

A Regional Consensus Transmission Proposal

Background and Overview

The RTO West Regional Representatives Group (RRG) recently expressed its unanimous support for continuing efforts to move toward implementing a consensus proposal to create a new independent transmission organization for the region. This new proposal was developed to meet the specific needs of this region, as identified through the RRG process since mid-2003.

The RTO West filing utilities, state and provincial energy officials, and many other regional parties as well, recognize that the current system of managing and operating the regional transmission grid and related wholesale markets is not able to address many problems and opportunities that are facing the region, for a number of reasons. With the encouragement of the states and provinces, the RTO West filing utilities—BPA, PacifiCorp, Idaho Power Company, Portland General Electric, Northwestern Energy, Avista, Puget Sound Energy, Sierra Pacific/Nevada Power and British Columbia Transmission Corporation—have worked with other parties in the region through the RTO West RRG process to develop a consensus proposal that meets the needs of the region and improves transmission system management, planning and operations. This process has been successful because: 1) it was driven by regional concerns, rather than responding to federal mandates, 2) it provided a forum for a cross-section of the region's transmission stakeholders to seek consensus on the nature of the problems and opportunities and the possible solutions to them, and 3) states and provinces actively participated in it.

The recent RRG process has led to two significant developments. The first is broad consensus on the transmission problems and opportunities the region needs to address. The second is a proposal (Regional Proposal) to create a regional transmission organization (Independent Entity) that is independent of market interests and has broad regional support. The Independent Entity will improve planning and use of the region's transmission system and related wholesale markets and will be responsive and accountable to the region.

The Regional Proposal builds on earlier work that was done on RTO West, but is different in three significant areas:

- It proposes a phased approach with a beginning point that will improve the operation, use and management of the grid from where the region is today. It will then build on regional experience and circumstances to shape the Independent Entity's evolution, subject to regional review, toward efficiently managing the region's electricity grid through financial methods (subject to reliability constraints);
- It provides for voluntary consolidation of transmission system operations into a single operator under the Independent Entity (and contemplates early consolidation of several major control areas); and
- It has a set of regional checks and balances that make the Independent Entity more accountable to the region.

In many respects (such as planning and expansion, market monitoring, and moving toward system management with financial methods), the Regional Proposal builds on earlier regional work reflected in the RTO West Stage 2 proposal.

This approach will give the region a comprehensive and integrated solution to the region's identified and agreed-upon transmission problems. It will benefit the region by:

- improving transmission grid efficiency;
- improving the region's ability to build only the infrastructure that is necessary and do it in the least-cost way; and
- enhancing that ability of the region to secure the lowest cost energy supplies for its consumers.

The next phase of this regional process involves several steps that may take place concurrently, including further development of the Regional Proposal in sufficient detail to file it with the states and provinces and the Federal Energy Regulatory Commission, initiating and completing these regulatory processes, initiating and completing BPA's federal decision-making process, and laying the foundation for seating the new board for the Independent Entity. The RRG plans to take the necessary actions to efficiently meet these objectives consistent with a business plan that is being developed.

The Regional Proposal Is Flexible and Focused on Regional Needs

The cornerstone of the Regional Proposal is the creation of the Independent Entity to manage usage of the region's electricity grid. Many of the region's transmission problems and opportunities can best be addressed by an organization that is independent and can make decisions free from the market interests of any particular transmission user and that can take a "big picture" look at the integrated transmission system. Independence in this context means independence from market interests, not lack of regional accountability or avoiding applicable regulatory authority.

The Regional Proposal uses a staged approach to evolve the Independent Entity and its functions to a proposed target state, based on workability, experience, testing, and regional needs, rather than on making all of the changes at one time.

- The beginning phase will be a major change and improvement from today. It will respond specifically to many of the important regional transmission problems and opportunities identified and agreed-upon in this process.
- Each new phase in the evolution of the Independent Entity is designed to be workable in and of itself and will address remaining transmission problems that were not solved in the earlier phases, but without creating significant new problems by moving forward.

- The Regional Proposal creates a path to an advanced target state where the region efficiently manages its transmission system by using financial methods subject to reliability constraints. Each phase along the path will evolve based on experience and circumstances at the time the changes are to be made, subject to a clear set of regional checks and balances to assure that changes serve the region's interests.
- The Regional Proposal allows for an early voluntary consolidation of utility control areas (key centers for transmission system operations) into a single control area operated by the Independent Entity. This approach is intended to provide each transmission owner the flexibility to make its own decision on consolidating its control area based on its needs and the experience of other consolidated control areas, rather than mandating consolidation as a prerequisite for joining the Independent Entity.

The Regional Proposal creates a governance structure for the Independent Entity that is accountable to the region. It contains a set of checks and balances that assure the region of meaningful consultation and input into changes in the Independent Entity or its functions and requires a stakeholder vote on certain key changes to its scope. Some of the features that are designed to provide regional accountability are:

- Mandatory consultation with state and provincial officials and regulators (as well as tribes with applicable regulatory authority);
- Mandatory consultation with regional stakeholders, including appropriate advance notice regarding key proposals;
- A vote of the 30-member Trustee Selection Committee (six representatives of each of five classes of members, including: major transmission owners, transmission dependent utilities, marketers and generators, end-use consumers, and state, provincial, tribal and public interest organizations) before certain changes are made to the scope of the Independent Entity's authority;
- A requirement for a higher level of Board approval, (from five to seven of the nine member board) if the Trustee Selection Committee votes contrary to the Board's proposal on key changes in scope.

The Regional Proposal contains regional safeguards that are intended to prevent abuses by market participants using the transmission system and to avert California-type problems from occurring in the region. It specifically creates an independent market monitor to investigate potential abuses.

Three fundamental principles have guided work on the Regional Proposal:

- All existing contracts, settlements and other relevant legal obligations are to be honored according to their terms.

- Transmission owners are still in charge of setting revenue requirements for their facilities, subject to applicable regulatory authority.
- Cost shifts should be minimized.

The Regional Proposal Benefits the Region

The Independent Entity's big-picture view of the overall system is designed to enhance reliability, manage congestion on the system at the lowest possible cost, create fair and open access to the transmission system, allow for changes in how transmission service is charged without significant cost shifting, and use information from grid users to identify needs on the system. The Independent Entity will enhance the region's ability to identify the best solutions to the region's transmission problems, including non-wire solutions and, once identified, provide a solid foundation for getting the region's needed, cost-effective infrastructure financed and constructed.

The Regional Proposal is a comprehensive and integrated solution to transmission problems in the region. Creation of the Independent Entity will improve the region's transmission system for all users because it will allow users to understand the cost consequences of their decisions to use the grid, allow greater utilization of the region's existing grid, and better inform the region on needed grid improvements. Collectively these changes will enhance the region's ability to build only the infrastructure that is necessary and do it in the least-cost way. Most importantly, forming the Independent Entity will facilitate and enhance the ability of all the region's utilities and their consumers to secure the lowest cost energy supplies available to them.

The Regional Proposal is intended to improve regional transmission grid operation, but to make changes only after reviewing and evaluating their relative costs and benefits. The Regional Proposal is intended to take advantage of existing commercially available computer systems that are "off the shelf" and can be readily adapted to the particular needs of the region. The fact that these systems now are commercially available should significantly reduce the initial costs of the Regional Proposal from earlier RTO West cost estimates.

Regional Development Process and Next Steps

The Regional Proposal is the result of an extensive six-month investigation of the region's transmission problems and solutions by a comprehensive cross-section of the region's transmission stakeholders. The Regional Proposal was developed through the RTO West Regional Representatives Group (RRG) stakeholder process to identify and discuss the region's transmission problems and opportunities. The RRG includes:

- Nine RTO West filing utilities, including BPA, PacifiCorp, Idaho Power Company, Portland General Electric, Northwestern Energy, Avista, Puget Sound Energy, Sierra Pacific/Nevada Power and British Columbia Transmission Corporation;

- State and provincial energy officials and regulators from Washington, Oregon, Utah, Idaho, Montana, Wyoming, Nevada, British Columbia and Alberta; the Northwest Power and Conservation Council;
- Representatives from public power in the Northwest and other parts of the region, including PNGC, PGP, WPAG, NRU, UAMPS, and Deseret G&T;
- Generators and power marketers;
- Renewable and environmental community representatives;
- Tribal representatives; and
- End use customers, including the DSIs, large industrial customers, and state consumer representatives.

The RRG met 12 times from June 2003 through December 2003. In addition, numerous, task-related working group meetings were held during this time frame.

The next phase of this regional process will be to lay the groundwork for implementing the Regional Proposal. This will require expanding on the Regional Proposal's framework in sufficient detail to support several objectives, including:

- Submitting appropriate filings to state and provincial regulators and the Federal Energy Regulatory Commission;
- Initiating BPA's federal decision-making process; and
- Preparing to seat the board for the Independent Entity.

The RRG has indicated its willingness to work expeditiously on these efforts during 2004.