

RTO West Benefit Cost Study

Informal Competitive Solicitation (ICS)

RTO West is soliciting proposals from consultants interested in performing a Benefit Cost Study (the Study) of RTO West, a proposed Regional Transmission Organization (RTO) in the Western Interconnection.

The firm(s) selected (the Contractor) will work for and report to the Filing Utilities that collectively comprise RTO West. The Contractor will also solicit input on a regular basis during the project from an advisory group (the RTO West Benefit Cost Work Group), composed of people, from both RTO West Filing Utilities and other stakeholders, interested in the RTO West Benefit Cost Study (the Study).

The Contractor also will be required to assist with describing the Study progress and results to regional forums, such as the RTO West Regional Representatives Group (RRG), where there will be an interplay of ideas and information.

Background¹

RTO West will incorporate the transmission systems of all transmission owners willing to participate and located within the Northwest Power Pool area. The proposed boundaries of RTO West encompass a significant contiguous geographic region ranging from the British Columbia – Alberta provincial border to the southern tip of the state of Nevada. RTO West covers approximately 945,000 square miles across eight states and the province of British Columbia. This is the geographical scope for the Study.

RTO West is currently composed of ten participants:

- Avista Corporation
- Bonneville Power Administration (BPA)
- British Columbia Hydro and Power Authority (BC Hydro)
- Idaho Power Company
- Montana Power Company
- Nevada Power Company
- PacifiCorp
- Portland General Electric Company
- Puget Sound Energy, Inc.
- Sierra Pacific Power Company.

¹ Much of the following description was included in RTO West's Compliance filing to FERC, October 16, 2000 (Attachment L, Description of RTO West Regional Scope and Configuration).

In combination, these utilities serve eight western states (Washington, Oregon, Idaho, Nevada, Utah and parts of Montana, Wyoming and California) and the province of British Columbia with some 60,000 miles of transmission lines. The transmission facilities under the operational control of RTO West encompass transmission facilities of the Filing Utilities (above) at the major energy trading hubs at the British Columbia, Canada – Washington State (U.S.) border (Northern Interconnection), California-Oregon border (COB), Nevada-Oregon border (NOB), mid-Columbia (Mid-C) trading hub and interfaces at the Mead/Four Corners area. Through consolidation of the control area function of the entities listed above, RTO West will operate more than 90% of the existing high voltage transmission facilities within its proposed geographic scope.

RTO West will encompass the major existing control areas and will:

- Provide Total Transfer Capacity and Available Transfer Capacity determinations for all paths under its control.
- Be the sole entity to manage transmission congestion through a physical rights model.
- Administer a pricing structure designed to recover embedded costs and to eliminate rate pancaking.
- Possess the control authority to address loop flow issues within its boundaries.
- Consolidate control area operator functions of the Filing Utilities; moving toward the creation of a single NERC-certified control area operator for the region under RTO West.
- Have a transmission planning backstop role for meeting load service obligations, connecting new generation facilities and managing system reliability, safety and efficiency.
- Identify reliability problems within its geographic scope and work with affected transmission owners to remedy the situation.
- Facilitate the development of a competitive, bilateral Ancillary Services market (for which it will act as the backstop).

Benefit/Cost Study

The basic framework of the Study will be a comparison of two future states-of-the-world of the electric utility industry in the Pacific Northwest United States and western Canada. One state should reflect a future without RTO West; the second should reflect a future with RTO West. By doing so, incremental benefits and costs will be identified, described and quantified.

It is expected that individual companies will use the results from the Study to assist with the performance of their own evaluations or assessments which may be required to meet the requirements of their regulators (i.e., state commissions and the British Columbia Utilities Commission). Bonneville is expected to assist its customers in interpreting and applying the results of the Study, and to convey the results to the Northwest congressional delegation. Therefore, the Study and its assumptions must be defensible in a number of forums that are likely to follow the completion of the Study.

Scope of Work

Briefly, and without force and effect upon the contract document, the scope of the work is summarized as follows:

In general:

- The geographic scope of the Study will be the RTO West region.
- The Study should evaluate benefits and review costs that will be realized by the RTO West region. To the extent possible, these benefits and costs should be quantified. If it is unreasonable to quantify certain impacts, then a discussion of qualitative benefits and costs must be included.
- The period of the Study should be at least five (perhaps more) years.

Benefits and Costs to be Considered:

While it is expected that the development of RTO West is likely to lead to reduced production costs, improved power throughput, more efficient and less costly transmission system expansion, and increased energy market competition, this Study will be used to test such expectations. The Study should be an independent evaluation of the potential sustainable regional benefits and costs associated with forming and operating RTO West. Some areas of potential benefit and/or cost to be considered in the Study include²:

- Collapsing the operations of multiple utilities into a single grid operator that provides open transmission access throughout the region.
- Changes in operations and reserve requirements resulting from consolidating to one control area operator.
- Insurance against exercise of market power.
- The value of increased efficiency through regional transmission pricing and elimination of rate pancaking.
- Effects on west-wide power market prices as a result of implementing RTO West's pricing method.
- New procedures for managing congestion.
- New procedures for estimating ATC (Available Transmission Capacity).
- One single, OASIS (Open Access Same-time Information System).
- Regional management of parallel path flows.
- Regional management of phase shifters.
- Regional planning for transmission investment.
- Increased coordination among state regulatory agencies.
- Changes in transaction costs for market participants.
- Effects on grid reliability.
- Effects associated with location decisions of generation on the grid.
- Changes in opportunities for discriminatory practices.
- A single set of business practices, a single set of technical requirements for the connection of lines and loads and interconnection of generation resources.
- Development of a competitive market for Ancillary Services over the RTO West service area.
- The cost of set-up and operations of RTO West itself.

² Many of the benefits identified in this list were identified by the FERC's (Federal Energy Regulatory Commission) in Order 2000 as being national benefits associated with forming RTOs.

- The incremental costs of forming a transmission exchange to oversee the secondary market in trading transmission rights.
- The differences in total costs associated with collapsing individual utility functions into the RTO or keeping them with the utilities.
- Other benefits and costs identified in the Study.

Qualifications, Similar Study Work, and References

RTO West will use a competitive process to engage an independent consulting firm or team of firms with these strengths:

- Experience in performing detailed benefit cost analyses;
- Experience studying the benefits and costs of ISO (Independent System Operator) and RTO proposals and implementation;
- Experience performing economic studies for the electricity industry in the Western Interconnection;
- Experience in assessing reliability impacts of engineering and operational changes.

A complete proposal will address each the following:

- Previous market study experience, with emphasis on modeling expertise in both power market and transmission effects;
- Previous experience with benefit cost analysis;
- Qualifications and availability of project manager;
- Qualifications and experience of key people that will actually work on the Study;
- List of software and analytical tools to be used to generate studies, including results of studies used to test such tools, e.g., backcasts;
- A general description of the Study structure, e.g., evaluation period, description of the two future states, critical assumptions, input requirements, form of output, etc.
- Examples of previous similar studies with project schedules;
- A cost estimate for performing the Study; and,
- References.

RTO West Project Oversight

RTO West will designate a project director (oversight mechanism) responsible for overall direction of the work.

Period of Performance - Schedule

The anticipated period of performance, including receipt by RTO West of the completed regional Study, is three months commencing on or about September 4, 2001.

Information Requests, Interim Reports, Preliminary Findings, and Final Study

The Contractor will be expected to submit a request for information to RTO West which should specify what data/methodologies, etc. are needed to perform the Study, the sequence for such as well as a schedule. In addition, the Contractor will be expected to submit monthly progress reports and preliminary findings to RTO West for posting on the RTO West website. The final Study must also be submitted for posting. The Contractor also should agree to respond in a timely manner to comments of and feedback from interested parties regarding interim reports and preliminary findings.

Costs and Cost Control

Proposals must detail the costs of performing the Study. Proposals for cost control are encouraged, and cost will be a consideration in selection of the contractor.

After execution of the contract, the Contractor will provide an initial forecast of monthly costs during the length of the Study (approximately three months). Thereafter, the Contractor will provide a monthly report of incurred costs.

Evaluation Criteria and Methodology for Selection of Consultant

The following criteria, and other criteria as appropriate (not listed below), will be used by RTO West to evaluate proposals submitted in response to this ICS:

- Proposer's understanding of the Study scope and requirements;
- Proposer's organization and management plan;
- Qualifications of key personnel and other assigned personnel;
- Company resources and proposed software and analytical tools;
- Costs and cost control mechanisms;
- Company experience and past performance;
- Overall study approach; and,
- References.

After proposals are received and reviewed, RTO West will select a limited number of firms to be interviewed. After the interviews, RTO West will select a firm(s) to perform the Study, issue a selection notice, execute a contract with the selected Contractor and issue a notice to proceed with the Study.

Rejection of Proposals

RTO West reserves the right to reject any and all proposals and to waive any and all informalities in the best interests of RTO West.

Support and Additional Work

Included in the contract, the Contractor will commit to support and describe the results of the Study to regional forums, and as described above, will respond to comments and feedback submitted about the Study.

In addition, if Filing Utilities need further analytical work beyond the scope of the Study, the Contractor will commit to be available for additional support and analyses as requested by individual Filing Utilities.

Submittal of Proposals

A copy of this Informal Competitive Solicitation is posted on the RTO West website at www.rto west.org.

Written proposals should be no more than twenty (20) pages in length and must be received by email (Word format) no later than close of business, August 13, 2001.

Proposals should be submitted to:

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