

Risk Reward Study Group
Meeting #4 – Facilitator’s Notes
July 23, 2004

Notice

These facilitator’s meeting notes have been prepared for the personal use of the participants in the Risk Reward Study Group (Rn’R Group). These notes do not necessarily represent the position of any individual participant or the position of the group as a whole. Because different views and positions may be developed in subsequent discussions, these notes are provided solely for information purposes and to communicate the general nature of the discussion.

Attendance

Member	On Site	By Phone	Absent
Ray Bliven (DSIs)			X
Stefan Brown (OPUC)			X
Dick Byers (WUTC)	X		
Kurt Conger (Grid West Coordinating Team)	X		
Pete Craven (PacifiCorp)			X
Tom DeBoer (PSE)			X
Chris Elliott (Grid West Coordinating Team)	X		
Tom Foley (Renewable Resources Community)		X	
Jim Hicks (PacifiCorp)			X
Dave Hoff (PSE)			X
Bob Kahn (NIPPC)	X		
Bud Krogh (Grid West Coordinating Team)	X		
Marla Larson (Montana PSC)		X	
Larry Nordell (MT Consumers)		X	
Mike McMahon (Snohomish PUD)			X
Terry Morlan (NWPPCC)	X		
Kevin O’Meara (PPC)			X
Carol Opatrny (BCTC) - <i>Co-Lead</i>	X		
Lon Peters (PGP)	X		
Ken Petersen (Idaho Power Company)			X
Janelle Schmidt (BPA) - <i>Co-Lead</i>	X		
Marilynn Semro (SCL)	X		
Vito Stagliano (Calpine)			X
Lou Ann Westerfield (IPUC)			X
Linc Wolverton (ICNU)	X		

Guests/Replacements:
Kurt Granat (PacifiCorp)

Topics of Discussion

1. Introductions

Bud Krogh reviewed the agenda and all participants introduced themselves.

2. Update on Cost Drivers of ISOs/RTOs

Kurt Conger provided an overview of the presentation that The Structure Group gave to the Grid West Transmission Services Liaison Group (TSLG) July 15th. From The Structure Group:

	CAISO	ERCOT	PJM
Startup	\$300 M	\$80 M	N/A
Market Redesign	\$100 M	\$100 M	\$200 M
O&M	\$151 M/yr	\$143 M/yr	\$197 M/yr
Staffing (FTEs)	600	500	493

Mr. Conger walked the group through a summary of The Structure Group's presentation, which he agreed to turn into a "Lessons Learned" paper intended to inform future efforts. In particular, there is interest in using the materials developed by The Structure Group and this paper to inform decisions regarding the functionality of Grid West by determining the functions that provide the greatest value.

During his presentation, the group asked a number of clarifying questions about The Structure Group's presentation and conclusions:

1. For O&M costs, were revenues from costs directly assignable to specific customers netted against expenses? For example, are system impact study revenues recovered from customers credited against overall expenses?
2. Were the O&M costs developed on a revenue requirements basis or taken from the expense ledger on the income statement?
3. Do the RTO/ISOs make FERC or state rate filings? Were these data examined to develop the information presented?
4. Were any cost savings or increases from staff changes at participant organizations examined? For example, if formation of the RTO/ISO involved consolidation of control areas, were there any savings or additional costs incurred by the utilities that consolidated?

5. Is Market Redesign a historical capitalized cost or a total projected cost? Over what timeframe were the redesign costs accrued? For example, do the Market Redesign costs shown for CAISO include both actual costs and projected costs for completion of MD02?
6. Is ERCOT the only one incurring significant retail service costs? Is the \$72 M estimated revenue from retail service already subtracted from the cost of service? That is, should the revenues be subtracted from the \$143 M to determine the cost to wholesale customers? Or is the overall cost of ERCOT service $\$143 \text{ M} + \$72 \text{ M} = \$215 \text{ M}$?
7. What are the “building blocks” of the “standardized systems”? That is, what are the standard functional components of RTO/ISO information systems that do not need to be developed as custom applications for each region?
8. Is it possible to make a back of the envelope estimate of the Grid West system (module 5) earlier in the process?
9. Have you observed whether cost is a function of the number of nodes that need to be metered?

These questions will be forwarded to the TSLG and, in turn, The Structure Group. Responses will be made available to the RnR participants at our next meeting. Also, the group will discuss “next steps” for the topic of costs at the next meeting

3. Problem Quantification Survey

Carol Opatrny led a discussion on the draft Problem Quantification survey. The group was asked to provide input on the overall survey approach, as well as specific suggestions on the survey topics and questions. Some suggested including redrafting text in order to secure information and data regarding specific incidences, dates, times, frequency of occurrence, etc.

Suggested edits, e.g., in the form of redline documents, will be accepted through close-of-business July 28th. Thereafter, the survey will be updated and sent out to 1 or 2 “test” respondents as a scoping exercise. After interviews with these entities, the survey may be redrafted and then sent out to a broader audience for responses and interviews, e.g., all major transmission providers involved in the Grid West process as well as the major transmission customers, including PNGC, PPM, PBL, Powerex, NIPPC membership, SCL, and any Public Generation Pool utility identified by Lon Peters.

The group talked about the need to secure data that will aid in further efforts to quantify problems as well as the need to ensure that the data responses are

comprehensive. The PNSC may also be contacted in order to secure suggestions on specific incidences and parties to interview.

4. Tabors Caramanis & Associates RTO West Benefit/Cost Study Review

Janelle Schmidt led a discussion that focused on specific issues that have been raised when reviewing the Benefit/Cost Study performed by Tabors Caramanis & Associates.

- The modeling of pancaking – this issue will be pursued further by Ms. Schmidt with help from Kurt Granat, Linc Wolverton and Lon Peters.
- Accounting of “congestion rents” – this issue will be pursued further by Ms. Schmidt with help from Kurt Granat.
- The modeling of operating reserves – this issue will be pursued further by Ms. Schmidt with help from Carol Opatrny.
- The modeling of the current state of the “contract path” limits used for the base case – Ms. Schmidt will research.

5. Risk Reward Effort and Purpose

The group engaged in general discussion about other modeling efforts being done in the region. In particular, the group shared what was known about Snohomish PUD funding a modeling contract that will be performed by Henwood Energy Services. Snohomish and its advisory group have questioned or rejected some of the assumptions in the 2002 TCA study. The Henwood contract will permit them to alter assumptions and information that was included in the TCA study. The RnR group expressed interest in Snohomish sharing its assumptions and results with the Grid West Risk Reward regional effort as it proceeds. Janelle Schmidt agreed to contact Mike McMahon (Snohomish PUD) in order to secure an opportunity for the Risk Reward group to review and offer constructive input to Snohomish’s modeling effort.

Next Steps:

- Clarification questions on the Structure Group’s presentation will be forwarded to the TSLG coordinator (Steve Walton) and The Structure Group.
- The Problem Quantification Survey will be updated to reflect comments submitted by July 28th; 1 or 2 “dry run” interviews will be conducted and the survey will be modified, if necessary, to reflect what is learned during these “dry runs”.
- Contact Snohomish PUD about its modeling effort and invite participation in the next RnR meeting.
- Develop a meeting calendar to support the already-scheduled RRG conference calls and meetings.

Materials Provided

- Cost Comparisons From TSLG Meeting 7/15/04 (Conger)
- Problem Quantification Survey (Opatrny)
- Calculation of Benefits (Schmidt)

Next Meetings

- August 16th, 9:30 – 1:30 pm in Olympia (if Snohomish PUD participates in the meeting) or Portland at Grid West offices.