

# RTO Update

Friday, July 23, 2004

## Highlights

- ✓ Grid West, the forming RTO in the Pacific Northwest region, has posted two new sets of bylaws for review. They would govern separate “developmental” and “operational” corporations, both with limited authority to expand the function and authority of the proposed RTO absent regional and stakeholder consensus.
- ✓ The Western Governors’ Association approved a policy statement calling for development of at least 30,000 MW of clean energy in the West by 2015 and for increasing efficiency of energy use by 20% by 2020.
- ✓ The Electric Reliability Council of Texas (ERCOT) is facing scrutiny for contracting irregularities, and calls for increasing oversight of the Texas grid operator are increasing. The Public Utility Commission of Texas’ (PUCT) periodic sunset review is recommending that tighter rules be applied to ERCOT and that the PUCT be granted more authority to oversee ERCOT’s activities.
- ✓ A FERC order sets up a process by which “grandfathered agreements” within the Midwest Independent Transmission Operator (MISO) region can be renegotiated so they are consistent with MISO’s proposed rules. MISO and other stakeholders argued that the contracts would impede MISO’s ability to maintain reliability.
- ✓ A FERC order clears the way for AEP’s Kentucky and Virginia transmission systems to join PJM. FERC defends its position in overriding the states’ objections by saying it was acting to resolve conflicting state positions on the issue.
- ✓ AWEA has filed recommendations on how wind energy facilities should be treated under FERC’s proposed standardized interconnection rules. In the filing, AWEA makes specific recommendations on both performance and process issues.

## The West

### **Grid West Proposes Bylaws; BPA Seeks Comments**

Grid West participants have proposed two sets of bylaws – one to cover the developmental stage of the proposed regional transmission organization, the other to cover the operational stage. The proposed Developmental Bylaws would establish Grid West but provide authority only to further develop the proposal, and would impose sunset provisions. The proposed Operational Bylaws would grant authority to provide transmission services while incorporating regional accountability mechanisms. The governance framework for both stages is well developed but some key issues are still open with decisions deferred until the end of September:

- Defining the member classes, voting thresholds and voting rights for major transmitting utilities and transmission dependent utilities;
- Identifying an appropriate trigger for adoption of the Operational Bylaws, i.e., via binding or non-binding member vote;
- Naming the Membership Admission and Membership Dispute Resolution Committees;
- Continuing to evaluate cost control issues, including excessive process concerns, and clarifying the definition of “special issues” – those requiring a

more expansive formal review process (see below).

Current Grid West schedules have the developmental stage beginning in fall 2004 with appointment of an interim board, with transition to the operational stage beginning in summer 2007.

Bonneville Power Administration is seeking comments on both sets of the proposed bylaws. The comment period opened July 14, 2004 and will close September 3, 2004. Comments can be made online at <http://www.bpa.gov/comment>.

### **Developmental Bylaws**

The developmental bylaws are intended to facilitate Grid West's staged evolution from a corporation with little authority and controlled by the filing utilities to an independent corporation with authority to finalize contractual arrangements with transmission owners. The developmental corporation formed to do so would have no authority to begin offering transmission services. It would be governed first by an Interim Board consisting of the nine existing RTO West board members and any public power transmission owners who choose to join and fund the effort. An Independent Board would be seated by spring 2005 and would consist of 5 trustees elected by at least 24 of 30 votes of the Members Representative Committee (MRC, see below).

Developmental Board Authority. The Independent Board would have authority to develop, negotiate and secure agreements with transmission owners and operators; develop tariff provisions describing services and related protocols for the operational stage; promote and foster regional stakeholder input; consider economic efficiency and fairness, reliability, cost-effectiveness, risks and rewards, fuel diversity and sustainability, and environmental effects.

Developmental Board Responsibilities. In carrying out these functions, the Independent Board would be required consult with the Regional Representatives Group before offering transmission agreements, control area consolidation agreements, or seams agreements.

Members Representatives Committee. Grid West's proposed Members Representatives Committee would advise the Independent Board. It would consist of thirty members, six from each member class (Member classes are: major transmission owners; transmission dependent utilities; generators; power marketers or others; end-use customers; and regulators, tribes or certain public interest groups.)

### **Transition to the Operational Stage**

The proposed bylaws require the Developmental Board to adopt the Operational Bylaws if the Members vote to move to the operational stage or if BPA and at least two IOU transmission owners (contiguous to the BPA system) execute transmission agreements within the 12 month deadline. Prior to voting, the Developmental Board must develop and distribute to members "a business plan... for provision of the services anticipated to be offered within the first two years of the operational stage in a manner that is cost-effective."

### **Operational Bylaws**

The Operational Bylaws would govern the activities of Grid West as a FERC-jurisdictional transmission provider. The proposed bylaws would establish an Independent Board that may not own any transmission, distribution or generation facilities or output (except as appropriate to meet its obligations with respect to congestion management and as a control area operator), and may not operate or have any financial interest in a power or energy exchange in which participation by buyers and sellers of electricity is mandatory. The Operational Board would consist of nine

members serving staggered three-year terms. Member classes and subclasses, member withdrawal rights and voting mechanisms would carry over from the Developmental stage, as would the MRC structure. Members and the MRC would both enjoy expanded powers in the operational stage.

**Special Issues.** The Operational Board is required to comply with special procedures whenever it seeks to:

- Exercise backstop measures for chronic, significant, commercial congestion;
- Depart from the company rate approach;
- Convert to a financial rights system;
- Grant market monitor authority to impose penalties or actively intervene in markets; or
- Override individual company loss methodologies.

These procedures include formal consultation with the MRC and Governmental Committee prior to voting. After adoption, the MRC may reject the Board's decision with a vote of either 20 votes against the proposal or 16 votes against the proposal if all MRC representatives of at least one member class vote unanimously against the proposal. If the MRC rejects the proposal, the Board may implement the proposal only if at least seven (of the nine) Trustees vote to adopt the proposal.

**Board Advisory Committee.** In addition to the MRC, the operational stage would include a Board Advisory Committee (BAC) consisting of non-voting members. The BAC would have the right to advise the Board on proposed amendments to the tariff or transmission agreements, system planning matters, the annual budget, and proposed measures to implement market power or price mitigation.

**Dissolution/Termination.** If FERC orders a change to Articles or Bylaws and the Members do not approve the change, the Board must propose to dissolve the Corporation. If four Member classes vote by at least 2/3 of their voting power to dissolve, the Board must dissolve the Corporation.

In all, the proposal would set up an Operational Corporation with limited authority and provide significant power to prevent expansion of authority to members, member classes, and other regional interests. It aims to prevent a "slippery slope" in which expansion of RTO authority is the norm rather than the exception and provides a number of protections against such activity.

*Grid West Developmental and Operational Bylaws Review, Bonneville Power Administration, Q&A, July 12, 2004. Grid West Bylaws: Overview of Proposed Developmental and Operational Bylaws. Available at <http://www.rtowest.org/> and <http://www.bpa.gov/comment>.*

## **Western Governors Plan for Renewable Energy**

At its June 22 meeting in Santa Fe, New Mexico, the Western Governors' Association (WGA) passed a resolution proposed by California Governor Arnold Schwarzenegger and New Mexico Governor Bill Richardson agreeing to explore clean energy and energy efficiency opportunities in the West. The WGA policy statement calls for development of at least 30,000 MW of clean energy in the West by 2015 and for increasing efficiency of energy use by 20% by 2020.

The statement specifically references wind power, saying "Western Governors also believe there is long-term wind energy potential in the western plains and mountain states but that a more aggressive effort to develop this energy resource is needed. Western Governors believe that a comprehensive study of the development and transmission of the West's wind energy resources is necessary. This study should build

on the numerous sub-regional plans underway, such as the Rocky Mountain Area Transmission Study, but should emphasize policies that can facilitate wind development throughout the region.”

*WGA Policy Resolution 04-14, “Clean and Diversified Energy Initiative for the West, June 22, 2004, Santa Fe, New Mexico, available at <http://www.westgov.org/wga/policy/04/clean-energy.pdf>. AWEA Windletter, Volume 23 Issue No. 5, May 2004.*

### **PacifiCorp Gets Big Response to Renewables RFP**

In response to an RFP requesting 1,100 MW of renewable energy over the next seven years, PacifiCorp said it received bids for 5,600 MW of renewable energy projects. The proposals for 54 projects came from 42 bidders, most of which are new developments. Eighty-five percent of the capacity bid came from wind projects, with the remainder from geothermal and hydro. PacifiCorp had originally expected to announce winners in late June, but as of this writing had not done so.

*AWEA Windletter, Volume 23 Issue No. 5, May 2004.*

### **Merchant Transmission Project Proposed from Canada to Oregon**

NorthernLights Transmission, a Canadian company, is proposing to build a high-capacity DC transmission line from northern Alberta to eastern Oregon. NorthernLights is seeking an American partner to build the 400 miles of line between the US/Canada border and eastern Oregon, for which it received FERC approval in October 2002. Avista has a permit to build a new power line between Spokane and the Canadian border, and it has talked with NorthernLights about using its corridor for part of NorthernLights’ proposed line. NorthernLights seeks to serve growing loads in the Pacific Northwest with largely unexploited oil sands found in northern Canada.

*NorthernLights Transmission Company website, <http://www.NorthernLightsTransmission.com>, accessed July 20, 2004.*

### **Wyoming Tries to Spur Transmission Development**

The Governor of Wyoming announced appointments to the 5-member Wyoming Infrastructure Authority, an entity created by the Wyoming Legislature earlier this year to help “diversify and expand the state’s economy through improvements in Wyoming’s electric transmission infrastructure and to facilitate the consumption of Wyoming energy.” The WIA has \$1 billion in bonding authority to be used to spur private investment in power generation and transmission projects. It seeks to improve Wyoming’s power export capability, which would likely be fueled by native coal reserves, but there are significant wind resources in the state as well. Wyoming officials are also participating in regional efforts to identify electrical generation and transmission projects, including WECC’s Rocky Mountain Area Transmission Study.

*Press Release, Office of Governor Dave Freudenthal, “Governor Appoints Transmission Authority,” June 10, 2004, available at [http://wyoming.gov/governor/press\\_releases/2004/june2004/transmissionauthority.asp](http://wyoming.gov/governor/press_releases/2004/june2004/transmissionauthority.asp).*

### **Texas’ Cielo WindPower gets New Mexico Project**

Cielo Wind Power of Austin Texas signed an agreement with New Mexico Commissioner of Public Lands to develop an 80 MW site partially on state trust land. The state of New Mexico is to receive 6% of the annual revenue from the sale of electricity produced by the wind farm or not less than \$4,000 per turbine located on state trust land. It is estimated that approximately ten percent turbines will be developed on state trust land.

*AWEA Windletter, Volume 23 Issue No. 5, May 2004.*

## **Texas**

### **PUCT Sunset Commission Calls for Increased Oversight of ERCOT**

Three former ERCOT employees are under investigation by the Texas state police for allegedly awarding contracts in deals they benefited from personally and for fraudulently charging the system operator for work that was never performed. Information security is a concern as the contracts were for development of operational software and network security. ERCOT had begun an internal investigation into these matters in May, but irked the state's regulators by failing to inform them of the investigation and by being slow to follow-up on requests for more information.

While the Public Utility Commission of Texas (PUCT) lacks explicit authority to oversee ERCOT, a consensus is growing that such authority is needed. The PUCT is currently being reviewed by the Sunset Advisory Commission, which was established by the Texas legislature to review and make recommendations about the future of public agencies, boards and commissions. As a part of its recommendations, the Sunset Commission is advising the legislature that it should:

- Require ERCOT board members to disclose conflicts of interest and remove themselves from voting on those issues;
- Give the PUCT clear authority to require ERCOT to submit detailed financial information;
- Apply the Texas Open Meetings Act to ERCOT;
- Replace the current board structure -- 14 members, many of them from the power industry -- with a nine-member independent board by September 2006.

Meanwhile, ERCOT's new CEO, Thomas Schrader, took the reins on July 26 under a 3-year agreement. He replaces former ERCOT CEO Tom Noel.

*Press Release, "ERCOT hires new CEO," ERCOT, June 30, 2004, available at <http://www.ercot.com/NewsRoom/PressReleases/pr20040630.doc>. "Sunset report calls for tougher oversight of ERCOT," Austin American Statesman, July 9, 2004; "Report: Contractor billed ERCOT for work of dead man," Austin American-Statesman, July 19, 2004. Transmission Report, 6/14/2004-6/27/2004, Energy Info Source.*

### **ERCOT's Progress on Transmission Projects**

At a presentation in Dallas last month, ERCOT's Manager of System Planning and Transmission Services discussed steps ERCOT is taking to accommodate new wind development. Ken Donahoo described how wind development in six areas in west Texas, especially a cluster of 755 MW near McCamey, is constrained by transmission paths to the population centers to the east. He described the status of nine separate transmission upgrade projects designed to help alleviate the congestion. Two of these upgrades have already been completed and two are expected to be completed by 2006. The remaining projects are longer-term.

*Overview of ERCOT: How ERCOT is Addressing Issues Associated with New Wind Development, presentation of Kenneth Donahoo, P.E., delivered at NWCC Business Meeting #33, June 28, Dallas, Texas.*

### **Sweetwater Expansion Begins**

Sweetwater Wind Power has announced it has begun work on a 91.5 MW addition to an existing 37 MW wind farm near Sweetwater, Texas. The new phase will utilize 61 GE 1.5 MW turbines. Planning is underway for development of 400 MW at the site. Sweetwater is a joint project of DKRW, Babcock & Brown, and Catamount Energy Corporation.

*AWEA Windletter, Volume 23 Issue No. 5, May 2004.*

## **The Midwest**

### **FERC Sets Timeline and Procedures for MISO Tariff Implementation**

FERC has issued ruling hoping to resolve the fate of contracts covered by “grandfathered agreements” (“GFAs”) within the Midwest ISO (MISO). MISO defines GFAs as “agreements entered into prior to September 16, 1998,” but this definition could exempt 40,000 MW of capacity within the MISO region from the MISO tariff – potentially affecting grid reliability as well as decreasing liquidity and diversity in MISO’s planned markets, including its congestion management framework.

The order encourages parties to settle their contracts consistent with the MISO’s proposed rules. For parties unable to reach a settlement, FERC set up a 30-day evidentiary hearing before a judge to gather information about each GFA. The information would give FERC the ability to ensure the GFAs are accommodated in MISO’s energy markets and do not harm reliability.

Relatedly, FERC extended the deadline for implementation of MISO’s transmission and energy market tariff (TEMT), which contains the terms and conditions for implementation of a market based congestion management program, including a day-ahead market, real-time energy market and financial transmission rights. With the new deadline, FERC says it expects MISO to begin initial market trials in early December and complete them by January 2005.

*Transmission Report, 5/03/04-5/16/04, Energy Info Source.*

### **Ameren Transfers Control to MISO**

Two of Ameren’s operating companies, AmerenUE and AmerenCIPS, transferred functional control of their transmission systems to the MISO through GridAmerica. The move adds more than 5,000 circuit miles of transmission lines into the MISO RTO. AmerenCILCO, another Ameren subsidiary, was already a transmission-owning member of MISO.

*Press Release, “Ameren Joins Midwest ISO Through GridAmerica,” Midwest Independent System Operator, May 3, 2004.*

## **SPP**

### **NPPD to develop 60 MW Wind Farm**

The Nebraska Public Power District and four partner public power entities will develop a 60-MW wind power facility near Ainsworth, NE. The NPPD Board of Directors approved the final size of the facility on May 14 and authorized management to begin obtaining regulatory approval, and authorized NPPD to increase the project scale to 75 MW if other participants can be found to purchase output from the additional capacity. Current participating entities include: Omaha Public Power District (10 MW); Jacksonville Electric Authority (10 MW); Municipal Energy Agency of Nebraska (7 MW); City of Grand Island (1 MW). NPPD will receive a 32 MW share of the wind farm.

*Press Release, “NPPD’s New Wind Facility Approved for 60 MW with Option to Find More Participants,” Nebraska Public Power District, May 14, 2004.*

## **PJM**

### **FERC Actions Clear Way for AEP Kentucky and Virginia to Join PJM**

FERC approved a contested settlement between PJM, AEP and the Public Service Commission of Kentucky stating that the settlement represents “a reasonable resolution of the complex matters” relating to the laws, rules and regulations of Kentucky, and their operation to allow for AEP’s Kentucky operating company to transfer operational control of its transmission assets to PJM.

FERC said the agreement does not change FERC's authority or that of the Kentucky commission. Other terms agreed to in the settlement include:

- PJM's market operations are such that AEP's purchases and sales of capacity and energy in PJM's energy markets are voluntary;
- PJM is required to provide information and give due consideration to the finding of the Kentucky Commission and other state commissions within the PJM region for determining appropriate reserve margins necessary to maintain safe and reliable service;
- PJM will not direct AEP to curtail retail customers of any AEP operating company, or curtail load in any AEP state jurisdiction for a transmission system emergency unless PJM has exercised all other available options.

In a separate order, FERC affirmed an administrative law judge's decision and ruled that it may allow AEP to transfer its Virginia transmission facilities to PJM's control over the objections of the Commonwealth of Virginia. The decision clears the way for AEP to integrate its Virginia transmission assets into PJM by October 1, 2004. FERC noted that it was resolving conflicting state positions with the order. In particular, FERC argued that other states that are served by AEP support AEP's integration into PJM, while Virginia does not.

*Press Release, "FERC Approves Settlement and Initial Decision, Actions Clear the Way for AEP to Join PJM," Federal Energy Regulatory Commission, June 17, 2004, in Docket No. ER-262-009.*

#### **Duquesne to Join PJM**

Pittsburgh's Duquesne Light Company will transfer control of its transmission assets into the PJM RTO's Western region by January 1, 2005. The move is subject to approval by the Pennsylvania Public Utility Commission.

*Transmission Report, 5/3/2004-5/16/2004, Energy Info Source*

#### **Maryland Passes RPS; Pioneers NO<sub>x</sub> Credit for REC Purchase**

In May the Governor of Maryland approved a bill to require that 7.5% of the state's electricity come from renewable sources by 2014. Also in May, Maryland's Montgomery County announced a plan to supply 5% of the electricity to Montgomery and Prince George's County government buildings, schools, and other agencies with wind power. The purchase will be made by contracting for green tags from the Mountaineer Wind Farm in West Virginia through Community Energy.

The state of Maryland is proposing to award renewable energy set-aside allowances to wind power projects, which will transfer to Montgomery County proportionally for the amount of wind power purchased. Montgomery County plans to retire the allowances, reducing the overall amount of regulated NO<sub>x</sub>, as well as unregulated CO<sub>2</sub> and SO<sub>x</sub>, emitted in the region. The NO<sub>x</sub> emissions credit will occur under the Washington Council of Government's state implementation plan (SIP). If approved by the EPA, it will become the first case in the US in which wind power purchases by a local government are credited for reducing air emissions under a regional air quality plan.

*AWEA Windletter, Volume 23 Issue No. 5, May 2004.*

### **National**

#### **House/Senate Pass Tax Bill Containing PTC Extension**

The U.S. House of Representatives passed a corporate tax bill (HR 4520) containing a 2-year extension of the wind energy production tax credit (PTC) in June. The U.S. Senate passed its version of the legislation (S. 1637) in May, also containing a PTC extension. The bills will now move to conference committee. While the PTC provisions in the two bills are very similar, the conference committee process is

## **AWEA Proposes Interconnection Standards for Wind Plants**

expected to be difficult and protracted due to the large number of significant policy differences between the two bills in other corporate tax areas.

*AWEA Windletter, Volume 23 Issue No. 6, June 2004.*

On May 20 AWEA filed recommendations with FERC on how wind energy generating plants should be treated under its new rulemaking that establishes interconnection standards. The AWEA recommendations are based on work done by the “Grid Code” industry group organized by former AWEA policy director Jim Caldwell.

Specifically, AWEA proposes the following performance specifications:

- Low-voltage ride-through – to ensure that new wind turbines and arrays can remain online through most common power system disturbances and do their part in supporting the integrity and stability of the grid;
- Voltage support/reactive power – to ensure wind plants (not necessarily each turbine) meet FERC’s voltage profiles to maintain the reliability of transmission lines;
- Communication and control – to communicate with the transmission provider and allow for some remote control.

AWEA also made the following process recommendations:

- Transmission providers and wind generator manufacturers participate in a formal process for developing engineering models and turbine specifications used for modeling wind plant interconnection.
- Generators be permitted to self-study interconnection feasibility in a manner analogous to the New York ISO practice in order to more easily match the engineering design with the specific grid conditions at the point of interconnection.

Caldwell said, “The wind industry embraces the fact that the maintenance and reliability of the transmission system is a responsibility shared by all users of that system. Wind plant developers also need consistent rules in order to plan for the future. With the grid code filing, we are laying out what is feasible and responsive to transmission providers’ concerns for grid reliability. We invite a dialogue with transmission operators and engineers on the details of the rulemaking implementation.”

*Petition for Rulemaking or, in the Alternative, Request for Clarification of Order 2003-A, and Request for Technical Conference of the American Wind Energy Association, submitted May 20, 2004 under Docket No. RM02-005. AWEA Windletter, Volume 23 Issue No. 6, June 2004.*