

Risk Reward Study Group
Meeting #8 – Facilitator’s Notes [Revised]
February 17, 2005

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 informational 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
Larry Nordell (MT)			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:

Rich Bayless (PacifiCorp)
Jeff Fuller (PRM)

Handouts:

- Problem Identification and Quantification Survey – preliminary results [draft_021605]
- Risk/Reward Analytical Framework Draft
- Draft Risk/Reward – Topic 1 Regulation Reserves
- Timelines for Developmental Board Seating

Topics of Discussion

1. Review Agenda

2. CCA Analysis Update

Janelle Schmidt and Rich Bayless indicated that a workgroup that involves PacifiCorp, BPA, Idaho Power and other Filing Utilities, is working on an assessment of the benefits that may result from consolidation as a result of modifying control functions and the market functions. Some of the markets that could be affected by consolidation include regulation, imbalance, operating reserves and losses. In addition, The Structure Group, which is currently working with the Transmission Services Liaison Group (TSLG) will work with the CCA workgroup to ensure consistency in what is being considered for market design, use of consistent terminology, as well as providing support in costing the CCA effort.

To allow for coordination among groups developing estimates of benefits, the CCA group is scheduled to complete its assessment one month prior to Risk/Reward group submission to the RRG.

3. Review of Preliminary Survey Results

Carol Opatrny and Kurt Conger provided a preliminary summary of the survey results. The survey was sent out to 29 entities (including Filing Utilities, TDUs, End-Use Customers, Marketers/Generators; Cooperatives; Public Agencies that operate control areas and Public Agencies that do not operate control areas; the Renewable Resource community and others. At this point, 24 responses have been received and 3 more are expected to be received in the near future. If the outstanding surveys are received, we will have achieved a 93% response rate.

While at this stage the survey responses are mostly anecdotal they verify and further describe the generalized comments that the RRG assembled in the fall of 2003. In general, the survey reflects that there is a body of opinion that perceives few significant problems (typically, those who transact only with BPA or are TDUs) and there is another body of opinion that identifies significant problems/inefficiencies (typically, those who are located at the fringe of the BPA system, or operate and purchase services from a number of control areas).

The purpose of the survey results was discussed in some detail. Some remarked that the survey is providing relevant, “new information” that should add value to restructuring debates. Others were concerned that anecdotal and possibly idiosyncratic responses would be used to draw unfounded quantitative conclusions. Questions arose as to how the survey would be used to produce quantitative results for the RnR deliverable to the RRG. It was noted that the survey is valuable because it provides substance to the problems and opportunities list that energized the development of Grid West. It could help guide the market development process. It was also noted that this survey is meant to be a first pass at the questions, and that respondents were told to answer with anecdotes and narrative descriptions of problems. The second pass will include follow-on questions that would help the RnR group better understand some of the details that support the survey responses, and whether that information can be used to construct quantitative results. In addition, some of the responses included suggestions as to how some fairly simple modeling could be done to provide some quantification of the comments. Eventually, the survey will be used to inform the existing modeling results as well as the market design discussions underway. Meeting participants agreed to submit proposed follow-on questions based on the survey summary provided by Kurt and Carol.

Participants were reminded that the workgroup previously agreed that analysis done to support Decision Point #2 will be focused on regional benefits (societal benefits). Accordingly, the analysis will be done in a manner to avoid counting income transfers as net regional benefits. Cost-shifts among regional entities will be addressed as part of Decision Point #4.

Together, the group reviewed one of the questions that asked about the impact of rate pancakes which help to inform how the summary should be reformatted, e.g., identify responses by respondent “category”, clump the “no problems” and the “there are problems” responses; number the responses to add discussion about them; cross reference responses to others areas of the survey to ensure that comments that inform more than one question are captured in the appropriate sections; add follow-on questions to the matrix, etc.

There was also some discussion of confidentiality of responses and participation in reviews. It was agreed that for this round Carol and Kurt will review responses, summarize them, then submit them to the broader group. Responses

to follow-on questions may have to be reviewed by a market-neutral party, depending on the question and the respondent.

4. Analytical Framework

The group reviewed the most recent version of the Analytical Framework and agreed on some reformatting suggestions. They also agreed to begin development of whitepapers on each of the problem/potential benefit categories". The Consolidated Control Area (CCA) benefits assessment group has already begun work on a number of these categories (regulation reserves, reliability, construction deferral, contingency reserves) – everyone agreed to let the CCA group take a first pass at these subjects. White papers on other subjects were assigned to RnR participants.

There was agreement that the "Baseline" scenario would reflect today or Status Quo, however, to the extent we anticipate "known and measurable changes" in the current market design, we may note that and attempt to calculate the impact of such changes.

The prescribed format for the Matrix and the "whitepapers" will be:

- Problem Statement
- Baseline Description
 - Status quo
 - Known and measurable changes
- Potential CCA Approach or GW Approach (Beginning State)
- Potential Alternative Approaches (Descriptive rather than analytical)
- Analytical Questions Affecting Results
- Related Efforts
- Analysis Design/Performed
- Potential Wealth Transfer Impacts (Range)
- Economic and Qualitative Benefits (Range)
- Problem statement
- Baseline description

- Known and measureable changes
- Grid West/CCA approach (Beginning State)
- Potential Alternative Approaches

5. Timelines

A general description of the timeline that the RR workgroup will have to adhere to was discussed:

- Deadline for whitepapers by March-end
- Deliberation of whitepapers in April
- Draft report in May
- Assemble materials in June

6. RRG Presentation

The group agreed that the presentation to the RRG should include an overview of the survey effort in terms of number of surveys sent out and number of responses, including a breakdown of the type of entity that responded. In addition, for the major categories that the survey addresses, the range of responses will be reported on, potentially using excerpted comments from the respondents. It will also be explained that follow-on work is expected to enable quantification or further details that support the responses submitted to date.

The presentation will also include an overview of the Problems/Opportunities that the RR workgroup will be assembling as the Analytical Matrix. This Matrix, along with supporting “whitepapers” will summarize the benefits and costs for the identified Problems/Opportunity categories and will provide some indication as to whether Grid West, or an alternative approach to Grid West, could capture the identified benefits and estimate the associated cost of such. This Matrix will report qualitative and quantitative results as well as the source of such determinations.

Finally, the presentation will invite input from the RRG along the lines of expectations of deliverables from the RR workgroup for the primary purpose of reporting that “risk elements” may be identified by the workgroup in time for Decision Point #2, but detailed work on those elements is not scheduled or doable, e.g., cost-overruns, regulatory issues, paralyzed investment decisions, faulty market design, market power problems, etc.

7. Next Steps

The following tasks, assignments and deadlines were agreed upon:

1. The preliminary survey will be e-mailed to the RR workgroup by February 21st.

2. RR Workgroup members will provide follow-up questions to by February 24th.
3. Carol Opatrny and Kurt Conger will draft a presentation for the RRG meeting and circulate such to the RR workgroup no later than February 22nd.
4. Comments on the draft presentation will be submitted within 24 hours of circulation.
5. All workgroup members will consider whether the Analytical Matrix has all of the problem/opportunities that need to be considered.
6. Tom Foley will continue his research on unmeasurable benefits and costs (leftover from previous meeting).
7. Workgroup members will have draft “whitepapers” on the various Problems/Opportunities available in outline form on March 1st:
 - Janelle – Pancaking; New transmission; Maintenance outage; Service to outlying areas.
 - Linc - Unused capacity; New generation resource construction.
 - Carol – New Transmission construction, including long-term queue.
 - Tom Foley - Market innovation.
 - Other topics will be assigned later or informed by other workgroup efforts, e.g., the categories that are being tackled by the CCA will be input into the Matrix, rather than developed by the RR Workgroup.
8. Two topics were tabled for the next RR Workgroup meeting:
 - a. Value of having a “neutral” party perform follow-on work
 - b. Extent to which the survey information will be shared

Meeting Adjourned at 3:45 pm.

8. Next Meetings (all to be held from 10 – 4 pm):

- March 3rd
- March 17th
- March 31st
- April 7th
- April 21st
- May 5th
- May 19th
- June 2nd
- June 16th
- June 30th

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