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# CURRENT

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## RTO West: a post-Stage 2 filing progress report

**T**he two-year-long effort to create RTO West – a regional transmission organization for the Northwest – has reached a pivotal phase.

On March 29, the utilities<sup>1</sup> working to create RTO West submitted a major portion of their proposal to the Federal Energy Regulatory Commission and asked FERC to rule that, pending further refinements, the proposal satisfies the minimum characteristics and functions that FERC has established for an RTO. While this “Stage 2” filing is a significant milestone, it is not a final BPA decision to participate in the RTO. BPA will continue to evaluate the evolving RTO West proposal to assure that it serves the interests of the region’s consumers.

Now, while the region awaits FERC’s response, is a good time to look at what has been accomplished to date and what remains to be resolved if RTO West is to become a reality.

### Does the RTO West proposal meet FERC’s standards?

The filing utilities believe it does. They have worked hard to develop an RTO proposal that meets FERC’s requirements while addressing the West’s

unique qualities – its large geographic span, dependence on hydropower, vibrant bilateral power markets and diversity of market participants. FERC’s expression of an openness to some flexibility in RTO design is encouraging.

Whether FERC accepts the proposal as written or requests changes, however, there is still much work to be done because the proposal is not complete in many details. Work on those details will take place while the region awaits FERC’s response.

### What is left to do?

Many details of the proposal remain to be worked out among the filing utilities and the interested regional stakeholders. The filing utilities’ technical experts are continuing to work on key areas such as generation integration agreements, load integration agreements, a tariff, ancillary services, a catalogue of congestion rights and commercial liability approaches. The utilities told FERC they will follow up the Stage 2 filing with an implementation plan that will outline goals and key milestones for completing this work.

Look for progress on these items on the RTO West Web site [www.rtowest.org](http://www.rtowest.org).

<sup>1</sup> The filing utilities are Avista Corporation, BPA, British Columbia Hydro and Power Authority, Idaho Power Company, Nevada Power Company, NorthWestern Energy (successor to Montana Power Company), PacifiCorp, Portland General Electric Company, Puget Sound Energy Inc. and Sierra Pacific Power Company.



Even after FERC responds to the RTO West proposal, investor-owned utilities will have to obtain approval from the state public utility commissions within which the utilities operate. This is needed in most states because RTO West will operate the utilities' transmission systems under a single control area even though the filing utilities will retain transmission line ownership.

And BPA will have to complete a National Environmental Policy Act (NEPA) review prior to executing an agreement with RTO West.

The filing utilities will not be doing this work in a vacuum. They intend to seek feedback from the 25-member Regional Representatives Group once the plan has been drafted. The RRG is made up of the filing utilities and representatives of public utilities, utility customers, stakeholders and other interested regional parties.

## What is BPA's role?

BPA is a filing utility and was a party to the Stage 2 filing. BPA will continue to work with the other filing utilities on the remaining details of the RTO West proposal. It will also work with the Regional Representatives Group and its public power customers on ideas and concerns about the RTO West proposal.

## Public power's concerns

BPA's public power customers have expressed concerns about how they will fare under an RTO. BPA has worked hard to address these concerns in the Stage 2 filing and, in the filing letter sent to FERC, has raised several key issues that still need resolution before the RTO can be implemented. While all of public power's "must haves" may not be accounted for at this time, a large percentage of them are.

Addressing their concerns, the current proposal:

- **Preserves existing contract rights for utilities that don't convert to RTO service** – Existing agreements and obligations remain, even when loads grow.

- **Avoids cost shifts** – The proposal contains a provision for "company rates" for eight years after the RTO begins operation. This assures costs will not be shifted at the outset.
- **Includes sufficient facilities in the RTO to assure access, quality of service and pricing that avoids pancaking** – Since the March 29 filing, the filing utilities and customers have had discussions that explored a promising alternative approach for achieving this goal. While discussions are likely to continue, they have not yet produced a conclusion that is satisfactory to public power customers.
- **Assures that transmission adequacy standards will be in place before BPA joins the RTO** – BPA expects a public process to define transmission adequacy standards before it joins the RTO.
- **Demonstrates benefits to BPA customers in excess of costs** – The original study performed by Tabors Caramanis & Associates showed a net benefit to the region. Aspects of the study continue to be called into question so BPA continues to have Tabors Caramanis conduct sensitivity analyses requested by customers. The filing utilities have also asked Tabors Caramanis to respond to these requests. BPA expects that work will continue in the future as details of the RTO West proposal develop.
- **Assures that the RTO West governing board is accountable to the region** – Many changes to the RTO West bylaws reflect a desire to include a commitment to public involvement and customer service.

BPA is committed to doing all it can to see that these issues are resolved in a way that is satisfactory to public power.

## BPA's concerns

BPA went into the RTO formation process with a set of principles that have to be met if the agency is to join the RTO. Some are the same as the public power concerns, but others are specific to the agency.



These principles will guide BPA's response to critical concerns about the RTO proposal as it is evaluated by FERC and as it evolves through regional discussions. At this time, several of the principles have not yet been met.

The principles include:

- A mature cost/benefit analysis that shows demonstrable consumer benefits in each affected state.
- A demonstration that the allocation of transmission rights can be done effectively and efficiently.
- Assurance that FERC will not obtain jurisdiction over BPA's generation and power marketing functions because of BPA's execution of an agreement with RTO West.
- Minimization of additional risk of tort liability.
- Testing and validation of the congestion model.
- A creditworthiness approach that assures the financial viability of the RTO while promoting fair opportunities for potential scheduling coordinators.
- Resolution that sufficient facilities are included under RTO West control to effectively and reliably manage the region's grid.

## What is the time line?

Work will not stop while FERC takes public comment and considers the merits of the proposal. Work on key components of the RTO West proposal must continue if RTO West is to have any chance of being operational in 2005 or 2006. The load and generation integration agreements and the tariff, for example, will take a great deal of time to work out.

The filing utilities hope for FERC feedback in three to five months. The filing utilities' work on implementation will be largely determined by that feedback. Given approval or minor changes, the investor-owned utilities will then set about obtaining approval for joining the RTO from state public utility commissions. That will probably take six to 12 months.

The filing utilities are looking at 2004 as the period during which BPA can complete its National

Environmental Policy Act work on RTO West participation. The actual execution of the transmission operating agreement between RTO West, BPA and the other utilities will probably be negotiated during 2004 and 2005. Final approval from FERC will take another six to 12 months. This works out to RTO West being operational about 2005 or 2006.

This time line may seem lengthy, but it reflects the amount of work that remains to be done and the region's commitment to doing things right. It also assures that all parties to the filing and all affected constituencies will have time to review the progress and influence the final product.

## What is BPA's position on the RTO West proposal?

BPA believes that the RTO West proposal has the potential to provide the West with less expensive and more reliable power than is likely under alternative approaches to transmission service. The proposal was developed with the special operational considerations of the Northwest in mind. The devil is in the details, however, and all the details must be done correctly if the RTO is to deliver on its promise. That is why BPA has been careful to lay out its concerns.

In looking, for example, at BPA's principles, it is clear that there are many principles on which the call cannot yet be made.

There is plenty of time, however, for the issues to be resolved favorably, and BPA will work toward that end. The final decision point on whether BPA joins the fledgling RTO is likely to be some time in 2005.

BPA is not prepared to enter into just any RTO – it must be done right to bring benefits to the people of the Northwest. BPA is committed to do all it can to be sure that RTO West is done right.

## What is new in the Stage 2 filing?

**K**eeping Currents from August and November 2000 (available at <http://www.bpa.gov/Corporate/KC/home/keeping/>) outline the basic issues behind the formation of an RTO and the characteristics and functions FERC expects an RTO fulfill. The Stage 2 filing, for the most part, filled in the gaps from the Stage 1 filing.

The Stage 2 filing also went into some detail in important areas not covered in the first filing, including RTO West's transmission planning, congestion management approach and pricing structure. It also provided FERC with information on how the scheduling coordinator concept is developing.

FERC requires that the RTO have the ultimate responsibility for planning and expansion of the transmission grid. RTO West will take the approach of providing planning information to each participating transmission organization so it can provide adequate facilities on its system. RTO West will have the ability to contract with third parties to expand the system to assure adequacy if no participating transmission owner offers to construct needed facilities. RTO West will have the authority to provide transmission service to any customer across any part of a filing utility's electric system that is used for wholesale deliveries. This is to assure "one-stop shopping" for RTO West transmission customers.

The RTO West pricing structure was also addressed in the Stage 2 filing. The proposal focuses on seven goals: avoid price increases and cost shifts, eliminate rate pancaking, honor existing contracts, assess all users a portion of fixed costs, collect most fixed costs through load-based access fees, have export fees and congestion revenues contribute to fixed costs and minimize the use of volumetric rates. RTO West will offer various services for transmission users that convert to RTO West service and for those that don't.

The filing utilities intend to test the approach to see if it is resistant to gaming or has other weak-

nesses. RTO West will manage congestion by shifting, or "redispatching," generation necessary to reduce congestion on constrained transmission paths. After schedules are submitted, RTO West will determine the most economical redispatch to clear the congestion. The cost of clearing the congestion is then translated into prices for each location on the system so each user's congestion clearing cost can be calculated. For customers with existing contracts that elect not to convert their contracts, no congestion charge will be imposed if the scheduled are within their contract rights. For those utilities that enter into contracts with the RTO, as long as the entity requesting service is willing to pay the difference between the locational prices (and redispatch is available), the schedule request will be served.

When RTO West begins operation, it will accept schedules only from accredited scheduling coordinators. BPA expects to become a scheduling coordinator for the Federal Columbia River Power System as part of its obligation to its customers. Because BPA will honor all its existing contracts and obligations, the agency expects to act as the scheduling coordinator for many classes of its customers that do not choose to convert to RTO transmission service. The agency also expects to act as the scheduling coordinator for all of its full-service customers that currently hold transmission contracts and don't convert to RTO service. The agency has offered to provide scheduling coordinator service even for those full-service customers that convert their transmission contracts to RTO West service. This should minimize the amount of change for full-service customers because BPA already provides many of these services. The full extent of the services RTO West will require of scheduling coordinators has not been established yet, so the details of the services that BPA will provide and the costs of those services are still to be defined.

