent Comments. AEP and other participants came into the hearings with several proposals for discussion. They were:

- A "full integration" approach, in which AEP would be required to fully integrate its transmission assets into PJM.

- A “PJM-lite” approach, in which AEP would join PJM and transfer control of its transmission assets, but not participate in any of PJM’s markets. This option would potentially satisfy the Virginia and Kentucky concerns.
- A “split AEP’s transmission” approach, in which AEP would split its system into two parts, with those transmission assets in states supporting RTO development going to PJM, while keeping assets in Virginia and Kentucky out of an RTO.
- A “split AEP’s generation” approach, in which AEP would fully integrate its transmission assets into PJM with the limited exception of those generating assets that serve native load in Kentucky or Virginia.

In comments presented during and after the hearings, AEP supported the “PJM-lite” approach while MISO and other participants tended to support the “full integration” approach. AEP argues that its “PJM-lite” approach is a pragmatic compromise that rightfully allows both it and its states a chance to reevaluate prior commitments in the face of constantly evolving RTO conditions.

MISO argues that the PJM-lite approach is dangerously flawed, resulting in no real change and creating potentially unstable seams in the region. They argue that MISO and PJM’s work to create a “joint and common market” would be undermined if AEP and/or other former Alliance companies were exempted from fully participating in this market. Jim Torgersen, MISO’s CEO, argued that a PJM-lite approach would only be acceptable as a very short-term measure – no more than a couple months – and only as an interim step that facilitated the goal of full integration.

FERC, Order Announcing Commission Inquiry into Midwest ISO – PJM RTO Issues, Docket Nos. ER03-262-001 et al, issued September 12, 2003.

Transcripts from September 29-30 FERC Hearings on Inquiry into Midwest ISO – PJM RTO Issues, September 29-30, available at <http://www.ferc.gov/industries/electric/indus-act/rto.asp>.

Comments of the Midwest Independent Transmission System Operator, Inc., Docket Nos. ER03-262-001 et al, October 9, 2003.

Illinois Power Seeks New Owner, RTO

Exelon is in talks to purchase Illinois Power from its current owner, Dynegy, which had committed Illinois Power to join the Midwest ISO. However, Exelon VP Betsy Moler told FERC in its September hearings on MISO/PJM issues that if the acquisition succeeds, it would switch Illinois Power to PJM. Exelon’s Chicago-based Commonwealth Edison is also pursuing plans to join PJM.

Illinois Power had previously been in negotiations with Trans-Elect. Trans-Elect filed suit against Illinois Power, stating the utility violated terms of its contract to sell its transmission system to Trans-Elect. Because of this breach, Trans-Elect contends the court should order Illinois Power to sell its transmission system to Trans-Elect. The suit also asks for payment of expenses and compensation for lost profits totaling about \$20 million if the transaction does not go through.

Transcripts from September 29-30 FERC Hearings on Inquiry into Midwest ISO – PJM RTO Issues, September 29-30, available at <http://www.ferc.gov/industries/electric/indus-act/rto.asp>.

Transmission Report 9/29/03-10/12/03, 10/13/03-10/26/03, Energy Info Source.

Ameren's Plans in Limbo

St. Louis-based Ameren, which plans on joining MISO as part of the GridAmerica ITC, said it would have to rethink its plans if Illinois Power joins PJM. "Ameren would have to reassess its grid decisions," said Ameren executive David Whiteley, pointing to reliability concerns stemming from allowing Illinois Power to sell most of its power in geographically distant Northeast markets. "Ameren cannot refrain from protesting any longer – the stakes are too high." Ameren has committed to join the GridAmerica ITC which is now operating under MISO (see next story). Ameren still needs to get approval from Missouri's regulators before it can join GridAmerica and begin operating under MISO.

Transcripts from September 29-30 FERC Hearings on Inquiry into Midwest ISO – PJM RTO Issues, September 29-30, available at <http://www.ferc.gov/industries/electric/indus-act/rto.asp>.

Transmission Report 9/29/03-10/12/03, Energy Info Source.

GridAmerica Starts Operating Under MISO

Grid America, an ITC under MISO, began operations with two of its three participant companies taking transmission services from MISO. Requests for transmission service over the transmission facilities owned by GridAmerica members American Transmission Systems Inc. (ATSI), a subsidiary of FirstEnergy; and Northern Indiana Public Service Company, a subsidiary of NiSource, are now being administered by MISO.

GridAmerica is responsible for providing available flowgate capacity information to the MISO and coordinating planning and maintenance of the GridAmerica system, including outage coordination, long-term investment planning, and generator interconnections. GridAmerica will also perform contracted services for MISO, including assisting the MISO's tagging and scheduling function and providing best practice consultation across the MISO region. The GridAmerica system, when fully integrated, will add 28,000 MW of generation capacity, 27,000 MW of load, and 14,000 miles of transmission lines in 46,000 square miles of service territory in five states.

Midwest ISO, Press Release, "GridAmerica Begins Operations Under Midwest ISO," October 16, 2003.

TransLink's Future Uncertain

TransLink told the Minnesota PUC they might withdraw their original plans because of changes in the industry over the past year. TransLink is to take control of the Xcel transmission grid in Minnesota, and to operate transmission lines in portions of Wisconsin, Michigan, Iowa, Illinois, North Dakota, South Dakota, Nebraska, Kansas, Oklahoma, New Mexico, Texas and Colorado. TransLink says its uncertainty is driven by the fact that many power companies have opted out of MISO, creating gaps in the smaller transmission region TransLink would operate.

State regulators don't all agree on the concept, either. Audrey Zibelman, TransLink CEO, said state regulators "wanted to make sure they had the same ability to control transmission line construction in the future as they do today, and we wanted to make sure they were satisfied." She said that reevaluation of the plan "does not mean that TransLink will not happen, but it is about what will be the focus of the organization."

Transmission Report 10/27/03-11/9/03, Energy Info Source.

Indiana Commission Approves AEP joining PJM

The Indiana Utility Regulatory Commission (IURC) gave approval to AEP to transfer control of its transmission system to PJM. The IURC order established several conditions on the transfer, including a request for detailed information on the effects the move will have on Indiana customers.

Transmission Report 9/1/03-9/14/03, Energy Info Source.

MISO to Refile Energy Markets Tariff

In the wake of August's blackout, MISO's Board of Directors voted to withdraw and subsequently refile its proposed energy markets tariff and instead focus on expediting reliability enhancements already under way. In the filing, MISO asked FERC to provide guidance on resolving outstanding issues related to the proposed tariff that was filed in July.

The MISO Board's action came after the MISO Advisory Committee recommended that MISO direct its focused attention to everyday reliability issues and consider refile a comprehensive, fully functional energy markets tariff after completing modifications to its reliability practices. Ongoing refinement of MISO reliability includes continued integration of advanced data exchange technology; continued enhancements of the state estimator model and its real-time contingency analysis function; enhanced filtering of alarm mechanisms and links to graphical displays of real-time operating data.

Midwest ISO, Press Release, "Midwest ISO Stakeholders Support Continued Focus on Reliability Enhancements," October 16, 2003.

Wisconsin Streamlines Approval Processes

Wisconsin regulators reached an agreement to reduce from 360 to 180 days the process for approving new power plants and transmission lines. Wisconsin's Governor issued an executive order asking the state's Department of Natural Resources and Public Service Commission to come up with the plan after the August blackout. Under the new process, the agencies will work concurrently on the certification and permitting processes but still will reach individual decisions on transmission proposals. The agreement will also transfer seven positions from the commission to DNR to focus on processing energy permits.

Transmission Report 9/1/03-9/14/03, Energy Info Source.

ATC Completes System Assessment

American Transmission Company completed an annual 10-year assessment of its transmission system in Wisconsin, Upper Michigan and Illinois. The report indicates the system is operating with little or no margin for growth, with serious limitations on transferring power into and through the ATC system. It recommends proceeding with the proposed Arrowhead-Weston line, along with several other projects totaling approximately \$2.8 billion.

American Transmission Company, 10-Year Assessment Report, available at http://www.atc.com/planning_10year.shtml.

SPP Files for RTO Status

Southwest Power Pool has filed with the FERC seeking formal recognition as an RTO. "This filing is the result of extensive collaboration and cooperation among our membership, customers, state regulatory agencies and the FERC," said John Marschewski, President of SPP. SPP plans to transition to a non-stakeholder board of directors upon a favorable order from the Commission. The SPP filing envisions evolutionary implementation of an imbalance energy market to improve reliable and equitable operation.

Southwest Power Pool, Press Release, "Southwest Power Pool Seeks Recognition as Regional Transmission Organization, October 15, 2003.

The West

SSG-WI Reports on Progress

The Seams Steering Group – Western Interconnection (SSG-WI) submitted a report to FERC describing its progress to date. The report details the progress of SSG-WI’s work groups:

Planning. The Planning Work Group met its key goal of developing a regional transmission planning process. The work group also completed a study of the west-wide transmission system, which presents a base case for 2008 and examines transmission system needs for 2013. The most significant conclusion of this report is that there are some additions to the western transmission system that preliminary analyses indicate would make sense under a wide range of differing generation scenarios. The report also provides insights into transmission system additions that can support resource diversity and offer improved reliability.

The report looked at different approaches to development, including a renewable energy scenario that assumed 72 percent of new generation added would be from renewable resources – enough to satisfy the renewable portfolio standards currently enacted by four states within the Western Interconnection.

Congestion Management Alignment. The Congestion Management Alignment Work Group focused primarily on assessing the compatibility of the congestion management approaches under development for all three western RTOs. The work group has considered the commercial and operational workability of a combination of financial and physical rights schemes; analyzed congestion pricing at the seams; begun modeling the West’s physical transmission system for transmission scheduling and management; and identified core elements of a seamless western electricity market.

Market Monitoring. The Market Monitoring Group focused on developing options for a West-wide market monitoring function and brought to the Steering Group a proposal on structure, roles, and characteristics in mid-October. The work group has also developed a proposal considering confidentiality of and access to data for market monitoring.

Common Systems Interface Coordination. The Common Systems Interface Coordination Work Group has focused on developing recommendations for creating a single point of access for transmission customers to obtain service across the Western Interconnection. The group has also been working to identify “best practices” that could provide technical means and standards for seamless reliability and business interaction across the West.

Pricing Reciprocity. The Pricing Reciprocity Work Group has made progress on gathering and evaluating data on how the Western RTOs currently collect revenue from interregional transactions.

SSG-WI Transmission Report – Framework for Expansion of the Western Interconnection Transmission System, October 2003.

Informational Filing of the California ISO, The RTO West Filing Utilities, and the WestConnect Applicants Reporting on Activities of the Seams Steering Group – Western Interconnection, October 31, 2003, FERC Docket Nos. ER02-1656, RT01-35, RT02-1 and EL02-9.

FERC Approves California ISO Redesign

FERC has accepted the California ISO's market redesign proposal. The new design aims to create day-ahead wholesale electricity trading and to relieve congestion using locational marginal pricing (LMP). In the order, FERC:

- Accepted the proposed transition to LMP and the implementation of an Integrated Forward Market for congestion management;
- Accepted the proposed bidding and scheduling concepts, subject to further review;
- Directed the California ISO to conduct further analysis of its existing transmission contract proposal; and
- Revised the proposed day-ahead, hour-ahead, real-time, must-offer obligation to give generators the choice to fulfill the must-offer obligation either in the day-ahead or real-time market.

Some companies had complained about the proposed market mitigation procedures, arguing that proposed continuance of bid caps was unreasonable when regional energy supplies are tight. FERC said it would hold a technical conference to help finalize the market mitigation measures.

Federal Energy Regulator Commission, Press Release, "Commission Accepts California ISO Concepts for Market Redesign, Provides Further Guidance," October 28, 2003.

RTO West Drafts Vision of Day 1 Operations; Gets Updates from Work Groups

RTO West's Regional Representatives Group (RRG) and various work groups have been busy trying to achieve consensus on a number of outstanding issues. To address the big picture, a small committee of RRG members has attempted to define and consolidate the minimum requirements of Day 1 operations of the proposed RTO. The group created a draft proposal intended to stimulate discussion and eventually achieve broad agreement. It discusses "voluntary consolidation of control areas," in which "each consolidating control area provides congestion management assets to support existing rights" and notes that BPA, Idaho Power, PacifiCorp, and BC Hydro would likely "want to consolidate as early as possible."

Other features of the day 1 RTO West would include a single:

- OASIS for all control areas (not just consolidated ones);
- "Big picture look at system capacity and utilization for both operations and planning and expansion";
- Security function;
- Process for transmission service requests and interconnections; and,
- Tariff for recovery of fixed costs within consolidated control area

The day 1 implementation would also minimize pancaking and include a planning and expansion process that "recognizes problems, looks at solutions, and has a way of financing and constructing needed system improvements."

Later features added would include:

- Eventual implementation of a single control area;
- Implementation of a financial rights model for congestion management;
- Full development of ancillary services markets;

- Revised seams agreements between the other RTOs and subregions in the West; and,
- Objective tests established for the RTO to satisfy before proceeding to subsequent stages of implementation. For example, installation of necessary hardware/software; interface testing for market participants and control areas; systems training completed; shadow operations successfully operated, etc.

The group's goal is to complete a high-level "hybrid proposal" that achieves broad consensus among RRG members and filing utilities by November 14.

RTO West's working groups also provided updates on their progress:

- *The Congestion Management Work Group* has come up with a straw proposal and discussion of issues. They are focusing on altering the planned day-ahead and daily operations to improve congestion management. Some thought the approach had the potential to make more efficient operational use of the existing system, but noted the group did not have enough time to address long-term rights.
- *The Regulatory Commission Issues and Role in RTE Governance Work Group* briefed the RRG on a paper by Dick Byers, Margie Schaff, and Lou Ann Westerfield on the roles states, provinces and tribes could play in RTO governance. The paper proposes approaches to participation of these entities in the stakeholder process. One idea is to explore with FERC the use of a joint board, emphasizing that states need to be collectively accountable to the entire region.
- *The Governance Work Group* held two meetings and developed a preliminary description of a possible governance approach.

RTO West RRG notes, available at http://www.rtoWest.com/RRG_Main.htm.

Electronic mail communication from Bud Krogh and Christine Elliot to the RTO West Regional Representatives Group, November 5, 2003.

Brief Summary of RTO West RRG Meeting, October 29 and 30, 2003.

RTO West – Initial Features Draft 3, 10/8/2003.

WECC Gets a New CEO

The Western Electricity Coordinating Council (WECC) hired Louise McCarren, formerly a member of the New England ISO Board of Directors, to be its new CEO. McCarren served as a commissioner for the Vermont Department of Public Services and was the recent President and CEO of the Vermont arm of Verizon.

Western Electricity Coordinating Council, Press Release, "WECC Names New CEO," September 8, 2003.

Texas

Transmission Upgrades Benefit West Texas Wind

ERCOT announced a plan to spend \$157 million in the next 18 months to upgrade transmission lines in and out of the McCamey substation – the hub of wind power development in Texas. The project will expand capacity in and out of the substation from 400 MW to 1,200 MW; enough to handle the 680 MW presently generated from West Texas wind farms. Second and third phases of expansion are planned to accommodate additional planned wind farms.

Transmission Report 9/1/03-9/14/03, Energy Info Source.