NATIONAL WIND COORDINATING COMMITTEE

RTO Update

Wednesday, March 10, 2004

Summary

- At the national level, the Federal Energy Regulatory Commission clarified participant funding provisions of its large generator interconnection rule, addressing issues on rate methodologies and treatment of transmission credits. Senate Republicans drafted a pared-down but still wind-friendly version of the Energy Bill in hopes of winning broader support.
- In the South, the Southwest Power Pool received conditional approval to become a regional transmission organization, and Texas wind advocates concerned about ERCOT's proposed nodal markets are calling for more participation from wind stakeholders to ensure appropriate outcomes.
- In the Midwest, the American Transmission Company has expanded into Michigan's Upper Peninsula; PJM-West announced startup of a new trading hub in Northern Illinois; and MISO and PJM transmission owners have agreed on a process for eliminating their contentious "through and out" rates by December 2004.
- In the West, the Western Area Power Administration has approved new transmission rates for its transmission system region serving parts of Colorado, Kansas, Nebraska and Wyoming. Thanks to participation of wind stakeholders, the new rates exempt intermittent generators from penalties for deviating from their schedules.

FERC and Federal Activity

FERC Reaffirms Interconnection Rule, Clarifies Participant Funding Policy

The Federal Energy Regulatory Commission (FERC) reaffirmed its July 2003 order (Order 2003) that sets standard procedures and agreements for the interconnection of generators larger than 20 MW. Responding to requests for clarification of its pricing policy for network upgrades, the Commission made it clear that the transmission provider continues to have the option to charge the interconnected customer a transmission rate that is the higher of:

- The incremental cost rate for the network upgrades required to interconnect its generating facility, or
- An average embedded cost rate for the entire transmission system (including the cost of the network upgrades).

The Commission emphasized that allowing transmission providers to charge the higher of these rates ensures that other transmission customers, including the transmission provider's native load, will not subsidize network upgrades required to interconnect merchant generation.

The Commission had granted rehearing on two aspects of Order 2003's method for reimbursing generators for the cost of financing network upgrades needed to complete the interconnection.

- First, the Commission will no longer require the transmission provider to provide credits to an interconnection customer for all the transmission delivery services it takes on the system; instead credits are to be

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provided only for the transmission delivery service taken by the interconnecting generating facility.

- Second, the Commission will allow the transmission provider to choose, five years from the commercial operation date of the generating facility, whether to reimburse the interconnection customer at that time for any remaining balance of the cost of financing network upgrades and accrued interest, or continue to provide credits beyond five years until no balance remains.

The Commission also concluded, as it did in Order 2003, that it would accord additional flexibility to interconnection pricing proposals filed by independent transmission providers, since these entities would not have an incentive to discourage new generation by competitors, and should be afforded more flexibility in manner of cost recovery.

Action on the interconnection rule that applied to small generators – those less than 20 MW – is still pending before the Commission and will likely be addressed in the near future.

FERC, press release, "Commission Reaffirms Interconnection Rule, Clarifies Pricing Policy," March 3, 2004, available at http://www.ferc.gov.

Latest Energy Bill Version Pares MTBE Breaks, Preserves Wind Perks

Senate Republicans, hoping to salvage the Energy Bill, have assembled a leaner version that reduces the measure's tax breaks and other business incentives from $31 billion to less than $14 billion over ten years. Most of the reduced cost comes from eliminating the provision that exempted MTBE manufacturers from liability for environmental contamination. The full Senate could take up the revised bill at any time. The newest version:

- Maintains a 3-year extension of the PTC, through December 31, 2006;
- Eliminates the inflation adjustment provision contained in the current PTC, thus freezing the value of the PTC at the current 1.8 cents per kWh for all wind projects placed in service after September 30, 2004 (conversely, any project placed in service before October 1 would retain access to the PTC inflation adjustment provision);
- Eliminates the newly-proposed exemption from the Alternative Minimum Tax for the first four years of turbine operation that had been contained in the previous energy bill;
- Expands credit eligibility to solar, geothermal, small hydro irrigation, and additional forms of biomass.

AWEA Windletter, "Energy Bill Pared Down", February 2004. The new bill is S. 2095 and is available at http://www.energy.senate.gov.

Democrats Offer Stand-Alone Alternatives to Energy Bill

Senators Hillary Clinton (D-NY), Maria Cantwell (D-WA), Russell Feingold (D-WI) and James Jeffords (I-VT) have introduced a measure that would give FERC the power to set mandatory grid standards. A separate bill backed by Cantwell, Feingold and Jeffords, titled "Electricity Needs Rules and Oversight Now," or "ENRON," would require FERC to ban trading strategies used by Enron and other companies that contributed to the electricity crisis in western states. The bills are an attempt to provide Senators a "back door" for enacting the most critical portions of the comprehensive energy bill in the event the comprehensive version cannot win needed support.

Transmission Report, 1/19/2004-2/1/2004, Energy Info Source. The ENRON bill is S 2015 IS, available at http://thomas.loc.gov/.

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FERC to Push Reliability Standards, With or Without Energy Bill

FERC Chairman Pat Wood said the Commission would act to impose mandatory grid reliability standards and penalties for violators even if Congress fails to pass an energy bill. Congress has given FERC an extra $5 million that Wood said would pay for closer monitoring of electric utilities. The Commission is setting up a reliability division and plans to look at what training and skills are needed to best operate the nation's electric grid. He noted that he would support separate legislation on reliability if Congress cannot pass the comprehensive energy bill.

Transmission Report 1/5/2004-1/18/2004, Energy Info Source.

The South

SPP Gets RTO Approval

The FERC approved with conditions the Southwest Power Pool's (SPP) proposed regional transmission organization (RTO) in January. SPP went forward with plans to form a stand-alone RTO in October 2003 after calling off a planned merger with the Midwest Independent System Operator (MISO).

To better conform to the provisions of Order 2000, FERC directed SPP to:

- Implement its independent board and modify its governance structure;
- Expand the coverage of its existing tariff to assure that SPP is the sole transmission provider;
- Obtain clear and sufficient authority to exercise day-to-day operational control over appropriate transmission facilities;
- Have an independent market monitor in place;
- Obtain clear and precise authority to independently and solely determine which projects to include in the regional transmission plan; and
- Have a seams agreement with MISO on file.

Arkansas-based SPP has 50 members including investor-owned utilities, a federal power marketing agency, independent power producers and power marketers. SPP serves more than 4 million customers in all or parts of Arkansas, Kansas, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, and Texas.

FERC, press release, "Commission Approves Southwest Power Pool RTO With Conditions; Move will Help Strengthen Regional Reliability," February 10, 2004, available http://www.ferc.gov.

Warm Reception for Wind at SPP Workshop

Texas wind stakeholders involved in a recent SPP workshop on transmission issues in the Kansas/Texas Panhandle region reported a positive experience. Houston-based Zilkha Renewable Energy's Wayne Walker gave a presentation on wind issues and Charles Freeman of Waco-based Electric Power Engineers found the meeting to be "amazingly positive concerning wind development." He reported favorable discussion on several topics, such as the "huge potential for exporting wind generation from wind-rich areas in SPP to load centers both within and outside of SPP" and the idea of "displacing expensive natural gas generation with wind."

Electronic mail Electronic mail from Russel Smith, Texas Renewable Energy Industries Association (TREIA) Executive Director, with attachment from Charles Freeman, TREIA President, February 27, 2004.

Wind Takes Issue with ERCOT Nodal Market Design

The Electric Reliability Council of Texas' (ERCOT) process for designing a nodal market is heating up. A rule adopted by the Public Utility Commission of Texas last fall sets forth basic principles for ancillary service markets operated by ERCOT including both energy and ancillary capacity service markets. The rule includes requirements for ERCOT to:

- Allow market participants to self-schedule and bilaterally contract for energy and ancillary capacity services, to the extent consistent with system reliability;
- Require the submission of resource-specific bid curves for energy and ancillary capacity services that ERCOT competitively procures a day ahead of an operating day or in the operating day;
- Directly assign all congestion rents to the resources that caused the congestion; and,
- Use nodal energy prices for resources and zonal energy prices for loads.

The Texas Nodal Team at ERCOT, cast with the responsibility of developing the new market design, is moving toward a November 2004 submittal of their design to the PUCT for approval. If approved, implementation of the new market design is expected to occur in 2006.

Wind stakeholders participating in the process say that, as currently drafted, the nature of the Texas nodal plan will have significant negative financial implications for renewable energy facilities. According to Beth Garza of FPL Energy, as of February 2004 about 15 of the required white papers have been filed with no recognition of the effect of the nodal design on wind power. These issues include the following:

- Generators will be penalized for not following schedules;
- Congestion curtailments for wind ranches near each other will not be shared; instead, all the curtailment will be assigned to one wind ranch;
- Wind bids in congested areas could be based on revenue loss instead of operating costs resulting in very high transmission costs;
- Transmission capacity will have value in day-ahead and real-time markets, and the cost of reserving capacity could become a liability for wind generators.
- If congestion rights are settled on a day-ahead basis, intermittent resources could find it difficult to hedge their transmission costs.

"Each of the above issues could result in payments of millions of dollars from wind generation producers and/or purchasers to other market participants," according to Garza. "It will not be possible to accurately predict a project's risk of requiring certain payments during development or even after it is operating."

Garza suggests that wind stakeholders need to get more involved in the committees and edit the white papers to ensure the final plan:

- Contains no schedule-related penalties for wind generation;
- Allocates or shares curtailments among similarly located wind ranches;
- Does not require intermittent resources to submit bids – rather wind should e a price taker;

- Contains provisions for ERCOT to forecast wind production on a day-ahead basis to establish an hourly baseline prediction of available wind capacity;
- Allows congestion rights for wind to be settled in real time.

Electronic mail from Russel Smith, Texas Renewable Energy Industries Association (TREIA) Executive Director, March 6, 2004, with attached Summary of Texas Nodal Plan Development, by Beth Garza of FPL Energy.

ERCOT's work on implementing the nodal design is at http://www.ercot.com/TNT/.

The August 2003 PUCT Rulemaking resulted from work on Project 26376, available at http://www.puc.state.tx.us/rules/rulemake/26376/26376.cfm. The final substantive rule is §25.501, available at http://www.puc.state.tx.us/rules/subrules/electric/25.501/25.501.pdf.

Southern Governors Object to FERC's RTO "Coercion"

In a letter to President Bush and Republican leaders of the House and Senate energy committees, nine southeast Governors said they are worried FERC is making a "backdoor" attempt to enact standardized transmission rules even though the yet-to-be-approved Energy Bill would bar them from doing so for several years. The governors of Arkansas, Georgia, Missouri, Mississippi, Louisiana, Kentucky, South Carolina, North Carolina, and West Virginia signed the letter.

They object to FERC's 2003 order requiring American Electric Power to join the PJM Interconnection over the direct objections of state regulators in Virginia and Kentucky, warning that FERC could use the decision as a precedent to preempt other state laws.

They also raised concern over FERC's decision to consider changing the way it measures utilities' ability to unfairly treat merchant generators reliant upon utility-provided transmission services. FERC's original proposal unveiled in 2001 would have stripped utilities that fail the test of their ability to sell wholesale power at market-based rates unless they agreed to combine their transmission assets into regional groups. "This proposal appears to be an attempt to coerce the utilities in the southern region to join RTOs," the letter said. In November 2001 FERC said three southern utilities – Southern Company, American Electric Power, and Entergy – and about 70 utilities nationwide, would fail the proposed test.

"We remain extremely concerned that FERC is aggressively moving forward with a series of actions which will coerce RTO participation, preempt state law and exceed the commission's own statutory authority," the letter said.

The letter is available at http://www.southerngovernors.org/.

The Midwest

MISO to Launch New Markets in December

The Midwest Independent System Operator (MISO) has announced plans to start testing its new market design in March 2004, with final bring-up scheduled for December 2004. The new market will include both day-ahead and real-time electricity prices traded much the same way as in the PJM, New York and New England markets. The new market design would succeed MISO's interim, or "Day 1," hybrid market currently in use.

Transmission Report 2/16/2004-2/29/2004, Energy Info Source.

ATC Buys Upper Peninsula Transmission Assets

MISO member American Transmission Company (ATC) announced the participation of Michigan's Upper Peninsula Public Power Agency (UPPPA), which includes 7 cities and towns. UPPPA was created to allow the participation of seven municipal utilities within ATC. The addition of the UPPPA utilities brings the total to 28 investor-owned, municipal and/or cooperative electric utilities across portions of Michigan's Upper Peninsula, Wisconsin and Illinois participating in ATC.

American Transmission Company, press release, "ATC Acquires Transmission Assets in Michigan's Upper Peninsula," January 7, 2004, available at http://www.atcllc.com.

Did TRANSLink Quit too Soon?

FERC Chairman Pat Wood called the proposed TRANSLink Transmission Company's November 2003 decision to suspend development a "horrible outcome," that could leave the region's electricity customers without adequate transmission infrastructure. Anchored by the large Alliant and Xcel grids, plans had called for TRANSLink to own and operate transmission grids in portions of 14 states, stretching from North Dakota to Texas. Wood said he thought it was possible that TRANSLink could be reformed as an even larger entity with larger parts of North Dakota included in its footprint. "This is a very salvageable project and I'm sorry the sponsors pulled out as quickly as they did and didn't work out the details," he said.

Transmission Report, 1/19/2004-2/1/2004, Energy Info Source.

MISO/PJM Progress in Replacing Through and Out Rates

In November 2003 FERC upheld an earlier ruling holding that MISO's and PJM's "regional through and out" rates (RTORs) were unjust and unreasonable, requiring them to be replaced by a cost adjustment charge that would be phase out over two years. The existing RTORs generate an estimated $250 million annually to grid owners such as AEP, FirstEnergy, and Exelon.

Now a settlement proceeding has resulted in a working agreement on how to proceed. The agreement establishes going-forward principles and procedures that will shorten the transition period for the elimination of RTORs by 17 months, keeps transmission owners revenue neutral, and eliminates the RTORs by December 1, 2004. While still not wholly defined, the settlement does recognize basic principles and a schedule for working out the issue:

- July 1, 2004 - PJM and MISO transmission must have proposed a new pricing structure.
- October 1, 2004 – New pricing structure finalized.
- December 1, 2004 – New pricing structure fully implemented.

The settlement agreement is supported and joined by 84 parties. The judge presiding over the settlement agreement is now asking FERC to accept the going-forward principles.

Federal Energy Regulatory Commission, Report of the Chief Judge and Request of Parties for Expedited Approval of Going-Forward Principles and Procedures, Docket Nos. EL02-111-004 and E02-212-002, issued March 5, 2004.

Wisconsin PSC Line Approval Challenged

The Wisconsin Public Service Commission's December 2003 approval of increased costs for the 220-mile Arrowhead-Weston transmission line has been challenged in court. Save Our Unique Lands (SOUL), a group of landowners who live near the proposed line, and Clean Wisconsin Inc., an environmental advocacy group, filed the challenge. They argue the PSC did not interpret state law correctly when it approved the project, favoring the financial interests of transmission companies over citizens and the environment. American Transmission Company, which is building the line, called the civil suit "baseless and groundless" and said the suit would not slow their progress in constructing the line.

Transmission Report 1/5/2004-1/18/2004, Energy Info Source.

PJM Forms ComEd Trading Hub

A new trading hub for the ComEd zone within the PJM Interconnection has been formed. The Northern Illinois Hub – NI-Hub – will offer buyers and sellers a means to achieve successful conversion from existing contracts to the new LMP-based market. Market participants endorsed using NI-Hub as the primary location for transitioning existing, and facilitating new, "into ComEd" electricity sales. NI-Hub offers a standardized method to convert existing "seller's choice" wholesale power contracts to facilitate the transition to the energy market place.

NI-Hub was designed by PJM based on input from regional stakeholders. ComEd is among the Midwestern electric transmission owners that are joining PJM's wholesale electricity markets. ComEd is to become part of PJM's Western Region.

PJM, press release, "PJM, Northern Illinois Market Participants Agree to Create New Trading Hub," February 25, 2004, available at http://www.pjm.com.

The Northeast

FERC Approves NYISO's SMD2 Project

The FERC has conditionally approved the New York ISO's (NYISO) proposed market design known as SMD2. The ruling means NYISO is on schedule to implement a program that better integrates New York's real-time and day-ahead energy markets on a common platform by utilizing new real-time scheduling software.

The deployment will enable NYISO to refine many functions, including improved efficiency in committing and dispatching generation in real time and computing real-time pricing that more accurately reflects current system energy trading across northeast markets.

Most of FERC's conditions relate to market monitoring issues such as limitations on mitigation rules and scheduling rules for off-dispatch generators.

New York ISO, press release, "FERC Approves NYISO's SMD2 Project," February 17, 2003, available at http://www.nyiso.com.

The West

WAPA Considers Ancillary Services Rates for Intermittent Renewables

The Western Area Power Administration (WAPA) in January published interim transmission and ancillary services rates for its Loveland Area Projects, which serve loads in parts of Colorado, Kansas, Nebraska, and Wyoming. The interim rates will go into effect on March 1, 2004, and will be in effect until the FERC confirms, approves and places the provisional rates into effect on a final basis for a 5-year period ending in 2009. Four wind facilities are currently in the affected region.

Wind stakeholders, including AWEA, were active participants in the ratemaking process. Of particular concern was the proposed Energy Imbalance Service rate, which allows generators to run within a +/-5% bandwidth from their scheduled

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generation, and which penalizes by 25% any deviation outside the bandwidth, with a minimum deviation of 4 MW.

In the previously approved rate schedule for this service, the minimum deviation was 2 MW and the penalty for excursions outside the bandwidth was 50%. In this rate change, WAPA:

- Increased the minimum deviation to 4 MW to afford smaller customers increased operating flexibility;
- Decreased the out-of-bandwidth penalty from 50 to 25 percent (WAPA analyzed these excursions since June 2002 and concluded they did not significantly impact operations); and,
- Exempted intermittent generators from bandwidth-related penalties.

Western says it "supports the development of intermittent renewable energy sources, but does not have the resource capability to cover fluctuations anticipated with such resources. However, Western is willing to purchase, on a pass-through cost basis, the requirements to mitigate the fluctuations inherent in intermittent generation. No bandwidth will apply. This will assure that intermittent resource providers pay only for the energy imbalance service they take. They will not be penalized for out of bandwidth activity."

Federal Register, Department of Energy, Western Area Power Administration, Loveland Area Projects Transmission and Ancillary Services – Rate Order No. WAPA-106; Vol. 69, No. 7; Monday, January 12, 2004, pp. 1723-1738.