

Discussion Draft White Paper on “Multi-Tier Approach to Canadian Involvement With RTO West”

In connection with Order 2000, the Federal Energy Regulatory Commission (“FERC”) has stated its belief that Canadian involvement in RTO formation and operation would benefit both countries and has encouraged Canadian entities to participate in RTO development. Order 2000 includes as one of eight minimum functions that an RTO must address the integration of reliability practices with other regions in the same interconnection and market interface practices with other regions. FERC has stated: “We clarify here that this provision applies to integration with interconnected regions in Canada and Mexico.”

Representatives of RTO West Filing Utilities, British Columbia and Alberta parties have formed a US/Canada Adjunct Committee, with the main objective of engaging British Columbia and Alberta as fully as possible in the formation of and participation with RTO West. The Adjunct Committee assigned to an Adjunct Committee Work Group (ACWG) the task of developing models and mechanisms to foster Canadian and U.S. transmission coordination and integration. This draft White Paper and attached diagrams prepared by the ACWG represent an initial concept model that is offered to interested parties throughout the RTO West region for consideration and feedback.

The objective is to involve Canadian entities with RTO West in a large integrated RTO, to enable seamless, transparent, open access wholesale transmission service across the largest possible area. A Multi-Tier RTO structure has been proposed as a way to accomplish this objective, allowing for appropriate recognition of Canadian sovereignty over facilities and transactions in Canada and US sovereignty over facilities and transactions in the US, respecting legal/regulatory requirements on both sides of the international border.

A Multi-Tier RTO is one where responsibility for some of the functions of the RTO would be passed/contracted to sub-regional organizations that meet the independence criteria established by FERC. Such an arrangement may work where certain RTO participants must preserve local or regional sovereignty over transmission operations. This structure could include both TransCo (like the ITC) and ISO (like RTO West) elements, and independent grid operators (IGO), who, as operating entities, would collectively perform all of FERC’s requirements for an RTO.

The Multi-Tier Model envisions some functions of the RTO being performed by RTO West (Tier 1) and other functions performed, within Canada, by a Canadian Independent Grid Operator (Tier 2) (possibly one IGO in each province, recognizing jurisdictional distinctions between provinces). With both Tier 1 and Tier 2 exhibiting characteristics required by FERC for RTO-related entities, RTO functions can be shared and distributed between the two Tiers as necessary, with the two Tiers together encompassing the single collective RTO. For the purposes of this document, Tier 2 entities are each assumed to be a single

control area (CA) but there is no apparent reason that a Tier 2 component couldn't be made up of several CAs.

In a Multi-Tier Model, Canadian transmission facility owners would deliver control over the operation of their transmission facilities to the Canadian IGO. This can be accomplished by agreement or by legislation, and might be done that way in some provinces, creating a legislative paradigm directly. Canadian IGO(s) would carry out specified RTO West functions in Canada as necessary to accommodate Canadian legal and regulatory matters. Agreement(s) between Canadian IGO and RTO West would encapsulate the division of RTO functions as between them. Such agreement(s) would be the enabler for the business deal, and would embody the commercial arrangement(s) with RTO West and Canadian IGO to provide virtually seamless RTO operation despite the different legal/regulatory regimes.

In general, the current thinking is that "region-wide and commercial tasks" will fall to RTO West (including agreement(s) with Canadian IGO as necessary) and "local and physical" tasks will be for Canadian IGO. The ACWG will be developing options for how the various functions might be divided in the Canadian context. The two tiers together would provide the necessary functions to satisfy the FERC requirements for an RTO.

Commercial arrangements necessary to establish seamless operation of the multi-tier RTO, (such as "one-stop booking" and consistent pricing) would again be the subject of agreement(s) between Canadian IGO and RTO West. The ACWG is to focus on designing the agreement(s) (including agreement for the provision of certain functions to the Canadian IGO by RTO West) to meet the region's business objectives and commercial requirements in a way which satisfies Canadian and US legal and regulatory requirements with respect to facilities, operations, and transactions on each side of the border.

A number of issues will have to be addressed in this next process, but at this point it can be envisioned that:

- Pricing and Business Practices
 - The RTO would develop a common regional open-access-path nondiscriminatory pricing regime;
 - The RTO's business practices in this regard will be the business practices in place and applicable throughout the region (eg. for scheduling, reservation, etc.).
- Tariff approval and administration
 - U.S. regulatory authorities exercise jurisdiction over the RTO tariff in the U.S. and appropriate Canadian (provincial) regulatory authorities exercise jurisdiction over the RTO tariff in Canada.
 - Revenue requirements are established and approved by the regulatory authority in which the relevant party and facilities are located.

- Taxation
 - RTO West and Canadian IGO will seek tax advice in each jurisdiction to see that the Multi-Tier Model goes into being in the manner most suitable (tax neutral or tax-advantageous preferably)
- Governance
 - With a view to achieving continued integration over time, RTO West and Canadian IGO governance structures and principles should be compatible and mechanism should be developed to maintain that compatibility.
- Transmission Customers
 - Composite RTO structure view for consumers should be the single comprehensive region-wide RTO – “one stop shopping” with a local “face” (billing, currency, etc.)
- Treaties, etc.
 - Existing treaty arrangements should be preserved and respected in the Multi-Tier RTO Model.
- Flexibility and Open Architecture
 - The Multi-Tier Model offers the potential for close integration in a large seamless and transparent RTO in operation on both sides of the border.
 - The model's inherent flexibility should allow for integration of different Canadian jurisdictions within their own sub-structure.
 - Open architecture should permit the RTO to grow and Canadian IGOs in different jurisdictions to participate as and when they are able.

There is much detail work to be done to refine the Model, and to ensure that agreements can be reached which satisfy the commercial objectives of market participants and the requirements of regulators on both sides of the border. In the meantime, it is key to ensure that RTO West is not structured in such a way, either by agreement or through its governance structure, so as to preclude or inhibit integration with Canadian entities.

At this stage, we recommend that:

1. All Work Groups recognize and accommodate a Multi-Tier Model going forward and structure their input to the RTO framework in recognition of such an approach, and
2. All agreements include appropriate language for Canadian participation, as will be provided in due course by this Adjunct Committee Work Group.

**Prepared as a discussion piece by the US / Canada Adjunct Committee Work Group Drafting Team.
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