

**RTO West
Filing Utilities Meeting
10/4/2000**

Attendees:

Richard Goddard, PGE	Randy Cloward, Avista
Gary Dahlke, Avista	Wayman Robinette, Puget Sound Energy
Jim Collingwood, Idaho Power	Malcolm McLellan, Idaho Power
Chuck Durick, Idaho Power	Peggy Olds, BPA
Mark Maher, BPA	Bill Pascoe, Montana Power Company
Ray Brush, Montana Power Company	Don Furman, PacifiCorp
Cindy Crane, PacifiCorp	Marcus Wood, PacifiCorp
Preston Michie, BPA	Lauren Nichols, BPA
Marv Landauer, BPA	Doug Nichols, PGE
Frank Afranji, PGE	Steve Larson, BPA
Melanie Jackson, BPA	Sanjiv Kripalari, PacifiCorp
Todd Glass, ITC/Puget	Carolyn Cowan, Sierra Pacific
Chuck Meyers, BPA	Pat Englin, Sierra Pacific
Pat Franklin, Sierra Pacific	
Bud Krogh, K&L	Sarah Dennison-Leonard, K&L
Dave Hackett, KEMA	Kristi Wallis, Neutral Notetaker

Agenda:

Planning
TOA
Pricing
WIO
Governance
Process for Completing Filing

Agenda Item 1 – Planning

In response to the RRG discussion on September 20 and Mike Coleman’s suggestion that the Filing Utilities reconsider their recent decisions regarding planning/expansion, the Filing Utilities planning representatives met last week. The group reviewed the two FERC orders highlighted by Mike Coleman (PJM/New England ISO) and developed recommendations on three issues. Ray Brush (Montana Power Company) briefed the principals. The recommendations and briefing materials prepared by the Filing Utilities planning representatives are attached as Attachments A, B, and C. (The recommendations are shown in a redlined version of the September 1 RRG Decision Regarding Planning and Expansion.)

The three issues included: the need for a single regional plan; the role of the transmission owners in planning; and how costs for expansion should be allocated.

The planners' recommendations included:

Involvement of PTOs in Planning. Although the PJM and NE ISO orders limit the role of PTOs in regional planning (transmission owners provide input through an "interconnect committee"), the planners stand behind the RRG decision that the PTOs have first-line responsibility with respect to certain issues, with a RTO backstop should a PTO fail to take necessary action. Ray Brush noted that this approach had reached regional support in the work groups.

Transmission Adequacy Backstop for Load Service. The recommendation is that the Filing Utilities reinstate the backstop from the 9/1 RRG decisions with some clarifications and a slight change. In short, the RTO will remedy the situation if a PTO fails to provide adequate transmission service. There will be multiple opportunities for the PTO and other interested parties to consider non-transmission solutions, but the RTO can only remedy a transmission deficiency with a transmission fix. The costs of the fix will be put in the Company Rates of the load that benefits. How a PTO will recover its Company Rate from its customers will be determined in the PTO's rate process.

Allocation Process. The planners do not have a detailed recommendation about how the allocation should work, but recommend that (1) parties should try to agree to an allocation and if that fails (2) the RTO should identify benefits and allocate costs based upon objective criteria. The Filing Utilities will develop objective criteria (based on the principle of costs following benefits. For example, if construction were needed to serve GTA customers, the cost would not be placed in the Company Rate of the PTO on whose system the construction occurred, but in the Company Rate paid by the benefiting GTA customers.) ADR would be available for disputes over the RTO's decisions.

Competitive Bidding. Ray Brush commented that the NE ISO approach provided that all expansion projects went out for competitive bid, and that the RTO West approach was to give the PTO a right of first refusal. The planners recommend keeping the RTO West approach.

After a general discussion, which included consideration of the FERC orders, the group adopted the recommendations of the planners with some wording changes. Wayman Robinette asked whether there had been much discussion about the recovery of costs from state regulators, Ray Brush responded no. Cindy Crane asked whether the Filing Utilities should consider having the costs of new projects be recovered on a basis other than Company Rates (based upon comments received from FERC). Marcus Wood responded that the current treatment was a necessary part of the pricing approach. Don Furman asked the planning representatives to consider how the RTO should handle a situation where a PTO is proposing a very expensive project (and other lower cost alternatives exist) and whether the RTO should be required to go to competitive bid at that point. (Ray Brush responded that he thought the upfront open planning process

would address that to a certain extent as the process would identify least-cost solutions.) Don Furman made a final comment that he thought FERC might still have some concerns with the planning approach, but that there were more important issues that needed to be addressed.

Kristi Wallis will prepare a filing exhibit regarding planning and will get it to Sarah Dennison-Leonard by close of business on Friday, October 6th.

Agenda Item 2 – TOA Issues

The Filing Utilities lawyers met on Monday and Tuesday to work on the TOA. They identified the following questions for resolution by the principals. The principals' decisions are set out as answers to the questions.

Question 1: Should investor-owned public utilities that transfer their transmission assets to an independent transmission company be required to suspend transmission agreements (in exchange for transfer payments) with participating transmission owners who execute Transmission Operating Agreements subsequent to execution of the initial set of such agreements?

Answer: Treat everyone the same.

Question 2: Does RTO West or does the Executing Transmission Owner have the final right to set interconnection standards? Does the answer change whether the facilities are class A, class B, or class C facilities? Should the same interconnection standards and requirements apply to all other public utilities that sign Load Integration Agreements?

Answer:

Class A Facilities – PTO will establish safety standards; RTO will establish other universal standards. There will be further PTO discussions to determine the standards, which ideally will be developed before the tariff is filed and, in any event, before TOAs are signed. The TOA will have a provision that states that the RTO can make reasonable changes to the standards. A PTO can go to ADR to challenge the reasonableness of subsequent RTO changes.

Class B, C Facilities – PTO sets standards which must be consistent and non-discriminatory within its individual system, subject to RTO taking to dispute resolution.

Same interconnection standards for public utilities that sign load integration? No

This arrangement will be reflected in the filing letter.

Question 3: Will RTO West be allowed to provide Ancillary Services on other than a day-ahead or hour-ahead basis? If markets for Ancillary Services do not develop, will RTO West be allowed to provide an external Ancillary Services exchange?

Steve Larson asked whether the Filing Utilities would be amenable to allowing the RTO to purchase service on a longer-term basis until FERC certifies an ancillary services market. As Bonneville is cost based, it believes it will be the source for most of the ancillary services, and it is concerned about the RTO's inability to protect itself against price spikes through longer-term arrangements. Peggy Olds indicated that the publics shared Bonneville's concern.

Bill Pascoe noted that this issue was resolved by the RRG when it accepted the Ancillary Services Work Group's recommendations. These recommendations included a requirement that the RTO buy its ancillary services on a day-ahead or hour-ahead basis from an external exchange and that the exchange would be required to provide the capability for others (not the RTO) to buy and sell longer-term ancillary services. Bill did not feel it was appropriate to change that agreement.

Other Filing Utilities explained that even though the RTO would be limited to buying on a day-ahead or hour-ahead basis, the transmission customers and scheduling coordinators could manage risk by buying on a longer-term basis.

Answer: The previous RRG decision will stand (although Bonneville's TBL Filing Utilities representatives will consult further with PBL regarding this issue.) Marcus Wood will review the Ancillary Services document and incorporate the necessary provision in the TOA.

Question 4: Should the Load Integration Agreements require public utilities other than Participating Transmission Owners to cease being a NERC-certified Control Area, as a condition of RTO West transmission service?

Randy Cloward expressed Avista's concern that if giving up control areas is not made a condition of RTO service, that the RTO would operate side by side with individual control areas. While the other Filing Utilities understood Avista's concern, they did not believe it was appropriate to make this a condition of transmission services and were concerned about political implications.

Answer: No.

Question 5: The Transmission Operating Agreement now requires the Participating Transmission Owners to continue to provide Ancillary Services until FERC finds a competitive market to exist for such Ancillary Services. Should the Participating Transmission Owners instead be required to provide generation inputs to RTO West instead of Ancillary Services?

Steve Larson explained that this may be a semantics issue – under Bonneville’s current open access transmission tariff, Bonneville provides ancillary services because it operates a control area. If under RTO West Bonneville no longer operates a control area, what is its obligation?

In the course of discussion, a number of parties asked whether the TOA could result in a PTO being required to provide cost-based ancillary services anywhere in the RTO system. All agreed that this was not the intention of the Ancillary Services Work Group.

Answer: The TOA will continue to use the term ancillary services, but it will clarify that a PTO’s obligation to provide cost-based ancillary services is limited to its customer base (as it grows or diminishes). This also applies to “spun-off” ITC companies (as well as any other company who spins off transmission facilities).

Question 6: Should the Generation Integration Agreements require generators other than those associated with the Participating Transmission Owners (i.e., IPPS) to bid Ancillary Services upon the requirement of RTO West?

Marcus Wood stated that the TOA currently requires that if sufficient ancillary services are not available in the open market, PTOs are required to bid in available ancillary services (at any price), and there is a question whether IPPs should be required to do the same.

Answer: No.

Question 7: BPA has advised that the provision of the current Transmission Operating Agreement draft, requiring that transmission agreements entered after the date of the Transmission Operating Agreements provide a right of RTO West to convert such contracts to RTO West service, is unacceptable to BPA’s publicly owned customers? Should this provision be modified or removed?

Question 8: What will transmission contract rollover rights be? What rights will transmission customers have to enter long-term transmission agreement prior to the Transmission Service Commencement Date?

Marcus Wood reported that the Filing Utilities had concluded on its last call that (1) long-term contracts could be rolled-over and, with certain exceptions, (2) after a certain date customers could not enter into new contracts that extended beyond the RTO start date.

There are a lot of issues regarding the cutoff date. It is particularly problematic for Bonneville – a lot of customers have requests into BPA for transmission facilities that are going to require studies and BPA can’t sign service agreements immediately and spend money to develop the facilities if the customer does not a place in the queue for transmission service.

Further, at least one PTO has two-year agreements for everything that moves through its system (and virtually all of its ATC has been contracted for recently by one customer on a 2 year basis), and if such agreements rollover, the holders of such contracts would have an extremely valuable long-term options. The customer would either get FTRs or firm payments after the RTO has commenced operations – if the FTRs turn out to have a low value, the customer would opt for the payments, if the FTRs turn out to be valuable, the customer would opt for the FTRs. Customers with load contracts are upset with the proposition that there will be a cutoff date, but how many nonconvertible contracts do we want to create? It is a more significant problem for through and off-system transfers. There is also a concern that this would undermine the congestion management approach.

One approach would be to say that a customer only has a right to rollover if the underlying contract provided for rollover, but not have a cutoff date and require the customer to make a choice in advance– payments or FTRs. Another is to treat load service/firm power delivery contracts differently than non-load service contracts. A further idea was to give non-load service agreements a rollover right that allowed the customer to purchase FTRs at the highest auction price.

Answer:

Replace the TOA rollover provision with:

- Any contracts signed by an ETO on or after 10/1/01 will be required to include a provision that service can unilaterally be transferred by RTO West to RTO West service.
- For contracts signed prior to 10/01/01, BPA will seek to modify its FERC-approved settlement tariff, after the RTO West filing is complete, as follows:
 - ❖ Customers who would pay a Company Rate if they were RTO customers will be given rollover rights under BPA service or RTO West service
 - ❖ For all other customers, rollover provisions will be eliminated as of the RTO's service commencement date.

Question 9: Should a Participating Transmission Owner be allowed to challenge thermal and operating standards set by other Participating Transmission Owners?

Answer:

For Class A Facilities: PTO develops standards, RTO can weigh in. If there is not agreement, subject to RTO dispute resolution (arbitrator will make decision based upon Good Utility Practice)

For Class B, C Facilities – PTO sets standards (must be internally consistent) which RTO can challenge in dispute resolution

If RTO says units must operate at higher thermal capacity, RTO takes resulting liability (Gary Dahlke will make sure this is handled in the liability contract [setting standards = operating]).

Question 10: How is load growth to be treated for purposes of allocating FTRs?

[Discussion deferred until Pricing Issues]

Question 11: Should any Party be allowed to bypass arbitration and go directly to FERC for dispute resolution? Should the answer be different as between the Transmission Operating Agreement and the RTO West bylaws?

Doug Nichols is concerned that the dispute resolution process might be used as a delay tactic. The parties discussed the specifics of the RTO West dispute resolution process, which was modeled after the NRTA process.

Answer: The current dispute resolution process is acceptable (subject to double-checking against the NRTA Governing Agreement to make sure the RTO ADR process comports with the current version of NRTA ADR.)

Question 12: Should a party to RTO West dispute resolution be allowed to petition for a 3-members arbitration panel, rather than use a single arbitrator?

Answer: A 3-member arbitration panel will be convened upon the request of a party, provided the requesting party pays 2/3rd of the arbitrators' costs (with the losing party being responsible for the remaining 1/3rd of the costs).

There will be one RTO ADR process, which will be an attachment to the TOA; provided disputes involving WEISS issues under the liability agreement will use the WEISS arbitration process.

Question 13: Does the current version of section 16 of the Transmission Operating Agreement properly define FTR rights?

Answer:

Chuck Durick, Rich Bayless, and Brian Silverstein are reviewing section 16.

Agenda Item No. 3 – Pricing Issues

Treatment of Exports

Puget, PGE, and Sierra Nevada are still concerned about the treatment of exports in the pricing structure. Carolyn Cowan believes that without an export fee Sierra Pacific will suffer a cost shift that would not be acceptable to Nevada commissioners. Marcus Wood

responded that if the Filing Utilities were to provide for an export fee they would have to revise the entire pricing structure. Not all of the parties agreed.

Carolyn Cowan and Bill Pascoe suggested that the California ISO be asked to make a payment to RTO West that could be distributed without changing the pricing structure. Marcus Wood stated that exports costs were already being internalized by the Filing Utilities and while under the RTO the price might be shifted between the merchant and transmission functions, that it may not be appropriate for the CA ISO to make such a payment. Carolyn noted that not all of the Filing Utilities will have a generating/marketing arm to make them whole with sales to California. Marcus suggested that Sierra/Nevada advertise that there will not be export fees so that those interested in purchasing generators from Sierra/Nevada would raise their bids, and stated that if export revenues were a very large problem for Sierra/Nevada that it should not join RTO West and instead form/join the Mountain West ISA.

Don Furman expressed concern that in order for there to be a filing, the Filing Utilities had to reach decisions on critical pieces, including exports. He indicated that while PacifiCorp wanted all of the Filing Utilities to participate in the filing, that PacifiCorp would be seeking approval of the current export treatment. (Don also noted that he believed the export treatment had public support.) Carolyn Cowan asked at which RRG meeting the export charges were eliminated from the pricing proposal. The conclusion was that the export charges were not eliminated at an RRG meeting, but that they were eliminated at the last Filing Utilities meeting. Carol explained that at that meeting, Sierra/Nevada, Portland General, and Puget supported continuing an export charge until a proper agreement could be reached with adjacent RTOs or ISOs. PacifiCorp, BPA, and Idaho did not support an export charge. Avista either did not support an export charge or was neutral. Montana was neutral. Based upon this, Carolyn asked what the decision-making process is for determining what goes into the filing (and asked, based upon the previous decision regarding the TOA and the filing, whether the test was whether Bonneville and PacifiCorp agreed). Don responded that all parties had compromised on the TOA/filing resolution.

A number of filing approaches were identified, including (1) briefing FERC about the issue and letting FERC make the call and (2) filing the current export treatment and having Filing Utilities raise any concerns in their transmittal letters. The Filing Utilities adopted the second approach.

Imputed

Don Furman reported that PacifiCorp and Bonneville have been working on this issue, and that based upon preliminary data it might not be as large of an issue as was previously believed. The Filing Utilities were asked to collect relevant data and coordinate with Dave Gilman at Bonneville. After the data is compiled, the parties will talk again and whatever agreement is reached will be included in Exhibit H.

(It was noted that since GTAs are already in Company Rates they do not have to be in the imputed.)

Long-Term Non-Load Service Contracts For Delivery Within RTO Area that End Within the Company Rate Period

Bill Pascoe stated that there are two alternatives for these contracts: (1) continue prior FTR allocation with payment (necessary to offset effects of transfer payment) or (2) discontinue transfer payments (and FTRs) except where all parties to contract agree to continue.

The parties were not sure of the number of contracts that fall within this category and wanted to find out the specifics of such contracts. With that caveat, the Filing Utilities agreed to continue the FTRs and the transfer payments and put in access charges for non-PTOs. (Exhibit H will be amended to reflect this.)

Retail Access Issue

Puget proposed language for inclusion in its contract to deal with the retail access issue. After some slight modifications, the parties agreed that each Filing Utility could decide whether to include the following language in its TOA.

The RTO agrees that it will not use the Transmission Facilities of the Executing Transmission Owner to deliver service to or on behalf of end use customers if FERC would be prohibited from ordering under such service under Section 212(h) of the Federal Power Act unless: (1) a federal, state, provincial, local, or tribal authority of competent jurisdiction requires unbundled retail transmission access to such customers; (2) such end use customer is an “existing direct service industrial customer” of BPA as defined in section 5(d)(4)(4)(A) of the Northwest Power Act (16 U.S.C. Section 839c(d)(4)(A)) or a successor in interest to such DSI customer so as to qualify for service under section 5(d) unless such service is prohibited by federal law; or (3) unbundled retail transmission access to such customer has been agreed to by the retail utility that formerly served the end use customer.

Load Growth/FTRs

Marcus Wood noted that during its last conference call, the Filing Utilities had decided to allocate FTRs for load growth and suggested that they might want to rethink that decision.

Frank Afranji asked whether the Filing Utilities would agree to provide FTRs for load growth for 2 years. BPA indicated that they were not willing to change the previous agreement.

After further discussion, the Filing Utilities confirmed that FTRs would be allocated for load growth during the Company Rate period for network, network-like or load service

contracts that provide for load growth up to the then-existing capability. (Transfer payments will also ramp up – payments grow with the FTRs).

Marcus Wood indicated that the goal was to know FTR specifics by the time the tariff was filed in January, others were not confident that that timeline could be met.

Test Year

The test year for calculating revenue requirements will be as follows: Long-term – after BPA's rate increase; Short-term – 1999 (parties would be free to demonstrate that 1999 was an anomaly and another year should be used)

Agenda Item 4 – WIO

Don Furman briefed the parties on the status of WIO, and indicated that while PacifiCorp supports how WIO is being structured, it is concerned that the development of WIO not get too far ahead of the development of RTO West. The rest of the Filing Utilities agreed. Rich Nassief will be asked to start working on timing issues.

Agenda Item 5 – Governance

TDU Apportionment

Doug Nichols briefed the Filing Utilities on the issue.

Bill Pascoe stated that it was unfortunate that the ITC companies were not aware of the issues regarding the TDU class until after the RRG had made a decision, but that he believed that the ITC request was fair and it was appropriate to modify the RRG decision.

After discussion, the Filing Utilities agreed that voting rights in the TDU class would be apportioned 4 by capita, 2 by load size. (TDUs that fall into the larger TDU subclass will not vote in the other subclass.)

Fees

The current proposal is that interested parties would be asked to pay \$5,000 in fees. That was not acceptable to all of the Filing Utilities, Bonneville in particular. It was agreed that the fees would be \$1000 and that Tribes and States would be allowed to participate without paying a fee.

Trustee Standards Screen

After discussion, the Filing Utilities agreed to 2/3^{rds} and 5% of gross book value of transmission assets operated by RTO.

“Weakened” Affiliate Definition

The Filing Utilities agreed to keep it the way it is in the current draft.

Doug Nichols noted that Shelly Richardson had some other good comments about the draft documents and he and Sanjiv Kripalari will work with Shelly on those comments.

The names of three search firms will be put in the Bylaws.

There was a brief discussion about a formation plan, but agreed that there would be more detail about the formation plan in the next filing.

Agenda Item 5 – Process for Completing Filing

The Filing Utilities discussed the logistics of completing the filing. The lawyers will continue to work on the legal documents/issues this week, and hopefully post and distribute the revised documents on Monday. Non-Filing Utilities reviewers would be given 3 days to comment.

Marcus Wood stated that the Filing Utilities would receive the revised TOA on Saturday morning and would have to work on it this weekend in order for it to be posted on Monday. Sarah Dennison-Leonard is responsible for sheparding/editing the filing letter, including collating the individual pieces that were assigned to a number of individuals. Cindy Crane will send out the list of assignments. All assignments are due to Sarah by the end of the day on Friday. Sarah will prepare a first draft of the filing letter by Monday morning, and Filing Utilities will have drafters at Stoel, Rives at 8:00 a.m. on Monday.

The filing letter will be ready for posting and public review on Wednesday the 11th, and comments will be due back on Friday, October 13th.

Although the parties are struggling to get the filing to FERC on October 16th, because of timing considerations (in particular the need to provide a meaningful opportunity for review and comment on by other interested parties), it is possible that the filing might be a few days late. Although the filing might be made on Friday the 20th, it is likely that it will not be made until Monday the 23rd.

ATTACHMENT A

TRANSMISSION PLANNING RECOMMENDATIONS TO THE FILING UTILITIES OCTOBER 4

FERC has indicated that RTO West needs a stronger backstop for load service planning. They also indicated that we should review the commission filings for PJM and NEPOOL. The Transmission Planning Filing Utility Workgroup reviewed these filing and found three major issues:

ISSUE 1: The need for the ISO to develop a single regional plan in which parties may request expansions in response to market signals.

ISSUE 2: The role of the transmission owners in deciding what projects should be included in the Plan and who should be responsible for the construction.

ISSUE 3: How costs for various types of upgrades should be allocated.

Upon deliberations of these issues, the Transmission Planning Filing Utility Workgroup decided to revert back to the September 1 Transmission Planning recommendations with the following changes.

Since FERC made it clear that a stronger **backstop** was needed for load service, the write-up for Category C (Load Service) was modified. It now states that if a PTO fails to meet its obligation, the RTO has the authority to remedy the situation. The RTO will develop a transmission reinforcement plan in an open process. The PTO is still allowed to propose alternative solutions for consideration in this process including non transmission solutions. In the event that the RTO does not accept any of the PTO's solutions, the RTO can cause construction of the RTO plan with cost recovery from the affected PTO's Company Rate. ADR is available for disputes.

As for issue #1, we did not talk about **regional planning** as such in our recommendations but we did discuss the general planning process. Clarifications were added to the Planning Process as to responsibility for individual steps

Issue #2 was what role transmission owners should have in deciding which projects are included in the regional plan. FERC was quite clear in the filings that the ISO should eliminate any **decisional role for transmission owners** in the regional transmission plan. FERC has concerns that transmission owners may have an incentive and ability to bias expansion plans in favor of their competitive interests and not necessarily that of the region. Our process does not quite go

that far. In the RTO West process, PTO's are tasked by the RTO to correct identified problems. The PTO's can propose any option they believe will correct the problem, including non transmission options. The RTO has the final say in whether the proposed option corrects the identified problem. The group felt it was inappropriate to remove the PTO's entirely from the decision process since the PTO's are expected to fund the projects.

FERC also indicated in the filings that all projects should be built following a **competitive solicitation**. The RTO West proposal does not go that far. In our proposal, the RTO first looks for the responsible PTO to build the project. If the PTO declines, then the RTO will look at other options for construction, however the cost responsibility does not change.

Issue #3 was **cost allocation**. FERC indicated in the filings that their first preference is to assign cost of upgrades to those who benefit from projects and are willing to bear those costs. However if the benefits are more difficult to identify and/or parties cannot agree on a cost allocation, a default cost allocation was necessary. FERC wants objective, non-discriminatory criteria to allocate costs in these situations and likes PJM's method. The PJM default allocation method assigns costs in accordance with specific guidelines (i.e. costs of facilities operating at 500-kV are allocated to ALL transmission owners, lower voltage facilities are charged to the PTO's who use those facilities). FERC's reasoning for this is that RTO-wide support for reliability projects may fail if all parties cannot agree on cost allocation. However the Transmission Planning group felt that there would be an incentive to "disagree" with an allocation if the default spread the cost to all users. As FERC allows three years to develop the planning process, the group felt there would be time to work on the issue (although many feel that this process should be developed prior to the RTO commencing operation). As for now, the Planning Recommendations indicate that an allocation process "based on objective criteria will be developed".

A few other changes were made to the Planning Recommendations document to update it:

- The Planning responsibilities were updated to reflect the adaptive planning approach that was agreed to by the RRG.
- References to the RTO assessing generation adequacy were removed since the RTO can only ensure transmission adequacy.
- As for Category B, maintaining initial transfer capability that is beyond what is needed to meet day one requirements, clarifications were added as to when degradations might be allowed.

ATTACHMENT B

NEPOOL Planning Highlights– FERC

Planning Issues

- ISSUE 1: The need for the ISO to develop a single regional plan in which parties may request expansions in response to market signals.
- ISSUE 2: The role of the transmission owners in deciding what projects should be included in the Plan and who should be responsible for the construction.
- Issue 3: How costs for various types of upgrades should be allocated.

Commission Response

Issue 1: Single Regional Plan

- a) Accept the ISO's proposal for regional transmission planning, with modifications. In general, we find regional planning desirable, and have authorized regional planning for the PJM ISO.
- b) Regional planning does not preclude others from constructing merchant transmission facilities.
- c) Regional planning and expansion is one of the key RTO functions we identified in the RTO order.
- d) RTO has ultimate responsibility for transmission planning and expansion that will enable it to provide efficient, reliable and non-discriminatory service and coordinate such efforts with appropriate authorities.
- e) Although we recognize the importance of individual parties expanding capacity at their expense in response to market signals and receiving corresponding incremental congestion rights, regional planning promotes efficient grid expansions. Because of network externalities, private decisions to expand transmission capacity may create grid-wide benefits that the party bearing the costs may not fully capture. Thus, reliance solely on private decisions may result in less than optimal expansions of transmission capacity.

Issue 2: Role of Transmission Owners in the Planning and Expansion Process

- a) We direct the ISO to revise its proposal to eliminate any decisional role transmission owners may have in the current Plan. We note that the PJM ISO alone has the authority to develop the transmission expansion plan. Although the PJM ISO can consult with all parties, it alone proposes the plan which the Board

approves before implementation. We point to PJM's plan as one which satisfies our concerns that transmission owners not be in a position to unduly influence the projects included or how the projects are ranked or classified. We share the concern that the role of transmission owners in the planning process may give them the incentive and ability to bias the Plan in favor of their competitive interests. The ISO's promise that procedures and mechanisms will be developed and implemented to protect against transmission owner parties influence is not sufficient.

- b) We also agree with Transenergie that all projects in the Plan should be built following a competitive solicitation. We also conclude that third parties should be allowed to build merchant transmission facilities outside the context of the plan, subject to ISO review.

Issue 3: How costs for various types of upgrades should be allocated

- a) We direct the ISO to revise its proposal to remove the distinction between economic and reliability upgrades in assigning costs, and adopt the framework accepted for PJM, i.e., directly assign costs where there is agreement among the participants, and develop objective, non-discriminatory guidelines to allocate costs where participants are unable to agree on the allocation of costs.
- b) Our general principle is to assign costs of various upgrades to those who benefit to the extent that they can be identified, regardless of how the upgrade is classified. Parties who bear the costs of such upgrades should also receive any associated incremental congestion rights.
- c) PJM's default cost allocation for expansions when parties do not agree gives objective, non-discriminatory criteria to be applied to all such projects. It effectively assigns costs directly to those entities that have agreed to bear all or a portion of the costs and then allocates remaining costs among transmission owners in accordance with specific guidelines
- d) Finally, we will not at this time allow the ISO to recover costs associated with two proposed types of system modifications and upgrades: additional transfer capability that may be economically justified without necessarily identifying specific projects, and other potential economic solutions to transmission congestion.

PJM Planning Highlights

Schedule 6 of the PJM Operating Agreement sets out the protocol for regional transmission expansion planning. It generally adopts the NERC and MAAC criteria, obligates the RTOs to supply staff, data and systems to support a regional analysis, and provides for the participation of all interested parties, including regulatory agencies and

consumer advocates in affected states, as well as coordination with neighboring control areas. The regional transmission expansion plan will include a recommendation for cost responsibility; however, under Schedule 6, section 1.6, if the RTOs cannot unanimously agree, cost responsibility will be allocated to those entities who have indicated a willingness to bear some or all the costs and among the RTOs as follows: (1) 500 kV facilities will be allocated on the basis of the percentage of PJM load in each RTO's service area; (2) 230 kV or 345 kV facilities will be allocated half on the basis of the percentage of PJM load in each RTO's service area and half to the RTO(s) where the expansion is located; and (3) facilities below 230 kV will be allocated to the RTO(s) where the expansion is located.

Commission Response

We find that the regional transmission expansion plan is reasonable. It provides for regional planning with the input of all affected parties, obligates the RTOs to construct necessary facilities, and establishes a cost sharing mechanism. We will not adopt Old Dominion's proposed modification to the cost sharing approach for transmission expansions. The transmission expansion plan will propose a specific cost allocation, and the parties will only turn to this allocation as a default mechanism. For that purpose, it reflects a reasonable compromise.

ATTACHMENT C

DRAFT

RTO West

Filing Utilities Decisions Regarding Planning and Expansion

1. Facilities Definitions For Purposes of Planning

- **RTO Facilities** means facilities that are “turned over” by a PTO to the RTO pursuant to a Transmission Control Agreement.
- **RTO Grid** means those RTO Facilities that are required to support the RTO’s transfer capabilities and the Order 2000 RTO functions.
- **RTO Local Facilities** means those RTO Facilities that are not required to support the RTO’s transfer capabilities and the Order 2000 RTO functions.

2. RTO West’s Planning Responsibilities

- Planning Process for the RTO Grid

RTO West will be responsible for planning for the RTO Grid using a non-discriminatory process, with significant input from all users of the system. The details of the process will be developed before the RTO becomes operational.¹ On Day One, the RTO shall do operational planning. With respect to long-range planning, the RTO has the discretion to do whatever it thinks is necessary to fulfill its planning responsibilities (adaptive approach). In other words, the RTO will determine what information it needs from the PTOs, what use to make of input from the PTOs, and whether the RTO or the PTOs (or some combination thereof) should perform studies. It is anticipated that the RTO’s approach to this will evolve over time.

After alternatives have been developed through the RTO planning process, the PTOs have the primary decision-making authority regarding what facilities will be constructed to ensure the adequacy of the RTO Grid

¹ The items that will need to be developed include: (1) the general planning process, (2) transmission adequacy standards, (3) the allocation procedure, (4) further definition of the market-driven mechanism, (5) interconnection standards, (6) criteria to be applied by the RTO in determining the level of transfer capability that should be maintained from existing facilities, and (7) the details of the relationship/participation of RTO West with WIO and other organizations. Items 2, 3, 4, 5, and 6 should be developed further prior to RTO formation.

(“keeping the lights on”).² In the event that the PTOs fail to maintain such adequacy, the RTO has backstop authority to require the construction of necessary facilities.

Decisions for expansion of the RTO Grid for economic reasons are left to those bearing the cost of the decision (such as the users who are impacted by congestion clearing charges).

Incentives for non-transmission solutions will be provided from the Congestion Management process.

RTO West’s planning responsibilities will include the following:

- ❖ Determining the capability of the RTO Grid (including TTC/OTC/ATC), on an on-going basis as well as for five years in the future
- ❖ Identifying paths that are experiencing congestion and the current/historical specifics (price, duration, etc.)
- ❖ Identifying opportunities for improvements to the RTO Grid (in a general way, not through detailed studies)
- ❖ Assessing the transmission adequacy of the RTO Grid
- ❖ Developing and enforcing interconnection standards
- ❖ Participating in the development of WIO standards and compliance templates, developing requests for variances from these standards and establishing RTO planning standards..
- ❖ Providing the information developed above to the market, including communicating opportunities for improvements to the RTO Grid and offering to facilitate discussion of whether the opportunities should be acted on
- ❖ Coordinating RTO Grid expansion activities
 - Load Service (Adequacy)– The RTO, in consultation with the involved PTO(s), will plan how to meet its Customers’ service requests using a public process that takes into account non-transmission solutions and the impact of RTO Grid activities on other facilities. [See Chart, *infra*. In short, PTOs will decide, after consideration of the results of the RTO planning process, what facilities should be built or what actions should be taken. Should a PTO fail to take necessary steps to ensure adequacy, the RTO has backstop authority to compel the construction of needed transmission facilities.]
 - Congestion Clearing – Identifying and evaluating alternatives upon the receipt of a request from the market. If a sponsor chooses not to have the RTO plan its project, once the sponsor brings forward the detailed proposal to the RTO, the RTO will coordinate its interconnection with the RTO Grid (including determining whether there are any negative impacts on the RTO Grid’s transfer capability and, if so, deciding on the

² Adequacy means the ability to deliver requested power, without regard to the cost of the power being delivered.

appropriate mitigation). The RTO will also inform the public that the project has been proposed, so they can consider the possibility of expanding its parameters. Where the project adds transfer capability, the project sponsor(s) will be given any FTRs associated with such increased transfer capability.

- ❖ Coordinating compliance studies and system base cases
- RTO Local Facilities
 - ❖ PTOs will have primary responsibility for planning RTO Local Facilities.
 - ❖ The RTO West planning staff will analyze new RTO Local Facilities for impacts on the transfer capability of the RTO Grid and ensure that the project sponsor has appropriately mitigated negative impacts. Conversely, if the new RTO Local Facilities have created transfer capability on the RTO Grid, the PTO will be given any corresponding FTRs.

3. Expansion Decisions (Who Decides/Who Pays)

Purpose ³	Decision-Maker/Who Pays
<p>Category A:</p> <p>Maintaining Sufficient Transfer Capability to Satisfy the Converted⁴ Pre-Existing Contracts and Load Service Obligations (Including Load Growth) as Defined by the Congestion Management Group⁵</p>	<p>The PTO is obligated (1) to maintain the transfer capability that exists on Day One that is needed to satisfy converted pre-existing rights or obligations or (2) to address a degradation of needed transfer capability to the satisfaction of the right-holders through another approach, including non-transmission solutions (<u>e.g.</u>, buy-back long-term firm rights).⁶</p> <p><i>Exception.</i> When the degradation results from the following causes there is not an automatic obligation to maintain transfer capability, and the affected parties should look to the terms of pre-existing contracts to determine the appropriate action and, if there is not a contract (or a contract with relevant provisions), the RTO should facilitate a discussion to determine how the degradation should be addressed:⁷</p> <ul style="list-style-type: none"> * RAS, to extent it is system-wide RAS that is being provided by the RTO * Something outside of the control of the PTO (for example, (NERC changing criteria, changing load or generation, line/path derating, operations of other RTOs)

³If replacements/reinforcements/new facilities are constructed that confer benefits beyond those intended by the project’s sponsor (whether that sponsor is a PTO or another market participant), at the request of the sponsor, the RTO can evaluate who benefits and allocate costs proportionally. (See discussion at Recommendation 4, *RTO Determination of Benefits and Allocation of Costs*, infra.) Those who pay the costs will receive any corresponding FTRs.

⁴Unconverted rights/obligations will also need to be addressed, but the Filing Utilities first need to decide who will administer those rights, the RTO or the PTOs. The RTO will consider the commitments on RTO Grid facilities needed to serve unconverted rights in its general planning process.

⁵The Filing Utilities are currently considering whether rights to FTRs that are associated with pre-existing contracts will terminate when the contracts expire. If rights falling into Category A have expired, whether a PTO is obligated to maintain initial transfer capability relevant to the released capability shifts to Category B.

⁶If there are multiple PTOs with interests in a path, the allocation of responsibility between the PTOs is based upon the PTOs’ underlying contract regarding the path.

Although it will depend upon how the Filing Utilities translates pre-existing contracts and load serving obligations to FTRs, it is possible that the aggregate of FTRs on a path could exceed its rating/capability (as a result of a PTO overcommitment of long-term rights on a path). If this happens, the obligation of a PTO to maintain sufficient transfer capability to satisfy such rights will need to be reexamined.

⁷It is recognized that the business relationship between the RTO and the PTOs has not yet been established, and that it might make sense to wait until after RTO formation to have the RTO and the PTOs define the appropriate exceptions. In the meantime, examples of exceptions are listed above.

Purpose	Decision-Maker/Who Pays
	<p><i>Backstop.</i> If a PTO fails to maintain transfer capability as required above, the RTO has the authority to require the PTO to remedy the problem. (ADR will be available for parties that disagree with the RTO’s decisions.) The PTO’s costs for maintaining transfer capability will be recovered through its Company Rate.⁸ If any new transfer capability is created, the party paying for such increased transfer capability will receive any corresponding FTRs</p>
<p>Category B: Maintaining the Initial Transfer Capability of the RTO Grid to the Extent such Transfer Capability Exists Beyond What is Needed to Satisfy Category A Rights and Obligations</p> <p>(For example, the transfer capability of a path that does not have FTRs might be heavily used or will be needed for future use)</p>	<p>Through its planning process, the RTO will assess the adequacy of the RTO Grid. Based upon this knowledge, the RTO will determine using pre-determined criteria whether and when the transfer capability of existing facilities should be maintained to serve the RTO’s ongoing commitments (other than FTRs relating to pre-existing contracts and load serving obligations) and require a PTO to undertake any necessary replacements, reinforcements, or non-transmission solutions. The general approach should be to maintain the transfer capability, but in some instances it could be appropriate to allow a degradation. (The criteria will need to be developed with the goal of ensuring that reasoned and sound economic decisions are made with respect to allowing transfer capability to degrade. For example, it may be appropriate to allow a degradation on a path that is not heavily used.) The costs of such replacements, reinforcements, and non-transmission solutions will be recovered through a PTO’s Company Rates. If any new transfer capability is created, the party paying for such increased transfer capability will receive any corresponding FTRs.</p>

⁸ How a PTO will recover its Company Rates from its load (for example, whether expansion costs will be directly assigned or socialized) will be determined in the PTO’s rate process. (For BC Hydro, this process is set out in the BC Hydro Tariff.)

Purpose	Decision-Maker/Who Pays
<p>Category C:</p> <p>Load Service (Including Load Growth) On All Paths</p> <p><i>“Keeping the Lights On”</i></p> <p>(A/k/a Transmission Adequacy of the RTO Grid)</p>	<p>Requests for load service will be made to the RTO. The RTO will analyze such requests and determine which PTO(s) could be affected by the requests. The RTO will then forward the request to the appropriate PTO(s), which is responsible for ensuring that sufficient facilities are available to provide secure service. The PTO(s) will determine what action to take pursuant to an open process that considers non-transmission alternatives. After such planning process, the PTO(s) will submit its proposed plan to the RTO. In an open process, the RTO shall determine whether the PTO’s proposed plan provides transmission adequacy. If it determines that it does, the PTO will implement its plan and the costs of such facilities will be recovered in the PTO’s(s’) Company Rate. To the extent that new transfer capability is created, whoever pays for the expansion should get any corresponding FTRs.⁹</p> <p>If multiple PTOs need to be involved in order to meet the load service request, the RTO should coordinate the PTOs’ determination of a plan of service and their respective obligations within a set timeframe. If the PTOs cannot reach agreement, the RTO has the authority to decide what should be done and to allocate the costs of such action to the PTOs.</p> <p>As part of their responsibilities under this category, PTOs are required to prepare adequacy assessments and provide them to the RTO. This is required (1) after a service request has been forwarded to a PTO and (2) on a periodic basis in the regular course of business. Regional criteria will be established to be applied by the PTO(s) and, if necessary, by the RTO, to determine adequacy.</p> <p><i>Backstop.</i> If a PTO fails to develop a plan that the RTO determines assures the transmission adequacy of the RTO Grid, the RTO has the authority to remedy the problem. First, the RTO will develop, in an open process, a transmission solution. The PTO will have an opportunity to present alternatives (including non-transmission solutions) to the RTO’s proposed transmission solution. In the event that the RTO does not accept any of the PTO’s alternatives, the RTO has the authority to fix the transmission deficiency by causing the construction of necessary transmission facilities. (ADR will be available for parties that disagree with the RTO’s decisions.) The costs of such facilities will be recovered through the affected PTO’s Company Rate. If any new transfer capability is created, the party paying for such increased transfer capability will receive any corresponding FTRs (the FTRs should act as an incentive both for transmission and non-transmission solutions).</p>

⁹ See discussion at Category D *infra* regarding creating value for those FTRs.

