

keeping

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CURRENT

What is RTO West?

A number of developments — nationally and within the Northwest — are taking place that will affect the way your electricity is delivered. On Dec. 20, 1999, the Federal Energy Regulatory Commission (FERC) issued Order 2000 requiring utilities under its jurisdiction to file, by Oct. 15, 2000, a proposal for the formation of a Regional Transmission Organization or RTO. This *Keeping Current* is intended to inform you about the ongoing effort to form RTO West, the regional transmission organization that will serve the Northwest states and adjacent areas.

Why is FERC calling for RTO formation?

FERC recognizes that the demands placed on the transmission grid have changed with the changing structure of the electricity industry. The Administration, Congress, and the market are demanding that the electric power industry be deregulated. FERC has determined that independent RTOs offering transmission products and services on a fair and non-discriminatory basis to anyone willing to pay the price is necessary for competitive power markets to succeed.

The move to RTOs is an outgrowth of wholesale electricity deregulation, which began with passage of the Energy Policy Act of 1992. A key purpose of that act was to encourage competition and thereby bring prices down. To implement the act, FERC issued Orders 888 and 889 in 1996. These orders required utilities that both sold power and owned transmission

to separate those functions to ensure that their own power marketing operation did not get preferential treatment for transmission. The idea is to provide all power marketers open and nondiscriminatory access to transmission in order to further competition.

FERC issued Order 2000 in December 1999, calling for investor-owned utilities to file RTO plans by October 15, 2000. FERC is involved because it has jurisdiction over investor-owned utilities, which are also known as “jurisdictional” utilities. FERC does not have jurisdiction over public utility districts or utilities that are county, municipally or federally owned, such as BPA. BPA is a federal wholesale power marketer that owns approximately 80 percent of the high-voltage transmission in the Northwest, or around 50 percent in the proposed RTO West service territory. BPA, which is the only public entity that owns high-voltage transmission in the region, is voluntarily complying with FERC’s directives. BPA is working closely with the other Northwest jurisdictional utilities to develop an RTO proposal that will work for our region and customers.

Benefits of an RTO

Order 2000 says that RTOs are needed to address a number of potential problems. For example:

Currently, electricity moving across states and regions from a generation source to a utility may pass over lines controlled by several utilities. Each time it crosses one of those control areas, a rate is charged by



each utility. This accumulation of rates is called rate pancaking. Rate pancaking discourages long-distance transactions. This is analogous to merchants having to pay multiple tolls to use a highway to deliver their goods. Multiple tolls, i.e., pancaking, increases the cost of the energy product to the consumer.

Because an RTO will be regional, it will be able to assure delivery of power over longer distances within its region while eliminating pancaked rates, better manage congestion across constrained transmission paths, resolve conflicts in scheduling between utilities, promote more competitive power markets and more efficiently manage differences in maintenance programs or schedules.

Another major concern is system reliability. A single operator of a regional grid would eliminate reliability constraints caused by separate utility decisionmaking, assure better coordination during system emergencies, and provide improved coordination of generation and transmission system outages.

Order 2000 says RTOs will also address issues such as engineering and economic inefficiencies, the need to accommodate competition and improve market performance and transmission pricing reform. It would also reduce the need for FERC regulation of transmission system activities. Finally, an RTO would deal with residual discrimination by ensuring that all power marketers have equal access to the transmission system as well as fair and equitable pricing of transmission services.

What's required of an RTO?

FERC has given considerable flexibility to the geographic areas of the United States regarding what form their RTOs can take, but it did lay down four minimum characteristics and eight minimum functions for any RTO. At a minimum, an RTO must have the following characteristics:

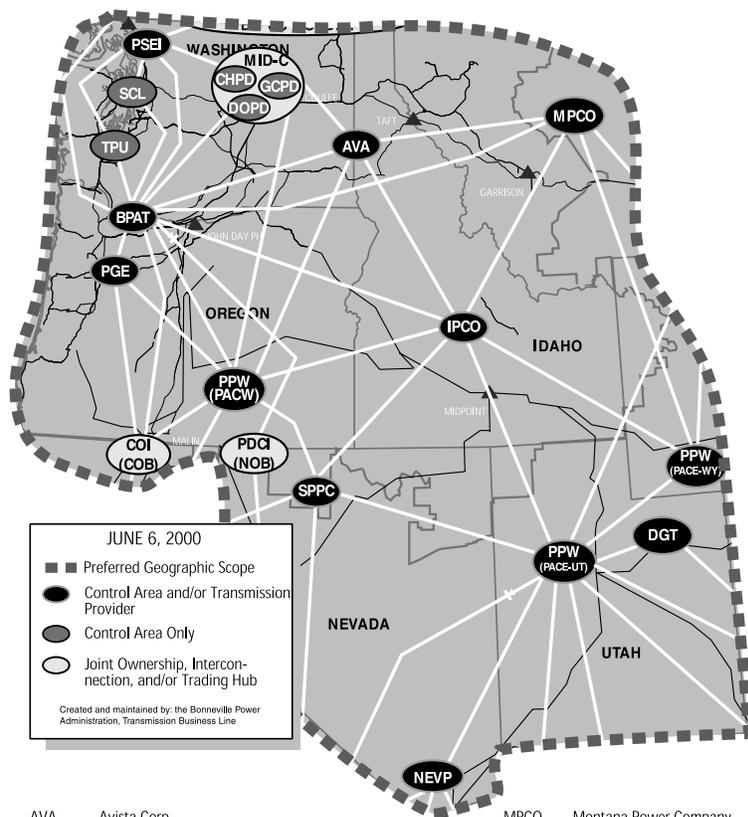
1. Be independent from marketing participants.
2. It must have an appropriate scope and geographic configuration.
3. It must possess operational authority for all transmission facilities under its control.
4. It must have exclusive authority to maintain short-term reliability.

The minimum functions an RTO must perform range from administering tariffs to coordinating transmission operations with other regions. A complete list of these functions is available at www.rto west.org or by writing to the address at the end of this document.

Getting started with RTO West

A group of transmission owners, commonly referred to as the “filing utilities,” formed RTO West as a non-profit corporation to fund and develop an RTO proposal for FERC by Oct. 15, 2000. The filing utilities include BPA and eight investor-owned utilities — Avista, Idaho Power Company, Montana Power Company, Nevada Power Company, PacifiCorp, Portland

Preferred RTO West Geographic Scope as of June 2000



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|--------|---|-------|---------------------------|
| AVA- | Avista Corp. | MPCO- | Montana Power Company |
| BCHA- | British Columbia Hydro & Power Authority | NEVP- | Nevada Power |
| COB- | California-Oregon Border | NOB- | Nevada-Oregon Border |
| COI- | California-Oregon Intertie (or, Alternating-Current Intertie) | PPW- | PacifiCorp West |
| DGT- | Deseret Generating & Transmission Cooperative | PDCl- | Pacific Direct |
| IPCO- | Idaho Power Company | PGE- | Portland General Electric |
| Mid-C- | Mid-Columbia Utilities | PSEI- | Puget Sound Energy |
| | CHPD - Chelan County PUD | SCL- | Seattle City Light |
| | GCPD - Grant County PUD | SPPC- | Sierra Pacific |
| | DOPD - Douglas County PUD | TPU- | Tacoma Power |



General Electric Company, Puget Sound Energy Inc. and Sierra Pacific Power Company.

The current RTO West development program draws upon research and analysis developed during an earlier regional effort to create an independent grid operator. New research and analysis on RTO issues are being developed by RTO West work groups and coordinated by the RTO West consultants.

What will RTO West look like?

RTO West will be a single entity that has the characteristics and functions defined in Order 2000. It will operate the transmission systems of all transmission owners willing to participate and located within the U.S. portion of the Northwest Power Pool. It will be able to add other transmission owners within the Western Systems Coordinating Council area, such as those in British Columbia and Alberta, Canada. Because it will be independent, RTO West should be able to move electricity for a seller over the most efficient and economical transmission path, regardless of who owns that path. That should bring costs down for consumers.

RTO West will be a non-profit independent system operator, or ISO, that will not own wires and poles, and will be governed by an independent board of directors or trustees with a stakeholder advisory board to give recommendations to the board of directors, and will include at a minimum all transmission facilities needed for bulk power transfers.

The Northwest filing utilities have agreed on a set of shared principles on what RTO West should provide. The principles address the following list. A more complete explanation of the principles is available at <http://208.55.67.64/doc/RTO-Principles.pdf>.

- Enhanced reliability
- Sustainable customer benefits
- Promotion of open bulk markets
- Economic incentives for reliability and efficiency
- Mitigation of financial impacts to BPA's bondholders and the U.S. Treasury
- Preservation of Indian treaty obligations
- Sustainable financial structure
- Accommodation of utilities in remote areas

- Open structure that allows flexible ownership of facilities
- Non-discriminatory treatment
- Compliance with FERC timelines
- Public involvement
- Accommodation of state requirements for retail access

What issues will RTO West address?

Following are some of the major issues that must be resolved to establish RTO West. This list hits only the high points and is by no means exhaustive. A more detailed explanation of the issues can be found at <http://208.55.67.64/doc/RTO-Issues-List.pdf>.

- **Structure:** The structure of the RTO's governing board, legal form, tax structure, governing by-laws, rate structure, and related issues have to be resolved.
- **Third-party debt:** Arrangements between BPA and RTO West need to accommodate BPA's existing obligations to bondholders that own bonds backed by BPA, such as Energy Northwest bonds.
- **Potential cost shifts:** One of the benefits of an RTO is elimination of rate pancaking, but, unless it is set up correctly, the RTO could result in cost shifts when, for example, high cost transmission systems are combined with low cost transmission systems. Other potential areas where cost shifts could occur are through rate design, between customer classes, between urban and rural customers, and among different utilities or states.
- **Cost effectiveness:** While consolidation into a single large transmission entity should result in economies of scale, there is concern this could lead to a monopoly with little incentive for cost-effectiveness. An RTO must demonstrate aggressive cost control.
- **Geographic scope:** What states and control areas would be part of RTO West.
- **Regional tribal issues:** As a non-federal entity, RTO West may need to develop policies that protect tribal rights concerning tribal rights-of-way and other issues.

Public collaborative process

RTTO West has developed a collaborative process plan that includes five elements: a Regional Representatives Group (RRG), RTO West filing utilities, work groups, RTO West regional workshops and the RTO West Web site – www.rtowest.org.

The role of the RRG is to serve as a high-level collaborative forum for discussion of RTO development issues. Its goal is to reach consensus on those issues described above and to provide advice to the RTO West Filing Utilities as they make decisions on their RTO proposal filed with FERC. The RRG comprises broad stakeholder representation including public generators, rural co-ops, transmission dependent utilities that are customers of BPA, transmission dependent utilities that are not BPA customers, urban/west side transmission dependent utilities, FERC jurisdictional non-investor-owned utilities, the states, residential customers, direct service industrial customers of BPA, other industrial customers, environmental interests, renewable resources interests, independent power producers, marketers, sovereign tribes, Canada and the RTO West Filing Utilities.

The RTO West work groups are responsible for technical development of the issues. The initial effort to achieve consensus on RTO issues occurs in the eight work groups that deal with transmission pricing, congestion management, ancillary services, seams (how control areas interact at their borders), market monitoring, transmission planning, implementation, and legal.

The RTO West Web site – www.rtowest.org – is the primary means for communicating information to all interested parties on the development of RTO West. Regional workshops will inform and receive advice from a broad range of interested regional parties on RTO development.

A consensus issues list has been developed by the RRG to guide the activities of the work groups.

BPA is complementing this public process, as needed, by providing briefings to customers, constitu-

ency groups, and other interested parties. BPA is currently providing technical consultations with Northwest Native American tribes working in close coordination with tribal appointed consultants. This is intended to fulfill BPA's government-to-government commitments to identify and address tribal concerns to the extent possible.

BPA is also preparing a National Environmental Policy Act record of decision that will include substantive public notice and involvement, including two public meetings at the end of August. This process is intended to make sure that the public is informed and involved in important federal business decisions.

What happens next?

As part of its public process associated with the formation of RTO West, BPA is conducting a public comment period from Aug. 7 through Sept. 8, 2000. This will include two public meetings:

- **Spokane, Wash.** – Tuesday, August 22, 1 p.m. to 5 p.m., at the Ramada Inn, Spokane International Airport, (509) 838-5211; and
- **Portland, Ore.** – Friday, August 25, 1 p.m. to 4 p.m., at the Sheraton Portland Airport Hotel, Columbian Room, 8235 N.E. Airport Way, (503) 281-2500

The purpose of the comment period is to hear the views and concerns of interested parties throughout the Northwest on the major issues associated with the development of RTO West.

You may also send written comments to BPA Public Involvement, P.O. Box 12999, Portland, OR 97212, or e-mail them to comment@bpa.gov.

Where can I get more information?

For additional information, please contact the official RTO West web site at www.rtowest.org or BPA's Web site at www.bpa.gov. If you have any questions, please contact Mike Hansen at (503) 230-4328.

