

Introduction to RRG Drafting Team Proposal

SUMMARY

This introduction will review the overall task the RRG drafting team took on, set out the overall guiding principles it used, and describe the key features of the accompanying table, which contains the proposal the drafting team has developed since the RTO West Regional Representatives Group (RRG) met on October 29 and 30, 2003.

TASK OF THE DRAFTING TEAM

The drafting team aimed to develop a comprehensive, high-level proposal for addressing the problems and opportunities identified by the RRG. The proposal provides for staged implementation and has a governance proposal that emphasizes regional accountability for major evolutionary steps. The team tried to focus on real, workable solutions to identified problems and opportunities. The solutions were intended to represent the best proposal that could be developed while remaining at the center of gravity for the various regional interests. The proposal did not meet all the concerns of all the interests but the team aimed to develop a proposal that all or almost all of the RRG and the region could accept as a basis for moving forward.

The drafting team views this document as a first level scoping document that could be the basis for regional consensus on how to move forward. If there is sufficient RRG and regional support, the drafting team intends that the accompanying approach could serve as a platform to develop a more complete regional proposal.

BASIC PRINCIPLES

Staging is key to this proposal. One of the fundamental tensions within the region and the RRG is between some parties' desire for certainty of a proposals' "end state," on the one hand, and other parties' concern that the region not be subjected to a "forced march" to outcomes with which they are uncomfortable. For some entities, such as transmission owners giving up some control over their assets and state commissions with jurisdictional responsibilities that come into play, there is a need to have a clear view of the expected long-term outcome of the activities. For others, there is a concern that long-term outcomes not be locked in at the beginning, without reasonable opportunities to assess the suitability of further solutions as time progresses. Because of this tension, the drafting team used three criteria for the development of the stages of the proposal:

- (1) The proposed beginning state should be a clear improvement over the existing situation and respond to the problems identified by the RRG.
- (2) Each stage of the proposal should be workable in itself. The stages should not create significant new problems at the same time they try to address old ones.

- (3) Each stage should allow further evolution of solutions to remaining problems, as well as changes in circumstances, with some indication of the expected direction of that evolution today, and subject to review of the desirability of moving forward. Stages should not lock into intermediate states that turn out to be dead ends.

There are three additional principles the drafting team would like to highlight for those who review the attached document, because they were important in shaping the proposal.

- (1) All existing contracts, settlements, and other relevant legal obligations are expected to be honored according to their terms.
- (2) Transmission owners are still in charge of their own company rates, subject to applicable regulatory authority.
- (3) Cost shifts should be minimized.

ORGANIZATION OF THE PROPOSAL

The attached table describes the proposal by stepping through a list of functions and features. For each function or feature, the proposal identifies the problems that exist today with implementing those functions or features, and notes whether the drafting team believed that independence or having a single entity (or both) were important to the region's ability to address the problem. The characterization of the problem and the highlighting of the need for independence or a single entity were intended to acknowledge the views of a significant portion of the regional interests, but did not necessarily represent the views of all the interests at the RRG.

The drafting team generally felt that the proposal should build from the creation of an independent entity to address the problems facing the region's transmission system. The notion of independence needs some clarification, however. Independence means independence from market interests, not lack of regional accountability or lack of regulation. The drafting team believes that an independent entity, as a provider of important commercial services, should be fundamentally accountable to the users of those services, be open and transparent in its operations, act with integrity, operate fairly toward all market participants and within its tariff, and have its own dispute resolution process to minimize the need to resolve disputes adversarially at FERC.

The proposal sets out stages for the various types of functions the independent entity could perform. The proposal recognizes that the beginning state will not necessarily solve all the problems that have been identified. It sets out, at a high level, suggested means to address a given problem at the beginning state. It then sets out, in less detail, some interim state and an advanced target state for each identified function or feature. There is a general description of possible paths for movement beyond the beginning state. Several key elements of the proposal are highlighted below.

Control Area Operations

The drafting team's proposal assumes that there will be a single independent entity responsible for carrying out the functions and features described in the attached table. The proposal allows voluntary consolidation of control areas, and operation of the consolidated control areas would be among the independent entity's functions (with the costs of these services to be paid by the consolidating control areas). Because the structure of and process for forming the consolidated control area has not yet been fleshed out by those that have expressed interest in it, the proposal does not describe all the implications of the independent entity's dealing with a mixture of consolidated and non-consolidated control areas.

Regional Accountability and Governance

Because governance is key to both the ability to evolve in response to unresolved problems and to ensuring that evolution reflects regional concerns and interests, the governance function of the independent entity is elaborated in somewhat more detail than the other functions in the proposal. The drafting team tried to craft a governance proposal that could bridge the gap between those who wanted to specify a clearly defined end state and those who stress the importance of assuring that any progression toward an end state makes sense for, and is supported by, the region.

The general approach to the governance of the independent entity is based on the Stage 2 proposal (for example, it contemplates a board of nine non-affiliated directors elected by representatives of regional stakeholders and various mechanisms to assure stakeholder input into board decisions). To enhance these provisions, the drafting team introduced mechanisms to strengthen accountability to the region for certain significant changes in scope the board would propose to more fully address continuing problems and opportunities.

The following are examples of proposal features that are designed to provide for greater accountability and regional participation in key decisions that fundamentally affect the independent entity's scope:

- (1) Mandatory consultation with states and provinces (and tribes where applicable), including appropriate advance notice of key board proposals.
- (2) Mandatory consultation with regional stakeholders, including appropriate advance notice of key board proposals.
- (3) Vote of the Trustee Selection Committee (six representatives per member class, for a total of 30 votes) before key board proposals can be implemented.
- (4) Need for higher level of board approval (seven of nine board votes needed to proceed) if there are sufficient negative votes from the Trustee Selection Committee.

NEXT STEPS

The drafting team believes that this proposal provides a way to deal effectively with the problems and opportunities the RRG has identified and discussed over the past several months, and is responsive to the need for regional accountability for any solution to those problems. The team recognizes that before a fully-developed proposal can be implemented, both the region and regulators with applicable jurisdiction must have a reasonable basis to conclude that the region will be better off than it would be if it pursued another course (or took no action). The team hopes that it can be a workable proposal for the region to support and move forward.