

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

**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. RT01-35-000

**MOTION TO INTERVENE AND COMMENTS
OF THE INDEPENDENT ENERGY PRODUCERS**

Pursuant to Rules 211 and 214 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") Rules of Practice and Procedure, 18 CFR §§ 385.211 and 385.214, the Independent Energy Producers Association (IEP) hereby moves to intervene in this proceeding and offers the following comments regarding the above-captioned "Stage 2 Filing and Request for Declaratory Order Pursuant to Order 2000" ("Stage 2 Filing") of the RTO West Filing Utilities.

I. Motion to Intervene, Notice Information, Party Description And Nature of Interest.

The following persons should be included in the official service list in these proceedings and all notices and communications with respect to these proceedings should be addressed to:

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IEP is a nonprofit trade association representing the interests of electric generators and certified independent power marketers in California. IEP's members collectively own and operate more than 20,000 MW of installed generating capacity participating in California's wholesale markets, and some are involved with new project developments that will operate within the competitive markets. In addition, power marketers—significant participants in the California markets—are also included within IEP's membership. Other members, consisting of consultants and law firms, provide support services for the industry.

As the entities directly participating in the larger Western wholesale electric markets pursuant to market-based rate authorizations, IEP's membership has an immediate and substantial interest in the instant proceeding. IEP respectfully requests that the Commission grant its request to intervene. Granting this request will be in the public interest insofar as IEP represents a significant portion of the market participants in the Western Interconnection. The development of regional transmission organizations in the West, and in particular issues pertaining to the "seams" issues between RTO West and California, are of vital concern to IEP's membership. Given these interests, no other party can adequately represent IEP's interests in this case. Therefore, IEP respectfully requests that the Commission grant this motion to intervene and make IEP a party to the above-captioned proceeding for all purposes.

II. Comments

A. Introduction

IEP strongly supports for the formation of RTO West as part of a seamless western market consistent with the goals of Order 2000. In that regard, any significant progress toward the formation of a robust and comprehensive RTO in the Northwest is an important step in the right direction. Notwithstanding the reservations of various of the filing utilities, IEP recognizes

and applauds their effort in taking the steps towards an RTO that are represented by this filing. Accordingly, while IEP has concerns regarding the compatibility of RTO West with the California Independent Operator (CAISO), IEP generally supports this application for a declaratory order approving the concept of RTO West as described in this filing. However, IEP urges the Commission to condition such approval as described below to ensure that RTO West is in fact consistent with the vision of a seamless Western market. Appropriate resolution of these seams issues is critical to fulfilling the basic function of an RTO (specifically Function 8 under Order 2000), as well as prior orders of the Commission specific to RTO West.¹

These comments will focus primarily on the “seams” issues between RTO West and California. These are the issues that the filing seeks to resolve through the “Seams Steering Group-- Western Interconnection” (“SSG-WI” or “Steering Group”)² as well as the Seams Subcommittee of the Western Market Interface Committee of the Western Electricity Coordinating Council. Among these issues are congestion management at the seams, market monitoring, price reciprocity, and compatibility of scheduling and curtailment across the seam.

Before discussion of these traditional seams issues, however, IEP notes that many features of the RTO West proposal diverge substantially from the California Independent System Operator (“CAISO”) current and proposed market designs. The RTO West proposals also do not conform in some important respects with the Commission’s proposed Standard Market Design (SMD). For example, RTO West does not include a day-ahead market, whereas both the SMD and the CAISO designs do. Unlike the SMD and the CAISO proposed market design, RTO

¹ Function 8 requires RTOs to “ensure the integration of reliability practices within an interconnection and market interface practices among regions.” 18 CFR § 35.34(k)(8).

² See Stage 2 filing at page 56, as well as Exhibit A to Status Report Concerning RTO West Development, filed December 1, 2000, by Avista, Bonneville, BC Hydro, Idaho Power, Montana Power, PacifiCorp, and Puget.

West will require balanced schedules. RTO West also differs from the CAISO and SMD proposals in that it does not include a structure to ensure generation adequacy. RTO West also differs in that it is not proposing multipart bids. In these and other respects, the RTO West proposal would create a substantially different market than exists or is proposed for California. These differences may or may not pose “seams” issues *per se*. But even if they do not, these differences will certainly make the transition to a single west-wide RTO more difficult. IEP supports the vision of a single west-wide RTO and therefore is troubled by these differences. In the spirit that “the better is the enemy of the good,” however, IEP can accept these differences provided that such a different market design can be compatible with its neighbors, particularly California. The Commission should only give final approval for these differences to the extent it is satisfied that they can be made compatible at the seams.

B. Specific Comments on Seams Issues

1. The Commission Should Condition Approval of the Stage 2 Filing on Achieving Full Participation by Transmission Owning Entities in the Region.

The best way to deal with seams issues is to reduce the number of seams. In this regard, IEP is encouraged that the Stage 2 filing is made on behalf of most of the transmission owning entities in the Northwest. IEP would not support this filing, particularly given the market design differences described above, were this not the case. As the Stage 2 filing notes, the Commission has already emphasized that “[m]ost or all of the transmission facilities in the region should be operated by the RTO, as well as those necessary for operational control and management of constrained paths, regardless of the voltage.” (Stage 2 filing at page 33, citing the Commission’s Order of April 26, 2001, at 95 FERC ¶ 61,345.) IEP urges the Commission to reiterate this policy in its decision regarding the Stage 2 filing.

2. The Commission Should Condition Approval On Full Coordination Between The SSG-WI And The WECC/WMIC.

Since the release of Order 2000, seams issues in the Western Interconnection have been under review through the Seams Subcommittee of the Western Market Interface Committee (WMIC) of the Western Electricity Coordinating Council (WECC).³ Nonetheless, the RTO West Filing Utilities have created another forum, the SSG-WI, for resolution of these same issues. On the one hand, IEP is encouraged by the Filing Utilities' recognition of the importance of these issues. On the other, IEP is troubled by the potential for conflict, duplication or lack of coordination between the SSG-WI and the WMIC Seams Subcommittee.

This concern is exacerbated by the lack of transparency and stakeholder input of the SSG-WI. As acknowledged in the Stage 2 filing, the Steering Group is “composed of representatives of the RTO West filing utilities, the California ISO, and Westconnect ...”⁴ (Stage 2 filing at page 56.) They propose that this group, using a “conference committee” approach, should “serve as the western forum for policy level implementation of the seamless west-wide market and for resolving issues associated with differences in RTO practices and procedures.” (Stage 2 filing at page 57.) Although not made explicit in the filing, the SSG-WI meetings are closed to stakeholders. In contrast, the WMIC subcommittee involves direct participation by the full spectrum of stakeholders and conducts its meetings in public. Moreover, the WMIC subcommittee is overseen by the WECC board, which itself represents a broad spectrum of transmission owners, transmission dependent utilities, electric suppliers and

³ The WECC is the successor to the Western Systems Coordinating Council and the Western Interconnection Coordination Forum that previously oversaw these activities.

⁴ Specifically, the filing states: “The steering group membership consists of policy level representatives from the California ISO, RTO West, and Westconnect. The filing utilities believe the steering group structure should also be designed to provide for meaningful participation by state and provincial representatives.” (Stage 2 filing at page 57.) Conspicuously absent is any participation by market participants or other stakeholders.

marketers, electric customers, environmental and public interest groups, state and provincial representatives, as well as seven nonaffiliated directors. This board also conducts its business in public.

To be sure, the Stage 2 Filing explicitly acknowledges the need for coordination between the SSG-WI and the WMIC subcommittee. The filing states:

The filing utilities believe that the steering group should be the forum for facilitating resolution of interregional commercial and marketing issues in the west. Consistent with the North American Electric Reliability Council's recent policy decision, the WECC should be the forum for dealing with reliability issues in the west. The WECC's role is to coordinate development of reliability practices and standards to achieve a reliable western transmission system. The steering group facilitates the development of common business practices and standards to achieve a seamless and competitive western market. Because of the close relationship between reliability and market interface business practices, there should be a strong coordinating relationship between the steering group and the WECC.

(Stage 2 filing at page 59.) The filing thereafter describes current efforts to coordinate between the WMIC subcommittee of the WECC and the SSG-WI. IEP is aware of and applauds these coordination efforts.

Nonetheless, IEP remains somewhat concerned regarding the SSG-WI and its potential for conflict with the work on the same issues previously underway through the WMIC subcommittee. Accordingly, IEP urges the Commission to condition approval of the Stage 2 filing upon close coordination between these two entities. Specifically, IEP urges the Commission to require that all substantive proposals for resolution of seams issues by the SSG-WI be presented to the WMIC Seams Subcommittee for review and comment.

3. The Commission Should Condition Approval on Market Monitoring that Is Independent Yet Preserves the Accountability of the RTO West Board.

IEP is encouraged by the statement that “[t]he filing utilities believe that a single west-wide market monitoring entity is a key component of achieving a seamless western market and are strongly committed to this effort.” (Stage 2 filing at page 50.) IEP agrees. Such a market monitoring organization should be empowered to address the full spectrum of market power issues (not just generator or supplier market power) as well as market design issues.

Plainly, such a market monitoring entity must be independent and not subject to control by any market participant nor by the RTO staff. The FERC should have full access to all reports of the market monitoring entity without any interference or censorship from anyone. At the same time, however, IEP believes that the market monitoring entity should not be empowered to bypass the RTO board or operate so independently from it that it erodes board accountability for RTO practices. Specifically, unless the Commission seeks its input explicitly, the market monitoring entity should not be empowered to file reports or take positions before the Commission or other regulatory bodies without having taken these positions to the RTO Board for review. In other words, the Commission should have full access to reports of the market monitoring entity on its motion without interference, but the entity should otherwise not be initiating submissions to FERC that have not been fully reviewed first by the RTO board, its staff and all stakeholders. This limitation is important to ensuring that the RTO board has an opportunity to address issues before they are presented to the Commission. It is also important to ensuring that the RTO board has an opportunity to comment upon (and in some cases inform) the market monitoring entity.

Pending development of a west-wide entity, the RTO West proposal creates a market monitoring unit whose director is appointed by the board and that functions as a separate part of the RTO West staff. The proposal provides for a “direct reporting relationship” between the market monitoring unit and the Commission. As set forth above, IEP urges the Commission to condition this approval on modifications of this direct reporting relationship. These modifications should ensure that the Commission has access to any reports or analysis done by the unit that it desires but that the unit should not displace or reduce the accountability of the RTO West board on its own initiative.

4. The Commission Should Ensure That The External Interface Access Fee Is Consistent With Regional Price Reciprocity.

A principal reason for the creation of RTOs is the elimination of rate pancaking. The RTO West proposal accomplishes this result for transactions within the RTO through a “license plate” access fee on load. Price reciprocity, however, refers to the elimination of rate pancaking across the seams between RTOs. Price reciprocity is critical to achieving the vision of a seamless western market.

A major difference between the RTO West Stage 1 and Stage 2 filings is the creation of a new fee to be charged to schedules with delivery points at the external interfaces of the RTO West system (“External Interface Access Fee”). The purpose of this fee, as described in the filing, is to prevent cost shifting by ensuring recovery of the contribution to embedded costs currently provided by short-term, non-firm transactions. The Filing Utilities assert that as much as 18% (\$180 million) of their embedded costs are recovered from such transactions. Stating that this contribution is too large to ignore, the Stage 2 filing adds the External Interface Access Fee to the access fee proposed in the Stage 1 filing. This new fee will apparently be set

residually so as to maintain current overall transmission revenues through a “Replacement Revenue Pool.”

The Stage 2 filing describes the fee as follows:

The methodology applied to the Replacement Revenue Pool is the aspect of the Stage 2 pricing proposal that is significantly different from what was proposed in Stage 1. The External Interface Access Fee is based on a system average rate (sometimes referred to as a “postage stamp” rate). It applies to all schedules that have withdrawal points at the external interfaces of the RTO West transmission system [footnote omitted] (if the schedule is not covered by existing long-term transmission agreements or existing load service obligations). Users scheduling to these points must demonstrate that they have external interface access from rights under preexisting agreement or that they have paid the necessary External Interface Access Fee. To the extent that there are net surplus revenues generated through the RTO West congestion management process, these will be credited against the Replacement Revenue Pool as well. There is a “backstop” mechanism to true up recovery allocations if the combined revenue from the External Interface Access Fee and congestion management surpluses is consistently greater or less than the amount needed for the Revenue Replacement Pool.

(Stage 2 filing at pages 29 and 30.)

IEP does not oppose the stated goal of ensuring equitable recovery of embedded costs amongst all users of the transmission system. However, this proposal needs to be closely scrutinized by the Commission to ensure that it is consistent with a seamless market vision and the goal of price reciprocity. Export fees of this nature, depending on the details of how the rate is set and implemented, can balkanize markets and encourage “retaliatory” fees from other RTOs. Accordingly, IEP urges the Commission to condition its approval of this concept upon two things: (1) a mechanism to ensure that the rate in fact recovers only the proportional share of embedded costs allocable to exports; and (2) a demonstration by RTO West as to how price reciprocity will be achieved with this proposal in place.

5. The Commission Should Ensure Consistent Congestion Management Across the RTO West/CAISO Seam.

A principle seams issue is compatibility of congestion management between neighboring RTOs. In general, IEP believes that the congestion management proposals of RTO West can be made compatible with those of the CAISO. An important element common to both RTOs is the use of a compatible west-wide model for congestion management. In addition, both systems appear to be evolving similar locational marginal cost-based congestion protocols based on these compatible models.

IEP is concerned, however, that the mechanisms for hedging congestion may not be compatible — or at least may impose market requirements that are not “seamless.” RTO West proposes Firm Transmission Options as the mechanism for hedging against congestion costs. CAISO uses Firm Transmission Rights. IEP believes it is important that a single congestion hedge be available across this often-congested and important interface.

In addition, even if having to acquire separate congestion hedges from RTO West and the CAISO were acceptable in principle, it is not obvious that the RTO West FTOs can be simply matched with the CAISO’s FTRs. In the long-run, IEP supports RTOs which can handle both options and obligations. In the meantime, while IEP is prepared to reserve judgment until greater details are available, it is concerned regarding the simplicity and compatibility of congestion hedging at the seam between RTO West and the CAISO.

III. Conclusion

As set forth above, IEP supports the formation of RTO West and the Declaratory Order approving the Stage Two filing subject to conditions to ensure consistency with the vision of a seamless Western market.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each party designated on the official service list in this proceeding.

Dated at Sacramento, California, this 29th day of May, 2002.

Ron O-Connor