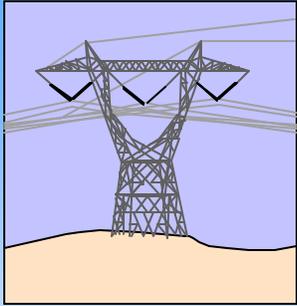




RTOs: The October Filings

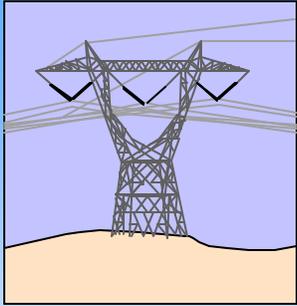
RTO WEST

Edison Electric Institute



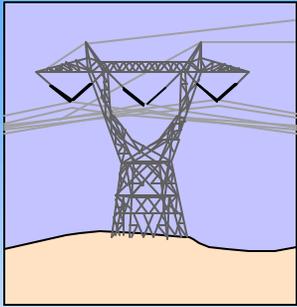
Topics

- **Western Realities.**
- **RTO West Chronology.**
- **RTO West compliance with Order 2000.**
- **TransConnect Filing**
- **Significant Issues.**



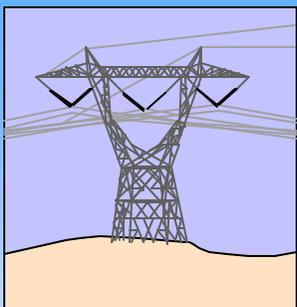
Part I: Western Realities

- **Transmission price differentials**
- **Public power**
- **Low power costs**



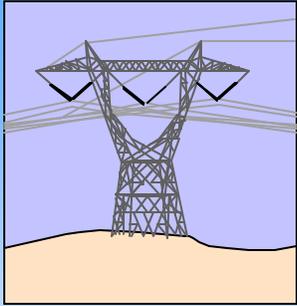
Transmission Price Differentials

- **Current pricing varies from \$6/kW-mo. to over \$50/kW-mo.**
- **Long distances and low loads make some providers very expensive.**
- **Others are more urban, with large loads but little transmission investment.**
- **Result: disparate unitized costs.**



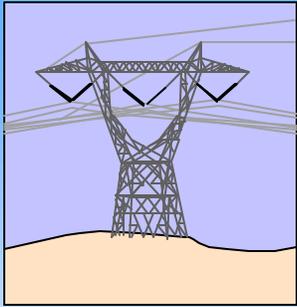
Public Power

- **BPA dominates the western part of RTO West.**
 - Many IOUs and publics are dependent on BPA.
 - BPA statutory obligations: fish, preference, etc.
- **Some transmission is owned by other public agencies, but relatively small amount.**



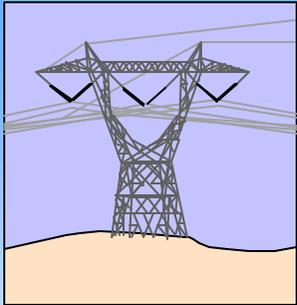
Low Costs

- **Hydro and mine mouth coal provide the bulk of the region's power at very low cost.**
- **State commissions are concerned about jeopardizing current cost advantage.**
- **Retail access and the California experience are major issues.**



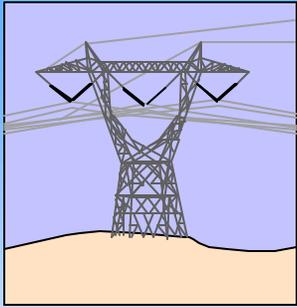
Part II: RTO West Chronology

- **Indego**
- **Talks resume**
- **Lawyers committee**
- **Public Process**



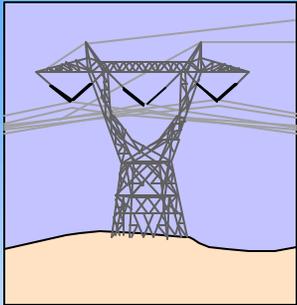
IndeGO

- **Regional utilities tried to form an ISO in 1996-98.**
- **Failed for several reasons:**
 - **Cost shifting.**
 - **Lack of a compelling order from FERC.**
 - **Lack of commitment from senior management of several key parties.**
- **Full year of no discussions.**



Early talks

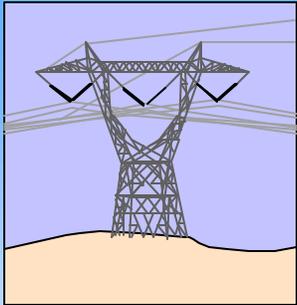
- **East versus West:**
 - Scope versus structural challenges.
- **Transco versus ISO:**
 - For profit and ownership of assets
 - versus
 - Non-profit and control of assets.
- **Waiting for the final order.**



Lawyers Committee

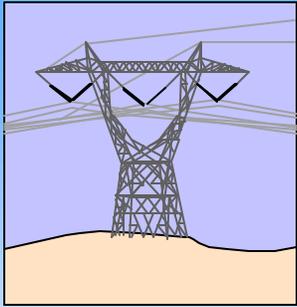
- **Formed to wrestle with structural issues**
- **Eliminate fatal flaws**
- **Look at all possible structures**

Result: the only possible way to include BPA and the IOUs was through a non-profit ISO.



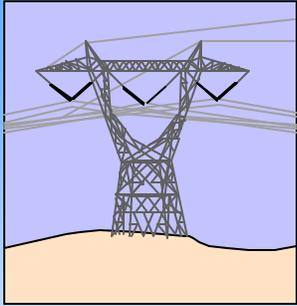
Public Process

- **Designed to include all stakeholders in formation of filing.**
- **Regional Representatives Group (RRG) for policy debate.**
- **Workgroups on every major issue for working out details.**



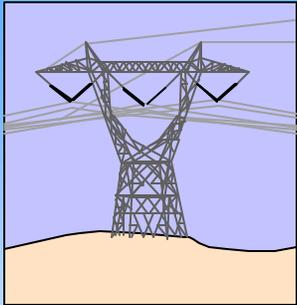
Part III: Compliance w/ Order 2000

- **Phase I (10-23-00): Transmission Operating Agreement, governance and liability.**
- **Phase II (Spring 2001): Tariff, Generation Integration Agreement, Load Integration Agreement.**
- **Meets four characteristics and eight minimum functions.**



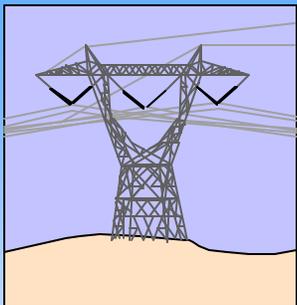
4 Characteristics

- **Independence**
- **Scope and regional configuration.**
- **Operational Authority**
- **Short-term reliability**



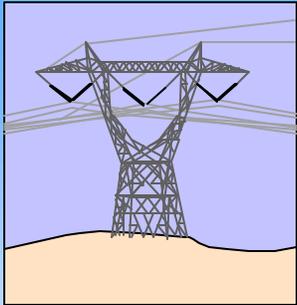
Independence

- **Governed by an independent board.**
 - Trustees: no affiliation with any interested party. Fiduciary duty to the RTO.
 - Election by committee formed by stakeholders.
 - Candidate pool selected by search firm according to criteria in the Bylaws.
- **Management: carrots and sticks.**
- **Stakeholders: advisory board to assure input**



Scope

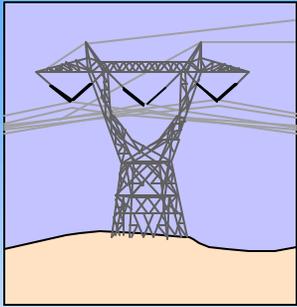
- **Entire Northwest Power Pool, plus Nevada Power.**
- **Most diverse of any RTO in terms of coincident peak, fuel and weather.**
- **Two major sets of paths to the Southwest market (California and the Desert).**
- **Canada? The Rockies?**



Operational Authority

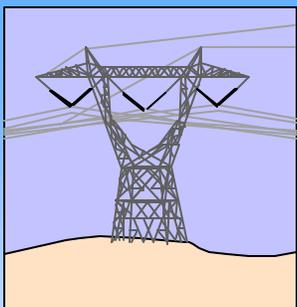
RTO will:

- **Control scheduled maintenance on assets it controls.**
- **Operate the control center and its backup.**
- **Control all real-time operations of the high voltage grid.**



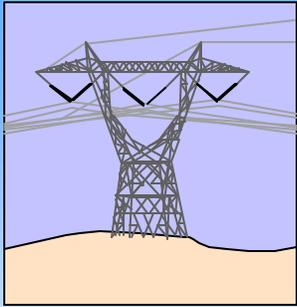
Short Term Reliability

- **RTO will contract with Pacific Northwest Security Coordinator to provide the security coordination function.**
- **RTO will comply with all NERC and WSCC standards and criteria.**



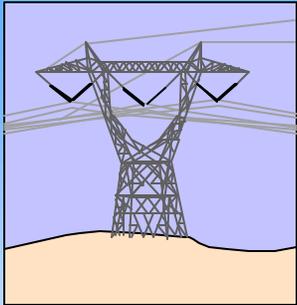
8 Functions

- **Tariff Administration and Design**
- **Congestion Management**
- **Parallel Path Flow**
- **Ancillary Services**
- **OASIS, TTC and ATC**
- **Market Monitoring**
- **Planning and Expansion**
- **Interregional Coordination**



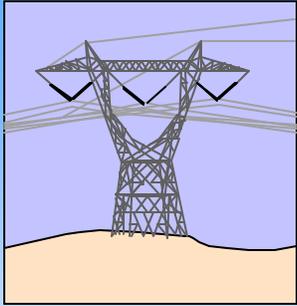
Tariff Administration and Design

- **RTO West will control its own tariff.**
- **It will have the right to unilaterally seek rate adjustments.**
- **PTO's will have the right to unilaterally seek adjustments from FERC for their individual company rates.**
- **It will be cost-of-service regulated.**



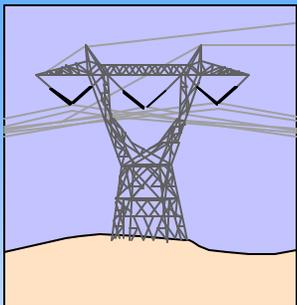
Congestion Management

- **“Flow Gate” method for managing congestion (change from current “Contract Path”)**
- **FTRs: tradable rights on congested paths**
- **FTR markets provide price signals reflecting congestion costs.**
- **Certain parties will receive “grandfathered” rights to reflect pre-existing contracts and service to native loads.**



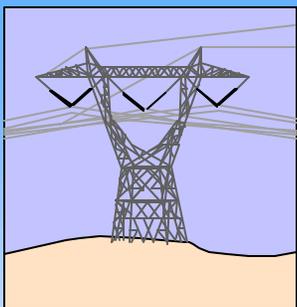
Parallel Path Flow

- **Much less of a problem in the West due to phase shifters.**
- **WSCC unscheduled flow procedures are available.**
- **Proposal for Flow Distributed Scheduling (“flow gate”) should significantly reduce any remaining problems.**



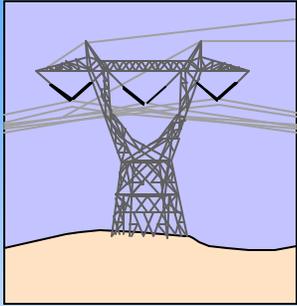
Ancillary Services

- **Single control area to maximize regional benefit.**
- **RTO will be provider of last resort.**
- **Load serving entities will be permitted to self-provide or self-track.**
- **Incorporates new NERC terminology.**



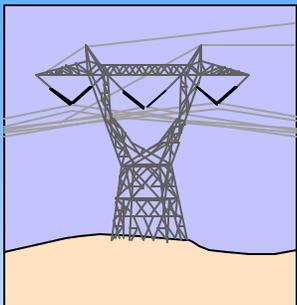
OASIS, TTC and ATC

- **RTO West will be solely responsible for:**
 - **determining how much capacity is available, and**
 - **assuring functional markets for that capacity.**



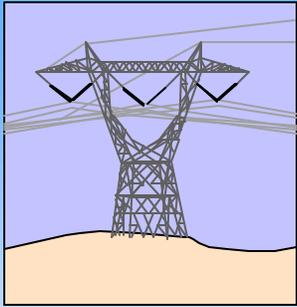
Market Monitoring

- **RTO will employ and staff a market monitoring group.**
- **Market monitor will report directly to the board.**
- **Required to observe and report aberrations in the market.**



Planning and Expansion

- **RTO will plan the facilities under its control.**
- **RTO will have the authority to assure expansion of the system needed for reliability. Backstop authority.**
- **RTO will be responsible for creating market mechanisms for relieving long term congestion.**

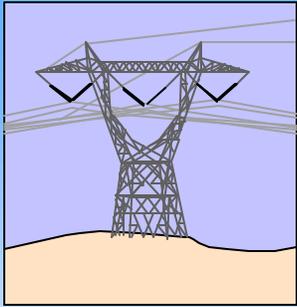


Interregional Coordination-Seams

- **Canada - exploring a role in RTO West.**
- **California - ongoing discussions regarding reciprocity, conventions.**
- **Desert Star - discussions have begun.**
- **Rockies - apparently joining Desert Star.**

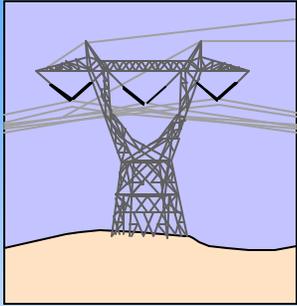


**TransConnect, LLC and
TransConnect Corporate Manager, Inc.**



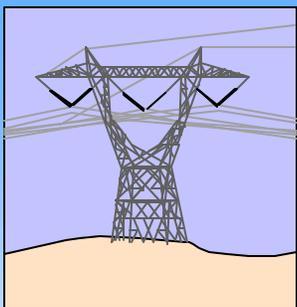
Outline of Presentation

- **What is TransConnect?**
- **Why does it make sense?**
- **The October 16 Filing.**

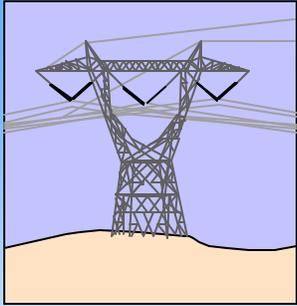


What is TransConnect?

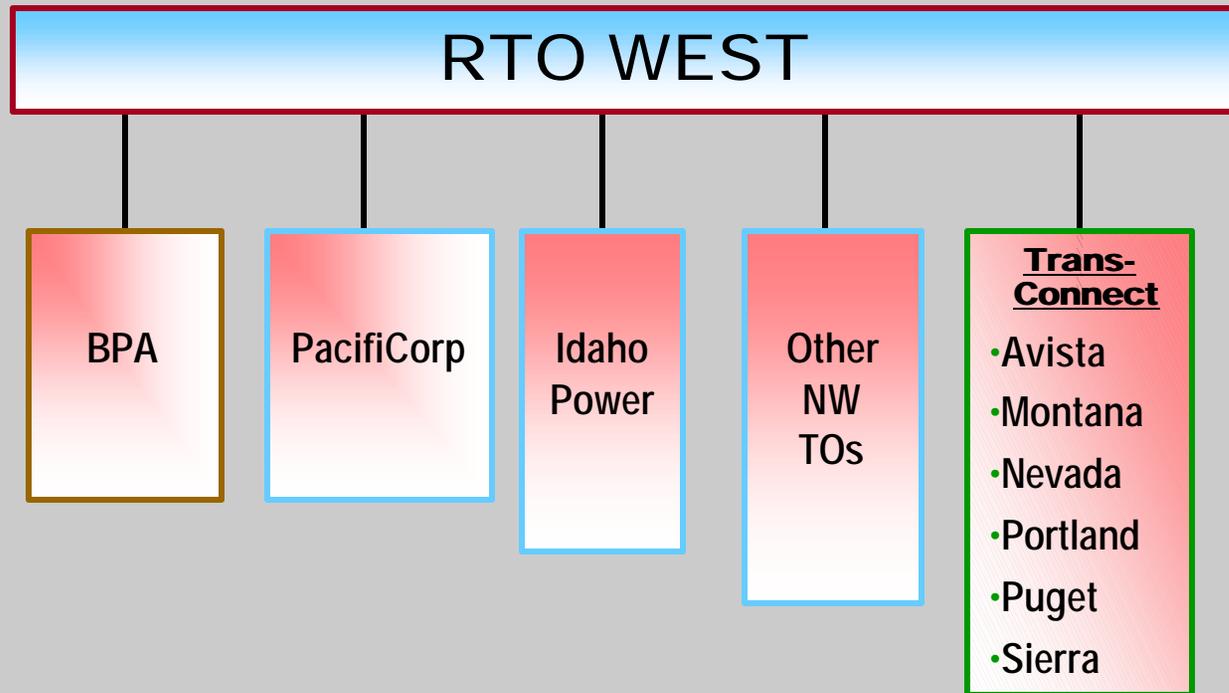
TransConnect is a for-profit, independent transmission company designed to optimize the reliability, performance, efficiency, service innovation, and profitability of its transmission assets.

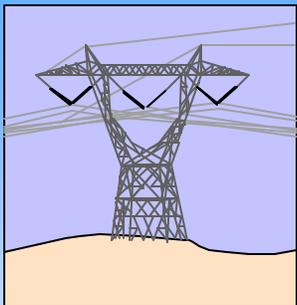


- **TransConnect is organized to own transmission assets currently owned by:**
 - **Avista Utilities**
 - **Montana Power**
 - **Nevada Power**
 - **Portland General Electric**
 - **Puget Sound Energy**
 - **Sierra Pacific Power**

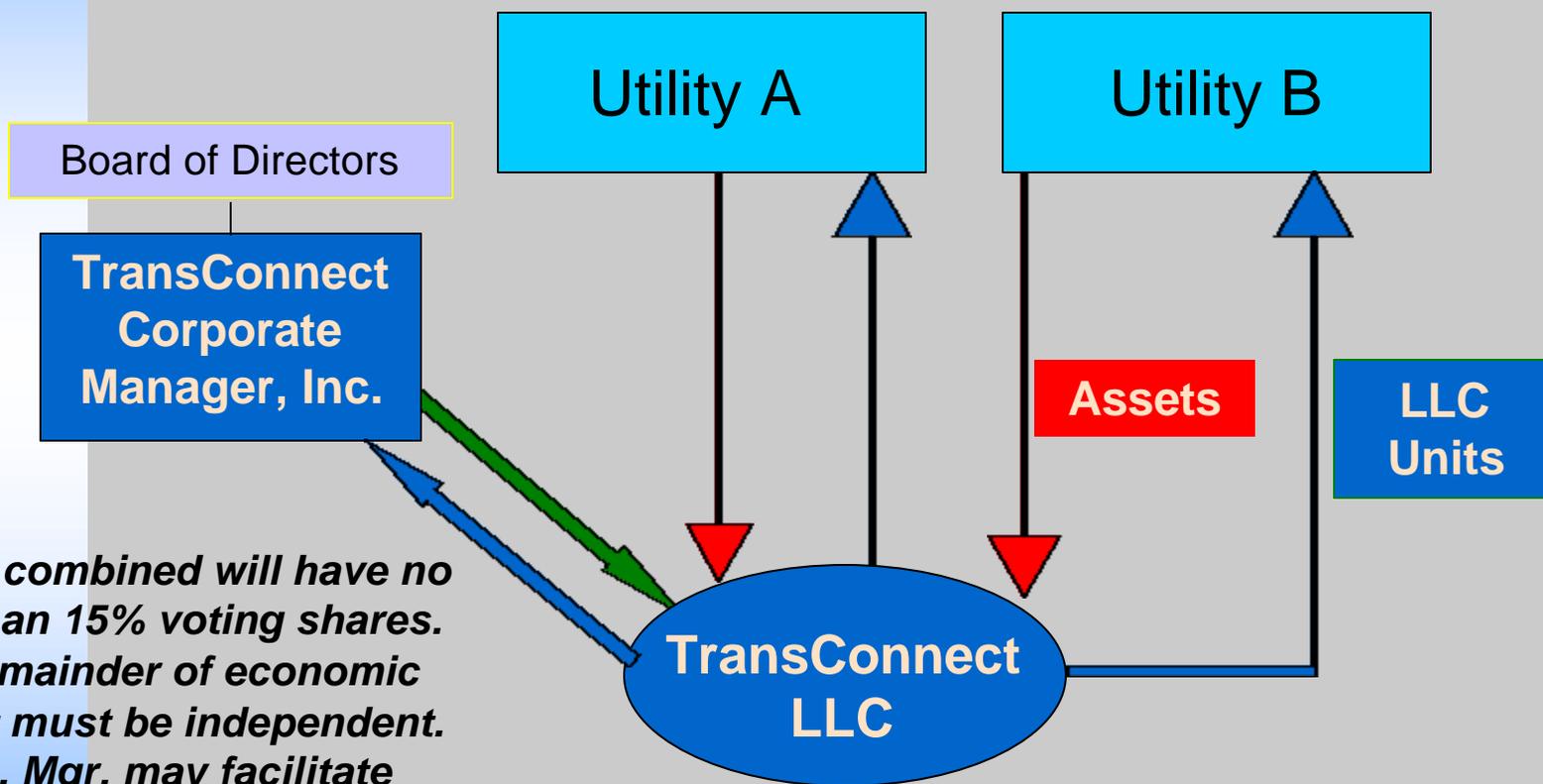


TransConnect -Part of RTO West

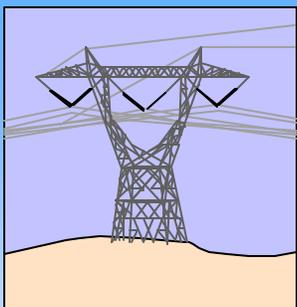




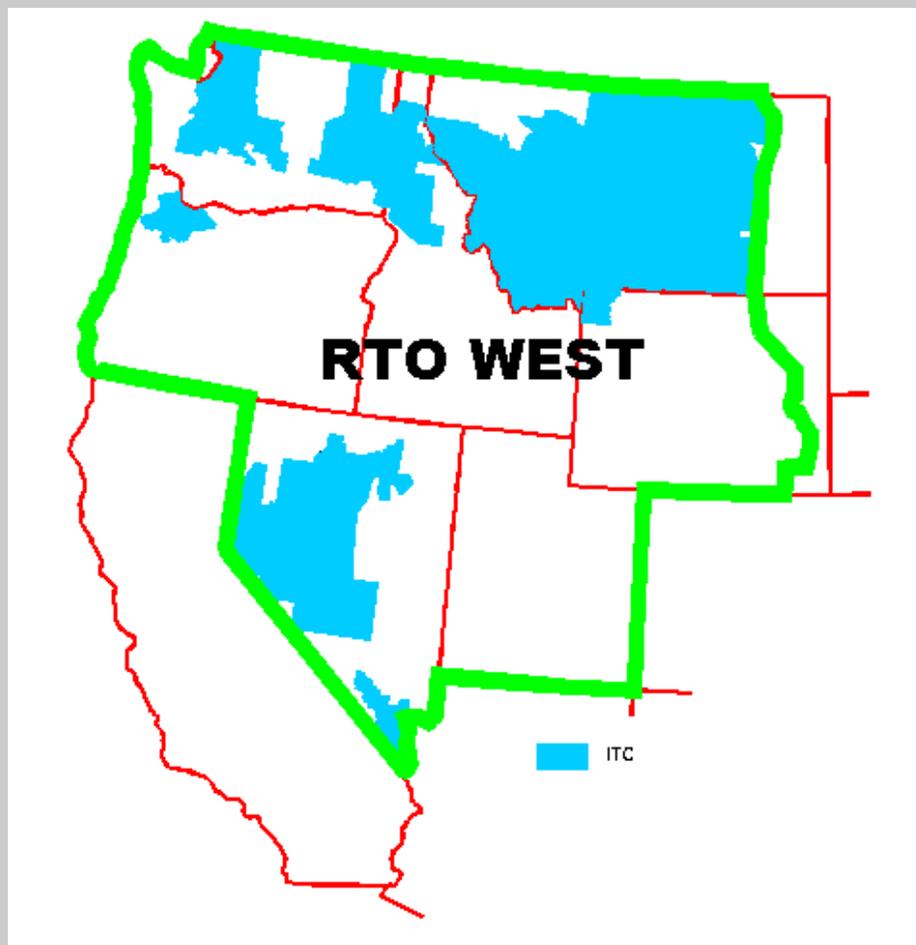
Corporate Structure

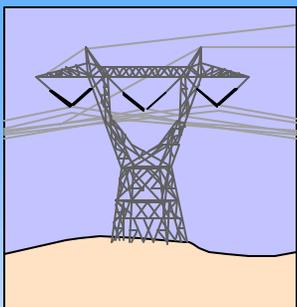


Utilities combined will have no more than 15% voting shares. The remainder of economic interest must be independent. Corp. Mgr. may facilitate independence test and the raising of public capital



TransConnect

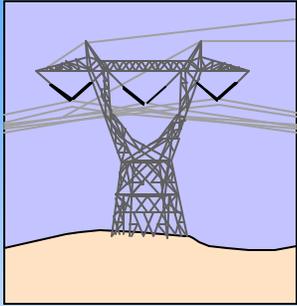




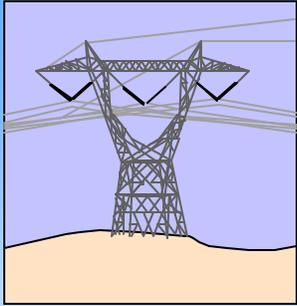
A Billion Dollar Company

- **Transmission facilities that pass the Order 888 Seven Factor Test**

- **Estimated YE 2000 Net Plant**
 - Nevada Power **\$353 million**
 - Sierra Pacific **\$271 million**
 - Montana Power **\$217 million**
 - Puget **\$204 million**
 - Portland General **\$129 million**
 - Avista **\$109 million**
 - Total **\$1,282 million**

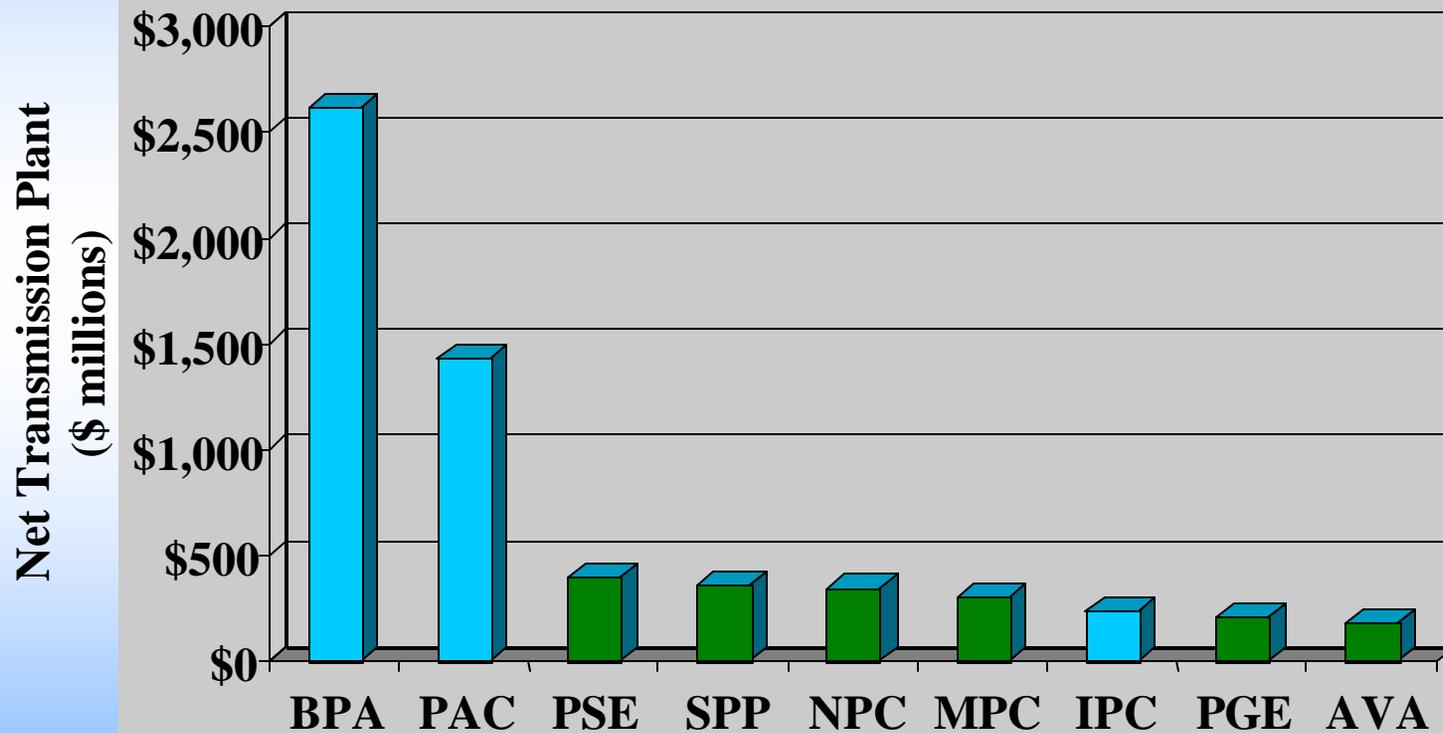


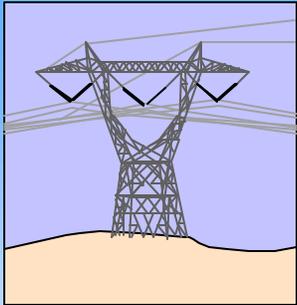
Why does TransConnect Make Sense?



RTO West without TransConnect

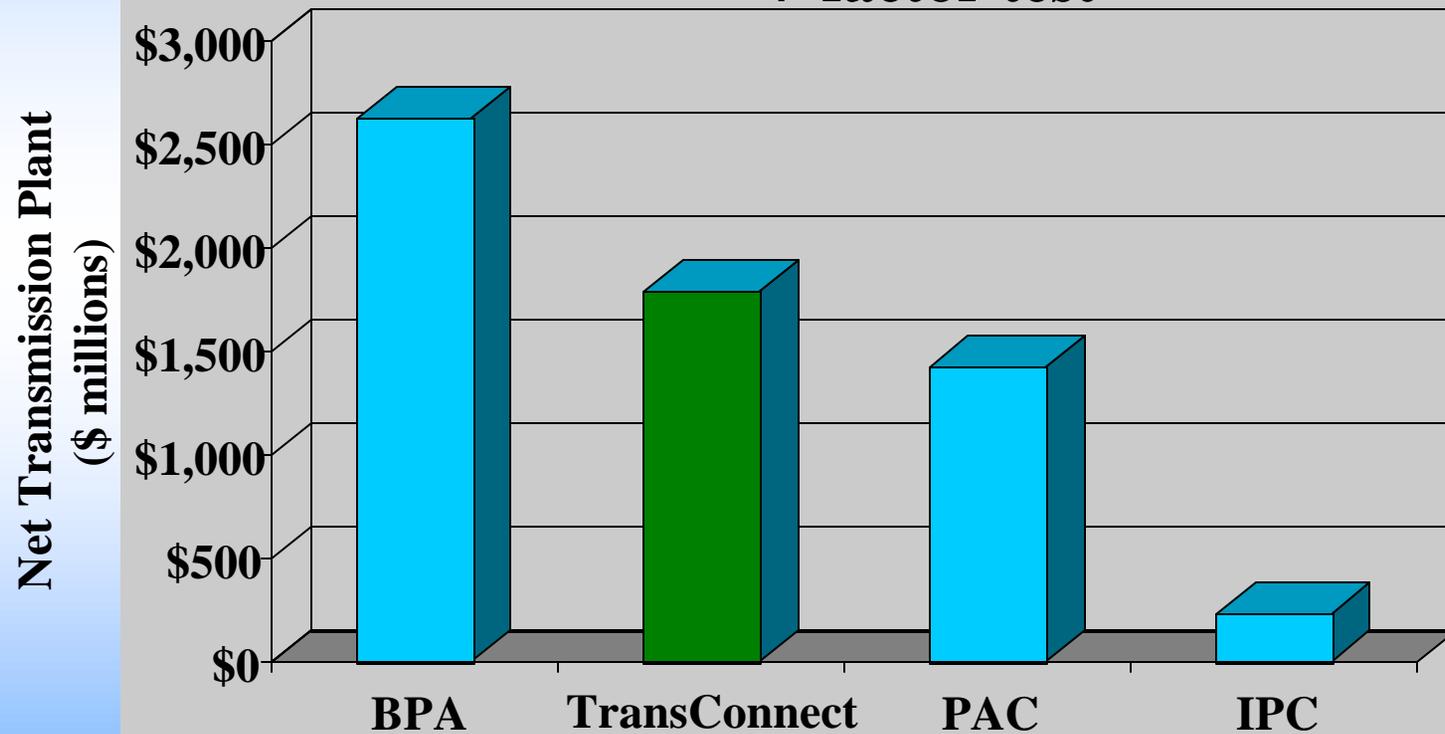
1999 book value before
7-factor test

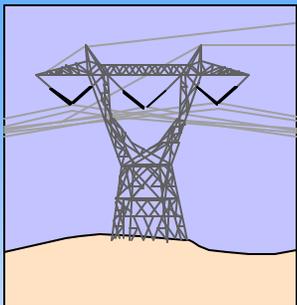




RTO West with TransConnect

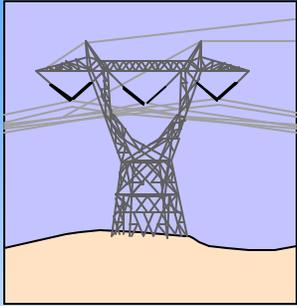
**1999 book value before
7-factor test**





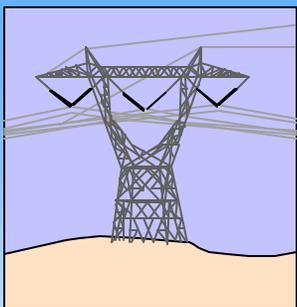
Benefits of TransConnect

- **LLC structure to maintain business flexibility and minimize tax**
 - passive ownership while retaining limited rights needed to protect investment
- **Members can maintain investment in TransConnect or fully divest, depending on business strategy**
- **Independent Corporate Manager can undertake new investment**



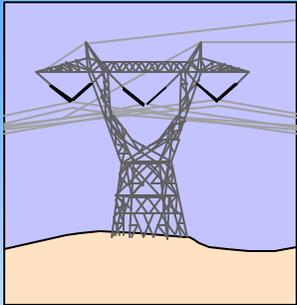
TransConnect will:

- **focus on the transmission business;**
- **aggregate transmission assets to achieve economies of scale;**
- **have a flexible business structure.**



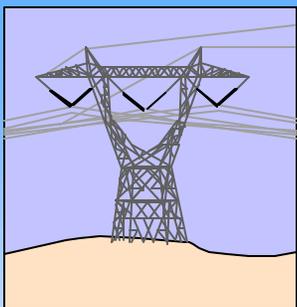
TransConnect's October 16 FERC Filing

Docket No. RT01-015-000



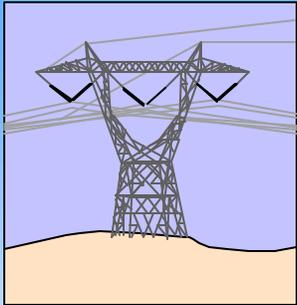
October 16 Filing

- **Request for Declaratory Order that:**
 - **TransConnect is independent of market participants; and**
 - **the limited RTO functions, related to rate filings and transmission planning and expansion, that TransConnect plans to undertake are acceptable.**



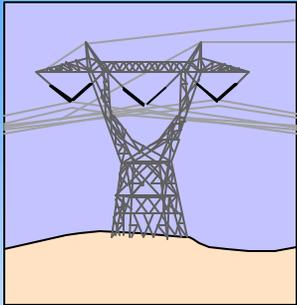
October 16 Filing (con.)

- **Filing included:**
 - request for expedited action;
 - *pro forma* governance documents and standards of conduct; and
 - a schedule for future action.
- **Filing did not include:**
 - tariff or rate filings.



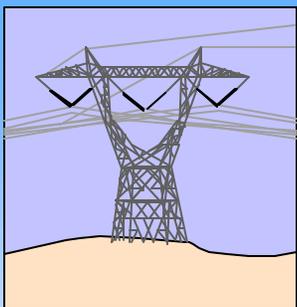
Next Steps

- **The next key step for TransConnect will be to make a rate filing that will include incentive and innovative rate treatments. These incentives are critical to TransConnect's ability to attract capital as a "pure" transmission company.**



Next Steps (con.)

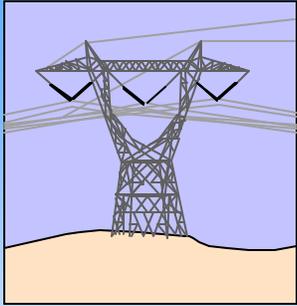
- **Seek additional necessary state and federal regulatory approvals.**
- **Board approvals by each company.**
- **Transfer assets.**
- **Begin operations no later than RTO West commencement date.**



Conclusion

In sum, TransConnect offers:

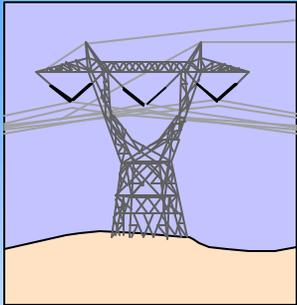
- a flexible business structure***
- that can achieve significant economies of scale,***
- attract capital and new investment,***
- and work efficiently within the RTO West framework.***



Part III: Significant Issues

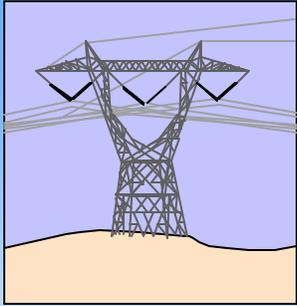
Some issues have generated significant interest:

- **Pricing**
- **Asset Inclusion**

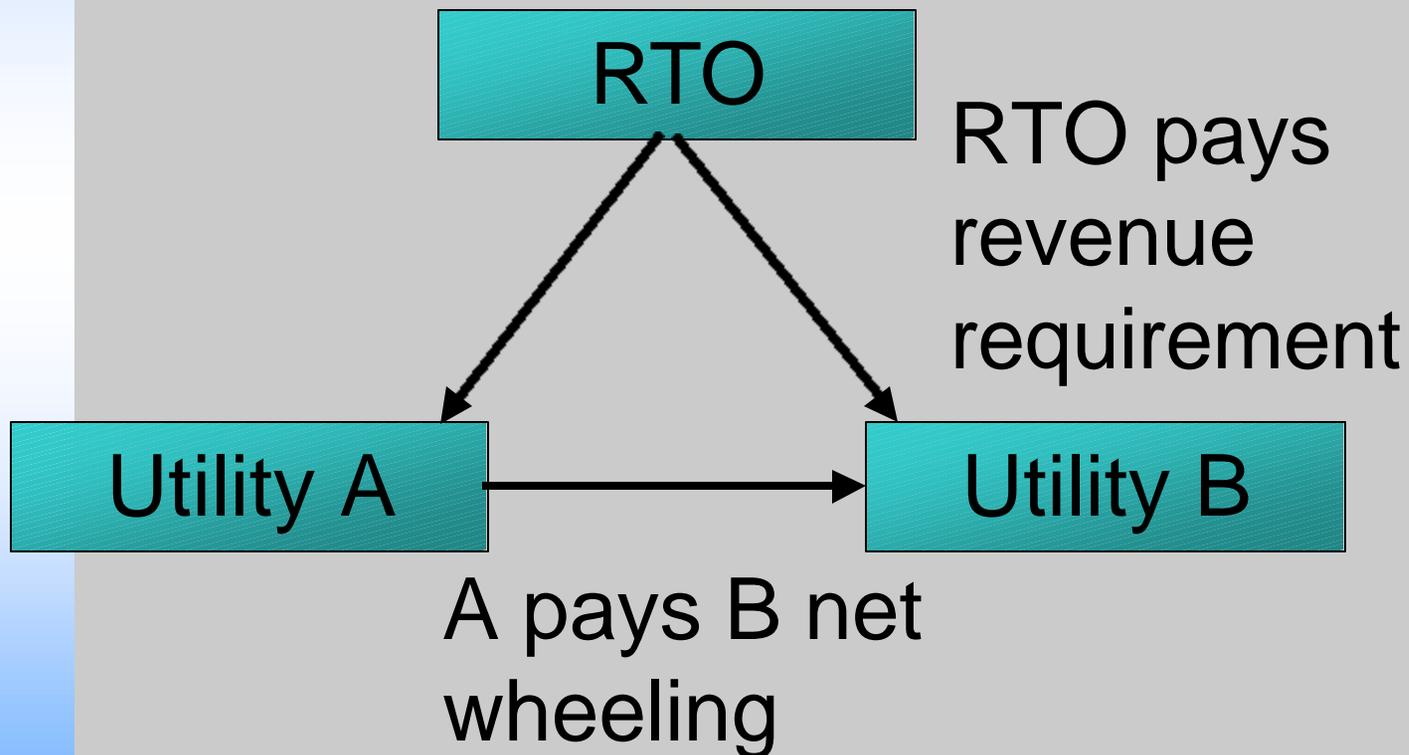


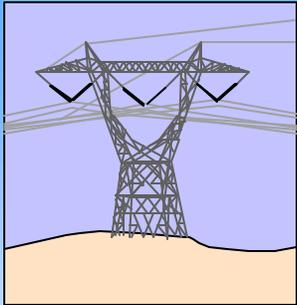
Pricing

- **Philosophy: avoid costs shifts, leave recovery of historical investments where they are today.**
- **Result:**
 - Load-based access charges.
 - “Company rates” (license plate).
 - Only losses and congestion are incremental.



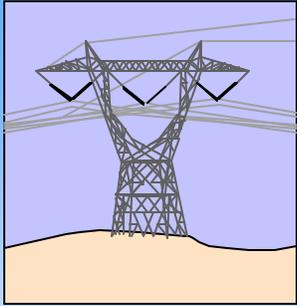
Company Rates





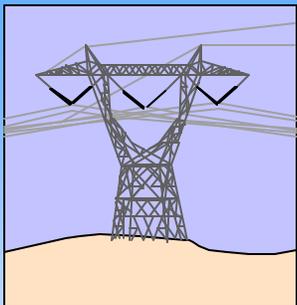
Asset Inclusion

- **Current transmission plant includes lower voltages.**
- **Some rural wholesale customers want all assets used to serve them included.**
- **Some utilities and states prefer excluding assets used for local service.**
- **For some utilities, interstate allocation issues created.**



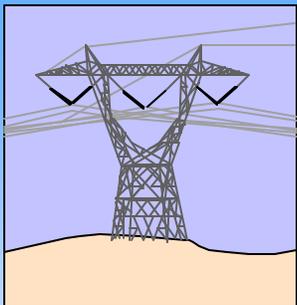
Asset Terminology

- **Class A Facilities**
 - Impact transfer capabilities or constrained paths, or
 - carry 10% of flow in unconstrained areas.
- **Class B Facilities**
 - other assets classified as transmission in FERC Form 1.
- **Class C Facilities - distribution.**



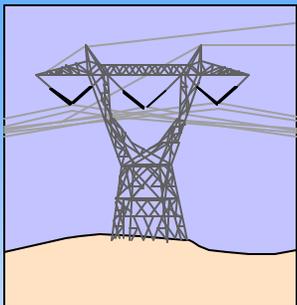
Class A Facilities

- **Operations - RTO West**
- **Planning - RTO West**
- **Access - RTO West**
- **Pricing - RTO West
company rates**



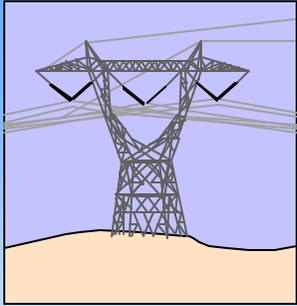
Class B Facilities

- **Operations - Transmission Owners (TOs).**
- **Planning - TOs with RTO oversight.**
- **Access - TO tariff or RTO tariff**
 - Scheduling and integration under RTO tariff.
- **Pricing - RTO company rates or TO tariff, at option of TO.**



Class C Facilities

- **Operations - TO**
- **Planning - TO**
- **Access - TO tariff or RTO tariff**
 - **Scheduling and integration under RTO tariff.**
- **Pricing - TO tariff.**



Closing

- **Substantial progress in resolving log jam.**
- **Tariff and implementation of company rates remain to be worked out.**
- **Unlikely to be operational by December 15, 2001.**