

Brief Summary of Grid West RRG Meeting May 26-27, 2005

Introduction

This summary is intended to briefly describe the discussion during the May 26-27, 2005 meeting of the Grid West Regional Representatives Group (RRG). It is not intended to be a verbatim transcript of anyone's remarks, and it is not intended to suggest that any particular representative or entity at the RRG meeting agreed with or endorsed the views described in this summary.

Overview of May 26-27, 2005 Meeting

- The RRG met at the Portland Airport Sheraton Hotel in Portland, Oregon on Thursday, May 26, from 1:00 p.m. to 5:20 p.m. and Friday, May 27, 2005, from 8:30 a.m. to 12:05 p.m. PDT. The RRG meeting followed a day and a half long Transmission Services Liaison Group seminar held on May 25 and 26.
- Approximately seventy people attended the RRG meeting, including twenty-five designated RRG representatives. Three state representatives attended the meeting in person and one state representative participated by phone. Jamie Simler, FERC's Director of the Division of Rates and Tariffs West, attended the TSLG seminar and the May 26th RRG meeting.
- The RRG meeting started with an overview of upcoming Grid West activities, key meetings, and progress on Grid West work streams. Work is on course toward Decision Point 2. The RRG agenda was presented showing when Grid West progress reports would occur and when reports from the Transmission Improvements Group (TIG) and the Western Assessment Group (WAG) would be given.
- Two groups are considering ways to stage towards the TSLG-proposed basic services model by offering near-term services. Groups working on governance/legal aspects and sample services reported the thinking developed so far on early control area services, planning, and market monitoring to the RRG.
- A summary of the Transmission Improvements Group (TIG) process and accomplishments was given. Details of TIG's proposed planning process were explained and the RRG was briefed about TIG's proposed approach to market monitoring.
- Co-leads of the Risk Reward Group presented an update on activities of the Risk Reward Group, outlining the white papers being prepared and highlighting information from the survey responses for further quantification. This effort is on track for a risk reward seminar on July 20 and 21.
- The RRG was told about some of the key ideas the Pricing Work Group is proposing which raised a number of questions from the RRG. A pricing seminar covering all elements of the pricing proposal was set for June 23.

- The Grid West Secretary reported that as of the close of the initial membership window on April 29, forty-three active Grid West memberships were approved and forty-four declaratory memberships were approved. Slides illustrated the membership processes leading up to when the Members Representative Committee would elect five independent Board members by the end of the year.
- The RRG was told about the Western Assessment Group (WAG) meeting on May 23 in Portland where a broad range of parties from across the West developed a consensus document on four key West-wide issues, organizational approaches, and next steps to address commercial issues.

The next RRG meeting will be Friday, June 24, from 8:00 a.m. to 2:00 p.m. PDT at the Sheraton Portland Airport Hotel. This RRG meeting will follow a June 23 seminar on Grid West pricing.

Overview of Progress and Direction of Grid West Activities

Progress Overview: Referring to the Grid West 2005 Work Plan, Steve Walton updated the RRG on progress of Grid West activities. Steve reported that current activities are on schedule toward Decision Point 2.

Two work streams of activity are underway. One is organizational governance and the four decision points established for moving through the development process to the beginning of operations. The second is a technical work stream, which is expanding the definition of the operational entity's basic features by Decision Point 2. As much technical work as feasible on market design and pricing will be completed to hand off to the Developmental Board to inform its work on finishing basic features and negotiating and offering transmission agreements.

Seminars are coming up in June on pricing and in July on risks and rewards. Following the seminars there is a regional public review period during August.

RRG Agenda and Progress Reports: Steve then reviewed the May 26-27 meeting agenda, illustrating how Grid West progress reports on Early Service Options, Pricing, Risk Reward, and Membership relate to work underway. Steve also showed when other regional updates from the Transmission Improvements Group (TIG) and Western Assessment Group (WAG) would occur on the agenda. The Update Overview on Grid West Work Status and the meeting agenda is posted on the RRG page of the Grid West website at http://www.gridwest.org/Doc/GWRRG_May26272005_OverviewAgenda.pdf.

Grid West Progress Report: Approach for Early Steps in Grid West Evolution

Chuck Durick said that following up on ideas introduced at the last RRG meeting, two discussion groups are considering offering near-term services as a means to phase into the TSLG-proposed basic services model. There is a desire to start to address existing problems. Staging is a practical way to step forward instead of beginning the entire flow-based model at once.

Governance and legal aspects: Malcolm McLellan reported this small group has held several phone calls and identified areas of interest. Evaluation of the feasibility of ideas for early services will be needed in the context of specific proposals. The group will be

available as a resource to talk through how further-developed proposals relate to FERC jurisdiction, how they fit with authorities and limitations of the Grid West bylaws, and how they relate to Decision Point 4.

Sample services: Three near-term services are being considered.

Control area services: Paul Kroger said the target end-state is TSLG's proposed real-time balancing market. In advance of this, two ideas for near-term control area services have received attention so far. One clear early first step is to implement a simple shared regulation pool with allocated area control error (ACE). This could eliminate excess control action. A second step is to add a facilitated bilateral market for, at least, regulation reserves. This could enable moving from rudimentary markets to real-time balancing services and real-time markets for these services. Early control-related services could be available to those that don't intend to consolidate their control areas, too.

Allen Burns said BPA is interested in reliability and having an entity that can identify path overloads in the day-ahead. Paul responded this was a beneficial service to consider. Other RRG members had questions and several commended the group for pursuing good opportunities to put services in place sooner.

Planning: Cam Lusztig said this group's objective is to design and implement planning services provided by an independent entity like Grid West that add value (while being cognizant of the Grid West bylaws). Thinking along a continuum, at a minimum Grid West could compile individual entity's plans. A second level would be to coordinate a process for a regional plan, respond to requests from individual entities to do facility and impact studies, and perhaps form a study group. On a third level, Grid West would have neutral, centralized decision-making authority and perform regional and West-wide interconnection studies. Level 4 would add a backstop role for Grid West. It was pointed out that a standing committee of state and governors' staff would be essential.

The group's next step is to consider which services along the range of ideas provide the best value, taking into consideration ongoing costs and transition costs. Responding to a question, Cam said the group is primarily focusing on reliability. One RRG member opined that it could be difficult to implement early planning authorities for Grid West. It's important to craft a planning process that does not potentially impede expansion.

Market Monitoring: Chuck Durick said Grid West initially supports the SSG-WI market monitoring pilot study. The pilot study is expected to lead to an annual state-of-the-market report for the West from public information; it will be valuable to know how transmission is utilized. At the end of the two-year pilot, Grid West will evaluate benefits of West-wide market monitoring and move ahead with market monitoring proposals.

Bud Krogh summarized that efforts on these early services are an iterative process between developing good business models and analyzing the legal feasibility in the context of Grid West bylaws. The groups working on near-term services will continue to report progress at future RRG meetings. The plan is to develop a report on business structure, mechanisms, and required resources, plus an evaluation of the benefits of offering early services and legal feasibility by the public review period in August.

The Grid West Near-Term Services Status handout is at http://www.gridwest.org/Doc/GWRRG_May26272005_NearTermServ.pdf.

Remarks of Jamie Simler of FERC

At this point in the meeting, Jamie Simler, FERC's Director of the Division of Rates and Tariffs West, thanked the RRG for the good information provided at the TSLG seminar and at the RRG meeting about Grid West's proposed design.

Update from Transmission Improvements Group (TIG)

Kristi Wallis, facilitator for the Transmission Improvements Group (TIG), said TIG appreciates the opportunity to get input from the RRG. She said four TIG work groups, Regional Transmission Planning and Expansion, Market Monitoring, Common OASIS, and Reliability and Security, are meeting frequently to develop proposals. Also under guidance of a TIG steering committee, there are groups working on flow-based ATC and a legal group. TIG has retained three lawyers with FERC practices. A calendar of TIG meetings was provided, and information is posted on the TIG website (tig-nw.org).

Kristi said the steering committee's aim is to stay focused on pulling together a comprehensive package of proposals by August.

TIG Planning and Expansion: John White explained the TIG proposed planning and expansion process, referring to a power point presentation, papers, and a work plan. TIG proposes 1) a Northwest Transmission Planning Entity and Process (NTP) that would develop a credible regional plan, and 2) a Transmission Expansion Review Committee/Council (TERC) that would approve and implement the regional plan. John listed some principles applicable to both NTP and TERC. For instance, the process would be open and transparent; the market would be given numerous opportunities to participate; there would be regional transmission adequacy standards; dispute resolution would be available; and FERC is the ultimate backstop authority for construction.

The staff of the NTP will be independent from the transmission owners and market participants and lead the development of a regional transmission plan. NTP will develop and submit a System Assessment to TERC for approval, and develop and update, on a 5-year basis, common transmission planning criteria and guidelines. The TERC provides review and policy guidance, resolves disputes in the planning process, and will approve a Biennial Transmission Expansion Plan. TERC will serve as a "forcing mechanism" for construction of approved projects, with requests to FERC serving as a backstop (for reliability). Responding to questions, Kristi remarked that it may be possible for some convergence of TIG's and Grid West's planning proposals this fall because the work coming together on both is similar.

TIG Market Monitoring: Lon Peters explained the TIG approach to market monitoring. The Northwest independent market monitor (IMM) would work with other market monitors including the proposed West-wide market monitor. However, the objective is different than the SSG-WI pilot project. Market monitoring would be accomplished by contract.

Referring to a flow diagram, Lon explained that transmission owners (TOs) would sign a marketing monitoring agreement and amend their transmission tariffs to require cooperation with the IMM. TOs would establish a market monitoring committee (MMC) and a budget. The MMC develops a plan and scope and oversees the activities of the IMM. Lon said TIG is contemplating a five-year contract.

Referring to a question and answer paper Lon addressed many details, including how the independence of the IMM would be ensured and how data is obtained and treated confidentially. Lon talked about the initial state-of-the-market report in 2006 using publicly available data and ramping up in 2007. He said TIG is proposing a first year cost estimate and a five-year cumulative cost cap, with costs allocated among TOs.

Grid West Progress Report: Risk Reward Group (RnR Group)

Kurt Conger, Carol Opatrny and Janelle Schmidt presented an update on activities of the Risk Reward Group. This effort is working toward a seminar on July 20 and 21. Kurt said the deliverables are white papers, survey results, quantifiable and qualitative benefits, and costs assessments (which will come from the TSLG's Module 5). Kurt showed the outline of eighteen white paper topics being prepared. Each white paper will describe the baseline status quo and measurable changes. The Risk Elements white paper will discuss the pros and cons of perceived risks.

Carol summarized the responses received for each survey category. The group is looking deeper at the information for areas where they can mine quantifiable indicators.

In addition to the survey, Janelle Schmidt said control areas interested in consolidating are evaluating quantifiable benefits using the PowerWorld tool. One focus is calculating expected benefits of a shared regulation pool.

TSLG, with the Structure Group, is developing cost estimates, using a bottom-up analysis of Grid West's basic features' design. The tool being used allows recalculation of the estimated actual cost by varying specific assumptions, such as computer equipment or number of staff people.

The Risk Reward Group's Update Report is at http://www.gridwest.org/Doc/GWRRG_May26272005_RiskRewardReport.pdf .

Grid West Progress Report: Pricing Work Group (PWG)

Reporting on behalf of the Pricing Work Group, Sarah Dennison-Leonard noted that the presentation was a "slice" of the total pricing proposal being developed and builds on previous reports given to the RRG. The presentation materials covered ideas for pricing new long-term service and ideas for a revenue replacement mechanism for transmission owners' "lost revenues." The PWG is looking for RRG feedback on its ideas.

Sarah emphasized the limited scope of the pricing proposals – the ideas presented apply only to pricing of long-term (LT) service, cover only new LT service, and just for the "company rate" period (8-year minimum).

By going through some examples with the RRG, Sarah illustrated what would be new LT transmission service versus "legacy" service (including continuation of existing service and rollover of existing service). The Pricing Work Group proposes two types of new long-term service for Grid West to offer: IWR pairs (like today's point-to-point service) and IWR "constellations" (like today's network service).

Discussion of the examples raised a number of questions concerning details related to types of service and pricing of services. Due to a lack of time, Sarah was unable to give the entire Pricing Group presentation.

The Pricing Work Group will present a complete comprehensive package of proposed Grid West pricing elements at a seminar on June 23.

All of the Pricing Work Group Report slides and a summary matrix of pricing ideas are posted at http://www.gridwest.org/Doc/GWRRG_May26272005_PricingReport.pdf and http://www.gridwest.org/Doc/GWRRG_May26272005_PricingMatrix.pdf .

Grid West Progress Report: Grid West Membership Update

Sharon Helms, Grid West Secretary, said the Interim Board was pleased that as of the close of the initial membership window on April 29, forty-three Grid West active memberships were approved and forty-four applications for a declaration of future membership status were approved. A slide listed the number of approved members in each Member Class. A total of eighty-seven applications for active or declaratory membership were received and approved. Sharon noted that a declaratory member may activate its membership in Grid West at any time by notifying the Secretary and submitting the \$1000 annual membership fee. A list of Members, their Class, Subclass, and Designated Member Representatives are posted on the “Grid West Membership Information” page of the Grid West website at <http://www.gridwest.org/GWMemberInfo.htm> .

Sharon also gave a brief summary of the Grid West membership process. The next step is for the filers/funders to agree to execute an irrevocable two-year Funding Agreement (Decision Point 2). Signing of the Funding Agreement will open the second membership enrollment window, which is expected to occur about September 30th. Next the membership will have 30-50 days to meet and elect the Members Representative Committee (MRC). It is expected that there will be a Grid West members meeting later in the summer with the search firm providing information about potential board candidates. After Decision Point 2, the MRC will meet in November to nominate Board candidates and elect the Board by mid-December. The membership update slides are posted at http://www.gridwest.org/Doc/GWRRG_May26272005_MemProcessFlow.pdf .

Report on May 23 Western Assessment Group (WAG) Meeting and Outcomes

Dean Perry said a public outreach meeting of the Western Assessment Group was held on May 23 to build a consensus on how to address reliability and commercial issues in the West. The draft “Industry Consensus on Addressing Commercial Issues,” which resulted from discussions of about 100 people attending the session, was distributed to the RRG. It’s posted at http://www.gridwest.org/Doc/GWRRG_May26272005_WAGMatrix.pdf .

This consensus matrix, showing issues, needs, approaches, and next steps, will be attached to a letter from SSG-WI, WECC, and CREPC to the Western Governors Association for the governors’ June meeting.

Dean reviewed WAG’s general consensus approach to the issues on the matrix:
Transmission planning and expansion – first look at expanding WECC to cover commercial issues, without losing the current momentum on planning being accomplished by the SSG-WI Planning Group; also address funding of this work.
Resource adequacy – continue under WECC.

Market monitoring – although there is not clear agreement on the need for West-wide market monitoring, continue to move forward with the SSG-WI pilot project.

Transaction practices – WECC will propose how it can address commercial issues in a timely and effective manner.

Overall, the basic approach is to allow WECC to work out ways to address these issues until the end of the year, with some additional help from SSG-WI to continue the planning and expansion effort. If WECC is unsuccessful, creation of a new entity to address commercial issues will be considered. In the meantime, funding of these ongoing efforts will continue.

BPA Survey About Grid West RRG Process

Allen Burns told the RRG that BPA will conduct another survey similar to the one done last year to assess the effectiveness of the Grid West RRG process.

Upcoming Seminars and Meetings

Pricing Seminar on June 23 – A seminar on Grid West pricing will be held on Thursday, June 23, from 9:00 a.m. to 5:00 p.m. PDT at the Sheraton Portland Airport Hotel.

RRG Meeting on June 24 – The next RRG meeting is Friday, June 24, from 8:00 a.m. to 2:00 p.m. PDT following the pricing seminar and is also at the Sheraton Hotel.

Risk Reward Seminar on July 20 and 21 – The RRG scheduled the seminar on risks and rewards on Wednesday, July 20, from 8:30 a.m. to 5:00 p.m. and Thursday, July 21, from 8:30 a.m. to 12:00 noon PDT at the Sheraton Hotel.

RRG on June 27 – A final RRG meeting before the public comment period in August was scheduled for Wednesday, July 27, from 8:30 a.m. to 5:00 p.m. PDT, also at the Sheraton Hotel.