

# *Transmission Update*

June / July 2006

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## Summary

- ✓ Welcome to the Ninth NWCC Transmission Update! Kevin Porter of Exeter Associates, Inc. led the June 13, 2006, Transmission Update conference call. As always, this written brief is being distributed after the call to conference call participants, other NWCC members and participants, and to interested NWCC observers.
- ✓ This update focuses on the Federal Energy Regulatory Commission (FERC) notice of proposed rulemaking (NOPR) issued on May 18, 2006 to update Order 888, the landmark open transmission access order that FERC issued in 1996.
- ✓ Specific topics covered in this brief include:
  - The goals of the NOPR
  - The NOPR proposals on
    - Available Transmission Capacity
    - Transmission Planning
    - Adequate Transmission
    - Reducing Undue Discrimination
    - Imbalance Penalties
- ✓ Daniel Hedberg, a project manager from FERC's Office of Energy Markets and Reliability, reviewed the contents of the Order 888 NOPR. He and his counterpart from the general counsel's office, Kathleen Barron, responded to caller questions about the NOPR and other FERC activities.
- ✓ The next Transmission Update call is August 1, 2006, at 1 pm Eastern Time to review transmission activities in California.

## **Proposed Amendments to the FERC Pro Forma Open Access Transmission Tariff**

### **Background**

In 1996, the Federal Energy Regulatory Commission adopted, through Order 888, a pro forma Open Access Transmission Tariff (OATT). The OATT required transmission owners to provide nondiscriminatory, comparable transmission service to those seeking transmission service. Order 888 also allowed for recovery of stranded costs, i.e. costs incurred by a utility to provide transmission service that could go unrecovered if customers use another power supplier.

### **Notice of Proposed Rulemaking**

The purpose of the proposed rulemaking on Order 888 is to address any lingering undue discrimination. Wind, as an intermittent resource, is considered by some to be unduly penalized for its variable nature. The goal of this action is to provide greater specificity, prevent undue discrimination, and to increase transparency in transmission planning and usage.

The NOPR proposes to do several things:

- Improve transparency and consistency in several critical areas, such as calculation of available transfer capacity (ATC)
- Require transmission providers to participate in a coordinated, open and transparent transmission planning process
- Remedy portions of the pro forma OATT that may have permitted transmission providers to discriminate against transmission-dependent entities and new generation, including intermittent generation
- Provide greater transparency in the provision of transmission service to allow transmission customers better access to information to make their resource procurement and investment decisions, as well as to increase FERC's abilities to monitor the performance of transmission providers and to detect any remaining incidents of undue discrimination
- Reform and increase clarity in areas that have generated recurring disputes over the past 10 years, such as rollover rights for existing transmission service and generation redispatch

The absence of consistent ATC determinations by transmission providers is one of the factors leading to undue discrimination, according to FERC. Various transmission providers used different data inputs, methodologies and assumptions in assessing their ATC. FERC is directing transmission providers to work with the North American Electric Reliability Council (NERC) and the North American Energy Standards Board (NAESB) to develop standards for determining ATC. If ATC is not available, transmission providers would be required to use all available options for redispatching its system to meet a request for firm transmission service. Redispatch allows a transmission owner to offer more transmission service when their system is constrained on one or more transmission paths by arranging for dispatch of generation resources to relieve transmission constraints.

In terms of transmission system planning, the decline in transmission investment relative to load growth is causing congestion and reduced access to transmission for

wind and other energy sources. FERC concluded that transmission providers are not motivated to address transmission congestion on a nondiscriminatory basis, and the current OATT does not satisfactorily mitigate these issues. FERC ordered transmission providers to be involved with a coordinated, open and transparent transmission planning process that meets FERC's eight transmission planning principles:

- 1) Coordination (regular meetings)
- 2) Openness
- 3) Transparency
- 4) Information Exchange (including review of draft plans)
- 5) Comparability
- 6) Dispute Resolution
- 7) Regional Participation
- 8) Congestion Studies (studies must be done annually)

The NOPR also would require transmission providers to post all business rules, practices and standards, and credit review procedures related to transmission service on the transmission provider's Open Access Same-Time Information System (OASIS). In addition, transmission providers would be required to designate and undesignate network resources on OASIS. Finally, the proposed rule would require transmission providers to post certain metrics related to their OATT obligations, such as transmission requests approved, rejected, or curtailed.

Reform of rollover rights also appears in the NOPR. This relates to the right of transmission customers to renew or "rollover" their existing transmission service. FERC is proposing to limit rollover rights to transmission service with terms of five years or more, as opposed to one year. In addition, transmission customers exercising their rollover rights must do so no sooner than one year before expiration of their transmission service, as compared to 60 days currently.

On pricing of reassigned transmission capacity, FERC would like to lift the existing price cap and allow negotiated rates. The current OATT caps the rate at the higher of the transmission purchaser's transmission rate; the transmission provider's maximum stated firm transmission rate; or the transmission purchaser's opportunity cost capped at the cost of transmission expansion. The proposal to lift the price cap would not apply to capacity resold by transmission providers or their affiliates.

FERC is seeking comments on proposed improvements to point-to-point transmission service to help ensure wholesale energy purchasers have access to alternative energy like wind. These improvements include an expanded redispatch obligation and conditional firm transmission service. Again, redispatch is modification of generating schedules to reduce congestion in transmission systems. Conditional firm service would be long-term and firm for a pre-defined number of months during the year, combined with a specified number of hours over a set number of "conditional" months when firm transmission service may not be provided. This can allow the transmission provider to offer more transmission service and potentially serve new resources that would otherwise not have access to transmission.

At this time, FERC views redispatch as preferable to conditional firm because it mirrors the way transmission providers plan for load, but the Commission is looking for more input on this point. Current obligations for redispatch require transmission providers to build transmission to meet transmission requests or to identify redispatch options to satisfy the request. Few providers have come forward with meaningful redispatch proposals. FERC wants to revise the timing on when transmission providers offer redispatch, offering it prior to facility studies for new transmission, as well as to require providers to include estimated figures on redispatch time and costs. Instead of requiring the purchase of new resources, transmission providers would be asked for identification of all resources that could relieve the constraint (including those resources not owned or controlled by the transmission provider and those in adjacent control areas). Pricing of redispatch also remains a question—a formula rate has been discussed, but there is uncertainty about how to quantify costs over long periods.

On energy imbalances, FERC proposes new provisions centered on three principles:

- 1) Charges should be based on the transmission provider's incremental cost, or a multiple thereof
- 2) The charges should encourage accurate scheduling, such as increasing the percentage of the adder if deviations become larger
- 3) Charges account for special circumstances like intermittent generation from wind

FERC has proposed adopting the Bonneville Power Administration's tiered set of energy imbalances that increase as the amount of the deviation increases. Tier One imbalances of less than or equal to 1.5% of scheduled energy, or up to 2 MW (whichever is greater), would be netted monthly and settled at the incremental or decremental cost. Tier Two imbalances of between 1.5% and 7.5% of scheduled energy, or between 2 and 10 MW (whichever is larger), would be settled at 90% of decremental costs and 110% of incremental costs. Tier Three imbalances of over 7.5%, or greater than 10 MW (whichever is greater), would be settled at 75% of decremental costs or 125% of incremental costs. Intermittent resources would be subject to the Tier One or Two provisions but not Tier Three.

FERC has proposed that energy imbalance charges include unit commitment (the costs incurred to commit generation for operation) and asked for comments on whether energy imbalance charges should also include costs related to redispatch or additional regulation reserves. Also, noting that Order 2003 also allowed transmission providers to charge generator imbalances in addition to energy imbalances, FERC clarified that transmission providers could charge hourly generator imbalances or hourly energy imbalances, but not both.

## Questions & Answers

Responding to questions from the participants on the call, Mr. Hedberg and Ms. Barron offered the following clarifications:

- Imbalance charges are customer specific. If an imbalance is completely offset, either a generation or energy imbalance charge can be assessed but not both; however, this guideline changes if customers and generators are not in the same control area.
- One day firm service is the status quo, but one hour firm service is proposed in the NOPR. Whether transmission providers can offer one-hour firm transmission service is a concern for some transmission providers; however, other transmission providers have already voluntarily provided hourly firm transmission service. FERC wants to know if transmission providers find hourly firm service an undue burden.
- Curtailable hours are not unlimited for Conditional Firm transmission. Rather, transmission providers must define in their contracts the number of hours during the year in which the conditional firm customer will receive firm point-to-point service and specify the maximum number of conditional curtailment hours per year when the Conditional Firm customer could be curtailed before other firm customers.—
- Stricter deadlines for processing interconnection applications are not being considered; rather, deadlines for transmission service applications are being enforced through penalties.
- Existing customers looking to redirect transmission service must follow specific criteria.
- The proposed changes in the NOPR related to redispatch are intended to allow for more long-term transmission requests to be granted. These proposed changes are not for short term transmission requests and they are not imposing a new real-time redispatch obligation to resolve constraints. The complexity for identifying and implementing redispatch options increases with the length of the term of the transactions.

Call participants offered the following comments:

- Access to data is key to improving system-wide planning. It is difficult to get accurate data on load and resources. Greater transparency would improve transmission planning.
- Quality of data is another concern—WECC is constrained by confidentiality agreements.
- Discussion in the West has focused more on conditional firm service than redispatch, and there is some skepticism about whether redispatch will help facilitate mere transmission service.

If the proposed rule does nothing else, it will help the wind industry simply by modifying and removing the punitive penalties that are currently allowed in the energy imbalance provisions of Order 888. Those punitive penalties essentially locked away some markets for wind power unless those penalties were waived or minimized, as was the case several years ago when BPA adopted its current energy imbalance policy. BPA's policy encourages good scheduling without punitive penalties and seems to

offer a balance between not locking out variable renewable energy sources yet incentivizing good scheduling.

Other features of the proposed rule, if successfully implemented, could also be helpful, such as a consistent approach towards determining ATC and facilitating more open and transparent transmission planning. These issues have not always been easy to deal with, particularly ATC determination, and it is possible that FERC may need to return to this issue as transmission providers refine and revise their ATC methodology in compliance with the proposed rule.

**Comment Period** On the FERC website at <http://www.ferc.gov/industries/electric/indus-act/oatt-reform.asp>, a “redline” version of the proposed revised OATT is available which shows the existing versus the revised conditions.

The notice of proposed rulemaking was issued on May 19, 2006. Comments on the NOPR were due August 7, 2006, with the deadline for reply comments extended to September 20, 2006.

**For more Information**

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FERC OATT Reform, <http://www.ferc.gov/industries/electric/indus-act/oatt-reform.asp>.

Order 888, <http://www.ferc.gov/legal/maj-ord-reg/land-docs/order888.asp>.

Summary of FERC Order 888, [http://www.converger.com/FERCNOPR/888\\_889.htm](http://www.converger.com/FERCNOPR/888_889.htm).

What is FERC, <http://www.ferc.gov/students/whatisferc/history.htm>.

**Next Update: August 1, 2006**

**The next NWCC Transmission Update will be held on Tuesday, August 1, at 1 pm Eastern Time.**

*Please email Kevin Porter ([porter@exeterassociates.com](mailto:porter@exeterassociates.com)) with any suggestions for topics on how to improve the call.*