

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Avista Corporation)	Docket No. RT01-15-000
Montana Power Company)	
Nevada Power Company)	
Portland General Electric Company)	
Puget Sound Energy, Inc.)	
Sierra Pacific Power Company)	

Avista Corporation)	Docket No. RT01-35-000
Bonneville Power Administration)	
Idaho Power Company)	
Montana Power Company)	
Nevada Power Company)	
PacifiCorp)	
Portland General Electric Company)	
Puget Sound Energy, Inc.)	
Sierra Pacific Power Company)	

California Independent System Operator Corporation)	Docket No. RT01-85-000
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Arizona Public Service Company)	Docket Nos. RT02-1-000
El Paso Electric Company)	EL02-9-000
Public Service Company of New Mexico)	
Tucson Electric Power Company)	
WestConnect RTO, LLC)	

**SUPPLEMENTAL COMMENTS OF AVISTA CORPORATION,
PACIFICORP, AND PUGET SOUND ENERGY, INC.
ON WHOLESALE MARKET ACTIVITIES**

The Federal Energy Regulatory Commission (the “Commission” or “FERC”) has requested comments with respect to the types of entities that might best perform wholesale market activities in a particular geographic region of the United States.¹ Avista Corporation (“Avista”), PacifiCorp, and Puget Sound Energy, Inc. (“Puget”) (collectively, the “Companies”)

¹ Notice Inviting Comments on Wholesale Market Activities, Docket No. RM01-12-000 et al. (Nov. 20, 2001) (“November 20 Notice”).

submit these comments to address the Commission's request with respect to the geographic region approved by the Commission for RTO West.² The Companies' comments also address what type of entities might best perform any market activities performed on an interregional basis within the Western Interconnection. At present, there are three RTOs proposed in the Western Interconnection. RTO West and the California ISO are both nonprofit entities, while WestConnect is a for-profit entity.

Avista, PacifiCorp, and Puget are today filing comments with BPA in response to the Commission's invitation to comment. These supplemental comments expand on the comments filed jointly with BPA.

I.
**NONPROFIT RTOS ARE ENTITIES THAT CAN PERFORM
ALL RTO MARKET ACTIVITIES**

The Companies favor the establishment of an RTO that is capable of performing all market activities within its geographic scope. We believe that an RTO formed as a nonprofit corporation can appropriately balance the public interest and the private interests of transmission owners and thereby undertake all market activities. On the other hand, a for-profit RTO that is in the business of building transmission may have a more difficult time establishing that its planning process has paid adequate attention to lower-cost alternatives for congestion relief other than transmission expansion. This is not to say that for-profit companies could not share the planning function within an RTO or that it would be impossible to structure an appropriate

² In its April 26, 2001 order, the Commission approved the geographic scope proposed for RTO West, which encompasses all of the Pacific Northwest within the United States and most of the Intermountain West. *Avista Corp., et al.*, 95 FERC ¶61,114 (2001). The Commission encouraged continued efforts to obtain Canadian participation in RTO West. BC Hydro is participating in the development of the RTO West Stage 2 filing with the U.S. applicants in Docket No. RT01-35-000 and discussions continue with representatives in the Province of Alberta.

planning function within a for-profit RTO. It is simply to suggest that a nonprofit RTO is a type of entity that can more easily balance interests arising in the context of planning for transmission expansion.

Market monitoring is another market activity that could be implemented by a nonprofit RTO, whereas market monitoring may not be appropriate for a for-profit RTO transmission owner with an interest in profit from congestion rents on transmission it owns. Additionally, to the extent the RTO is involved in the ancillary services or other markets, it may develop an interest that is not completely aligned with market efficiency. Again, this is not to suggest that a for-profit RTO could not undertake the market monitoring function and perform well. It is simply to note that the issues become more complex when a for-profit RTO undertakes some of the market activities. RTO West applicants chose, in part, to form a nonprofit RTO in order to avoid some of the added complexities that a for-profit RTO must resolve.³

The Commission's November 20, 2001 order in AEP Power Marketing, et al., 97 FERC ¶61,219 (2001), contemplates that RTOs with Commission-approved market monitoring may administer price mitigation programs. It is not clear whether the Commission assumes that all RTOs will operate balancing markets, including implementing a price mitigation program. The Companies have assumed that FERC would retain responsibility for any necessary price mitigation program and had not contemplated expanding the role of the market monitoring unit to include implementing price mitigation. These assumptions need to be examined in light of regional differences and the final content of RTO West's Stage 2 proposal.

³ The primary driver of the RTO West applicants' decision to form a nonprofit RTO is that the applicants desired to establish an RTO in which BPA could participate.

II. THE TYPES OF ENTITIES THAT COULD COORDINATE OR PERFORM MARKET ACTIVITIES ON AN INTERREGIONAL BASIS WITHIN THE WESTERN INTERCONNECTION

With the exception of security coordination,⁴ RTO West does not anticipate sharing any of the identified market activities⁵ within RTO West's geographic scope with separate organizations, other than with participating transmission owners in RTO West. RTO West will, however, evaluate sharing the identified market activities with separate organizations if it proves to be cost-effective to do so and is otherwise appropriate. RTO West does anticipate sharing performance of certain market activities with other RTOs within the Western Interconnection. It also anticipates coordinating other market activities with separate entities, such as the standard-setting organization, for reliability purposes. Consequently, the Companies will comment on the types of organizations that might best accommodate the performance of shared functions and those that might best assist RTOs in performing market activities through cooperation with the RTOs. We will also address some of the problems that RTO West may encounter in developing its vision for three RTOs within a seamless Westwide market if the Commission were to determine that for-profit RTOs cannot perform certain market activities.⁶

⁴ RTO West applicants contemplate that RTO West would contract with the Pacific Northwest Security Coordinator, a separate Washington nonprofit corporation, to perform RTO West's security coordination function.

⁵ The November 20 Notice identifies the following eight wholesale market activities: congestion management, ancillary services, administration of a balancing market, OASIS administration (including total transmission capacity and available transmission capacity calculations), security coordination, market monitoring, regional transmission facility planning, and tariff administration and design. Under Order No. 2000, all of the above are essential functions of an RTO except the administration of a balancing market.

⁶ During "RTO Week", some commenters questioned the desirability of a for-profit RTO performing planning and market-monitoring activities. (See, e.g., the exchange on planning between Commissioner Breathitt and others, page 211 (October 15, 2001); page 409, line 2 through page 411, line 8; and page 429, lines 15-18 (October 16, 2001), and see, e.g., transcript comments of Roy Thilly, page 131, line 22 through page 132, line 10;

A. Shared Market Activities

The Companies intend that RTO West will be one of three RTOs operating within a single Westwide market for transmission services, featuring “one-stop shopping” for transmission customers throughout the Western Interconnection. Accordingly, transactions across the interconnection involving multiple RTOs will be accomplished through a single interface point; the three RTOs will share services to the extent feasible; and common operational systems such as backup control centers will be used to the extent reliability and security are not jeopardized.

The Companies contemplate that the three RTOs will utilize common reliability and interconnection standards and practices. Common alternate dispute resolution procedures will be developed for interregional dispute resolution. Scheduling practices will be common to all three RTOs. Common communication protocols and data standards will be developed. Compatible congestion management models will be developed with seamless market operation.

There are a number of different ways that RTO West, WestConnect and the California ISO (the three RTOs proposed in the Western Interconnection) could accomplish one-stop shopping. All three proposed RTOs are exploring alternatives through the Seams Steering Group for the Western Interconnection (SSG-WI, referred to herein as the “Steering Group”). One option is to use the Steering Group as the forum to negotiate a seams agreement under which each transaction involving two or more of the RTOs would be arranged completely through the OASIS of the RTO where the power being transmitted is generated. Another option is to negotiate an agreement among the three RTOs for one of the RTOs to operate a single OASIS

page 160, line 20 through page 161, line 15 (October 15, 2001) in RTO Week Transcript, Docket No. RM01-12-000.)

for all three RTOs. Yet another option is for the Steering Group to create a entity such as a joint venture, nonprofit or limited liability corporation for the purpose of operating a single OASIS for the three RTOs. The seams agreement among the three RTOs will address issues such as common operational systems, backup control area services, and other shared services.

The need for common dispute resolution procedures and rules determining the proper forum for resolution of various kinds of disputes may also be addressed through the seams agreement. Alternately, if a separate entity is established by the three RTOs to operate a single OASIS, the RTOs could also delegate the oversight of interregional dispute resolution to that entity.

Similarly, market monitoring could be handled by staff at each RTO, with those staff having a reporting relationship with an independent committee established by the Steering Group with oversight for Westwide market monitoring. However, the market monitoring work group of the Steering Group is considering an alternative under which the RTOs would create a stand-alone entity to handle market monitoring (and perhaps other functions). The Companies recognize that the entity with responsibility for market monitoring should have the ability to report concerns or wrongdoing to the Commission, independent of market participants. The Companies do not contemplate that the market monitoring unit will have the authority to set price thresholds and mitigation in connection with a balancing market.

B. Coordinated Market Activities

The Companies expect that the mechanisms for coordinating other market activities such as congestion management, ancillary services, balancing markets and tariff administration will

be addressed in the seams agreement among the three RTOs. The Steering Group is responsible for assuring the development of compatible market activities.

The Companies believe that planning is and should be an RTO function. Interregional coordination of planning is helpful and, to the extent that large interregional transmission projects may be required, necessary. One option for coordinating planning on a Westwide basis, as suggested in the Commission's November 7, 2001 order,⁷ is for the Western Systems Coordinating Council ("WSCC") or its proposed successor organization, the Western Electricity Coordinating Council ("WECC"), to have responsibility for interregional planning in the Western Interconnection. However, the Companies do not believe the WSCC or the proposed WECC should perform interregional planning for the Western Interconnection. Planning for transmission expansion to meet commercial needs efficiently is not a historical function of the WSCC. WSCC's role in planning has been one of coordination among its members. Nor is it a proposed function of the WECC under the bylaws approved by the Commission in its September 27, 2001 order.⁸ The functions of WSCC and WECC center around setting standards for the electricity industry, with the historic emphasis on reliability standards. The planning function under the proposed WECC is limited to review of projects to determine whether they were developed in a manner consistent with WECC planning procedures.⁹ Neither the WSCC nor the WECC has the authority or expertise to make operational decisions concerning facility

⁷ Electricity Market Design and Structure, 97 FERC ¶61,146 (2001) (Order Providing Guidance on Continued Processing of RTO Filings).

⁸ The WECC bylaws give the organization a limited role in the coordination of interregional planning activities. (See WECC Bylaws § 2.16.) However, that role does not include expansion planning studies. (See WECC Bylaws § 2.1.6.4.) The bylaws also state that WECC will have no authority with respect to commercial practices. Thus WECC lacks the expertise and authority to do more than assist the RTOs in the development of coordinated planning policies and procedures, as contemplated by the bylaws. Order Granting Request to Transfer Programs and Directing Additional Filings, 96 FERC ¶61,348 (2001).

construction. Moreover, siting decisions have local impacts that fall within state jurisdiction, thereby necessitating a continuing state role for effective planning. The Companies believe that the planning function is best performed within RTOs, with the states providing an important oversight role. To the extent interregional projects are proposed, all three RTOs and states in the Western Interconnection should be involved in decision-making. The Washington Utilities and Transportation Commission has proposed to members of the Northwest Congressional delegation that an interstate compact agency be formed to oversee transmission planning within RTO West and perhaps the other RTOs in the Western Interconnection. This approach has promise and, if combined with coordination through the Steering Group, for interregional projects, offers a more promising alternative for interregional planning.

C. Potential Impediment to the Implementation of the Western Market Vision

As noted above, some commenters have recommended that certain functions of a for-profit RTO should be performed by an entity independent of the RTO. The November 20 Notice notes that parties have proposed the development of separate organizations to perform some wholesale market activities that are specified as RTO functions under Order No. 2000. The Notice further explains that some parties have already proposed that some RTO functions be performed by a separate entity. This suggests the Commission may amend Order No. 2000 to require performance of some market activities that are RTO functions by a separate entity, perhaps one that is a nonprofit. Thus it opens the possibility that nonprofit RTOs may be permitted (perhaps required) to fulfill all RTO functions, while for-profit RTOs may be required to delegate performance of some RTO functions to a nonprofit entity. It also raises the specter that the Commission may amend Order No. 2000 to require voluntary RTOs to permit nonprofit

⁹ See WECC Bylaws § 2.1.6.1-3.

RTOs or other nonprofit entities to perform some market activities within the RTO's geographic scope. Lastly, the November 20 Notice, read together with the Commission's November 7, 2001 order, may suggest that the Commission is considering amending Order No. 2000 to require umbrella organizations independent of the RTOs to perform certain RTO functions Westwide. Given the Chairman's statement during RTO Week that a Westwide RTO is off the table for now, we assume the Commission is not moving in the direction of requiring RTO functions to be carried out by a Westwide umbrella organization.¹⁰

As noted above, two of the three RTOs proposed for the Western Interconnection are nonprofit (RTO West and the California ISO) and one is for-profit (WestConnect). To date, all seams work undertaken by the Steering Group has progressed under the assumption that each RTO will perform all RTO functions, absent some agreement by each of the three RTOs to provide shared services as discussed above. If, for example, WestConnect was not allowed to perform all RTO functions, then negotiations for a seams agreement would be stymied until it is decided what entity(ies) would perform certain RTO functions for WestConnect. Under this scenario, resolution of what entity(ies) are responsible for each RTO function within the WestConnect geographic scope is a critical path item. Consequently, the Companies urge the Commission to determine promptly whether any proposed RTO will not be permitted to perform all RTO functions and, if so, what entity(ies) can or must perform such functions. Timely completion of seams work in the Western Interconnection is dependent upon the Commission's decision in this regard.

Dated this 7th day of December, 2001.

Respectfully submitted on behalf of the following:

¹⁰ This would not preclude delegation of certain RTO functions to other organizations with the Commission's approval.

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