

# RTO West

## Facilities Inclusion Briefing Paper August 2, 2000<sup>1</sup>

### First Priority Issues

#### I. What transmission facilities should the Participating Transmission Owners (“PTO”) transfer to RTO West and for what purpose?

Option A. Transmission facilities that the RTO will control and offer services over

Pros: Required in order for the RTO to provide the services contemplated by FERC

Option B. Parallel and series paths that impact the transfer capability and reliability of Option A Facilities

Pros: Arguably necessary in order for the RTO to provide the services contemplated by FERC (in particular to maintain sufficient transfer capability to satisfy firm commitments of RTO West, including existing transmission rights)

Cons: May reach deep into a PTO’s distribution system and raise concerns about the PTO’s ability to serve local load and the control of the PTO over its distribution lines

Option C. Other transmission facilities for purposes of cost recovery<sup>2</sup>

Pros: Provides for pricing reform as it would eliminate (or minimize) vertically-pancaked rates. Assuming access to these facilities is through the RTO tariff, submitting PTOs would not have to maintain a separate transmission tariff. Benefits may well offset increased costs of expanded scope of RTO West activities.

Cons: These facilities are not necessary in order for RTO West to provide service. Inclusion of the facilities in the RTO tariff, if their costs might be spread to a broader group of RTO customers, would broaden the scope of RTO West’s

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<sup>1</sup> The pros, cons, and strawdog recommendations that are being provided in this briefing paper are not meant to be exhaustive, but are provided for background and to spark discussion.

<sup>2</sup> Inclusion of facilities in the RTO West tariff for cost recovery does not necessarily mean that the costs of such facilities will be spread beyond the submitting PTO’s current load (this depends upon whether the costs are recovered through company rates (recovery from submitting PTO’s existing load) or through area or postage stamp rates (recovery from a broader group of RTO customers)).

planning (more process, more expense on the part of the RTO). Inclusion of these non-essential facilities would increase the RTO's management costs.

**Strawdog Recommendation:** It is pretty clear that Option A and Option B facilities are necessary in order for the RTO to do its job. Option C facilities are by their very nature elective. One possible approach is to make inclusion of them in the RTO tariff discretionary on the part of a PTO, but to provide that cost recovery for such non-essential facilities (including replacements and upgrades) will be on a permanent company rate basis so that their inclusion in the RTO West tariff does not impact the structure or cost of RTO West.

**II. After it has been decided which facilities should be transferred to RTO West, what method is going to be applied in order to determine which specific facilities qualify?**

**Should the method be subjective?**

Pros: Provides sufficient flexibility to match functionality of facilities to purpose(s) for transfer to RTO.

Cons: Risk of inconsistent application and, depending upon pricing structure, possible pricing inequities.

**Should the method be objective?**

Pros: Clear cut.

Cons: Evaluating facilities by objective factors (e.g., voltage) rather than function could result in a disconnect between what is needed for RTO control and what is actually transferred to the RTO.

**Alternatives:**

A. If Option A (or Option A and Option B) Facilities are to be Transferred

(1) Transmission Facilities as Defined by the FERC 7-Factor Test

Everything that qualifies as transmission is included; everything that qualifies as distribution is excluded.

Pros: This option is based upon the Commission's definition of the jurisdictional split between transmission and distribution. Depending upon how the test is applied, all facilities that FERC intended to be controlled by an RTO would be transferred to RTO West. Although transmission owners' application of test might vary slightly, it provides relatively objective standards to determine RTO facilities and some

flexibility to make sure the right facilities are included. From pricing perspective, depending upon the end state, better spread of cost of facilities to those who benefit.

Cons: Does not have clear definition of facilities to be included (some see this as a pro). Depending upon application of test, could result in inclusion of lines that are not relevant to RTO service and exclusion of facilities that are relevant to RTO service (including, possibly, distribution lines.) PTOs would still be required to have tariff for and offer service over facilities that are not included.

(2) Transmission Facilities as Defined by the FERC 7-Factor Test Plus Those Facilities that are Necessary to Connect to Wholesale Loads

Everything that qualifies as transmission is included plus facilities that are necessary to connect to wholesale loads, everything that qualifies as distribution is excluded.

Pros: Same as above. Might cure any failure of the 7-Factor Test to bring in all of the facilities that need to be controlled by the RTO. Wholesale customers would have one-stop shopping at RTO.

Cons: Same as above. From pricing perspective, depending on end state, spreads cost to customers who do not benefit from facility usage.

(3) Transmission Facilities that FERC Would Require the RTO to Control and Offer Service Over, Plus Lines that Impact such Facilities' Transfer Capability (Including Parallel and Series Facilities)

Pros: Applied correctly there would be the right match of facilities for the functions an RTO is required to perform. Does not include distribution facilities. From pricing perspective, depending on end state, better spread of the cost of facilities to those who benefit.

Cons: No clear definition of facilities to be included (which some see as a pro). PTOs would still be required to have tariff and offer service over facilities that are not included.

**Strawdog Recommendation:** While objective criteria minimizes questions regarding the application of the criteria, it may not result in the appropriate facilities being transferred to the RTO for purposes of control and offering service. The RRG should select whichever alternative it believes will provide the most certainty that the correct facilities will be transferred to RTO control and provide for the judgment of each PTO to be applied to implementing that alternative. Anyone who disagrees with the inclusion or exclusion of a specific

facility for purposes of control can raise the issue with FERC at the time of the RTO filing (for initial PTOs) or when subsequent PTOs join the RTO.

B. If Options A, B, and C Facilities are to be Transferred

(1) IndeGO Approach

Transmission lines and transmission substation equipment operating at voltages of at least 46 kilovolts, as well as transmission facilities and transmission substation equipment operating at voltages of at least 34.5 kilovolts if such facilities terminate within enclosed substations, with the exception that local distribution lines should be excluded.

Pros: All FERC jurisdictional facilities included. PTOs would no longer need to maintain tariff for non-essential facilities, nor would there be vertically-pancaked rates. PTOs would be free from the perception that they have withheld key facilities. The RTO would have control over all necessary facilities. From a pricing perspective, the approach accommodates a single end state rate. It is a defined set and typically represents transmission facilities in existing approved filings.

Cons: No clear definition of facilities to be included (which some see as a pro). May include some marginal transmission facilities (although this could be mitigated if including Option C facilities in the RTO West tariff is discretionary, not mandatory). From a pricing perspective, depending on end state, costs could be spread to customers who do not benefit from the use of facilities.

(2) 7-Factor Test With or Without Paths that Connect Wholesale Lines

It is possible that the application of either version of the 7-Factor Test could result in the inclusion of facilities that are not necessary for RTO control.

**Strawdog Recommendation:** Take the Alternative A option that is selected by the RRG and provide PTOs the discretion to include other non-essential transmission facilities for rate recovery purposes on a permanent company rate basis. If any party (including RTO) challenges whether a facility included for rate collection purposes is really a transmission facility, it can raise the issue with FERC.

## Second Priority Issues

### **III. Will all Facilities that are Transferred to RTO West be Included in the its Tariff?**

**Should there be different treatment for the inclusion of facilities when a PTO joins RTO West versus subsequent addition of new qualifying facilities to a PTO's system?** (Note: Different treatment is an underlying assumption of a Market-Driven Expansion Mechanism – a market sponsor constructs and pays for a project, receives Firm Transmission Rights (FTRs) in exchange, and the costs of such project are not put into the RTO West tariff.)

### **IV. If, at some point, a component of the RTO West rate structure includes area or postage stamp rates, will the costs of non-essential transmission facilities (or their replacements or additions) be recovered through such rates?**

### **V. Should PTOs have the discretion to select which qualifying facilities will be transferred to the RTO (cherry picking) or will a PTO be required to transfer all qualifying facilities?**

**Does it make a difference if the RTO needs to control and offer service over the facility or whether it is being transferred solely for rate recovery purposes?**

**Should there be different treatment for the inclusion of facilities when a PTO joins RTO West versus subsequent addition of new qualifying facilities to a PTO's system?** (Note: The Market-Driven Approach to Expansion assumes that there is different treatment for expansion to relieve congestion.)