

Option 1 Addendum¹

Independence/governance

Under the terms of the Transmission Coordination Contract (TCC), a single Management Committee (MC) will represent all segments of the industry (e.g., based on a class structure but with an independent segment). The TCC will establish the process to select (and re-select) Management Committee members from the signatories to the TCC. The Management Committee will be composed of five classes (same as RTO West Stage 2: Major Transmission Utilities, Transmission Dependent Utilities, Retail Customers, Non-Utility Entities, and Governmental/Tribal Entities); each signatory to the TCC will self-select into one (and only one) class (affiliate rules will be needed to enforce this). The members of each class will elect two members of the Management Committee (i.e., ten total); in addition, a slate of independent candidates will be presented to the signatories to the TCC, who will vote for five additional members, to form a Management Committee of 15 members.

The Management Committee will have the following responsibilities (this is not an exhaustive list). The MC will make decisions by a simple majority vote, except for recommending amendments to the TCC, which will require a two-thirds vote:

1. approve the contract between transmission owning utility signatories (TOUs) and the vendor who supplies services for the single NW-OASIS;
2. approve the form of the contract between control area operators (CAOs) and IPPs and the PNSC; all control area operators and independent generators (over 20 MW) are required to sign a contract with PNSC;
3. establish the scheduling fee surcharge collected by all TOUs to cover common costs through an adder (uplift) to their Scheduling and Dispatch ancillary service charge; common costs include operation of the NW-OASIS, the PNSC, some “generic”² planning costs associated with running NTAC, support for the NW market monitor, possibly some common dispute resolution costs, sufficient liability coverage, and support for the five independent members of the MC;
4. call on the staff of NTAC, the PNSC and NW-OASIS as needed to perform studies or make reports;
5. exercise oversight of dispute resolution procedures (e.g., implement procedures for different types of disputes, select arbitrators, perhaps establish a common fee to build a fund to pay for arbitrators); procedures for dispute resolution will be established in the TCC;
6. approve the component of the uplift necessary to pay for the NW Market Monitor (assuming that an MOU among state AGs actually establishes the Market Monitor, or MM), to ensure that the MM is funded; otherwise, the Management Committee will not oversee the MM;
7. approve the component of the uplift necessary to pay for common costs collected for NTAC’s annual planning studies (costs for specific requests for service will be paid by requesting parties); otherwise, the NTAC will be self-governing
8. recommend amendments to the TCC to the Stakeholder Committee (2/3 vote required); issues expected to require amendments to the TCC (not exhaustive)

¹ This paper expands on the Option 1 paper presented at the September 22, 2003 RRG meeting.

² I.e., not related to a specific request for interconnection or transmission service.

- changes to cost recovery (e.g., elimination of pancaked rates)
- implementation of a backstop mechanism for transmission expansion
- changes to the arbitration procedures that are overseen by the MC

The Management Committee will be “self-funded”: the signatories to the TCC will commit to fund participation if one of their employees is selected to be on the Committee. The five independent members of the MC will be compensated at rates established in the TCC. [It is possible that other members of the MC, under special circumstances, would have their expenses or compensation covered, e.g., public interest representatives or residential customers.]

Amendments to the TCC

1. MC can recommend amendments if two-thirds of the MC members agree.
2. Such amendments will be passed to a Stakeholder Committee, composed of XX members from each class.
3. Amendments to the TCC will require a majority vote within at least three of the five classes to become effective.
4. Signatories to the TCC will either execute the amendment or withdraw from the TCC.

Termination rights

1. Any signatory to the TCC will have the right to terminate its execution of the TCC upon adequate notice (to be determined), provided that all then-existing contract obligations will be preserved (e.g., separate agreements with the PNSC, which would have separate termination provisions).
2. Any signatory to the TCC will have the right to terminate its execution of the TCC if the Stakeholder Committee approves an amendment to the TCC.
3. No stranded cost provision is necessary, because (a) transmission customers will continue to take service under pre-existing transmission agreements, and pay the transmission providers rates, which will presumably include the provider’s share of the common costs; (b) there should be very small fixed costs associated with the implementation of Option 1.

Dispute resolution procedures

1. Regional planning: dissent to annual plans will be registered by a minority report; there is no need for formal dispute resolution because no decisions of the NTAC for annual regional planning are binding; when the NTAC conducts studies for specific requests for service, those will be subject to formal dispute resolution; if disputes arise through regional planning, WECC could be used to deal with rating issues, and NRTA could be used for disputes over allocations of capacity on multiple-owner paths
2. Open season: a formal dispute resolution process will be established in the TCC, to address issues such as the conduct of the process, bid evaluation, awards based on bids, and the nature of the rights received in return for payments
3. Interconnection costs and requirements: formal dispute resolution process will be established in the TCC, to address issues such as technical requirements, costs of interconnections, and timeliness of responses

4. ATC calculation by NW-OASIS: formal dispute resolution process will be established in the TCC, to address issues such as associated with alleged under- or over-forecasting of ATC
5. Setting schedule limits (below TTC): formal dispute resolution process will be established in the TCC, to address issues such as the potential for discriminatory application of scheduling limits
6. PNSC orders: the agreements between the PNSC and control areas and IPPs will provide for dispute resolution
7. Obligation of TPs to build to meet contract commitments: formal dispute resolution process will be established in the TCC
8. Allocation of costs *ex post* due to schedule limits (below TTC): formal dispute resolution process will be established in the TCC
9. Third party rights: will be established in the TCC for at least some of the above processes

Limitation on FERC oversight

The TCC will include an “autodestruct” provision if FERC attempts to add obligations to the NW-OASIS, the PNSC, or the NTAC, unless the signatories to the TCC agree to such additional obligations via amendment to the TCC.³

New transmission rights

1. All transmission requests will be submitted to NW-OASIS; NW-OASIS will forward requests to NTAC if necessary for evaluation due to lack of ATC for short-term requests; requests for service longer than a year would be passed to NTAC for studies
2. Flows will be calculated for each request for service, and paths used by these flows identified by the path’s owner
3. New contract rights will be granted across each transmission owner’s system based on the power flow studies (from ATC by the NW-OASIS immediately, or from new capacity after studies, open season, and upgrades)
4. In order to maximize use of the existing transmission system, conditional firm service will also be made available.
5. As an example of new flow-based service, assume that a 100 MW request is submitted to inject in Spokane and withdraw in PSE’s territory. NW-OASIS’ power flow analyses show that 100 MW of the request will flow across Avista’s system and 50 MW will flow across each of BPA’s and PSE’s systems. Contract rights would be granted such that Avista is paid for 100 MW, BPA is paid for 50 MW, and PSE is paid for 50 MW, each at their respective transmission rates.

Transition to different cost recovery (e.g., non-pancaked rates for long-term service)

The following procedures will be built into the TCC.

1. NTAC will conduct “scenario” analysis on a regular basis as part of its continuing responsibilities. These scenarios will examine the impacts (on regional costs, market

³ The autodestruct provision would not apply to any additional obligations, for example on the PNSC, that might be require by law.

- structure and reliability) of different generation expansion “packages” or “bookends” (e.g., all- gas, all- coal, all-renewables).
2. After three years, the NTAC will conduct a study of the impacts of pancaked rates on long-term generation resource choices and, by extension, on regional costs, market structure, and reliability. After three years, the MC may ask for such a study at any time.
 3. The NTAC may recommend, based on such a study, that the then-existing structure of cost recovery (i.e., pancaked rates) is not beneficial to the region, based on criteria to be developed by the NTAC.
 4. If the NTAC makes such a recommendation, then a Pricing Committee formed by the signatories to the TCC (structure to be determined) will weigh the implications of different solutions to the problem identified by NTAC, and make a recommendation to the Management Committee.
 5. If the Management Committee approves the recommendation (perhaps with modifications) by a two-thirds majority, a conforming amendment to the TCC will be presented to the Stakeholder Committee, and the above process on amending the TCC will be followed.
 6. Upon the effective date of the amendment, transmission owners will uniformly prepare amendments to their open-access transmission tariffs to accommodate the new cost recovery mechanism, and submit them to FERC.

Congestion Management and Maximizing Use of ATC

1. Some basic principles: (a) economic price signals will be introduced “at the margin”, to improve the use of the existing system and the economic consequences of congestion management, without interfering with existing and new firm service; (b) market participants will be provided with the best possible information to help them manage congestion on their own; (c) PNSC and NW-OASIS will not be involved in markets for redispatch, except to provide accurate, complete and timely information to market participants, to operate bulletin boards and the hourly firm auction; (d) NW-OASIS will not offer congestion management services to market participants; (e) congestion caused by the exercise of market power will be addressed by the market monitor; (f) the TCC will provide sufficient direction for the NW-OASIS to offer additional transmission products (see conditional firm and hourly bid-based service below), but will not specify all the details of these services.
2. Firm rights (e.g., pre-existing and new) will have highest priority of service.
3. NW-OASIS will sell additional “conditional firm service” on congested paths, if it determines that such service can be identified and marketed. Conditional firm service ties the provision of transmission service to specific conditions on the system (e.g., operation of a generator west of the Cascades that supports Cross-Cascade ATC). Initially, there may be only one class of conditional firm service on any given path, depending on the complexity of defining such service. Over time, additional classes of conditional firm service may be added on congested paths.
4. In addition to firm and conditional firm service, at preschedule NW-OASIS will auction off any remaining (flow-based) ATC for the next day on an hourly basis. Participation in the auction is voluntary (i.e., market participants are free to transact on a bilateral basis). Bidders will pay “as bid” for the right to use remaining hourly

- ATC. NW-OASIS will accept the set of bids that maximizes total revenue from the bids. Such revenues resulting from the bids will be allocated by NW-OASIS among transmission owners based on flows. (NW-OASIS does not actually collect the revenues for any of these products, but sends out accounting statements that transmission owners will use for billing purposes.) Over time, the auction may be expanded to other short-term products (i.e., beyond hourly service for the next day).
5. If curtailments are necessary in real-time, hourly bid-based service will be curtailed first (pro rata), then conditional firm service (pro rata), then firm service (pro rata). (If there is more than one class of conditional firm service, transactions within each class will be curtailed on a pro rata basis.) NW-OASIS will investigate the possible curtailment of hourly bids in “reverse bid” order (i.e., lowest price bids curtailed first). NW-OASIS will also investigate the possible use of negative bids (i.e., offers to be paid not to use a specific path); negative bids should only be accepted if they contribute to higher total revenues from the hourly bid process.
 6. Curtailments after pre-schedule will be imposed only for reliability purposes.
 7. NW-OASIS will establish a bulletin board for secondary sales of transmission services, and will post voluntary offers for redispatch (INCs and DECs).
 8. NW-OASIS will identify third party congestion effects of transmission schedules, and any party that feels aggrieved can initiate dispute resolution with a commercial arbitration panel.
 9. NW-OASIS could also be called to support dispute resolution in curtailment situations where a transmission customer alleges that a transmission provider has not built or maintained its system to meet its contractual obligations, and has thus caused curtailments; this would seem to be a reasonable role for the NW-OASIS, because it will have to understand contract commitments in order to calculate ATC.
 10. If WECC (or some other outside authority, including God) reduces a path rating and causes congestion, then the result is “bury your own dead”.

Additional Questions

1. Will flow-based calculations use cut cases or take into account loop flow?
 - The flow-based analyses conducted by the NW-OASIS to calculate ATC will use cut cases, unless an agreement with the rest of the WECC is reached that permits flow-based scheduling on systems outside the Northwest, including compensation if necessary. Compensation could be required in order to support changes in the operation of phase shifters. (This assumes that the TCC will have the same “footprint” as the Northwest Power Pool.)
2. How do we ensure that decisions of the PNSC to order changes in generation for reliability purposes do not favor the generation of the Control Area Operators?
 - The PNSC will have separate contractual relationships with Control Area Operators and with IPPs, but the ability of the PNSC to order changes in generation will be uniform across ownership types, and the PNSC’s actions to maintain reliability will require decisions that are independent of the ownership of generation. Decisions of the PNSC to order changes in generation can be appealed through a formal dispute resolution process (e.g., for commercial consequences or if a party believes that the PNSC has made an error).

3. Does Option 1 require that all of the same information flow from market participants to the PNSC and NW-OASIS? If so, how do we ensure that the Control Area Operators do not use this information to their advantage?
 - Protections for confidentiality must be built into the agreements between the PNSC and the NW-OASIS, and into the protocols for operation of the NW-OASIS and the PNSC. However, the PNSC will forward such information to CAOs as necessary for the performance of the CAO's reliability functions.
4. How do we balance the competing needs of procedural transparency and commercial confidentiality?
 - TO BE DEVELOPED
5. Could we move the processing of interconnection requests to NTAC instead of the transmission providers?
 - Yes, although probably not initially. This responsibility would be shifted to NTAC in the second or third year, once NTAC is up and running and ready to handle these requests. In any event, the interconnection request would also have to be filed with the transmission owner, which would have to coordinate with NTAC.
6. Is execution of the TCC mandatory to schedule on NW-OASIS?
 - Yes. Those who do not want to assume the obligations and responsibilities under the TCC are always free to sell or buy energy and ancillary services "at their front door", and let others handle the transmission component of the deal.
7. How will "handoffs" be handled: NW-OASIS receives schedules and checks against contract rights, PNSC calculates feasibility, then NW-OASIS hands the schedules back to the transmission providers and control area operators?
 - This will be detailed. Clearly more automation is required.
8. How will the obligation to provide information to NTAC for planning purposes be enforced?
 - Fines?
9. If a transmission requester pays for an upgrade only temporarily under FERC's Large Generator Interconnection Rule, should it get life-time rights? (Are we bound by FERC's Rule?)
 - Option 1 contemplates life-time rights, which implies payment of the full cost of the upgrade without credits. If a requester wants rights for only 20 years, then "or" pricing would apply, and the assets would revert to the transmission owner(s) at the end of the contract term. The Generator Interconnection order permits variations in cost recovery.
10. If NW-OASIS grants a request for service based on power flow analysis rather than contract path, to whom do the revenues go?
 - To the individual transmission owners on whose facilities NW-OASIS has identified the ATC.
11. What happens if schedules use up all available capacity under a path rating, but power flows show ATC, which the NW-OASIS releases? Will transmission owners be obligated to accept those schedules from NW-OASIS, and if so, does that mean that reliability criteria will be breached?
 - NW-OASIS will take into account path ratings when releasing ATC, which will (hopefully) mean that this problem will not occur. Therefore, transmission

- owners will be required to accept schedules from NW-OASIS. The resulting liabilities of the NW-OASIS and the transmission owner need to be addressed.
12. Can TOUs deny any schedules passed on from NW-OASIS? If “yes”, then what’s the point of having NW-OASIS actually calculate ATC? If “no”, then how will NW-OASIS manage the liability if there is a problem?
 - TOUs cannot deny schedules from NW-OASIS based on NW-OASIS’ calculation of ATC. Formal dispute resolution will be required if liability results.
 13. How do we get NTAC’s plan to carry some weight in the region (e.g., in IRPs)?
 - Broad stakeholder involvement, obligations in the TCC to provide data, . . .
 14. How much will all this cost?
 - NW-OASIS
 - PNSC
 - Market monitor
 - NTAC