

Description of Option Package to Address Regional Transmission Problems and Opportunities

Option 2 Independent Administrator Overview

Under this option, a new entity, the independent administrator (IA), is created and is independent of all market participants. The IA is not the operator of the transmission system or any generation, nor does the IA have a FERC-approved tariff to recover the fixed costs of the transmission owners (TOs). Option 2 describes the authorities and responsibilities of the IA subject to these limitations.

Under contracts with the TOs, the IA acting as the agent for the TOs, would:

- Operate¹ the exclusive regional OASIS.
- Determine and implement common procedures for determining and making available ATC on a flow-based method.
- Receive all requests for new transmission service on an injection/withdraw basis, evaluate whether the request can be accommodated on a flow basis, and have the authority to commit TOs to such requests to the extent ATC is available.
- Accept and process schedules for transmission services.
- Coordinate billing and payment.
- Receive and post generation and ancillary-service bid and offer prices.

The IA would have a limited FERC tariff to recover, through an uplift charge on schedules, its own costs and to protect itself from liability claims. However, all transmission service agreements would remain between the user and each TO, and all charges for transmission service would be established by each TO.

Existing contract rights would not be “unbundled” i.e. each TO would retain its obligations under these contracts. For purposes of determining ATC for new transmission requests, however, the actual and expected flows associated with the existing contracts would be estimated.

To promote greater use of the transmission system and to accommodate the different risk profiles of customers, the TOs will agree to offer, on a uniform basis, new flexible transmission products. Essentially, transmission capacity in excess of estimated flow-based usage will be divided into blocks with varying degrees of curtailment risk based upon actual and expected flows (e.g. 10 Blocks, with Block 1 being most firm). The price for increasingly “less firm” blocks will be discounted from the base price for block 1 “firm” service.

All users would be required to submit balanced schedules. However, when all schedules cannot be met, users will be curtailed in reverse block order. Users may curtail load and/or generation to restore a balanced schedule consistent with the curtailment, use the bid/offer bulletin board to access alternative paths, or rely on earlier negotiated power arrangements.

The IA will have exclusive regional planning responsibility. With regard to backstop authority the IA will have the same authority as in stage 2 but only for transmission reliability. The IA will also have responsibility for the market monitoring and security coordination functions.

This option creates better use of capacity: The process of POR to POD (effectively flow-based) reservations and scheduling will make additional transmission capacity available, because the double constraint of control area to control area capacity limitations and operational limitations will go away. The system will now be operated according to operational limitations only.

The following list elaborates on these summary comments.

¹ “Operate” may mean that it provides the service through contract with an independent entity. That is, the IA will decide between contracting with third parties or performing this responsibility internally.

Overview – Details

1. The IA will be a single umbrella entity.
2. The premise is to create a light organization structure with minimal staff but that has the authority to contract for services to perform its duties and obligations
3. The IA will have an independent board
4. The entity will not be a system operator and existing Operational Control Areas will likely stay intact
5. The IA would provide for a security coordinator, similar to today at the outset, to assure reliable operation.
6. The IA would provide a single OASIS interface
7. The IA would not be an energy clearing house but would facilitate energy transactions by providing for an energy bulletin board for bilateral ancillary-service, short-term energy and energy-imbalance transactions at the local-market level.
8. The IA will not take title to energy or energy products but will simply work to facilitate transmission transactions.
9. Transmission schedules would be balanced and bilateral.
10. In transmission reservations, existing pancaked rates would stay in place, at least for a transitional period (perhaps 10 years). Transmission customers will pay for each transaction according to filed OATT tariffs or pre-existing contractual arrangements. For new service, rates will be based on flow-based allocations.
11. The IA will provide for an ADR process for dispute resolution.
12. Capacity available beyond existing long term contracts will be sold in quality-differentiated blocks with prices based on quality.
13. The IA does not hold contracts, but rather transmission service contracts remain the obligation of individual TOs
14. At the end of term, pre-existing contracts cannot be renewed but customers have the right of first refusal for the highest priority products then available.
15. The IA will file a separate tariff with FERC for grid-scheduling charges to recover its operating expenses and to address any liability issues.
16. Pricing of transmission service will be accomplished through individual TO tariffs.
17. Changes in the scope of the IA's services over time will be accomplished by:
 - IA freedom to act within the existing authorities that derive from the contracts between the IA and the TOs.
 - New authorities granted through contractual changes between the IA and the TOs.
 - [Not fully reviewed] Potential services provided to TOs and others on a reimbursable basis.

1 – Planning and Expansion Issues

1.a Internal Planning

Option 2 will generally use the Stage 2 planning model, with some exceptions, as noted below.

The IA will be responsible for the sub-regional general planning process and will maintain a common data base and library of studies and reports. The IA will have authority to acquire, compel and/or procure the data necessary to facilitate the sub-regional planning process.

The IA will be responsible for coordinating the planning resulting from specific generation- or load-interconnection requests.

For reliability purposes, the IA will have backstop authority to cause construction of facilities and to allocate costs to beneficiaries.

1.b West-wide Planning

Interregional (seams) planning issues. The IA is responsible for sub-regional planning and will feed information and input into the west-wide process.

1.c System Expansion

The IA will provide a forum for regional planning. There will be a single regional queue for generation interconnection and transmission requests. Therefore, the inefficiency of separate companies performing separate studies without all the information on planned projects will be eliminated. The studies can be done using all the information available.

The studies can determine best solutions for the region as a whole. When solutions are determined, TOs that want to participate in the expansion process are welcome to do so. It is assumed that TOs that can see energy savings by improvement of the transmission system will come forward to invest in the expansions. The new level of transparency of proposed interconnections and transmission requests should help determine best solutions.

Transmission adequacy standards and infrastructure: This Option will adopt the RTO West Backstop Authority proposal for reliability purposes only.

Infrastructure investment: See above.

Cost recovery: Achieved through TO tariffs and cost allocations to TOs.

Group 2 – Use of Existing System Issues

All requests for service are made through the IA.

2.a Short-Term Access

The IA will provide a single OASIS interface to accept transmission reservations/schedules via designation of injection/withdrawal points on the transmission system. Incremental transactions will be through a three step confirmation process (request, reply with charges, acceptance)

2.b ATC Calculation

The IA will administer common regional standards and protocols for determining ATC, and will perform calculation of estimated flow-based ATC across the system. Available ATC will be made available on a block system to reflect various quality grades.

Calculation and designation of TTC, OTC, committed uses, ATC and TRM will be transparent, automated to the greatest extent, and available for review by OASIS users.

2.c Scheduling

Parties wishing to schedule energy will provide the OASIS with injections and withdrawals using an e-tagging system. From a scheduler's point of view, there will only be one system to

schedule through, with one POR and one POD on the tag for a given transaction. The IA will disseminate schedules to the TOs.

2.d Congestion Management & System Control

Parties are obligated to submit balanced schedules using capacity rights deriving from current contracts, from new contracts for ATC blocks pursuant to OASIS requests or from capacity provided by construction of transmission upgrades. IA will facilitate a bilateral market for short-term generation (bid/offer) by establishing an energy bulletin board. The bulletin board will provide for generation markets in different local market areas.

The IA has the authority to cut schedules and require generation movement or load curtailments, with penalties or sanctions for failing to respond to IA orders.

2.e Transmission Rights

Existing long term contracts will remain undisturbed and will not be converted into flow based or financial rights. For ATC analysis and operational purposes, the IA will forecast operational use under existing contracts.

Group 3 – Long-Term Access

3.a Physical Interconnection

All requests go to IA in a single queue/single study process. The contracts remain with the TOs. FERC common interconnection standards apply. There may be IA-coordinated contracts among multiple TOs.

Underutilized capacity:

The IA acts as an agent for selling and determining flow-based ATC based on studies of estimated usage of existing contracts. If ATC is available, the IA will sell firm capacity or probability blocks (at less than firm prices). Probability blocks will be curtailed before firm contract curtailments or redispatch are exercised.

Information, incentives and hurdles affecting infrastructure development:

[Not discussed.] Establishing ATC for long-term access will require the IA or its OASIS to perform studies of expected usage, including load growth, provided for under its existing contracts.

3.b Business Relationship

Access and Service Issues:

- “Rules of the road” The IA will become a “one-stop shopping” point for requests for long-term service.
- Generation integration: IA is responsible for processing requests. Contracts are with the TOs.
- Load integration: IA responsible for processing requests. Contracts are with the TOs.

Group 4 – Control Area Function Issues

4.a Short-Term Reliability

Information, incentives and hurdles affecting infrastructure development:

Underlying Problem:

Operational control issues:

IA through its security coordinator will have operational control in emergency situations.

For non-emergency situations, the IA has the authority to cut schedules, and users are subsequently obliged to balance generation and load accordingly.

Use of net v. gross load:

For loads that disconnect upon outage of its generator or have procured standby service or other alternative service, transmission service will be provided based on net load.

Setting reliability standards without adequate consideration of cost consequences:

Over-reliance on short term and non-firm use of system:

IA will calculate ATC and sell long and short term, firm and probability-block capacity.

4.b Ancillary Services

Initial Implementation

IA will support a bilateral Ancillary Service market by means of a bulletin board. This will include hour-ahead sales and others as demand occurs. The TOs remain providers of last resort. Details to be determined.

The IA will run a voluntary Bulletin Board which facilitates bilateral markets with the following, at a minimum:

1. Day ahead energy offered voluntarily
2. Ancillary services offered voluntarily
3. Imbalance energy offered voluntarily
4. Redispatch services offered voluntarily
5. Demand Response offered voluntarily
6. Forward products offered voluntarily

4.c Losses – [Not discussed in detail.]

Initial Implementation

Current loss factors would apply. The common OASIS would apply loss factors for transactions using multiple systems.

Phased Implementation

Loss factors for transactions crossing multiple systems determined pursuant to regional agreement to promote efficient use of the system, e.g. use of average or peak loss factor calculated from loss factors associated with each system with energy or index-based loss true-up shared among transmission providers.

Group 5 – Cost Recovery Issues (Including Rate Pancaking)

5.a Embedded Cost of Existing System

Transmissions Owners will continue to collect the costs of their systems through FERC approved Open Access Transmission Tariffs. Revenues from probability blocks capacity sold potentially at a discount to the fully embedded cost tariffs will be credited against transmission revenue requirements, as will the allocated portion of any other transmission revenue requirements.

There may be de minimis thresholds for flow and revenue allocation.

For new sales of ATC, allocations of revenues according to path allocations would have to be done.

5.b Rate Pancaking

Initial Implementation

Transmission customers will continue to pay pancaked rates. However, because of the region-wide common OASIS system, the customers will not be subject to the transactional resistance that is present today. For new service, the IA will apply the appropriate rates of the TO systems used.

Phased Implementation

Methods to mitigate the effect of pancaked rates on the economic dispatch of generation facilities (e.g. postage-stamp pricing for hourly/daily non-firm service) will be developed and, if appropriate, implemented if determined to be cost-effective. Alternatives to pancaked rates will be examined in an early phase of the Option 2 structure.

Group 6 – Market Power Issues

6.a Market Monitoring

Initial or Phased Implementation

The IA will assume those market monitoring functions deemed necessary pursuant to regional dialogue.

6.b Market Power Mitigation

The IA will file a tariff with FERC that addresses liability or sign a contract with individual TOs to address liability. The IA will file a tariff with FERC describing market monitoring standards, codes of conduct, and remedies. Reporting of the market monitor's results is independent from the IA.

Group 7 – “Ballpark” Costs, Benefits and Timing Issues

7.a Expected Costs

Lesser scope and reliance on existing institutions and TOs implies lesser cost than RTO West.

7.b Benefits (Return on Investment)

- Transmission Customers will see better utilization of transmission and more transmission product availability.
- The IA will provide a one stop shop for transmission services and energy products
- The IA will provide coordination of sub-regional planning
- There will be a common queue for generator interconnection requests and transmission service
- There will be ADR for dispute resolutions
- The market will determine the value of transmission products and energy products.
- Congestion management is transparent because bids and offers are posted on the bulletin board.
- Participation in a voluntary bid based bilateral market means the participants retain control of congestion management.
- Generators are incented to locate near load rather than pay the pancaked rates

7.c Order of Steps

7.d Time to Implement

Miscellaneous

Billing, cost recovery issues, etc. to be resolved.