

RTO Filings: What Do the Pundits Think?

A Presentation by:

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BACKGROUND

- FERC found that open access under Orders 888 & 889 was insufficient
- Order 888 required open access tariffs and functional unbundling
- Order 889 required OASIS and a code of conduct
- But FERC still found discriminatory practices and issued Order 2000

FERC's Expected Benefits From Order 2000

- No pancaked rates
- Better congestion mgt.
- Accurate ATC
- Better mgt. of parallel flows
- Better planning
- Increased coordination among states
- Reduced transaction costs
- More success with retail access
- Environmental benefits
- Improved reliability
- Less discrimination
- Lower prices

Order 2000 Requirements

- Four Minimum Characteristics:
 - Independence – “bedrock” principle to FERC
 - Exclusive, independent authority to make changes to the tariff
 - 5% / 15% limit on passive ownership
 - Scope and regional configuration – Little guidance except SPP too small
 - Operational authority – RTO must control
 - Short-term reliability – RTO must have

Order 2000 Requirements

- Eight Minimum Functions:
 - Tariff administration and design – RTO must be the sole provider
 - Congestion management – RTO must manage
 - Parallel path flow – RTO must develop procedures
 - Ancillary services – RTO is the provider of last resort

Order 2000 Requirements

- Eight Minimum Functions (Cont.):
 - OASIS/ATCs/TTCs – RTO must be the single administrator of the OASIS
 - Market monitoring – RTO must do market monitoring
 - Planning and expansion – RTO must be responsible for planning
 - Interregional coordination – RTO must assure

FERC Made The Filings Voluntary

- Not surprisingly, the results vary considerably
- Some entities said that they couldn't (or wouldn't) file
- Others filed “progress reports” with more to follow
- Some made rather good filings – while others were simply shams

RTO *Best Practices*

- Characteristic 1
Independence

RTO West

RTO West's independent non-stakeholder board over an ISO-type RTO structure is the way to go.

RTO *Best Practices*

- Characteristic 2

Scope and Configuration

RTO West

Their proposal seems best positioned to allow for the eventual creation of a West-wide RTO.

RTO *Best Practices*

- Characteristic 3

Operational Authority

RTO West

RTO West's relationship with TransConnect may be a model for workable RTO/Transco hybrid structures.

RTO *Best Practices*

- Characteristic 4

Short-term Reliability

RTO West

The establishment of the *independent* Pacific Northwest Security Coordinator provides market-friendly management of big picture reliability concerns.

RTO *Best Practices*

- Function 1

Tariff Administration and Design

GridFlorida LLC

Devil is always in the details (forthcoming) but their pricing protocol requires bundled retail load to pay the same RTO Tx rates (including zonal access charges) as everyone else. Way to go!

RTO Best Practices

- Function 2

Congestion Management

RTO West

Other RTO wannabees are moving in the same flow-based physical rights model but RTO West's is the best articulated. Also, their proposal to suspend existing contracts in exchange for FTRs is a great innovation.

RTO *Best Practices*

- Function 3

Parallel Path Flow

RTO West

This follows from RTO West flow-based scheduling procedures, their work with neighboring systems, and their positive attitude toward interregional coordination.

RTO *Best Practices*

- Function 4
Ancillary Services

RTO West

Their flow-based model will be an excellent platform for developing A/S markets. They want customers to be able to arrange A/S under forward contracts.

RTO Best Practices

- Function 5

OASIS and Calculation of TTC and ATC

RTO West

Most RTO proposals will reasonably accomplish this requirement, but RTO West makes each Participating Transmission Owner obligated to maintain the transfer capability of its facilities.

RTO *Best Practices*

- Function 6

Market Monitoring

Cal-ISO

Most compliance filings include some form of market monitoring unit that reports to the RTO board. But Cal-ISO's Market Surveillance Committee (MSC) has proven its salt by warning about the disfunctions in the California markets. But nobody listened!

RTO *Best Practices*

- Function 7

Planning and Expansion

RTO West

Their proposal is detailed and believable. The “backstop” construction authority and flow-based congestion management model provide a good planning foundation.

RTO *Best Practices*

- Function 8

Interregional Coordination

SPP & RTO West

No compliance filing did a passable job on this all-important function. SPP and RTO West at least understand the problem.

Unfortunately, The Filings Also Have Significant Problems

- Many filings pose very substantial questions regarding independence – of lack thereof – from market functions
- As an example, Se Trans said that it would meet the independence requirement under one of three alternative structures – but did not indicate which alternatives they would pursue

Unfortunately, The Filings Also Have Significant Problems

- FERC rejected SPP's May 17th, 2000 filing, questioning their independence provisions
- However, the new SPP by-laws retain the same governance principles previously criticized by FERC
- Further, SPP proposes that both SPP and transmission-owning utilities will have the right to file Sec. 205 tariffs changes

Unfortunately, The Filings Also Have Significant Problems

- On May 17th, 2000, FERC questioned whether SPP had adequate scope and configuration
- Now, Entergy says that it will “operate under SPP,” thus giving adequate scope and configuration, but both SPP and Entergy seek RTO status in their own right
- Further, Entergy proposes to control the commercial terms and conditions for transmission over its facilities

Unfortunately, The Filings Also Have Significant Problems

- Both GridSouth and Grid Florida propose allowing the founding utilities the ability to, in essence, select the Board
- Southern reserves to itself “the opportunity to strike ... candidates without cause”

Unfortunately, The Filings Also Have Significant Problems

- No filing adequately dealt with Function 8: Interregional Coordination
- Arguably, Function 8 is the most important function
- Seams issues represent a panoply of sub-issues including:
 - Scheduling & reserving transmission, operational practices, TTC/ATC, transmission rights, congestion management, interconnections, etc., not to mention the failure to eliminate pancaking

What Should FERC Do?

- First, disapprove all transco filings that propose to be RTOs and act as operating authorities as long as they are affiliates of vertically-integrated utilities -- and recognize that this, by itself, may not be enough!

What Should FERC Do?

- Second, compliment the good things, albeit few in number, that are in the filings
- FERC can build on the parts of the filings that are in compliance with Order 2000

What Should FERC Do?

- Third, “conditionally” approve most of the filings
- However, FERC should include strong conditions in the approvals that require future filings within a specified time frame (e.g., 6 months) to assure compliance with all four Characteristics and eight Functions

What Should FERC Do?

- Finally, FERC should take the Scope and Regional Configuration Characteristic very seriously
- FERC disapproved the SPP initial filing – so this “scope” now should be a floor
- FERC should go further and, at a minimum, order a real resolution of the seams issues or show cause why consolidations should not be mandated such as:
 - PJM/NY ISO/ISO NE
 - Grid South/Se Trans/GridFlorida/SPP/Entergy
 - MISO/Alliance/ and perhaps MAPP