

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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Avista Corporation)
Bonneville Power Administration)
Idaho Power Company)
The Montana Power Company)
Nevada Power Company)
PacifiCorp)
Portland General Electric Company)
Puget Sound Energy, Inc.)
Sierra Pacific Power Company)

Docket No. RTO1-35-000

MOTION TO INTERVENE AND COMMENTS OF THE WILLIAMS
COMPANIES

Pursuant to Rule 214 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“FERC” or “Commission”), 18 C.F.R. §385.214, and the Commission’s Request for Comments contained in its Notice of Filing, dated October 20, 2000, with respect to the referenced docket, The Williams Companies, Inc. (“Williams”) hereby moves to intervene and submits its comments in the above-captioned proceeding. Inasmuch as the referenced petitioners have submitted a Stage One filing thus far, Williams requests and reserves the right to comment on petitioners’ Stage Two filing when made.

I.

COMMUNICATIONS AND CORRESPONDENCE

Williams requests that the following names be placed on the service list maintained for this proceeding by the Commission and that all correspondence and communications with respect to this proceeding be addressed to the following:

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II.

INTRODUCTION AND INTEREST OF WILLIAMS

Williams, through its subsidiaries, provides a full range of traditional and leading-edge energy and communications services and is one of the nation's largest-volume transporters of natural gas, a nationally-known marketer of electric power¹ and an owner of generation assets. Its wholly owned subsidiary, Williams Energy Marketing & Trading ("WEM&T"), is an electric power marketer subject to the Commission's jurisdiction under the Federal Power Act. WEM&T currently sells energy and ancillary services at wholesale pursuant to market-based rate authority granted by the Commission.² WEM&T, thus, has a direct and substantial interest in this proceeding which cannot be adequately represented by any other party.

¹ WEM&T currently has operational control and/or ownership of approximately 9,000 MW of generating capacity in the United States.

² See Transco Power Trading, Docket No. ER95-305-000, Letter Order issued March 10, 1995 (accepting market-based rate schedule); Williams Power Trading Company, Docket No. ER95-305-001, Letter Order

III.

EXECUTIVE SUMMARY – THE WILLIAMS VIEW OF RTO WEST’S ORDER

NO. 2000 COMPLINACE FILING

The outstanding feature of the RTO West proposal is its scope and regional configuration. As envisioned, RTO West would encompass the majority of transmission facilities in the U.S. portion of the Northwest Power Pool as well as Nevada Power Company’s facilities. Williams concurs with RTO West’s assessment that it possesses the requisite RTO scope and regional configuration enunciated in Order No. 2000. Williams would, however, strongly encourage RTO West to continue its efforts to expand the RTO’s coverage into British Columbia and Alberta. The inclusion of the Bonneville Power Administration in RTO West and all of the benefits this brings may prove to be problematic with respect to the RTO’s operational authority over Bonneville’s transmission and generation facilities.

On a less satisfactory note, Williams believes the RTO West proposal is inadequate with respect to tariff administration and design, congestion management, parallel path flow issues, planning and expansion, and interregional coordination. All of these functions and characteristics require substantially more effort in order for the RTO

issued June 7, 1995 (accepting succession of Williams Power Trading Company); Williams Energy Services Company, Docket No. ER95-305-004, Letter Order issued January 19, 1996 (accepting succession of Williams Energy Services Company); Williams Energy Marketing & Trading Company, Docket No. ER99-615-000, Letter Order dated December 23, 1998 (accepting amendment to market-based rate schedule to include ancillary services); Williams Energy Marketing & Trading Company, Docket No. ER99-1722-000, Letter Order issued March 4, 1999 (accepting succession of Williams Energy Marketing & Trading Company); Williams Energy Marketing & Trading Company, Docket No. ER00-885-00, Letter Order issued January 21, 2000 (accepting amendment to market-based rate schedule to include resales of California ISO FTRs and reassignment of transmission capacity); Williams Energy Marketing & Trading Company, Docket No. ER00-2030-000, Letter Order issued May 18, 2000 (accepting amendment to market-based rate schedule to expand WEM&T’s wholesale ancillary services authority); Williams Energy Marketing & Trading Company, Docket No. ER00-2996-000, Letter Order issued August 2, 2000 (accepting amendment to market-based rate schedule to expand WEM&T’s wholesale ancillary services authority in California).

proposal to be fully compliant with Order No. 2000. However, having satisfied the more difficult and complex scope and regional configuration requirement, Williams is optimistic RTO West will be able to bring its proposal into compliance.

IV.

THE WILLIAMS RTO VISION

The Commission launched its Regional Transmission Organization (“RTO”) initiative proposing to amend its regulations under the Federal Power Act (“FPA”) to facilitate the formation of RTOs.³ Precipitating this initiative was the Commission’s perception that “...the traditional means of electric grid management [was] showing signs of strain and may be inadequate to support the efficient and reliable operation that is needed for the continued development of competitive electric markets.”⁴ Additionally, the Commission believed there were indications that continued discrimination in the provision of transmission services by vertically integrated utilities were impeding the development of fully competitive electricity markets.

Williams commended then, as it does now, the Commission both for its acknowledgment that the full potential of Order 888⁵ had not been realized and for its willingness to tackle the complex and emotion-laden restructuring issues confronting the

³ Regional Transmission Organizations, Notice of Proposed Rulemaking, 64 Fed. Reg. 31,390, (1999), FERC Stats. & Regs. ¶ 32,541 (1999).

⁴ See NOPR at 5.

⁵ See Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities and Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, 61 Fed. Reg. 21,540 (1996), FERC Stats. & Reg. ¶ 31,036 (1996) (Order 888), order on reh’g, Order No. 888-A, 62 Fed. Reg. 12,274 (1997), FERC Stats. & Regs. ¶ 31,048 (1997), order on reh’g, Order No. 888-B, 62 Fed. Reg. 64,688, 81 FERC ¶ 61,248 (1997), order on reh’g, Order No. 888-C, 82 FERC ¶ 61,046 (1998), appeal docketed, Transmission Access Policy Study Group, et al. v. FERC, Nos. 97-1715 et al. (D.C. Cir.).

wholesale electric industry. Williams is a diversified energy and communications company that produces, delivers, markets and consumes natural gas, petroleum products and electric power. It has a strong interest in promoting healthy markets in each segment of these industries. Through its experience in both regulated and unregulated markets, Williams maintains a strong belief that competitive markets produce better products, services and prices than those produced through regulation. Consistent with this belief, Williams encourages the formation of for-profit RTOs and continues to urge the Commission to foster their development. The discipline of the markets will provide for-profit entities with incentives to modernize their systems, create new services and keep prices competitive.

Williams believes the current regulatory structure does not provide sufficient incentives to attract the necessary capital to expand transmission. The salutary benefits arising from the market-driven development of wholesale electric markets can best be stimulated by a generally reduced burden of regulatory oversight. Principally for this reason, Williams supports the development of for-profit RTOs to the extent that the primary focus is on promoting non-discriminatory access, enhancing and ensuring grid reliability and resolving the problems associated with congestion management, pancaked transmission rates, parallel path or loop flows, ATC data calculations and postings, and transmission management and expansion planning. Williams believes this RTO approach, combined with ample opportunity for market participants to utilize their market-derived expertise, will achieve the robust, competitive electric markets the Commission and market participants desire. This approach is also consistent with the

Commission's stated objective of effecting same through "lighter-handed" regulation in an open architecture setting.

Williams recognizes the importance of functionally unbundling transmission from generation and the development of governing boards that ensure the interests of all market participants are represented. However, the separation of transmission from generation must not be permitted to operate in such a way that each are not considered when dealing with congestion, parallel path and other related problems. With respect to governing boards, Williams favors RTO boards that provide a balanced mix of stakeholders and non-stakeholders. Williams believes that affiliate rules or a Code of Conduct can help prevent favoritism between the marketing arms of electric utilities and their transmission-owning affiliates but does not believe they should work to disadvantage affiliates.

Williams believes a carefully designed for-profit RTO with a properly constituted governing board, vested with operational control of transmission facilities, can comply with the spirit of the Commission's independence characteristic while possessing a profit incentive to seek out operational efficiencies, search for optimal solutions for congestion management and parallel path and loop flows, expand and upgrade the transmission system when and where needed, and provide good customer service. In such an open architecture environment, RTOs will not dictate market outcomes, but rather will evolve and adopt the signals of maturing competitive and robust electric markets.

While some proponents of not-for-profit RTOs have suggested that these could potentially be transformed into for-profit entities over time, Williams is doubtful that such an evolution would ever occur. The time, effort, and energy required to establish an

acceptable not-for-profit RTO will likely lead many parties to resist spending additional resources to create a new structure. Notwithstanding, Williams believes existing ISOs should transition to whatever new RTO structure the Commission ultimately requires. NERC security coordinator functions and operations should be assumed by these RTOs. Operating, accounting and administrative protocols both within and between RTOs should be standardized; however, they should not result in unnecessary administrative expense and burden. The scope, size and number of RTOs should be based primarily on physical power flows, historical trading patterns and market considerations.

With the issuance of the landmark Order No. 2000⁶, Williams was heartened to see the continued resolve of the Commission to further the process of restructuring wholesale electric markets. Williams urges the Commission to stay the course it set when it launched its RTO initiative; that is, encourage and foster the development of a coherent and efficient wholesale electric grid that truly promotes the development of robust, competitive electric markets while eliminating the inefficiencies and redundancies currently found. Williams strongly urges the Commission to not allow a superfluous and mosaic scheme of RTOs to develop where incompatible operating, especially congestion management, and administrative protocols impede rather than improve the transmission and marketing of electricity within and across the United States and beyond.

EVALUATION AND ANALYSIS OF RTO WEST'S ORDER NO. 2000

COMPLIANCE FILING

CHARACTERISTICS:

A. Independence. In the context of ISOs, the Commission has stated that “the principal of independence is the bedrock upon which the ISO must be built.” The Commission believes, and Williams concurs, the same to be true with respect to RTOs.

RTO West proposes a governance Board structure of independent, non-stakeholder Trustees, consisting of nine members elected by a Trustees Selection Committee. This 30-member committee will be elected by each of five major customer classes: (1) Major Transmitting Utilities (6 members), (2) Transmission-Dependent Utilities (6 members), (3) Nonutility Entities (6 members), (4) Retail Customers (6 members), and (5) State and Provincial Energy Authorities (6 members). RTO West also proposes to form a Board Advisory Committee to provide advice to the Board, promote input on Board decisions, and disseminate RTO information. Membership in the Board Advisory Committee is open to all members of RTO West.

Williams, itself, favoring RTO governance board membership reflective of both stakeholder and non-stakeholder interests, nonetheless believes the RTO West governance structure satisfies the independence requirement of Order No. 2000. With respect to the Board Advisory Committee's ability to interact with the Board of Trustees, Williams requests the Advisory Committee have the right and ability to directly address the Trustees. RTO West, while it contemplates the Advisory Committee being able to

⁶ Order No. 2000, 65 Fed. Reg. 809, (2000), FERC Stats. & Regs. ¶ 31,089 (2000).

advise the Trustees, allows this only in the form of position papers. Williams believes such access to the Board of Trustees is inadequate.

Williams agrees with the Commission's requirements that an RTO's decision making ability must not be controlled by any market participants and that the RTO must have independent authority to file changes to its transmission tariff. Further, Williams opposes the concept of an RTO governing board that wholly excludes market participant representation. In the case of a non-market participant board, the concerns and interests and valuable knowledge of market participants are not appropriately considered. Williams believes an RTO governance board must be reflective of its total constituency. The board must be comprised of a balanced mix of stakeholders and non-stakeholders alike. RTO West's governance structure could, in Williams' opinion, be improved if stakeholders were permitted to be members of the Board of Trustees.

Williams proposes that an RTO's initial board, ranging from seven to nine members, be selected using an independent executive search firm utilizing pre-determined selection criteria. RTO West's board size and use of an executive search firm mirror Williams' objectives.

B. Scope and Regional Configuration. In addressing the concept of RTO scope and regional configuration, the Commission has taken the position that the region served by an RTO must be of sufficient scope and configuration to permit the RTO to effectively perform its required functions and to support efficient and nondiscriminatory power markets. Williams agrees.

As proposed, RTO West would encompass the majority of transmission facilities in the U.S. portion of the Northwest Power Pool as well as Nevada Power Company's facilities. All told, the RTO would cover an area of almost 580,000 square miles in a contiguous geographic region including most areas of Oregon, Washington, Idaho, Montana, Utah and Nevada as well as parts of Wyoming and California. Williams concurs with RTO West's assessment that it possesses the requisite RTO scope and regional configuration enunciated in Order No. 2000. Williams would, however, strongly encourage RTO West to continue its efforts to expand the RTO's coverage into British Columbia and Alberta.

Williams supports the position that the scope, size and number of RTOs should be based primarily on physical flow and market considerations and not on political or individual corporate considerations. RTO West, as configured, is thus acceptable. Williams, favoring existing configurations, is comfortable with the formation of anywhere from three RTOs, reflecting the three interconnections in the United States, to ten RTOs, reflecting the ten NERC Reliability Councils. Williams strongly opposes the establishment of single-system utility RTOs and, in certain instances, single-state RTOs primarily because they are generally not able to adequately address and resolve the problems of pancaked rates, parallel path and loop flows and congestion.

Based purely upon the physics of electricity and historical trading patterns, ultimately, the RTO boundaries that make the most sense electronically would encompass the areas of the Northeast, Southeast, Midwest, ERCOT, Southwest and Northwest. While Williams was supportive of the Commission's initial willingness not to enumerate the scope and configuration of RTOs, the mosaic, and often times provincial, response found in the RTO compliance filings is extremely disappointing. For all of the issues raised in

§202(a) of the Federal Power Act that are subject to reasonable disagreement, one area is clear -- the "...Commission is empowered and directed to divide the country into regional districts for the voluntary interconnection and coordination of facilities for the generation, transmission and sale of electric energy..." As such, Williams requests the Commission reconsider its earlier position against developing and establishing RTO configurations and boundaries.

C. Operational Authority. In the NOPR, the Commission proposed that the RTO have operational authority for all transmission facilities under its control.⁷

RTO West will have the exclusive right to operate and control the main grid bulk transfer facilities of its participating transmission owners ("PTOs"). It will also serve as the NERC-certified control area operator for the region, schedule power over the system, coordinate planned outages and maintenance plans, manage congestion, administer an ancillary services market and manage a single OASIS site. Initially, RTO West plans to contract with the Pacific Northwest Security Coordinator to perform the RTO's security coordination function.

In most respects, Williams believes the RTO West proposal satisfies Order No. 2000's operational authority requirement. Williams is, however, concerned that RTO West by allowing distribution companies to retain ownership and control over certain facilities which potentially could be reclassified as distribution could prove troublesome. In this regard, Williams urges FERC to require its approval, on a facilities by facilities basis, of

⁷ See FERC Stats. & Regs. ¶ 32,541 at 33,734.

any transmission facilities under 100 kV, proposed to be reclassified as distribution facilities.

Perhaps an even more troubling issue concerns the RTO's operational authority with respect to the Bonneville Power Administration ("BPA"). The RTO cannot require BPA to operate its hydroelectric generation in a manner inconsistent with its fish related or other limitations contained in its enabling legislation. Additionally, it appears the RTO cannot require BPA to expend federal funds for non-BPA operations. While Williams commends the inclusion of BPA in RTO West, it is concerned that the obligations of BPA with respect to the RTO need to be more closely examined. Also, any limitations on BPA's full participation need to be addressed more fully.

The Commission, in the past, has correctly observed that the dividing line "between transmission control and generation control is not always clear because both sets of functions are ultimately required for reliable operation of the overall system."⁸ To the extent that an RTO's authority with respect to generation does not extend to initial unit commitment and the dispatch decisions of generators, Williams believes that the entity that controls the transmission system should have some degree of control over some generation. RTOs should have some clearly defined level of authority to approve and disapprove requests for scheduled outages of transmission facilities to ensure that the outages can be accommodated within established reliability standards. Accomplished on a truly regional scale with cooperative input from transmission owning entities, the RTO will be positioned to ably balance outage requirements and reliability interests. Williams believes RTO West is positioned to accomplish this.

⁸ Midwest Independent Transmission System Operation Inc., et al., 84 FERC ¶ 62,231 (1998).

D. Short-Term Reliability: The Commission has determined that RTOs must have exclusive authority for maintaining the short-term reliability of the grids they operate.⁹ “Short-term” is intended to cover transmission reliability responsibilities short of grid capacity enhancement. It includes all time periods, including but not limited to “real-time,” necessary for the RTO to satisfy its reliability responsibilities, up to the planning horizon.

RTO West states that it will have the means to maintain reliability largely through its general operational authority. It will (1) manage congestion in both the pre-scheduled market and in real-time; (2) have full authority to administer all schedules on all paths under its jurisdiction; (3) have exclusive authority for receiving, confirming, and implementing interchange schedules. The RTO, as proposed, will have authority to designate facilities critical to reliability and exercise direct operational control over them. It will also have emergency redispatch authority and, when conditions warrant, will rely on its security coordination function to protect system reliability. In sum, RTO West believes, and Williams agrees, that it satisfies Order No. 2000’s short-term reliability requirements.

Williams supports the Commission’s requirement that RTOs have exclusive authority for maintaining the short-term reliability of transmission grids under their control. Williams agrees that RTOs should have authority for receiving, confirming and implementing all interchange schedules. The RTO West proposal, better than most of the Order No. 2000 Compliance Filings, is explicit in this regard. Williams, like the Commission, believes RTOs should have the right to order the redispatch of any

generator connected to the transmission facilities its operates, if necessary for the reliable operation of the transmission system so long as this authority does not extend to initial unit commitment and dispatch decisions of generators. To the extent that RTOs have the authority to preclude a generator from starting a planned outage pursuant to the agreed upon schedule and to the extent that the generator incurs costs associated with the RTOs' exercise of that authority, the generator must be reimbursed for those costs.

Williams further supports the Commission's position that RTOs must have the authority to approve and disapprove requests for scheduled outages of transmission facilities to ensure that the outages can be accommodated within established reliability standards. With respect to generation maintenance approval, Williams concurs with the Commission that RTOs are not required to have authority over proposed generation maintenance schedules.

Turning to interconnection decisions, Williams agrees that RTOs should have limited authority to approve such decisions. Williams supports the implementation of an RTO interconnection request review process wherein such requests are presumptively deemed not to adversely affect grid reliability. Such presumption could then only be rebutted on a showing by clear and convincing evidence of substantial adverse impact upon grid reliability. To the extent that it can be clearly demonstrated that proposed new interconnections would or may have a substantial adverse impact upon the RTO's grid reliability function, disapproval or provisional approval authority may be appropriate. Williams supports the adoption of a nationwide and uniform interconnection policy.

⁹ Order 2000 at 315.

FUNCTIONS:

A. Tariff Administration & Design: To ensure non-discriminatory service within its region, the Commission requires that the RTO be the sole administrator of its own transmission tariff.

Briefly, RTO West intends to administer its own tariff and will have the right to modify it, with the exception of company rate design, which the RTO may not unilaterally change during the Company Rate Period. It will have absolute discretion to establish uplift charges, congestion management fees and losses. Although RTO West did not submit a proposed tariff, it described the filing utilities pricing proposal. The filing utilities propose to recover all costs of transmission ownership and operation through a load-based access charge. Through December 14, 2011, loads served by each of the filing utilities will pay for RTO West transmission service an amount equal to the filing utility's transmission costs, adjusted for transfer charges, access charges, lost revenue recovery and Firm Transmission Right revenue allocation.

In the interest of creating one west-wide transmission market, appropriate pricing reciprocity agreements will be negotiated with adjacent RTOs/control areas, so that transmission can be obtained throughout the western U.S. and Canada for payment of one non-pancaked load access charge, plus congestion costs, transmission losses, and any allocation of RTO operating costs.

Williams is troubled by RTO West's initial tariff design. A complete tariff along with a proposed form OATT is expected to be submitted as part of the filing utilities' Spring

2001 Stage 2 filing. Without having the benefit of being able to review the complete tariff design, Williams is not able to comment with the certainty it wishes. Notwithstanding, Williams can state, at this time, that the period of time RTO West's filing utilities have set aside to pay RTO West a formulaic transmission charge through December 14 2011 is too long. Williams would prefer the period to be somewhere in the range of 3 to 5 years with FERC-approved review thereafter. Williams does strongly endorse RTO West's proposal that all existing transmission agreements will be replaced by service under the open access tariff. Moreover, the proposal to require native load to take transmission service under the same terms and conditions as other transmission users will significantly improve the competitive environment in the Northwest. Notwithstanding, as proposed, the RTO West filing utilities appear to have potentially reserved an unfair advantage to themselves. As proposed, RTO West's incomplete tariff administration and design plan is unacceptable.

B. Congestion Management: Congestion occurs when transmission use exceeds the capability of the grid. When transmission constraints limit the amount of power than can be transmitted, the loads on the system may not be able to be served by the least-cost mix of available generation.

An RTO approach to regional congestion management, with its benefit of communicating market signals more clearly, will lead to the more efficient transmission of electricity. In dealing with congestion caused by internal transmission constraints and constraints at interfaces, Williams urges the Commission to adopt a nationwide uniform

RTO congestion management strategy based upon price signals which allow market forces to assume a paramount role in clearing transmission system congestion.

Lacking in the detail required for informed comment, RTO West intends to provide full details of its congestion management strategy in its Stage Two filing. In the interim, RTO West proposes an outline based upon a flow-based physical rights congestion management model. Under this model, RTO West will manage congestion primarily by issuing transmission rights for flowpaths for those grid facilities expected to have significant congestion.

The RTO will determine the TTC for each flowpath and the amount of transmission rights to issue. Customers wishing to schedule across flowpaths must hold transmission rights. FTRs, or entitlements to schedule one MW on a flowpath in a particular direction for one hour, initially will be granted to holders of pre-existing contracts and load service obligations. The remaining FTRs will be auctioned on an annual, seasonal, monthly and daily basis as conditions allow, and may be traded bilaterally or through non-affiliated exchanges. Recallable Transmission Rights (RTRs), or FTRs not scheduled during the day-ahead scheduling process, will be auctioned daily and may be recalled up to some point, to be determined, before delivery hour.

Non-Firm Transmission Rights (NTRs), created by the release of certain unused capacity, will also be auctioned and may be recalled at any time the underlying capacity becomes unavailable. Monthly and sub-monthly FTR auctions and all RTR and NTR auctions will use a single-round, market clearing price (highest losing bid) auction. Auction methods for FTR releases longer than a month are being studied.

RTO West's flow-based model requires that flow distribution factors be used to determine how schedules are deemed to flow. Preexisting ownership and contract rights that have been defined on a contract path basis will be mapped to flowpaths. If the filing utilities determine this translation seriously impairs the ability of rights holders to utilize or be compensated for their transmission rights, they will propose a transition period to move from contract-path to flow-based congestion management.

Without the benefit of being apprised of RTO West's complete congestion management strategy, but based upon what has been thus provided, Williams strongly opposes its utilization of a flow-based model. Such a congestion management structure is essentially untried and not proven to adequately deal with congestion problems. Further, the inherent incompatibility of a flow-based model with locational marginal models presently employed in contiguous control areas and the California ISO creates, rather than eliminates, serious seams issues. Moreover, there is an equally inherent flaw in RTO West's FTR process in that not all FTRs are available in the auction process, especially those "grandfathered" to transmission owners serving existing load. Williams urges the Commission to compel RTO West to amend its FTR auction process so that all participants will be able to bid on all FTRs within RTO West. In this way, Williams believes, the emergence of a more open, efficient and liquid market will develop. Williams would also urge the Commission to reject RTO West's flow-based model to deal with congestion.

More in line with its own view, a view shared widely, Williams recommends the Commission adopt a uniform RTO congestion management strategy that results in the creation of a liquid and fair market for generators, transmission owners, energy service

providers and retail customers. Conceptually, Williams recommends a hybrid of locational marginal pricing as follows:

- (1) Generators should receive a nodal price at the node where it injects energy into the system. This approach sends the most powerful and accurate pricing signal for future generation and transmission developments.
- (2) Customers should pay a zonal price because nodal energy prices in the same vicinity can vary significantly due to the control of electrical connections controlled by utilities. Without muting the price signal to new load-making decisions and without attempting to define the appropriate size for a zone, at some level it would be appropriate to group reasonably proximate customers. RTOs should coordinate the design of zones based upon geographical locations, not electrical locations.
- (3) Firm transmission rights should be established between all pricing points within the RTO including nodes at which generators are compensated and aggregate zones at which customers' loads are priced. Williams prefers the use of financial firm transmission rights as opposed to physical firm transmission rights.

RTOs should be granted the full responsibility and authority to assign firm transmission rights. RTOs should award firm transmission rights via auction to those market participants who value them the most. As part of any auction process, entities serving firm load inside the RTO's region or entities already in possession of firm point-to-point transmission service should be given the option to purchase firm transmission rights necessary for the provision of said service at the auction clearing price. This option should expire when the existing service terminates. Firm transmission rights should be capable of being sold or auctioned in the open markets by their holders. The

terms and conditions of ownership of firm transmission rights should not be arbitrarily limited, but should be determined by the market place. All revenues received from the auction of firm transmission rights should be used to offset the cost of congestion on the paths for which the firm transmission right was purchased.

C. Parallel Path Flow: The power flow effect commonly referred to as “parallel path flow” or “loop flow” occurs when scheduled power flows across the interconnected electrical path between source and destination according to the laws of physics rather than according to a fixed “contract path.” Not uncommonly, this results in power flows over the facilities of an entity that is not compensated. To remedy this, the Commission has taken the position that RTOs, with their wider geographic scope of transmission scheduling and expanded coverage of uniform transmission pricing structures, provide a means to “internalize” most, if not all, of the effects of parallel path/loop flow in their scheduling and pricing processes within a region.

Williams strongly supports RTO West’s plans to participate in regional programs to mitigate parallel path flow problems. This is especially true in regard to its plan to develop a WSCC Unscheduled Flow Mitigation Plan. Additionally, it is expected that RTO West will adopt uniform flow-based scheduling procedures, accepting incremental flow-based schedules over flowpaths above a specified threshold only if they include FTRs on all flowpaths over which the power incrementally flows.

Williams is, however, disappointed with RTO West’s proposal with respect to its current development. RTO West expects to conclude negotiations with other RTOs and control area in the Western Interconnection within three years after RTO West begins

operations. Utilization of an LMP-based model rather than a flow-based model could hasten significantly the RTO's implementation of a workable plan to deal with parallel path flow problems.

Williams agrees with the Commission that RTO access to region-wide information on network conditions and power transactions, coupled with efficient congestion management and well-specified physical and financial transmission usage rights, can greatly assist RTOs in taking preemptive action against curtailment incidents that would otherwise be induced by parallel path/loop flow loading of critical transmission facilities. RTO West's plan, incomplete as it is, appears to have the capacity to deal with the operational issues stemming from parallel path flows.

D. Ancillary Services: Building upon Order No. 888's¹⁰ requirement, the Commission, in Order 2000, requires that the RTO must serve as the provider of last resort for all ancillary services required in the previous order. In those instances where an RTO owns no generation, the RTO and its participants are required to develop adequate arrangements for the provision of ancillary services to all transmission customers that request service over the facilities under RTO control.

RTO West's ancillary services proposal exceeds the requirements of Order No. 2000. In this regard, RTO West intends to offer 11 ancillary services as follows: (1) regulation, (2) load following up, (3) load following down, (4) spinning reserve, (5) non-spinning reserve, (6) replacement reserve, (7) congestion redispatch, (8) balancing energy, (9) voltage support, (10) black start, and (11) scheduling and dispatch. RTO West

¹⁰ See FERC Stats. & Regs. ¶ 32,541 at 33,744.

anticipates it will be the provider of last resort and will bill scheduling coordinators for their allocated shares of ancillary services. Scheduling coordinators will be allowed to self-provide capacity for use by RTO West to meet all or part of their ancillary services requirements thereby avoiding RTO capacity charges for procuring these services.

In an excellent effort to ensure the development of a competitive ancillary services market, RTO West ancillary services will be provided on an hour-ahead or day-ahead basis, except that the RTO may contract for black start and voltage support services on a longer term basis. Pending the development of a competitive ancillary services market, RTO West, if it is unable to secure sufficient ancillary services through voluntary bidding, may require each transmission owner to submit bids on the services to the extent that the transmission owner is capable of providing them.

Williams supports the Commission's stance that RTOs can fulfill their ancillary services obligations through a variety of mechanisms, including contractual arrangements, indirect or direct control of specified generation facilities, or market mechanisms. Allowing market participants to have the option of self-supplying or acquiring ancillary services from third parties is endorsed by Williams since either provides a competitive check on the RTO to ensure that to the extent, that it does provide the services, it acquires them as the lowest cost. RTO West's ancillary services plan appears to satisfy the requirements of Order No. 2000.

With respect to real-time balancing markets, Williams agrees with the Commission that an RTO must ensure that its transmission customers have access to a real-time balancing market that is developed and operated by either the RTO itself or another entity that is not affiliated with any market participant. Williams believes such markets are

necessary to ensure non-discriminatory access to the grid and to support emerging competitive energy markets. Additionally, Williams is supportive of the Commission's requirement that each RTO be the security coordinator for its region and have the authority to exercise a combination of direct and functional control over facilities within its region.

E. OASIS & ATC: Order No. 889¹¹ required each transmission provider to calculate and post TTC and ATC¹² numbers to give its transmission customers a reasonable estimate of how much power can be carried between any two locations on the grid and how much capacity is available to support additional commercial activity at any given time. Notwithstanding the spirit and intent of Order 889, utility recourse to utilization of the "Native Load" exception rendered much of the order ineffectual.

As required by Order No. 2000, RTO West will maintain and administer its own OASIS site and will be responsible for calculating TTC and ATC. How these calculations will be made is not specified. Williams requests the Commission require RTO West to address this issue before it is afforded RTO status.

Williams proposes the establishment of standardized protocols for the calculations of ATC and TTC numbers both within and between RTOs. With the objective of

¹¹ Open Access Same-Time Information System (Formerly Real-Time Information Network) and Standards of Conduct, Order No. 889, FERC Stats. & Regs. Reg. Preambles ¶ 31,035, 61 Fed. Reg. 21,737 (May 10, 1996); order on reh'g, Order No. 889-A, FERC Stats. & Regs., Reg. Preambles ¶ 31,049, 62 Fed. Reg. 12,484 (March 14, 1997); reh'g denied, Order No. 889-B, 81 FERC ¶ 61,253, 622 Fed. Reg. 64,715 (December 9, 1997); ("Order No. 889").

¹² TTC is the amount of electric power than can be transferred over the interconnected transmission network in a reliable manner based on certain conditions. ATC is a measure of transfer capability remaining in the physical transmission network for further commercial activity over and above already committed uses. NERC, Glossary of Terms (1996).

eliminating problems associated with transmission providers calculating these numbers, Williams reiterates its support for the Commission's approach to have RTOs serve as the administrator of a single OASIS site for all transmission facilities within its coverage area and calculate, independently, ATC values.

F. Market Monitoring: The Commission is on record as finding market monitoring to be essential in helping to ensure nondiscrimination and efficiency in the provision of transmission and ancillary services as well as encouraging fair, open and competitive markets.¹³ To carry out the market monitoring function of Order No. 2000, the Commission requires RTOs to monitor markets for transmission service, ancillary services and bulk power and to periodically assess how market behavior in markets operated by others affects RTO operations and vice-versa.

In its proposal, RTO West will establish a Market Monitoring Unit ("MMU") which will monitor the markets and investigate the cause of any elements of a non-competitive nature. The MMU will report results of its monitoring and investigations to the RTO West Board which will then decide whether to report its findings to the Commission or other relevant authority. Williams objects to this aspect and believes any findings warranting reporting should be made only to the Commission in the form of a complaint and, only then, on a confidential basis.

In spite of the foregoing, Williams opposes the requirement that RTOs undertake a market-monitoring role. Existing federal antitrust laws and the Commission itself offer

¹³ See Pacific Gas and Electric Company, 81 FERC ¶ 61,122 at p. 61,552 (1997); PJM Interconnection, L.L.C., 81 FERC ¶ 61,257 at p. 61,257 (1997); New England Power Pool, 85 FERC ¶ 61,379 at p. 62,479-80 (1998); Midwest Independent Transmission System Operation Inc., 84 FERC ¶ 61,231 at p. 62,180-81 (1998).

sufficient protection against market abuses. Notwithstanding this objection, should the Commission continue with this requirement, the market monitoring committees should report directly to the RTOs governing board and not have authority to "correct" problems. The RTO West plan not to allow the MMU to have enforcement authority is commendable in this regard. Too often, independent ISO market monitoring organizations have shown a disappointing tendency to resort to price suppression to remedy market and reliability concerns rather than allowing market-driven corrections and solutions to deal with same. A market monitoring committee reporting directly to the RTO governing board would be more grounded and realistic in its assessments of market abuses and more practical in its proposed resolution of them. The Commission should also require the market monitoring units to provide simultaneously to the Commission any reports sent to the RTO's board and to maintain strict confidentiality with respect to the identity of any market participant mentioned in the report. Additionally, Williams opposes any grant of sanction, enforcement or punishment authority to market monitoring committees.

G. Planning & Expansion: The Commission has outlined the RTO's responsibility for assuming ultimate authority over transmission planning and expansion. Specifically, the RTO must encourage market-motivated operating and investment decisions to prevent and relieve congestion and accommodate state commission efforts to create multi-state agreements on transmission expansion.

RTO West envisions it will be responsible for operational planning and long term planning for the facilities it controls. For long term planning, RTO West intends to

develop a non-discriminatory process that allows significant input from all users and owners of the system and which will also consider non-transmission solutions. As thus far developed, RTO West's planning and expansion plans are incomplete and require a substantial amount of more detail.

Williams believes the nation's transmission grid in its present state requires aggressive, yet coordinated upgrades and expansion. As the United States moves toward the objective of a reliable integrated grid, a more sophisticated, long-term planning effort is essential. Williams believes RTOs can, and should, assume this mantle of responsibility. While virtually no new transmission investment has occurred in the last several years, investment in new generation has surged dramatically. Naturally, these generation additions, in terms of incremental capacity and the location of that capacity, occur in the context of ever more constrained transmission capacity.

Owners of new merchant plants tend to avoid firm transmission commitments or limit the term of those firm commitments. Consequently, little more than transmission connections and outlets are being constructed in connection with generation additions. While new congestion may not be obvious or appear to be immediately critical, it is clear that such problems are looming. Certainly, as RTOs are formed and as more interregional transmission is essential, these weaknesses and inadequacies will be amplified and likely will have the ominous effect of reducing the real capability of new generation to reach markets.

The Commission must not only provide incentives for RTO participation in transmission expansion and upgrades, but it must also remove disincentives. RTOs must have the flexibility to offer rate incentives that encourage and promote the expansion and

upgrading of transmission systems within their area of responsibility. Williams supports allowing some premium above normally accepted rates of return as a way of encouraging RTO participation and investment in transmission expansion and upgrades. Development of an effective short-term congestion management strategy, beneficial as it is, must not, however, be accepted as the ultimate solution to transmission bottlenecks. Line constraints will always occur as long as the amount of megawatts being transmitted exceeds the throughput of the lowest rated transmission element. Unless the system is continually upgraded and expanded, bottlenecks will continue to retard true competition. In this respect, Williams believes RTOs should be granted federal eminent domain authority to facilitate the timely, efficient and orderly expansion of transmission systems.

To further the objective of timely, efficient and orderly expansion of transmission systems, Williams urges the Commission to adopt as policy, to be manifested in RTO tariffs, an acceptance of the role of independent, non-utility, merchant transmission development. RTO tariffs and procedures should accommodate well-publicized, open planning meetings that will facilitate independent, non-aligned merchant transmission investor participation. Mechanisms should be established to allow merchant development of transmission with revenue recovery through transmission credits, FTRs, tradable transmission rights or rents. Additionally, merchant transmission participants must be allowed to privately fund transmission projects that meet necessity requirements even where RTO funding support may be available.

Transmission development and expansion must be encouraged to compete with generation on an economic and reliability basis. Transmission expansion should be focused upon providing access to load pockets, mitigating differences in locational

pricing, enhancing system reliability, facilitating the delivery of ancillary services and eliminating or diminishing parallel path flow problems. Merchant transmission development, with proper revenue incentives, must be encouraged to assist in reducing the cycle time for placing new lines in service to provide a more timely market response to congestion.

A key factor presently inhibiting transmission expansion is the uncertainty surrounding the return on such investments. This concern was recently, and very clearly, heightened in the Southern California Edison rate case¹⁴ in which a Commission Administrative Law Judge recommended a lower rate of return on equity than Edison had previously received from California state regulators. This reduction on equity greatly discourages the attraction of needed transmission expansion and upgrades.

The capital investment required for transmission expansion and upgrades can be substantial. As noted earlier, cost-based ratemaking in this context is an inadequate incentive and regulatory uncertainty is a clear disincentive. RTO coordination of transmission expansion, combined with market-based rate authority for those market participants who pursue expansion or upgrade projects, would further the goal of effecting the development of new and needed transmission facilities. In this respect, Williams would encourage the Commission to allow rates of return on equity for needed transmission expansion projects and upgrades that are commensurate and more reflective of the greater associated risks compared to existing transmission facilities.

H. Interregional Coordination: Coordination of activities among regions is a significant element in maintaining a reliable bulk transmission system and for the development of

competitive markets especially with respect to “seams” issues such as parallel path, congestion management and expansion planning functions.

At present, RTO West has not developed an interregional plan that would satisfy the requirements of Order No. 2000. RTO West states it has formed a working group to address seams issues with other RTOs. It also indicates discussions with entities in British Columbia and Alberta are ongoing.

Williams strongly supports the Commission’s requirement that all RTO proposals explain how the RTO will ensure the integration of reliability and market interface practices. According to the Commission, this provision does not mean that all RTOs necessarily must have a uniform practice, but that RTO reliability and market interface practices must be compatible with each other especially at the “seams.” Williams encourages the Commission to reevaluate this position and require the development of uniform reliability and market interface practices. Such an approach will facilitate the integration of reliability practices involving procedures addressing parallel path flows, ancillary service standards, and transmission loading relief procedures.

VI.

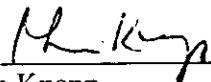
CONCLUSION

RTO West, in meeting the letter and spirit of Order No. 2000’s scope and regional configuration characteristic, has positioned itself to ably resolve many of the obstacles confronted by entities seeking Commission approval of their RTO plans. However, the RTO West proposal is incomplete in a number of respects. More detail and development

¹⁴ FERC Dockets Nos. ER96-2355-000, et al.

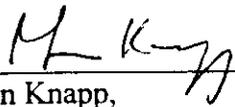
are required in regard to tariff design, congestion management strategy, parallel path flows, planning and expansion and interregional coordination. The inclusion of BPA in RTO West and the concomitant benefits of same may be problematic especially when considering the operational limitations the RTO will likely encounter with respect to BPA's transmission and generation facilities. Notwithstanding, Williams is extremely supportive of RTO West's efforts and believes its RTO concept will ultimately be acceptable to the Commission.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing will be served upon all parties contained on the Commission's official service list in this docket by placing copies of same in the United States mail, first class postage prepaid on the 20th day of November, 2000.


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