RTO West
Filing Utilities Meeting
September 18, 2000

<u>IMPORTANT NOTICE TO READERS</u>: These meeting notes were prepared by Kristi Wallis. The filing utilities agreed to Kristi's attendance as a neutral note taker at filing utility meetings to enable interested parties to be aware of the general scope and progress of filing utility discussions. These notes were never intended to represent a verbatim report of the filing utilities' discussions, but rather to provide a summary. Although meeting participants were given an opportunity to review notes in draft form, workloads of all concerned (particularly as the deadline for filing with the Federal Energy Regulatory Commission approached) were such that notes often could not be circulated quickly after meetings or reviewed thoroughly. In some cases there was a period of several months between the date a meeting was held and the time the meetings notes were available for review. In addition, a number of meeting participants may not have reviewed these notes at all. There may, therefore, be some inaccuracies in these notes.

Attendees:

Richard Goddard, PGE	Frank Afranji, PGE
Don Furman, PacifiCorp	Cindy Crane, PacifiCorp
Marcus Wood, PacifiCorp	Bill Pascoe, Montana Power
Ray Brush, Montana Power	Margie Thomas, Montana Power
Ted Williams, Montana Power	Melanie Jackson, BPA
Kimberly Harris, Puget Sound Energy	Chris Reese, Puget Sound Energy
Carolyn Cowan, Sierra Pacific	Vickie Van Zandt, BPA
Stan Berman, Puget/ITC	Malcolm McLellan, Idaho Power
Jim Collingwood, Idaho Power	Mark Maher, BPA
Peggy Olds, BPA	Lauren Nichols, BPA
Preston Michie, BPA	Chuck Durick, Idaho Power
Doug Nichols, PGE	Dennis Metcalf, BPA
Randy Cloward, Avista	Rick Vermeers, Avista
Connie Westadt, Sierra Pacific	Kristi Wallis, Neutral Notetaker

Agenda

Facilities Inclusion
Pricing
Congestion Management
Planning
Governance
ITC Open Architecture Language (lawyers are trying to resolve, if they are not successful, they will bring back to the larger group)
Benefits/Costs
KEMA Contract/Facilities Issues

Logistics. The group will meet all of Monday and Tuesday. There is a possibility of working on Wednesday morning, although BPA principles are meeting with the Publics that morning.

It was noted how important it is to get the work papers out to the RRG by 6:00 on Tuesday night.

Agenda Item 1 – Facilities Inclusion

Materials: Work Group materials (Attachment A); Bill Pascoe's materials (Attachment B); Chuck Durick's Proposal (Attachment C)

Bill Pascoe framed the issues, including a report on the September 7th CREPC Meeting and Mike Coleman's (FERC staff) comments. Mike stated that the Commission did not design the 7-factor test to determine which facilities should be turned over to the RTO, and that with respect to that decision, the operational needs of the RTO are determinative. Mike further stated that comparability and consistency are important, and Mike encouraged the Filing Utilities to provide for flexibility in what facilities the RTO controls as the operational needs of the RTO could change over time. The majority of FERC staff think that not all facilities that support wholesale transactions will be turned over to the RTO and there will be separate distribution tariffs for those facilities that are not turned over.

Chuck Durick's proposal addresses the question of what facilities are needed for the RTO's operational needs. (PacifiCorp contributed to Chuck's proposal) For other facilities, the policy question is how much flexibility will transmission owners be given to transfer facilities for inclusion in the tariff (but not for other purposes).

Chuck Durick walked through his proposal (see Attachment C). It was noted that the disputed facilities are the ultra-low voltage facilities that are used both for local load service and to support wholesale transactions. If these are not turned over to the RTO, should there be any coordination or uniformity on how those facilities work?

The remaining discussion focused on Chuck Durick's proposal. Richard Goddard noted that the test to determine what facilities are necessary for RTO operations hinges upon how flow gates are defined, and that could require some flexibility in the future. Chuck agreed and responded that a central element of the proposal is that it is the RTO that determines a flow gate's transfer capability.

Frank Afranji raised an ITC concern regarding the test to determine Class A facilities, in particular with respect to planning. Frank stated that the ITC would want the open architecture language to apply to Class A facilities for planning purposes. Bill Pascoe stated that Frank's concern might best be resolved in the planning discussion, not the facilities inclusion discussion, and Frank agreed.

It was noted that there are likely to be some disputes regarding whether certain low voltage facilities are Class A facilities. Stan Berman suggested that the 7-factor test be used. Chuck Durick responded that he was uncomfortable bringing the 7-factor test back into the proposal, and stated that what was necessary was to identify a dispute resolution path. Bill Pascoe suggested that the Filing Utilities state that it is not their intent that local distribution facilities be included in Class A, but that if PTO decisions conflicted with the 7 factor test, that FERC will decide.

Richard Goddard indicated that the proposal might not be reconcilable with BPA's intention to turn the majority of its facilities over to the RTO. Bill Pascoe clarified that the proposal only stated the minimum, and that it was optional with a transmission owner to turn over more. (This would be for all purposes – planning, operations, pricing, and access – although some parties were not sure that would pass muster with FERC.)

In a discussion involving access to RTO services, the parties discussed the concept of one-stop shopping, concerns about retail access, reasonable, non-discriminatory access through low voltage distribution tariffs, and comparability of treatment.

In the context of the retail access discussion, Marcus Wood stated that PacifiCorp was not making rules regarding retail access off its system or regarding how retail customers can access someone else's system.

Puget is concerned that there are some lines that the WA regulators do not want transferred to the RTO that would fall under Class A (for example, Northern Intertie facilities). It was noted that, ultimately, although state regulators and transmission owners will have an opportunity to present their views, FERC will determine whether certain lines must be turned over to the RTO.

The parties then discussed how to handle a situation where the Filing Utilities were not in agreement about the facilities to be included at the time of the initial filing. For example, BPA and Puget have different ideas about which Puget facilities should be turned over to the RTO. Puget and BPA will have a separate discussion about this to see whether they can come up with an approach (which could have broader application to the other Filing Utilities).

Ultimately, the Filing Utilities adopted the following elements of Chuck Durick's proposal:

Facilities Inclusion

(This following is the minimum, and transmission owners can turn over more facilities at their discretion.)

Definitions of A, B, and C

The Filing Utilities agree with the proposed definitions, in particular, the definition of what facilities are needed to support RTO functions (A). The parties further agreed that a transmission owner would be required to turn over facilities that fall in the category to the RTO. If anyone disagrees with a transmission owner's decisions regarding facilities, there will be dispute resolution and, if necessary, FERC will decide.

If Filing Utilities have disagreements about the initial designation of facilities that cannot be resolved, they will key up the specific issues for resolution by FERC as part of the filing; provided, if a facility complies with the definitions/parameters of a category, another Filing Utility won't protest their treatment.

Operation (permission for maintenance/who decides what buttons get pushed)

A is RTO; B is PTO

Planning

A is RTO responsibility; B is PTO responsibility with limited RTO oversight

Pricing (only for period of Company Rates – everything is open at time of jump ball)

A is in Company Rates; B has discretion to put B in Company Rates

Access

Scheduling

Not a retail access bypass scheme (trying to maintain the status quo – make sure that definition of Eligible Customer in tariff is acceptable – each party reserves the right to preserve the status quo on its system)

If a facility's costs are included in RTO tariff (and Company Rate), customer goes to RTO to secure access; if not, there will be a separate tariff or mechanism to secure access

Only one *scheduling* entity (one-stop shopping)

Interconnections

Current treatment in TOA/GIA/LIA (subject to review to make sure it comports with discussion) – customer goes to PTO for interconnection/ RTO for integration – accelerated dispute resolution with RTO (both for A and B for FERC-jurisdictional services)

Further Work

Filing Utilities need to prepare lists of facilities based upon new definitions, who will be responsible and timeframe will be determined later (may need to wait for further definition of flow gates).

Complete (and mutually acceptable) definition of Eligible Customer needs to be prepared for RTO tariff.

Agenda Item 2 – Benefits/Costs

Vickie Van Zandt will present a report to the RRG regarding the status of the Benefits/Costs Work Group efforts, and briefly summarized the status for the Filing Utilities. Vickie distributed and reviewed some draft materials (Attachment D) that show how Company Rates transition from pre-RTO to post-RTO. In reviewing the model runs, Vickie noted that it showed benefits to BC and Alberta, and, with a limited review, a number of parties pointed out problems with data input and results. (For example, Marcus Wood and Chuck Durick noted that the model did not accurately reflect transfer payments, Don Furman pointed out that while on page 10 the run shows that PacifiCorp/Wyoming is deficit, in fact Wyoming is surplus and PacifiCorp can't get the surplus out of Wyoming, doesn't show that the elimination of pancaking does not harm loads, doesn't reflect the full cycle of the RTO resulting in generation benefits which are subsequently received by load (if you are vertically integrated it's a wash)). Vickie also noted the 410 MW of benefits relating to operating reserves.

It was determined that it was not the right time for the parties to delve into the modeling results, but that it would be appropriate for the work group to develop a list of limitations. Bill Pascoe asked whether the modelers were comfortable with the results (yes), and whether there were just limitations with model (e.g., doesn't capture better location decisions, some fuels other than gas) or whether there is something fundamentally wrong with the model. Chuck Durick stated that there was an issue of data input. Don Furman pointed out that there are fundamental problems with the model beyond the data issues (model looks at market pricing, not benefits/disbenefits by individual companies, lots of important information not there (doesn't have bilateral agreements, fuel contracts) and there are large simplifying assumptions (nomograms)) and while Don does not question the modelers, he wonders whether the RTO West proposal can be effectively modeled.

Peggy Olds noted that the parties had to attempt to model what would happen under RTO West, and that the Filing Utilities' message should not be that it was not a worthwhile exercise, but that Aurora is only one of a number of ways to evaluate benefits. There is enough substance to go forward, and the Filing Utilities' decision is not based on Aurora (which has a lot of limitations).

Richard Goddard asked where the cost/benefit work goes from here. Some parties stated that it would not be necessary to go further beyond this point. They believe that when all of the available information is pulled together (including consideration of qualitative benefits that are not currently captured – planning, reliability, greater visibility of the grid, maximizing use of the grid, ability to redispatch for transmission overload, single-stop shopping, etc.), that serious negatives have not been identified and the Filing Utilities will go forward.

Agenda Item No. 3 – Pricing

Materials: Filing Utilities Briefing Materials (Attachment E).

1. <u>Transfer Payments – Long and Short Term Imputed Payments</u>

The first issue discussed was transfer payments/imputeds. Dennis Metcalf described the issue as how bundled power sales should be handled. Long-term contracts are probably not a problem during the term of the contract as a transmission owner can continue to collect full costs and make internal transfer charges in order to avoid an increase in its Company Rate, but once a contract expires a transmission owner no longer has the same ability to make an internal transfer payment so, without the imputed credit, a transmission owner ends up with a higher rate.

The briefing materials contain two alternatives: (1) once a contract expires, have the purchaser continue to make transfer payments and receive FTRs or (2) once a contract expires, have the payment obligation and the corresponding FTRs go away. Bonneville supports the first alternative. Dennis suggested the second alternative is contrary to Order No. 888, stated that there is no reason in the future that the IOUs would not continue to have similar arrangements with Bonneville, and concluded by saying that the second alternative would result in cost shifts to BPA's customers.

Marcus Wood spoke to the second alternative. While PacifiCorp would be happy to go to a postage stamp rate, Company Rates are acceptable so long as PacifiCorp does not need to raise its retail rates. Bonneville is entitled to get enough wheeling revenue to compensate for the use of its system. However, with respect to short-term bundled power sales contracts, Bonneville has ample transmission, BPA is making market sales, and will continue to do so after RTO, so the issue relates to a transfer of funds. Marcus noted that it is not just BPA who has short-term bundled contracts, but that PacifiCorp also has similar arrangements.

Don Furman indicated that the parties, in particular Bonneville and PacifiCorp, are still talking about this issue and that more education is needed by the policy representatives. The pricing structure is designed to be a zero sum game and fixed costs are to be kept at the current level, and the policy representatives need to know who comes out short on this issue. Don commented that there is still a factual disconnect and he would like to take this issue off-line for further conversations between PacifiCorp and Bonneville.

Frank Afranji and Carolyn Cowan noted that they have similar contracts and agree with Marcus in principle.

The parties decided that PacifiCorp and Bonneville would discuss the issue further and, ideally, a proposed resolution would be brought back to the larger group.

2. Constancy of Transfer Payments

Rick Vermeers framed the issue (do the transfer payments stay the same as the costs and other revenues of the transmission provider change or do they stay the same?) and described the 3 alternatives found on page 4 of the briefing material.

Marcus Wood described the concerns of the public power representatives with a constant transfer payment (in short, cost shifts would result if transmission costs go up). Marcus believes there are a few principles that are relevant. This is largely a Bonneville issue, and he is not sure that all of the transmission owners want the entire region involved in their rate cases. As such, whether transfer payments could be modified should be at the option of the transmission provider. Second, an objective third party should determine whether modifications are appropriate, based upon whether a transmission owner's total unit cost of transmission is going up based upon several different factors. Marcus concluded by saying that, with those principles, PacifiCorp was OK with providing that transfer payments could be modified, so long as the imputeds issue was resolved satisfactorily.

It was suggested that the RTO could be the independent third party, with dispute resolution and FERC appeal.

After more discussion, the Filing Utilities agreed, subject to Speech Number 1 (it's not done until it is all done) to the following:

With respect to # 2 of the briefing materials – Yes (allow transfer payments to change to reflect explicit price changes provided for in existing contracts).

With respect to # 3 of the briefing materials – Whether to allow transfer payments to change to reflect increases in company transmission rates is optional on the part of the PTO, who will have a one-time election (by the time TOA is signed). An independent third party (RTO/Arbitrator/FERC) will decide whether it is appropriate for a transfer payment to change based upon a PTO's real average unit cost.

Further Work: The Filing Utilities will develop as simple of a formula as possible to be applied by a third party, but it will need to be different for BPA and non-BPA PTOs. The formula will not be detailed in TOA, except for general principles, e.g. actual unit price, actual numbers, not projections.

3. Transfer Payment – Long Term Wheeling (PTO to PTO Member) Transfer Payment for other Wheeling

The parties adopted the recommendation regarding subissue # 1 in the briefing materials (continue the transfer payment for all long-term firm wheeling

agreements to load and after the contract expires the load will retain its FTRs allocation).

With respect to "other wheeling," Kimberly Harris and Stan Berman indicated that Puget would like to maintain the flexibility it currently has in its IR contracts.

Bill Pascoe responded that Puget is actually getting new flexibilities under the RTO West, and Marcus Wood indicated if Puget were allowed flexibility with its IR contracts that would result in cost shifts.

When the group was polled on the acceptability of Alternative 1 or 2 for this issue, there was not consensus (Alternative 1 – BPA, Alternative 2 – Puget, Sierra Pacific, Not Certain - Idaho Power, PacifiCorp, Avista, PGE, Montana).

The parties will come back to this issue at a later time.

4. RTO Uplift Allocation

The briefing materials identify three alternatives for treatment of the allocation of the RTO uplift. Bill Pascoe noted that that CA ISO's uplift is charged to scheduling coordinators. Kimberly Harris mentioned that the state commissioners that are having a difficult time of customers being able to wheel through for free might be more comfortable if the uplift is allocated to entities other than load. Marcus Wood suggested that the Filing Utilities let RTO West decide for itself.

After further discussion, the parties agreed that the RTO Board should decide how to collect the RTO uplift charges.

5. GTA Issues

The parties walked through an attachment[1] to the pricing briefing materials relating to the following GTA issues.

Fixed Transfer Payment or Transfer Payments Adjusted for Load Growth

The Filing Utilities' work group recommends alternative B, which provides for an increase of transfer payments as GTA load grows, and is based on how GTAs are currently computed.

Chuck Durick asked if FTRs do not track load growth, then should payments track load growth. It was noted that the relationship of FTRs and load growth was still an open question.

[1] Electronic copies of the attachments were not available to the notetaker; however, hard copies are available upon request (kristiwallis@sprintmail.com).

Stan Berman noted that as GTA customers are treated as BPA's loads into the future, that providing any different treatment to them for load growth might cause concern with other customers. Dennis Metcalf noted that the GTA contracts explicitly provide for load growth.

Marcus Wood described two ways of handling this issue – increase transfer payments with load growth, or keep the transfer payments fixed. The recovery of the costs of new facilities to serve load growth will vary based upon the treatment of transfer payments. If transfer payments are increased to account for load growth, the costs of new facilities to serve load growth should be recovered through Company Rates. If transfer payments stay constant, costs of new facilities will be collected as a new facility charge, not as part of the Company Rate. PacifiCorp's preference is that this matter be treated the same for GTAs as for other customers, and that transfer payments stay fixed.

Bill Pascoe noted that the GTAs track more closely with load demand, and that he is concerned about having the same treatment for all customers with respect to load growth and cost responsibility for new facilities.

The parties agreed with Alternative B (but may need to revisit based upon congestion management decisions regarding the relationship between load growth and FTRs).

Congestion Costs

The parties decided to defer this issue until the congestion management discussion tomorrow.

New Delivery Points to Accommodate Load Growth

The Filing Utilities work group recommends Alternative C (to the extent capacity is available, new delivery points could easily be accommodated under the GTAs assuming transfer payments are not fixed.)

Bill Pascoe noted that Montana's GTAs say that delivery points can change and that the RTO needs to continue to allow new delivery points.

The parties agreed on Alternative C.

New Delivery Points to Accommodate Newly Acquired Loads

Dennis Metcalf noted that this issue does not involve entirely new load and the parties agreed to change it to describe "annexed" loads.

With that clarification, the parties agreed to the work group's recommendation (annexed load pays PTO's rate, not BPA rate).

Ancillary Services

Currently, some GTA customers do not pay for ancillary services, and going forward they will have to pay for ancillary services to extent RTO/PTO has rates. The proposal is that ancillary services be unbundled from GTA contracts, and that customers pay for ancillary services as *quid pro quo*.

Dennis Metcalf distinguished that not all ancillary services are the same. Load regulation is provided by the control area in which load is located (hence Alternative F), and in the future GTA customers should be responsible for paying for load regulation the same as other RTO customers. However, as GTA customers are already paying a share of the cost of PBL's ancillary services, whether they should also pay pancaked ancillary services rates to service IOUs is a different question.

It was noted that BPA will be the scheduling coordinator for these customers, and BPA will handle the provisions of ancillary services at the RTO.

The parties agreed on Alternative F with respect to load regulation.

Expiration of GTA Contracts

There is not a work group recommendation on this issue.

After a very brief discussion, the parties agreed that GTA customers would be considered GTA customers until the expiration of the Company Rates.

FTRs with Respect to GTAs

The parties will return to this issue after tomorrow's congestion management discussion.

Facilities Inclusion

The recommendation of the work group is that while GTA contracts are suspended, all of their current calculation methods be retained (eliminate cost shifting). Bill Pascoe noted that this is consistent with the general approach and that this would be acceptable for the Company Rate period. Rick Vermeers noted that there would be some complexities with the ITC companies, but that they could be addressed satisfactorily.

Chuck Durick raised a number of concerns, including how this works with the issue of the constancy of transfer payments. Chuck indicated that an Idaho commissioner had stated that current discrepancies between customers (retail/wholesale) might need to be trued up in the future. Chuck is not sure what this will mean, but it raises some concerns on the facilities inclusion issue for GTAs.

Bill Pascoe acknowledged that it was a delicate issue, but a decision has been made to have GTA customers pay the BPA Company Rate, and if Idaho Power Company has a GTA revenue stream from BPA that includes certain facilities, GTA customers should have access to those facilities. Dennis Metcalf emphasized that this was part of the deal when Bonneville agreed to Company Rates and that if that is no longer acceptable, the Filing Utilities will need to revisit the facilities inclusion decision from this morning.

After further discussion, the parties agreed that facilities will not be unbundled for purposes of GTA customers.

6. **Questions on Application of Company Rate (Load Switching)**

Company Rate where Customer Takes Service from 2 or More Providers

The parties adopted the work group recommendation.

New Load

The parties adopted the work group recommendation.

Can a Load Switch PTOS and Get a New Company Rate?

The work group recommendation is that load can change points of interconnection and, hence, Company Rates.

Kimberly Harris indicated that Puget (and Dick Byers) has an issue with bypass.

Ted Williams stated that if a customer has a right to bypass today, it is not an RTO issue.

Kimberly Harris stated that BPA currently has a policy against allowing bypass on its system. If the status quo is to remain, how should BPA's policies be codified? Kimberly's point is that a customer should be required to go to a commission that has jurisdiction over Puget (not the RTO) to obtain permission to bypass Puget's system.

The work group's recommendation was acceptable to the majority of the parties, but they encouraged Puget to put together a proposal for the group to consider.

The parties will return to this issue later.

7. Term of the Company Rate

Bill Pascoe proposed that the "jump ball" after Company Rates take place on December 15, 2011. Frank Afranji noted that there might be a delay in RTO West start up, Carolyn Cowan suggested that if the RTO is doing all of the planning/operations it might be appropriate to revisit going to a postage stamp rate earlier, and Jim Collingwood proposed 2012.

After a short discussion, the parties agreed on December 15, 2011.

8. Allocation of Unencumbered FTRs Revenue

There are two issues that the work group is attempting to solve by its recommended treatment of unencumbered FTR revenues – (1) reducing transfer payments relating to short-term and non-firm wheeling that don't come with FTRs and (2) offsetting the loss of transfer payments as long-term export contracts expire.

The recommendation is that both of these purposes be put on an even footing, and that the unencumbered FTR revenues be allocated pro rata to each purpose. It was noted that while both of these issues were discussed, the first time it was proposed that these two categories be given the same priority was about a week ago. (There was general consensus in the Pricing Work Group on the use of unencumbered FTR revenues to offset short term-firm and non-firm, with the parties advocating that that be the priority use, BPA advocating for money from long-term firm.)

Next Steps

Bill Pascoe suggested that the Filing Utilities inform the RRG that a number of pricing issues (specifically 1, 3, 8, 9 and 11) are unresolved, and that the Filing Utilities will attempt to resolve them next week.