Public Power Council
1500 NE Irving, Suite 200
Portland, Oregon 97232
503.232.2427
Fax 503.239.5959

November 26, 2003

VIA E-MAIL
Chris Elliott
RTO West Coordinating Team
RTO West
5933 NE Win Sivers Drive
Portland, OR 97220

Re: Comments on RRG Drafting Team Proposal, Nov. 17, 2003.

Dear Chris:

At the Regional Representatives Group (RRG) meeting on November 20, 2003, the RRG solicited written comments on the Drafting Group's proposal of November 17. Although not an RRG member, PPC would like to take this opportunity to comment.

On the whole, the proposal developed by the Drafting Group is a useful start. There is a lot to do, and details obviously will be crucial. Some aspects of the Advanced Target State pose problems; if we are simply staging the implementation of large portions of RTO West, we will continue to have issues. We are engaged in these discussions, after all, because a significant number of stakeholders, the Congressional delegation and one state rejected the RTO West Stage 2 proposal.

Most of the questions and gaps we have identified have also been identified by the RRG. There are a few, however, that we will discuss further.

- The Beginning State notes a preference for the company rate proposal of RTO West Stage 2. The Beginning State also declares that short-term transmission would be auctioned. It is not clear how an auction would fit into the design of the company rate proposal. Introduction of an auction raises the risk that historical levels of short-term and non-firm revenues would be under-collected. In the Stage 2 proposal, an export fee was intended to prevent under-collection of short-term and non-firm revenues. It is not clear how this will fit or whether it will provide sufficient protection.

PPC is troubled by the workability of this rate design. The use of reserve bids might help, but it might not provide a complete solution. It will be important for the Drafting Group to provide details about how the revenue requirements will be collected from each of the transmission services proposed. It would be helpful if the Drafting Group could provide us with some details allowing us to follow the money through the model.

- A common cost recovery treatment of generation interconnection facilities and transmission system expansions is lacking. The loads that receive the commercial benefit of the new generation should pay for the interconnection and any facilities additions needed to deliver the power. This may require the use of participant funding and direct assignment to ensure that loads in the transmission system where new generation is sited do not have to pay for the interconnection if the generation is to be consumed outside of that system. The ability to ensure that the beneficiaries pay is important to ensuring stability of company rates.

- Control area consolidation is an extremely significant issue for PPC. Each of our 114 members either is located within BPA's, PacifiCorp's or Idaho Power's control areas or is taking deliveries across one or more of those systems. Any consolidation, therefore, directly affects our members' service and rates and the markets they use. PPC supports the consolidation of control area functions where that consolidation results in cost savings for the operators. We understand that the drafting group discussed this issue in terms of consolidation of technical functions, rather than commercial or market functions. We are concerned, however, that the proposal leaves open the possibility that the control area operators and the independent entity, as provider of control area services, could institute rate or market structures that are not approved by the region. The control area operators that wish to merge must come to some agreement on what consolidation would entail. The RRG, though, is required to place on the independent entity those restrictions that it finds appropriate, including appropriate restrictions on services that the independent entity may provide to the consolidated control area.

- In general outline, the governance proposal is a reasonable compromise. It strives for an appropriate balance between independence and regional control. But there are areas in the proposal where regional control is cut off. For example, the TSC is given only a one-time vote on the issue of whether to depart from the company rates. Rate design is an area that has huge potential to move dollars around, and out of, the region. Issues such as this, in which there are clearly defined winners and losers, are inherently political and policy issues. These are issues that should be decided in the region and by the region. And the vote on significant changes in rate design should be an ongoing responsibility of the TSC.

The other problems and gaps PPC has identified are reasonably common to the issues list drawn up by the RRG. We add the following to the list posted on RTO West's website: What is the relationship between the TOA and the individual tariffs of the transmission owners and to the single independent entity tariff? If the independent entity is providing control area services to a subset of transmission providers and also operating markets, how will conflicts of interest be resolved?

Sincerely,

Nancy P. Baker
Senior Policy Analyst

bcc: Jerry Leone
Margot Lutzenhiser
Nicole Case