

February 6, 2001

Summary

Order on Compliance Filing and Providing Further Guidance, Denying Requests for Rehearing and Rejecting Filing on Alternative Governance Structure

Alliance Companies, FERC Docket No. ER99-3144-003

Issued January 24, 2001

This order was issued in response to Alliance's third compliance filing. Several parties sought the appointment of a settlement judge to assess the practicalities of uniting Midwest ISO and Alliance. FERC agreed to do so and stated that this January 24 order does not address the merits of the third filing, but rather should be used as guidance for discussions among the parties.

1. RTO Characteristic: Independence [p. 9]

Alliance proposes a for-profit structure with a for-profit transmission entity that owns, controls and operates the facilities for one or more Alliance company and controls the rest of the Alliance companies. Because the structure is so different from that of RTO West, no further summary.

2. RTO Characteristic: Scope and configuration. [p.18]

This is controversial because the proposal does not include the entire Midwest and spans two NERC regions. However, FERC finds that the scope and configuration satisfy Order No. 2000 because Alliance's new rate design eliminates pancaking and parallel path problems inherent in earlier filings. Also, Illinois Power has signaled that it may ultimately become a member of Alliance. RTOs can meet the scope and configuration requirements of Order No. 2000 through agreements that eliminate the effect of the seams separating RTOs.

3. RTO Characteristic: Operational Authority [p. 21]

Alliance will: 1) Implement and administer the OATT and OASIS; 2) act as NERC Security Coordinator; 3) promote the development of an ancillary services market; 4) coordinate the scheduling of all transmission system maintenance and generator maintenance; 5) monitor transmission use behavior; 6) determine and facilitate the relief of congestion; 7) calculate ATC; 8) interface with future power exchanges that may be established in the Alliance region and; 9) implement performance/audit criteria by which it will judge the operation and performance of the transmission owners with respect to functions shared with or delegated by Alliance to the transmission owners.

Transmission owners will physically operate their transmission systems at Alliance's direction.

4. RTO Characteristic: Short-term Reliability [p. 23]

Alliance will have exclusive authority for receiving, confirming and implementing all interchange schedules, including implementation of control areas that it does not operate. Alliance will have authority to direct redispatch. Enron argued that allowing Alliance to retain existing control areas within the RTO could lead to Alliance's favoring generation controls. FERC said this had no merit because Alliance would schedule all transactions.

5. RTO Characteristic: Tariff Administration and Design [p.24]

Alliance proposes a transitional rate structure that includes non-pancaked zonal rates applicable to deliveries to loads within Alliance and a single regional rate applicable to deliveries to loads outside Alliance. Alliance seeks approval of its methodology--the actual rates will be filed at least 60 days before Alliance starts operating. FERC OK'd the zonal rate with a component for lost revenues but required revisions to the Region-Wide Rate for Through and Out Transactions, a.k.a. RTOR, because there was too large a difference between the two--an "excessive rate differential between the price of transmission service to loads located within Alliance versus the price of transmission service to loads located outside Alliance."

6. RTO Function: Congestion Management [p. 32]

Alliance will require generators to provide redispatch bids for congestion management as part of their interconnection agreements. The rest of the congestion management scheme will be included in the final filing. Several intervenors complained about the lack of specificity, but FERC stated that since Order No. 2000 only requires market mechanisms to manage transmission congestion be in place within one year of commencement of the RTO's service, a less than final product is acceptable.

7. RTO Function: Parallel Path Flow [p. 35]

Alliance will internalize parallel path flows within the Alliance region and where they can be identified; Alliance will include them in its ATC calculations. Alliance included the pro forma Inter-RTO Cooperation Agreement with its filing. (Requires RTOs to address parallel flows on an interregional basis.) FERC pointed out that a large RTO region enables increased internalization of parallel path flows.

8. RTO Function: Ancillary Services [p. 36]

Alliance will provide ancillary services under its tariff and will be the ancillary services provider of last resort. Ancillary services will be provided separately for each control area. The Alliance OATT provides a separate rate schedule for each ancillary service and a separate charge for each pricing zone. Ancillary services will be provided separately for each control area. Alliance proposes to provide Energy Imbalance Service through a real-time balancing market that is operated either by Alliance or by an independent market operator.

FERC agreed with numerous intervenors that Alliance's proposal for Energy Imbalance Service was not sufficiently defined. In particular, FERC was concerned about the relationship of the market monitor to the ancillary services markets. The Commission did not give any hints as to what that relationship should be, but indicated that it at least needs to be more completely thought out and described.

The Commission rejected arguments that the zonal ancillary rates are discriminatory, noting that Alliance's configuration is based on separate control areas (zones) with separate license plate rates in each zone and the proposed ancillary service price based on zonal rates is consistent with this approach.

9. RTO Function: OASIS and Total Transmission Capability and ATC [p. 39]

Alliance will operate a single OASIS site to receive and process all transmission service requests and Alliance will independently calculate TTC and ATC. Although customers will provide certain information to both Alliance and control area operators, Alliance will be making the ATC and TTC calculation and will create a system for tests and checks to ensure customers of coordinated and unbiased data. FERC directed Alliance to provide details of the tests and checks with its final compliance filing.

10. RTO Function: Market Monitoring [p. 40]

FERC agreed with intervenors that the Alliance MM proposal is not sufficiently detailed--specifically, that the proposal does not explain how the program will actually function and how the market monitor will perform its duties. Order No. 2000 requires a filing RTO to state whether the MM will only identify problems or whether it will also propose solutions. The Commission directed Alliance to resubmit its marketing plan with greater detail and also gave notice that it may issue a supplemental order regarding market monitoring. FERC stated that based on its experience reviewing other MM plans and how well they meet FERC goals, the Commission "may issue a supplemental order to revise and/or further define, among other things, the roles and responsibilities of the market monitor, the data to be provided to or collected by the market monitor, the interaction of the market monitor with the Commission's staff, as well as other aspects of market monitoring."

11. RTO Function: Planning and Expansion [p. 43]

FERC directed Alliance to revise its filing to reflect the governance structure of the three groups that will be responsible for planning and expansion--the Planning Advisory Committee, the Reliability Planning Committee and the Operational Planning Committee. Specifically FERC asked Alliance to include how and by whom the members of these committees will be appointed, their terms and constituencies and the grounds for removing committee members.

12. RTO Function: Interregional Coordination [p. 44]

FERC directed Alliance, PJM, Allegheny Energy and others to mediation before the Chief FERC ALJ to continue seams discussions and did not rule on the submitted seams plan.

13. Open Architecture [p. 46]

FERC deferred ruling on this noting that no intervenors have complained about it.

14. Specific OATT issues

A. Rate Issues [p.46]

1. Administrative fee [p. 46]--Alliance proposes to charge an administrative fee on all transactions--a transaction-based charge and a capacity-based charge. FERC defers rejecting a methodology until Alliance's rates are filed but wants Alliance to demonstrate no pancaking and that the fee isn't exorbitant for a small transmission user. FERC found that Alliance has not shown that the fee is just and reasonable.

2. Loss methodology [p. 48]--FERC finds Alliance's loss methodology is unclear. Alliance must demonstrate why schedules must be rounded up to the next MW and recognize that holidays occur on weekdays and should be classified off-peak for losses.

3. Grandfathered agreements [p. 49]--Alliance proposes to automatically convert grandfathered contracts to the OATT at the end of the transition period, if contract holders are unable to renegotiate their contracts. FERC states that it is premature to accept this proposal. The Commission reiterated its position that an RTO can operate an efficient, reliable transmission system only to the extent that all transactions are governed by consistent terms and conditions, however. So, FERC directed its Director of Dispute Resolution Service to convene a meeting of the parties to determine if he can help negotiate a settlement. If by December 31, 2003, renegotiation of these contracts has not occurred, the Commission directs Alliance to notify it which contracts have not been renegotiated, clarify the issues and propose a remedy.

4. Failure to Curtail Penalty [p. 52]--Alliance proposes a \$50 per kW penalty for failure to curtail pursuant to the RTO's directive. Intervenors argued that the penalty exceeds FERC's recommended "twice the stated rate" penalty. FERC agrees that the proposed penalty exceeds that needed to encourage compliance with curtailment directives.

B. Non-rate issues [p. 53]

1. Point-to-Point Transmission Service [p. 53]--Alliance proposes to modify Section 13.7 of the pro forma OATT (Classification of Firm Transmission Service) to provide that reservations not exceeding three years may be made pursuant to

an umbrella firm point-to-point service agreement if requested on the OASIS. Also, Alliance proposes to modify the unauthorized increase charge provision of Section 13.7 to be 200 percent of the firm point-to-point service charge for the reserved period per occurrence, capped at twice the monthly charge times the maximum hourly amount in excess of the reserved capacity. FERC approved these modifications.

2. Modifications on a Non-Firm Basis [p. 53]--Under the pro forma tariff, a transmission customer taking firm point-to-point service may receive transmission service on a non-firm basis over secondary receipt and delivery points in amounts not to exceed its firm reservation without incurring an additional non-firm point-to-point transmission charge. Alliance proposes to extend this provision to non-firm service without requiring a new request for service over the OASIS. FERC allows the extension but will require that such reservations be made over the OASIS for transparency reasons.

3. Network Transmission Service [p. 54]--Alliance proposes to accord designation of short-term network resources the same reservation priority as short-term firm point-to-point service requests. FERC directs Alliance to remove this provision because it is inconsistent with FERC precedent. Also, FERC agreed that firm off-system sales from designated network resources should not be permitted without first un-designating such resources.

4. Scheduling [p. 55]--Alliance's OATT contains a provision that all requests for non-firm point-to-point service (except requests for hourly service) made during the first 15 minutes after the time when non-firm point-to-point service can first be requested are deemed submitted simultaneously. FERC allowed this provision. In the event of a system constraint, competing requests of equal duration will be prioritized based on the highest price offered by the customer for such service. (Section 14.2 of the pro forma tariff, which Alliance has.)

5. Rollover Rights [p. 56]--Alliance's tariff maintains the pro forma tariff's reservation priority for existing firm service and the requirement that customers exercising rollover rights match any longer term request. Rollover rights are extended to retail customers and are limited to the facilities, which were included, or could be included, within the costs of the pricing zone where the firm service customer had taken service. The Commission stated that limiting a customer's rollover privileges to the facilities that are included in a customer's present rates implements the requirements of the pro forma tariff in the context of a regional arrangement.

6. Sequential Off-Peak Hourly Service [p. 56]--Alliance proposes a new service as part of its non-firm point-to-point service. It would allow customers to reserve this service over daily, weekly or monthly periods. (Under the pro forma tariff, requests for hourly non-firm may not be submitted prior to noon the day before the service.) Customers of this new service would not have the right to match requests for longer-term non-firm that might displace them under the bumping provisions of the tariff. FERC directed Alliance to include a provision that made it clear that this type of service did not upset the bumping process set forth in Section 14.2 of the pro forma tariff.

7. Miscellaneous Issues [p. 57]--Alliance proposes a combination of pricing for new facilities. For network facilities that can be accommodated without significant cost, it appears that Alliance would roll those costs into its rates. (But this is not clear.) For interconnections, interconnecting parties would be required to pay for the costs associated with new generation. For construction of network upgrades that cannot be directly assigned to specific transmission customers, Alliance will develop and file a mechanism that will allow transmission owners constructing facilities to recover the full annual revenue requirement associated with the facility. The Commission noted that Alliance proposes to hold a technical conference regarding interconnection procedures and that FERC will review what comes out of that conference later.

C. Generator Interconnection Procedures and Pro Forma Interconnection Agreement [p. 59]

Alliance filed a pro forma interconnection agreement. It will require all generators interconnected to its system to sign it, except for the remaining contract terms of generators that have existing interconnection agreements which do not have a significant impact on the system. Intervenors generally complained that the interconnection procedures were too onerous for small (10 MW or less) generators. The Commission deferred ruling on this but pointed out that there were inconsistencies among various filed documents in rules for small generators. For example, two different documents were inconsistent regarding whether small generation units that are not used to engage in wholesale transactions are covered by the interconnection protocol and pro forma agreement. The Commission directed Alliance to clear up such inconsistencies. It also noted in a footnote (No. 189) that one of the primary goals of Order No. 2000 is to encourage new generation and that Alliance acknowledged in its own OATT that generation of less than 20 MW has “no significant electric effect” on Alliance.

Various motions were denied at the end of the order, including a motion for alternate governance structure.

Commissioner Massey's dissent

Commissioner Massey filed a five-page dissent. He stated that the scope and configuration of Alliance will separate buyers and sellers that constitute predominant west to east trading patterns and can act as a strategically placed toll gate. Seams agreements are not a substitute for the basic characteristic of adequate scope and configuration. He would have directed Alliance to participate in discussions with the clear objective of a single RTO for the Midwest, which he believes is critical.