

DRAFT CONSENSUS ISSUES LIST

The list below contains items that we understand to have been identified as consensus issues to be addressed during the RTO development process. The issues on this list will define the scope of tasks to be undertaken by the RTO development work groups. Items 1 through 26 below have been reviewed and discussed by the regional representatives who attended the May 3 Regional Representatives Group (RRG) meeting. The additional items listed below as “Candidate Issues for RRG Discussion and Consensus” have been proposed separately by one or more parties but have not yet been the subject of a public discussion. We include them in this document to facilitate their evaluation at the next RRG meeting

1. Recovery of fixed transmission costs: A technical task force would be established to review the IndeGO net transmission cost calculation approach and to update the pricing model constructed for IndeGO. The Rocky Mountain utilities would be removed, and the participating transmission owners should agree on reasonable projections as to 2002 for each of the stand-alone systems. The model then would be re-run to determine the nature and amount of cost shifts. The negotiators would need to review the revised model results to decide if the various IndeGO choices as to company rates, area rates, rate caps, blending of access charges, and so forth, should be modified to address cost-shifting concerns. Consideration should be given to the geographic scope, both initial and expansion, facilities inclusion, mitigation of rural impacts, and treatment of existing contracts. The elimination of pancaked rates is an objective.
2. Transmission losses: When all rate pancakes are eliminated, and power no longer is scheduled through specific utility systems, pancaked losses will not be reasonably determinable. The simplest (and possibly the only feasible) initial means of recovering transmission losses under the RTO would be on a postage-stamp basis. If any other method were to be pursued for the initial RTO filing, work would need to commence immediately on such alternate method.
3. Congestion pricing: There has been a strong division of regional opinion as to whether a market-based congestion pricing method should be in place at the outset of RTO operations. This question should be resolved early, including consideration of marginal-cost pricing with zonal approximation of nodal pricing. In addition, there has been a widespread concern that the approach to congestion management in the IndeGO proposal was too complex and too difficult to implement. An alternative might be commence RTO operations using contract paths and pre-existing firm rights, rather than to implement flow-based pricing and transmission congestion reservations immediately. The congestion management approach of creating firm tradable transmission rights also should be considered.

4. Price reciprocity and other seams issues: FERC wants RTO proposals to address seams issues. A task force should (i) attempt to negotiate the reciprocal elimination of pancaked transmission charges between the Northwest RTO and the California ISO and any other RTOs that will operate in the WSCC, so as to permit pricing as if there were only one RTO and (ii) recommend any operational features in the Northwest RTO needed to reduce scheduling, congestion and other issues at the seams between the Northwest RTO and the California ISO. Integration and coordination with Canadian entities should be addressed. Also to be addressed are seams issues with transmission-owning utilities within the RTO but not a part of it.
5. Facilitation of needed construction of new transmission facilities: A task force should be charged with addressing this matter, including criteria for making capital investment decisions, and with preparing a workable plan to assure that the RTO can obtain needed transmission additions and upgrades or can obtain economic alternatives to such additions and upgrades, to address both reliability needs and expansion to relieve congestion.
6. RTO budgets: A task force should review and revise the annual RTO budget estimated in IndeGO, focusing on a cost-efficient operation. A task force also should review and update the study as to the economic benefits of an RTO. Funding requirements and sources of funding will need to be identified for (i) initial start-up costs, including the preparation of the October FERC filing, (ii) provision of working capital and other capital needs at start-up, and (iii) financing of any new construction for which it is responsible after start-up.
7. Control area functions to be performed by the RTO: In IndeGO, concessions were made that reduced the ability to consolidate control area functions in the RTO. The negotiators should review whether such concessions remain appropriate.
8. Transmission planning: The negotiators should review the IndeGO Planning White Paper and should decide if the approach described still is desired. In addition, the desirability of the proposed agreement among participants concerning planning matters (the so-called "Entity Charter") and of locking in the planning entities described therein should be reviewed. The RTO planning process must be designed to achieve the most efficient expansion decisions, whether they involve additional transmission investment, generation capacity or load management.
9. Transmission Control Agreement and the RTO Governance: These documents need review and minor updates. The primary areas that need to be addressed are (i) the conflict of interest rules, (ii) the means of selecting competent, independent directors or trustees for the RTO, (iii) addition of provisions related to the RTO's market monitoring and interregional cooperation functions, (iv) any additional non-discriminatory standards needed to satisfy BPA's statutory obligations, (v)

provisions giving the RTO sole control over interconnections, and (vi) the role of a stakeholder advisory committee, including budget review.

10. RTO tariffs: The IndeGO tariffs were designed to implement the IndeGO agreements, while remaining as close to the FERC's pro-forma tariff in substance as possible. The tariffs were the last documents prepared and probably need substantial scrubbing. The negotiators also need to consider whether the "island service" provided by the IndeGO tariff should be offered by the RTO. The RTO tariff issues should include non-discriminatory treatment of (i) jurisdictional transmission providers who sign TCAs and (ii) those entities that are users of the system, including non-jurisdictional transmission owners.
11. Generation Integration Agreement, Load Integration Agreement, and Service Agreements: Most observers think that these agreements are already in good shape. The agreements should be reviewed by a task force, however, and should be (i) revised to reflect the RTO's right to control transmission interconnections for transmission reliability and for bulk power transmission purposes, and (ii) revised as needed to comply with all post-IndeGO WSCC and security coordinator negotiations related to transmission reliability.
12. Payment Agent Agreement: In order to deal with BPA's issues related to payment of nuclear plant debt, the participating transmission owners will need to create an agency agreement, to provide for the collection of transmission revenues and for payments to the RTO and the transmission owners. The agreement will need to be structured so as to facilitate the RTO's borrowing and credit requirements and to address the Total BPA Cost Recovery Obligation.
13. State tax issues: A risk has been identified that BPA's (or a municipal utility's) entering into a Transmission Control Agreement might trigger property taxation of now tax-exempt property. A legal team should consider how to avoid this problem, if possible, under current laws, or alternately should propose the legislation needed to avoid such additional taxation.
14. Transmission congestion reservations and the suspension of existing transmission contracts: Transmission congestion reservations and the treatment of existing contracts were spelled out in the IndeGO proposal, for contracts in effect as of mid-1998. This description needs to be updated to as close to the RTO filing date as is feasible. The rights of existing utilities to transmission used to serve native load needs to be addressed.
15. Ancillary Services: The RTO's role in the provision of ancillary services needs to be further defined. Local grid reliability must be maintained.
16. Market Monitoring: The market monitoring functions of the RTO need to be defined.

17. Incentives for Performance Efficiency: The ongoing incentives for RTO employees or for any third party management company employed by the RTO to manage the RTO reliably and efficiently must be implemented by the RTO's independent board. However, the RTO Filing Utilities intend to investigate and describe in their FERC filing forms of incentives that could be used effectively.
18. Participation by BPA, Public, Co-operative, and Municipal Utilities Under Current Laws: One of the initial tasks of the RTO Filing Utilities will be to determine what, if any, RTO standards or provisions not already identified would be needed for BPA to execute a Transmission Control Agreement with the RTO without change in current federal legislation applicable to BPA. If such initial work indicates that the necessary standards or provisions would be inconsistent with RTO independence or with the principles of the RTO Filing Utilities, the necessary legislation to permit BPA's participation in a conforming RTO must be specified. The Columbia River Treaty and the BPA Cost Recovery Obligation issues need to be addressed, as do the problems that parties beside BPA potentially have with existing laws and participation in an RTO (e.g. tax-exempt financing, 85/15 rule for cooperatives).
19. Liability Issues: The issues of potential liabilities of the RTO and of the participating transmission owners was explored extensively during the IndeGO effort. However, these issues need to be revisited in light of ongoing market development and in light of the development of enhanced transmission security arrangements, to determine if the previous resolutions remain adequate.
20. ITC Functions: Which RTO functions could be performed by an independent transmission company ("ITC")? On or before April 5, 2000, ITC proponents shall identify with specificity any RTO functions that they propose be allocated to an ITC.
21. Customer Benefits: a) Definition and b) Measurement.
22. Economic Incentives to Owners to Join RTO: Linked to issue 21.
23. Existing Exchanges and the RTO, South Idaho Exchange in particular
24. Retail Load Access to the RTO system
25. Transition Issues: Includes mitigation of cost shifts and duration of mitigation measures or rate treatments.
26. Operations: Operating protocols, staff, hardware and software (including that needed for OASIS, e-tagging, scheduling, billing, ancillary services, and congestion management) are needed to implement an RTO. How do establish operations protocols need to be revised in order to accomplish this? How will other existing protocols such as phase shifter operations, use of nomograms, and

islanding schemes to impacted? Can all operational aspects be in place by December 15, 2001? Steps identifying how to transition operations from existing structure to an RTO need to be developed.

CANDIDATE ISSUES FOR RRG DISCUSSION AND CONSENSUS

1. Risk Management: Finance and insurance.
2. Treatment of Existing Generation/Interconnection Contracts
3. Treatment of Must Take Generating Resource Commitments
4. Treatment of Net Metering of Load
5. New Generator Connection Policy
6. Roles and Responsibilities for Reliable Operation
7. Oversubscription of Paths
8. Treatment of Renewable Energy