

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

The California Independent System Operator

Docket No. ER02-1656-___

Avista Corporation,

Bonneville Power Administration,

Idaho Power Company,

The Montana Power Company,

Docket No. RT01-35-___

Nevada Power Company,

PacifiCorp,

Portland General Electric Company,

Puget Sound Energy, Inc.,

Sierra Pacific Power Company

Arizona Public Service Company,

El Paso Electric Company,

Public Service Company of New Mexico,

Docket Nos. RT02-1-___

EL02-9-___

Tucson Electric Power Company

**REPORT OF THE CALIFORNIA ISO,
THE RTO WEST FILING UTILITIES, AND
THE WESTCONNECT APPLICANTS CONCERNING
ACTIVITIES OF THE SEAMS STEERING GROUP - WESTERN
INTERCONNECTION**

A. Introduction and Procedural Background.

This report is submitted to the Federal Energy Regulatory Commission (the “Commission”) in response to instructions from the Commission in various orders and notices related to proposals to form Regional Transmission Organizations (“RTOs”) in the West in accordance with Order 2000¹ and to restructure certain existing markets.² The parties participating in this report are the California Independent System Operator Corporation (the “California ISO”); the RTO West filing utilities, which consist of Avista Corporation, Bonneville Power Administration, British Columbia Hydro and Power Authority, Idaho Power Company, Nevada Power Company, NorthWestern Energy (formerly the Montana Power Company), PacifiCorp, Portland General Electric Company, Puget Sound Energy, Inc., and Sierra Pacific Power Company; and the WestConnect Applicants, which consist of Arizona Public Service Company, El Paso Electric Company, Public Service Company of New Mexico, and Tucson Electric Power

¹ *Regional Transmission Organizations*, Order No. 2000, 65 Fed. Reg. 809 (Jan. 6, 2000), FERC Stats. & Regs. ¶ 31,089 (1999), *order on reh’g*, Order No. 2000-A, 65 Fed. Reg. 12,088 (Mar. 8, 2000), FERC Stats. & Regs. ¶ 31,092 (2000), *aff’d sub nom. Pub. Util. Dist. No. 1 of Snohomish Cty., WA v. FERC*, Nos. 00-1174, et al. (D.C. Cir. 2001).

² The California ISO, RTO West filing utilities, and WestConnect Applicants are each making filings in their respective dockets, and are not by this joint filing making filings in each other’s dockets. The parties have prepared a joint filing for administrative convenience only. The California ISO is submitting this filing solely in Docket No. ER02-1656. Avista Corporation, Bonneville Power Administration, British Columbia Hydro and Power Authority, Idaho Power Company, Nevada Power Company, NorthWestern Energy (formerly the Montana Power Company), PacifiCorp, Portland General Electric Company, Puget Sound Energy, Inc., and Sierra Pacific Power Company (collectively the RTO West filing utilities) are submitting this filing solely in Docket No. RT01-35. Arizona Public Service Company, El Paso Electric Company, Public Service Company of New Mexico, and Tucson Electric Power Company (collectively the WestConnect Applicants) are submitting this filing solely in Docket Nos. RT02-1 and EL02-9.

Company.³ The foregoing parties' representatives have been working together through the Seams Steering Group - Western Interconnection ("SSG-WI")⁴ to address seams issues related to RTO formation in the West. These parties are referred to in this filing as the "SSG-WI Participants."

On July 17, 2002, the Commission issued an order in response to the California ISO's May 1 and June 17 Market Design 2002 (MD02) filings (California Independent System Operator Corp. et al., 100 FERC ¶ 61,060 (2002)) (the "July 17 Order"). In the July 17 Order the Commission stated, "[t]he Commission commends the CAISO's efforts and notes that the Seams Steering Group of the Western Interconnection has been actively working to develop resolutions to seams issues between the proposed RTOs in the Western Interconnection. The Commission directs the CAISO to continue its participation in the Seams Steering Group of the Western Interconnection. Furthermore, we will require that the CAISO and the Seams Steering Group of the Western Interconnection comply with any future Commission requirements concerning the seams issues that we will establish in forthcoming orders on the RTO proposals of RTO West and WestConnect." *Id.* at P 163.

³ The WestConnect Applicants include only the Commission-jurisdictional public utilities that have participated in the development of WestConnect. The WestConnect Applicants note that the Salt River Project Agricultural Improvement and Power District, the Western Area Power Administration, and the Southwest Transmission Cooperative, Inc. also participated in WestConnect's development.

⁴ In some filings submitted to the Commission and in some orders issued by the Commission, the term "Steering Group" has been used as a shorthand reference for the Seams Steering Group - Western Interconnection (*i.e.*, all elements of the seams coordination process, including work groups and the guiding committee of designated RTO representatives). In this filing, the initials "SSG-WI" will be the only shorthand reference for the Seams Steering Group - Western Interconnection as a whole. Consistent with the terminology used in the December 5, 2002 Memorandum of Understanding and Cooperation among the organizations participating in SSG-WI, the term "Steering Group" will be used to refer to the committee of participant representatives that helps to guide and set priorities for SSG-WI.

On September 18, 2002, the Commission issued an order in response to the RTO West filing utilities' Stage 2 Filing and Request for Declaratory Order Pursuant to Order 2000 (Declaratory Order on Regional Transmission Organization Proposal, Docket Nos. RT01-35-005 and RT01-35-007, 100 FERC ¶ 61,274 (2002)) (the "RTO West Order").⁵ In the RTO West Order, the Commission instructed the RTO West filing utilities to codify a Memorandum of Understanding and Cooperation among the California ISO, RTO West, and WestConnect that would define their commitments and the forum by which seams issues will be resolved and to provide a list of pending issues before SSG-WI⁶ and a timeline for resolution of those issues. *Id.* at P 246. The Commission also directed the RTO West filing utilities to report on the progress of SSG-WI in resolving issues, on a West-wide basis, with respect to developing common practices and eliminating seams between RTO West and other transmission organizations in the West. *Id.* at P 277.

On October 10, 2002, the Commission issued an order in response to the WestConnect Applicants' Joint Petition for Declaratory Order To Form WestConnect RTO, LLC as a Regional Transmission Organization Pursuant to Order 2000 (Declaratory Order on Regional Transmission Organization, Docket Nos. RT02-1-000

⁵ References in this filing to the RTO West Order are to the slip opinion posted on the Commission's Website.

⁶ Following the terminology used in the RTO West Stage 2 Filing and Request for Declaratory Order Pursuant to Order 2000 submitted to the Commission on March 29, 2002, in the RTO West Order the Commission refers to SSG-WI as the "Steering Group." As explained above in footnote 4 of this filing, the December 5, 2002 Memorandum of Understanding and Cooperation among the SSG-WI Participants uses the term "Steering Group" to refer to the committee of representatives that helps to guide and set priorities for SSG-WI and its work groups.

and EL02-9-000, 101 FERC ¶ 61,033 (2002)) (the “WestConnect Order”).⁷ In the WestConnect Order, the Commission directed the WestConnect Applicants, “together with RTO West and the California ISO, to formalize [SSG-WI] as the resolution group for seams issues among the RTOs in the Western interconnection.” *Id.* at P 218. The Commission also directed the WestConnect Applicants to codify a Memorandum of Understanding and Cooperation and provide a list of pending issues before SSG-WI and a timeline for their resolution. *Id.*

The Commission elaborated on these previous instructions to SSG-WI Participants in its Notice Announcing Process for Western Interconnection Market Design and Postponing Technical Conference (issued October 25, 2002 in Docket Nos. RM01-12-000, RT01-35-000, RT02-1-000, EL02-9-000, ER02-1656-000, and ER02-2576-000) (the “October 25 Notice”). In the October 25 Notice, the Commission requested that SSG-WI “develop a list of recommended market design elements appropriate for the western interconnect (i.e., balancing market, transmission rights, planning process, etc.), which elements must be designed compatibly to avoid seams, and a plan and timeline for resolution of these issues that is coordinated with RTO development efforts. This plan would include specific tasks for each of the current SSG-WI working groups and any other working groups that may be necessary.”

This filing responds to the instructions and requests from the Commission in the July 17 Order, the RTO West Order, the WestConnect Order, and the October 25 Notice.

⁷ References in this filing to the WestConnect Order are to the slip opinion posted on the Commission’s Website.

B. Overview

The Commission has directed the SSG-WI Participants to identify and propose a timetable for resolving seams issues. The reason for this effort, and for the larger SSG-WI process, is to build the foundation for achieving the SSG-WI Participants' goal, which they believe the Commission shares: that of facilitating the continued development of a seamless western market. Inherent in this objective is the development of the electric infrastructure necessary to support competitive wholesale electricity markets – markets that further efficient economic outcomes and that provide sustainable benefits to consumers in the West.

In view of this shared objective, SSG-WI's current efforts are focused primarily on facilitating infrastructure development and supporting a good market design process. These focal areas are reflected in the activities and priorities identified below for the SSG-WI Congestion Management Alignment Work Group and the Planning Work Group. The value of the initial SSG-WI process will depend to a great extent on the success of these two work groups. This is not to diminish the importance of the other work groups. Each of them makes important contribution and together their efforts support SSG-WI's overarching goals. For the West to achieve the necessary and efficient expansion of its electric infrastructure, as well as the efficient use and allocation of its existing electric resources, there must be collective support for a robust regional transmission planning process as well as compatible markets that deliver efficient economic outcomes.

To that end, the high-priority items identified for each of the SSG-WI work groups described below (and presented in summary form in Attachment A) tie into these

key objectives. While the SSG-WI Participants intend to move forward expeditiously to address the areas of highest priority, as the Commission is aware through its efforts to develop a standardized market design and facilitate infrastructure development, these issues are complicated and contentious. The SSG-WI Participants urge the Commission to remain flexible as to the manner in which the SSG-WI Participants achieve their objectives as well as their timetable for developing workable solutions. This will enable SSG-WI to carry out the thorough and inclusive process the Commission has urged the SSG-WI Participants to undertake.

Finally, the SSG-WI Participants encourage the Commission and its staff to remain engaged in SSG-WI activities to the extent possible within applicable *ex parte* rules. Commission staff participation in the individual RTO's market design and other efforts has been instrumental in moving those efforts forward. Active Commission participation in SSG-WI's efforts will help bring about positive outcomes and will facilitate clear, continuous communication about the ongoing development of the western electricity markets.

C. Specific Matters Addressed in this Filing.

1. Memorandum of Understanding Among the Western RTOs

As the Commission instructed, the California ISO, RTO West, and WestConnect Interim Committee (the "Western RTOs") finalized and executed a Memorandum of Understanding and Cooperation on December 5, 2002 (the "Memorandum"). A copy of the Memorandum is included with this filing as Attachment B. The Memorandum defines the working relationship among the Western RTOs with respect to resolving seams issues. In particular, it provides for representatives of the Western RTOs to

“identify and discuss [seams] issues, and set the priorities and proposed schedule for presenting its recommendations to the RTOs for resolution.” Memorandum at section 1.1. The Memorandum includes a requirement that the Western RTOs develop a budget and arrangements for sharing costs related to SSG-WI’s activities. Memorandum at section 2.4.4

The Memorandum formalizes a relationship among the Western RTOs that has existed for 18 months. The Memorandum includes an initial draft work plan, which defines the current goals and tasks of the SSG-WI work groups. SSG-WI’s active work groups are discussed in more detail below. Because the issues the SSG-WI Participants need to address may change over time, the Memorandum contemplates that the work plan will be updated periodically to reflect current needs and approaches, and the Memorandum allows the Steering Group to create or close work groups as needed.

SSG-WI’s work groups have been open to participation by all interested parties since they were created. The Memorandum also contemplates that the Steering Group (initially consisting solely of representatives appointed by each Western RTO) will be open to stakeholder participation. Section 1.4 of the Memorandum provides that the Western RTOs desire to provide a collaborative framework for states, tribes, Canadian provinces, Mexican states, other local regulatory and enforcement entities, and the Commission to participate in Steering Group activities. The Western RTOs have agreed to modify the Memorandum in the future as necessary to facilitate this open public process. The Steering Group has explored a number of options to facilitate stakeholder participation in Steering Group activities. At a minimum, the Steering Group is committed to holding open meetings at which all entities can provide public comment on

the matters addressed by the Steering Group, and anticipates convening an open meeting in January 2003. The SSG-WI Participants believe that SSG-WI's structure and purpose will evolve over time as the form, function, and dynamics of the western electricity markets continue to develop and stabilize.

2. Coordination with States.

The Commission has indicated in numerous issuances and public statements that it places great importance on state participation in market design and RTO development activities.⁸ In addition to welcoming state and provincial participation in all of SSG-WI's work groups, the SSG-WI Participants have also sought to foster a continuing dialogue with state and provincial representatives concerning how they wish to engage in SSG-WI and other activities related to the development of Western RTOs and a seamless West-wide market. SSG-WI Participants met with members of the Committee on Regional Electric Power Cooperation (CREPC) in San Francisco, California on November 15, 2002 to further this dialogue, and will continue to seek state and provincial participation and input as they move forward with the range of tasks SSG-WI has identified for itself. The SSG-WI Participants wish to emphasize that they are receptive to considering any channels state and provincial representatives indicate they would find useful, which could include the Western Governors Association (WGA), CREPC, regional state advisory committees, the National Association of Regulatory Utility Commissioners (NARUC), or other organizations and approaches.

⁸ See, e.g., RTO West Order at PP 36, 234; October 25 Notice, second paragraph of notice text.

3. Report on Progress Related to Developing Common Practices and Resolving Seams Issues

a. Overview of SSG-WI Purposes and Structure

SSG-WI's origins and purposes have been described in detail in various filings submitted to the Commission.⁹ A SSG-WI organization chart, showing the composition of and relationships among the Steering Group and the work groups, as well as SSG-WI's relationship to the Western RTOs, is included with this filing as Attachment C.

The fundamental objective of SSG-WI is to facilitate the development of and support a seamless western wholesale electric energy market. The general approach for achieving this objective is reflected in the Western Market Vision, which was developed by the SSG-WI Participants during 2001 and filed with the Commission.¹⁰ Through the activities of SSG-WI's Steering Group and work groups, the SSG-WI Participants seek to implement the Western Market Vision.

It is important to note that it is not a SSG-WI function to impose a given approach or solution on the Western RTOs, which SSG-WI has been designed to serve (or on any other western market participants). SSG-WI has no authority to do so, and it does not have authority to advocate to the Commission in any proceeding concerning actions the Commission might take.¹¹ SSG-WI's essential function is to provide a collaborative

⁹ See, e.g., filing letter to RTO West filing utilities' Stage 2 Filing and Request for Declaratory Order Pursuant to Order 2000, filed in Docket No. RT01-35-005 on March 29, 2002, at 56-61.

¹⁰ See Exhibit A to Status Report Concerning RTO West Development, filed December 1, 2001 by Avista Corporation, Bonneville Power Administration, British Columbia Hydro and Power Authority, Idaho Power Company, the Montana Power Company (now NorthWestern Energy), PacifiCorp, and Puget Sound Energy, Inc.

¹¹ The SSG-WI Participants appreciate the Commission's support for SSG-WI as the forum for developing resolutions to seams issues in the West. They emphasize the collaborative, non-binding status (continued)

forum through which participants' representatives can "brainstorm" together to develop proposed resolutions to seams issues. When proposals or recommendations are developed by or presented to the Steering Group, the Steering Group may consider them as it sees fit. If it believes that a proposal or recommendation has merit, the Steering Group may offer it to the Western RTOs for their consideration. The decision rests entirely with each Western RTO to act on a proposal or recommendation from the Steering Group.

Thus, any SSG-WI proposal or recommendation that the Western RTOs may decide to adopt would be implemented through voluntary, independent action of the Western RTOs affected by the recommendation. Ultimate responsibility to evaluate the benefits and consequences of SSG-WI recommendations, and to take actions necessary to implement them if warranted (by, for example, submitting filings to the Commission or adopting a particular policy) remains with each Western RTO. The independent decision-making authority of each RTO is a core principle of the SSG-WI process and the Western Market Vision. It is essential to maintaining each Western RTO's accountability to its management and stakeholder constituencies.

of the SSG-WI forum to avoid any possible confusion. Because SSG-WI does not have authority to take actions or make decisions independent of the Western RTOs that are its constituents, SSG-WI will not make submissions to the Commission, but only to the Western RTOs for their consideration. Thus, where the Commission has stated in recent rehearing orders that, in considering "what steps are necessary to rationalize those seams," it will take "into consideration any recommendations developed by SSG-WI," the SSG-WI Participants assume the Commission meant those SSG-WI recommendations that are adopted by the Western RTOs. *See* Order Granting in Part and Denying in Part Rehearing, issued December 20, 2002 in Docket No. RT01-35-009, 101 FERC ¶ 61,346 at P 63 and Order Granting and Denying Requests for Clarification and Rehearing, issued December 23, 2002 in Docket Nos. RT02-1-003 and EL02-9-001, 101 FERC ¶ 61,350 at P 13.

b. SSG-WI Work Groups

As noted above, all of the SSG-WI work groups are open to participation by all interested parties. Information and documents related to the SSG-WI work groups' activities, as well as instructions for subscribing to e-mail list servers for the work groups, are posted on the SSG-WI Website (www.ssg-wi.com).

Like the Steering Group, the SSG-WI work groups are designed to serve the needs of SSG-WI and its participants, but the results of their efforts, and any recommendations they might develop, cannot bind SSG-WI or the Western RTOs. The purpose of SSG-WI work groups is to draw upon the expertise of voluntary participants to develop ideas for addressing seams issues that would benefit from in-depth technical or conceptual work efforts. Recommendations of the work groups, including any majority and minority reports, are made only to the Steering Group for its consideration, which, in turn, makes any further recommendations only to the Western RTOs. In this way, the work groups support the overarching structure and objectives of SSG-WI. As reflected in the SSG-WI Memorandum of Understanding and Cooperation, the SSG-WI Participants anticipate that the manner in which SSG-WI work groups are organized, and the task that are assigned to particular work groups, will change over time as the issues of greatest importance to SSG-WI, and the circumstances affecting those issues, continue to evolve.

Congestion Management Alignment Work Group

As described in the draft work plan attached to the SSG-WI Memorandum of Understanding and Cooperation, the Congestion Management Alignment Work Group seeks to address seams issues associated with Western RTO congestion management

models by identifying and proposing solutions to seams issues that may impede the efficient operation of a seamless western market. The Commission has approved (on a conditional basis for RTO West and WestConnect) three different congestion management models for the three Western RTOs. The California ISO and RTO West currently use or propose to use variations of financial rights, while WestConnect proposes a physical rights model. In seeking to mitigate or eliminate seams issues related to congestion management in the Western Interconnection, the Congestion Management Alignment Work Group will attempt to maintain, as far as possible, the basic attributes of each RTO's congestion management model.

One of the major accomplishments of the western congestion management seams resolution effort to date is the development of an initial white paper that identifies the core elements of a seamless West-wide wholesale electricity market.¹² This paper was prepared almost a year ago, so it does not reflect all of the recent developments in the activities of the Western RTOs. It can, however, serve as a reference tool for further work, and is available on the SSG-WI Website.¹³

The Congestion Management Alignment Work Group's highest priority task is to develop a consensus proposal concerning the "core elements" of a seamless Western

¹² This white paper was prepared by a work group of the RTO Seams Subcommittee of the Western Systems Coordinating Council's (now the WECC's) Market Interface Committee. This work group was the predecessor organization of the SSG-WI Congestion Management Alignment Work Group and coordinated its effort with SSG-WI after the latter was created. Responsibility was transferred from the WECC to SSG-WI in August 2002.

¹³ The Internet address of the page where this document is posted is:
http://www.ssg-wi.com/GeneralMeetingSummary.asp?wg_id=5&mt_id=15.

electricity market. This effort will build from the work previously done through the Western Electricity Coordinating Council (the “WECC”) and will clarify which elements of the western market need only be compatible and those that need to be standardized.

To accomplish its key task, the Congestion Management Alignment Work Group will need to perform the following high-priority technical assessments:

- Analyze whether a mixed model of physical and differing (options versus obligation-based) financial rights, including their scheduling implications, is manageable for both system operators and users, and whether it allocates transmission efficiently;
- Determine whether, to the extent redispatch is required or used to manage congestion, it is necessary to have a single set of congestion clearing prices across the seams so that no inter-RTO barriers to trade or arbitrage opportunities result, and if so, how the RTOs can assure it. Establish whether this requirement extends to multiple products such as ancillary services, as well as redispatch for congestion clearing, and to both day-ahead and real-time markets; and
- Evaluate whether there is a way to allow differing granularity for the physical system model used by each Western RTO for its internal and its external calculations (internal to one is external to the others) or whether a single equally detailed physical model is required for each RTO.

The Congestion Management Alignment Work Group intends to address these issues, including a large number of sub-issues, starting with two task groups. The initial list of sub-issues, organized by steps through the scheduling process, is included in Attachment D. The first task group will focus on describing in detail the process of completing a transaction both across one and across two RTO seams, from rights acquisition and use through real-time operations and settlements. For each step in the scheduling process in these two examples, the sub-issues from the list, as well as any new ones that appear relevant, will be addressed. The approach, using realistic examples incorporating loopflows, will highlight problems, suggest areas that need changes from

one or more RTOs, and clarify where different approaches may not create problems. The report of this group will detail the scheduling steps and the problems raised or determined to be manageable.

The second task group will focus on developing and using a simplified model to simulate markets of the three-RTO system. It will be used to examine specific implications of the three Western RTOs' congestion management approaches for price calculations for redispatch and for ancillary services and the effects of any ensuing price discrepancies, as well as potential solutions to any problems that are identified. It should also be able to indicate initial answers to the model granularity issues (the set of issues concerning the level of physical detail in the power flow programs used by the Western RTOs) because the programs need to represent both internal and cross-RTO boundary transactions (and what is internal to one RTO is external to the other two). This group's work will complement that of the first group.

The Congestion Management Alignment Work Group recognizes that the Commission has approved the initial market design of the Western RTOs in the filings they have made to date (subject to further consideration of certain design elements). The work group's efforts will proceed in parallel with the further development of each RTO's market design. The work group will go forward with its work assuming the current status of the various market design proposals of the Western RTOs, with the expectation that its work will inform any future decisions that the RTOs might make.

The work of both task groups will proceed in parallel and interim work documents will be posted on the SSG-WI Website and will be available as progress reports. The Congestion Management Alignment Work Group will prepare an interim

report for the Steering Group at the end of the first and second quarters of 2003.

Following review of the second interim report, there may be a need for additional work, which will have a completion target of third quarter 2003 for an updated “core elements” report including supporting material.

Another area that has been addressed in connection with congestion management alignment is the operation of phase shifting transformers (phase shifters) and the management of loopflow throughout the Western Interconnection. The WECC Market Interface Committee’s RTO Seams Subcommittee examined operation of the Western Interconnection major grid phase shifters, identified seams issues, and outlined market mechanism options for incorporating their use into developing market designs. This first phase activity was reported in the June 15, 2001 status report entitled “Phase Shifter and Controllable Devices in Developing Western Interconnection RTOs.”¹⁴ As the Congestion Management Alignment Work Group continues to define the minimum compatibility requirements of a seamless western market, the work group expects that it will benefit and build from the information contained in this report.

The Outage Coordination Work Group of the WECC Market Interface Committee, in coordination with the Steering Group, has been addressing coordination of planned transmission and generation outages. Although outage coordination has not figured directly in the development of RTO market designs and congestion management approaches, the SSG-WI Participants recognize that managing facility outages has

¹⁴ This document is posted on the Internet at:
<http://www.wecc.biz/committees/MIC/RTOSEAMS/PSWG/documents/index.html>.

important implications for the congestion management process. SSG-WI expects to continue efforts in this area as well.

Planning Work Group

The draft work plan attached to the SSG-WI Memorandum of Understanding and Cooperation states that the goal of the Planning Work Group is to provide a forum to further the development of a planning process that will result in a robust West-wide interstate transmission system that is capable of supporting a competitive and seamless West-wide wholesale electricity market.

The Planning Work Group has developed a preliminary proposal for a SSG-WI planning process, which is described in the Planning Work Group's Status Report included as Attachment E. This preliminary proposal is intended to serve as a starting point. The Planning Work Group intends to continue to evaluate and refine the proposal during the coming year.

The Planning Work Group's highest priority task is to develop a regional transmission planning process that furthers the economic expansion of and investment in the West's interstate transmission system and that furthers the SSG-WI goal of developing seamless western electricity markets. Toward that end, the Planning Work Group will focus on the following specific tasks:

- Develop a process to identify transmission projects that are needed for economic reasons to facilitate a competitive and seamless west-wide wholesale electricity market.¹⁵

¹⁵ Reliability driven expansion will continue to occur through individual RTOs' planning processes consistent with WECC reliability requirements.

- For projects that: (1) would have a direct effect on more than one RTO, (2) are developed by sponsors outside of the Planning Work Group planning process, and (3) seek cost recovery from Western RTO ratepayers, SSG-WI will develop a process to evaluate whether the projects are justified (necessary and cost effective).
- Determine if and how SSG-WI will support implementation of projects recommended by the Planning Work Group.
- Develop a process to resolve differences in transmission interconnections that enables parties to avoid going to the Commission under the process set forth in sections 210 and 211 of the Federal Power Act.

The Planning Work Group intends to develop proposals to address each of these issues and present them to the Steering Group during the second quarter of 2003. The Steering Group plans to consider these proposals and identify which approaches it will submit to the Western RTOs for their consideration during the third quarter of 2003. In addition, the Steering Group expects to submit a Western Interconnection transmission plan to the Western RTOs by the end of the third quarter of 2003.

A more detailed description of the Planning Work Group's highest priority issues, along with identification of some secondary issues, is included in the Planning Work Group section of Attachment F.

Common Systems Interface Coordination Work Group

As described in the draft work plan attached to the SSG-WI Memorandum of Understanding and Cooperation, the Common Systems Interface Coordination Work Group has been created to coordinate systems for the Western RTOs for seamless interfaces and lower costs and to assure that systems and processes have effective operability and address the complexities of each region with their unique system characteristics and environment.

Among the accomplishments of the Common Systems Interface Coordination

Work Group to date are:

- *OASIS (single market interface):*
A work group developed and recommended a methodology for developing a single market interface for transmission business across the three Western RTOs.
- *Backup control center:*
A work group identified and analyzed several scenarios for providing backup control centers for the three Western RTOs. The work group identified an initial proposed approach, which will be revisited as implementation nears.
- *Communications infrastructure:*
A work group identified and analyzed several options for providing a single monitored high capacity communications systems between the three Western RTOs and those who need communications with the RTOs.
- *Training:*
A work group explored options and made proposals for sharing the development and presentation of training that is common to the three Western RTOs.
- *Common/open system for wholesale electric transactions:*
A conceptual technical model was developed for a common/open transaction system and a business model for development, implementation and maintenance of the system.
- *Other systems:*
Other potential common systems and processes have been identified and prioritized between the Western RTOs to analyze for cost efficiencies and reduced seams issues as appropriate.

The Common Systems Interface Coordination Work Group has identified the following as its highest priority tasks:¹⁶

- Implementation coordination (helping the Western RTOs keep current with and take into consideration each other's systems implementation processes)

¹⁶ See Attachment F at pp. 6-8 for additional details concerning these highest priority tasks.

- Simulation coordination (helping the Western RTOs develop process simulation approaches that take into account approaches of neighboring RTOs and avoid gaps in the simulations)
- Business process modeling (identify opportunities to improve consistency among the Western RTOs with respect to transaction processes and terminology)
- Looking at other systems as appropriate

The Common Systems Interface Coordination Work Group has targeted the second quarter of 2003 for development of an initial plan for implementation coordination, and intends to update the plan regularly thereafter. The Work Group also plans to develop initial proposals related to simulation coordination and business process modeling by the second quarter of 2003, with ongoing support as needed. The Work Group expects to begin work on implementation plans for seams-related systems and processes in the first quarter of 2003, with ongoing work in this arena, as well as with respect to other systems, as needed.

Market Monitoring Work Group

As described in the draft work plan attached to the SSG-WI Memorandum of Understanding and Cooperation, the Market Monitoring Work Group seeks to develop a workable proposal for a single West-wide market monitoring entity that would monitor the California ISO, RTO West and WestConnect RTO markets and satisfy the Order 2000 market monitoring requirements for each of the Western RTOs.

In July 2002, the Market Monitoring Work Group presented to the Steering Group an initial set of proposals concerning the establishment of a single West-wide market monitoring entity. The proposals were designed to meet the following goals:

- Satisfy the Order 2000 market-monitoring requirement for each of the Western RTOs;
- Provide the market monitoring entity with sufficient geographic scope to be able to effectively monitor seamless West-wide markets;
- Provide the market monitoring entity with sufficient independence, flexibility, and tools;
- Strike an appropriate balance between market monitoring entity independence and market monitoring entity accountability (fiscal and performance);
- Provide certainty regarding the Western RTOs' market rules while accommodating swift action to cure design defects;
- Retain current expertise and knowledge of local transmission markets irrespective of the creation of the market monitoring entity;
- Maintain a close connection and relationship between the market monitoring entity and individual RTO's operations staff; and
- Be responsive to individual RTO input.

The Market Monitoring Work Group has recently concluded that it should supplement its initial proposals. The Steering Group has reconfirmed that all three Western RTOs share a common goal of establishing a West-wide market monitoring entity, but questions remain about how to structure this function and the division of responsibilities between the West-wide market monitoring function and the individual RTO market monitoring units. In addition, it will be important to develop a clear understanding of the relationship between the Western RTOs' market monitoring activities (when all of these entities are in operation) and the Commission's new Office of Market Oversight and Investigations.

A report summarizing the current status of the SSG-WI Market Monitoring Work Group's recommendation is included with this filing as Attachment G. The Market

Monitoring Work Group's highest priority task for 2003 is to develop and detail options for the Steering Group to consider (as part of forming a recommendation to the Western RTOs) related to whether the West-wide market monitoring function should be structured around a single, primary market monitor for the Western RTOs' markets, or if this function can be performed by an umbrella or coordinating body that monitors for seams issues. The Market Monitoring Work Group also hopes to develop an initial proposal regarding confidentiality of and access to data.

Pricing Reciprocity

The draft work plan attached to the SSG-WI Memorandum of Understanding and Cooperation contemplates that the Pricing Reciprocity Work Group will develop a proposal for pricing reciprocity among the Western RTOs. Accordingly, the Pricing Reciprocity Work Group's central task is to identify options to implement price reciprocity at the RTO seams. During 2002, the Pricing Reciprocity Work Group was successful in developing an initial set of options and criteria for evaluating those options.

The Pricing Reciprocity Work Group has identified five key objectives for its work during 2003:

- Objective 1: Identify applicable existing charges and proposed charges applied to various transactions;
- Objective 2: Collect data and analyze the financial implications on the current/proposed processes for collecting revenues related to interregional transactions;
- Objective 3: Finalize development of options for price reciprocity;
- Objective 4: Develop proposals for addressing pricing seams with and services offered to non-participants; and

- Objective 5: Develop assessment criteria, consider available pricing options, and identify suggested alternative.

The Pricing Reciprocity Work Group's goal is to complete work on Objective 1 during the first quarter of 2003, Objective 2 during the second quarter of 2003, Objective 3 during the third quarter of 2003, and Objective 4 are to be addressed during the fourth quarter of 2003. Work on Objective 5 should be completed during the fourth quarter of 2003 (with intermediate milestones set for the first, second, and third quarters).

4. Important Considerations Affecting Resolution of Seams Issues

The SSG-WI Participants have been working and will continue to work diligently on their respective RTO development and market redesign processes. Moving these efforts ahead thoughtfully, and with the collaborative participation of interested stakeholders, will take time. The Commission has said that it recognizes that "some flexibility in RTO timelines may be required" to accommodate the SSG-WI process, and that the Commission envisions "a parallel track between this process and the RTO development process so that both can continue to move forward."¹⁷ The Commission's understanding of the unique challenges presented by western system operations and market design, and its willingness to give the SSG-WI and RTO processes the chance to succeed, are of utmost importance.

The SSG-WI process offers a distinct opportunity to foster an inclusive, regional forum that will address the array of technical, legal, and policy considerations that are necessary for any proposed seams resolutions to be workable and broadly supported.

¹⁷ See October 25 Notice and December 20, 2002 letter from Chairman Wood to Congressman George Nethercutt.

SSG-WI's overarching goal is to realize the vision of a seamless western market for wholesale electricity in a manner that enhances, rather than impairs, the key attributes of each Western RTO's proposed structure and market design. Among the major issues to which the SSG-WI process must be attuned is the ability of non-jurisdictional entities to participate in the Western RTOs. A substantial portion of the western grid is controlled by non-jurisdictional entities such as the Bonneville Power Administration, the Western Area Power Administration, the Los Angeles Department of Water and Power, British Columbia Hydro and Power Authority, and Salt River Project. The assets owned and operated by these entities are critical to operation of the electric system of the Western Interconnection and their absence from the Western RTOs could impede the creation of a seamless western market. With this in mind, the RTO West and WestConnect proposals have been designed to carefully balance the benefits and burdens of participation for the key non-jurisdictional entities so as to encourage their participation in the RTOs. Through the SSG-WI process, efforts to enhance the efficiency of western electricity markets can build from an understanding of key issues such as this.

As the Commission knows, many features of the proposed RTOs for the West have not yet taken their final shape.¹⁸ Tracking the ongoing evolution of the Western RTO proposals will be imperative if SSG-WI participants are to understand, and develop constructive proposals to address, the complex interrelationships among the Western

¹⁸ The SSG-WI Participants recognize that it is a delicate balancing act to harmonize the different implementation timelines of each of the Western RTOs. The California ISO has legitimate needs to move ahead with market redesign to address the problems it has experienced. RTO West and WestConnect are concerned that the investments in systems and software the California ISO makes in the near term not impede their ability to develop systems and software that will work with the RTO West and WestConnect market designs without creating seams problems.

RTOs' markets. Circumstances will change, and steadfast adherence to fixed timelines could undermine efforts to facilitate the development of a robust and seamless western market. By remaining supportive of SSG-WI and the time needed to develop well-crafted, regional solutions, the Commission will enable the SSG-WI process to work in harmony with the RTO development and market redesign processes underway in the West. The SSG-WI Participants believe that this will further the long-term success of the Western Market Vision and its central goal, creation of a seamless wholesale electricity market in the West.

Respectfully submitted,

SIGNATURES

DATED the 7th day of January 2003

THE CALIFORNIA ISO CORPORATION

/s/
By: Elena Schmid
Vice President, Corporate
and Strategic Development

THE RTO WEST FILING UTILITIES:

AVISTA CORPORATION

/s/
By: Randall O. Cloward
Director, Transmission Operations

BONNEVILLE POWER ADMINISTRATION

/s/
By: Allen L. Burns
Executive Vice President
Industry Restructuring

BRITISH COLUMBIA HYDRO AND
POWER AUTHORITY

/s/
By: Yakout Mansour
Vice President, Grid Operations
and Inter Utility Affairs

IDAHO POWER COMPANY

/s/
By: James L. Baggs
General Manager, Grid Operations
and Planning

NORTHWESTERN ENERGY

/s/
By: Ted D. Williams
Director, Transmission Marketing

PACIFICORP

/s/
By: John Carr
Managing Director, Major Projects

PORTLAND GENERAL ELECTRIC

/s/
By: Stephen R. Hawke
Vice President, System Planning
and Engineering

PUGET SOUND ENERGY, INC.

/s/
By: Kimberly Harris
Vice President, Regulatory Affairs

NEVADA POWER COMPANY and
SIERRA PACIFIC POWER COMPANY

/s/
By: Carolyn Cowan
Executive Director, Transmission Policy
and Operations

THE WESTCONNECT APPLICANTS

/s/
Antoine P. Cobb
Troutman Sanders LLP
401 9th St., N.W.
Suite 1000
Washington, DC 20004

Attorney for Tucson Electric Power Company

/s/

John D. McGrane
Stephen M. Spina
Morgan, Lewis & Bockius LLP
1800 M St., N.W.
Washington, DC 20036

Attorneys for Arizona Public Service Company

/s/

David B. Raskin
Steptoe & Johnson LLP
1330 Connecticut Ave., N.W.
Washington, DC 20036

Attorney for El Paso Electric Company

/s/

John T. Stough, Jr.
Hogan & Hartson LLP
555 Thirteenth Street, N.W.
Washington, D.C. 20004

Attorney for Public Service Company of New Mexico

D. List of Attachments.

- Attachment A – Summary of Major Deliverables and Timetable
- Attachment B – Memorandum of Understanding and Cooperation Among RTO West, WestConnect, and the California ISO
- Attachment C – SSG-WI Organization Chart
- Attachment D – Seams Issues Reference List for Congestion Management Alignment Work Group – Working Draft
- Attachment E – Planning Work Group’s Status Report, Including Initial Proposal for SSG-WI Planning Process
- Attachment F – Comprehensive Issues Lists for Planning, Market Monitoring, Common Systems Interface Coordination, and Pricing Reciprocity Work Groups
- Attachment G – Current Status of SSG-WI Market Monitoring Work Group Recommendations