

Introduction to RRG Drafting Team Proposal

SUMMARY

This introduction will review the overall task the RRG drafting team took on, set out the overall guiding principles it used, and describe the key features of the accompanying table, which contains the proposal the drafting team has developed since the RTO West Regional Representatives Group (RRG) met on October 29 and 30, 2003.

TASK OF THE DRAFTING TEAM

The drafting team aimed to develop a comprehensive, high-level proposal for addressing the problems and opportunities identified by the RRG. The proposal provides for staged implementation and has a governance proposal that emphasizes regional accountability for major evolutionary steps. The team tried to focus on real, workable solutions to identified problems and opportunities. The solutions were intended to represent the best proposal that could be developed while remaining at the center of gravity for the various regional interests. The proposal did not meet all the concerns of all the interests but the team aimed to develop a proposal that all or almost all of the RRG and the region could accept as a basis for moving forward.

The drafting team views this document as a first level scoping document that could be the basis for regional consensus on how to move forward. If there is sufficient RRG and regional support, the drafting team intends that the accompanying approach could serve as a platform to develop a more complete regional proposal.

BASIC PRINCIPLES

Staging is key to this proposal. One of the fundamental tensions within the region and the RRG is between some parties' desire for certainty of a proposals' "end state," on the one hand, and other parties' concern that the region not be subjected to a "forced march" to outcomes with which they are uncomfortable. For some entities, such as transmission owners giving up some control over their assets and state commissions with jurisdictional responsibilities that come into play, there is a need to have a clear view of the expected long-term outcome of the activities. For others, there is a concern that long-term outcomes not be locked in at the beginning, without reasonable opportunities to assess the suitability of further solutions as time progresses. Because of this tension, the drafting team used three criteria for the development of the stages of the proposal:

- (1) The proposed beginning state should be a clear improvement over the existing situation and respond to the problems identified by the RRG.
- (2) Each stage of the proposal should be workable in itself. The stages should not create significant new problems at the same time they try to address old ones.

- (3) Each stage should allow further evolution of solutions to remaining problems, as well as changes in circumstances, with some indication of the expected direction of that evolution today, and subject to review of the desirability of moving forward. Stages should not lock into intermediate states that turn out to be dead ends.

There are three additional principles the drafting team would like to highlight for those who review the attached document, because they were important in shaping the proposal.

- (1) All existing contracts, settlements, and other relevant legal obligations are expected to be honored according to their terms.
- (2) Transmission owners are still in charge of their own company rates, subject to applicable regulatory authority.
- (3) Cost shifts should be minimized.

ORGANIZATION OF THE PROPOSAL

The attached table describes the proposal by stepping through a list of functions and features. For each function or feature, the proposal identifies the problems that exist today with implementing those functions or features, and notes whether the drafting team believed that independence or having a single entity (or both) were important to the region's ability to address the problem. The characterization of the problem and the highlighting of the need for independence or a single entity were intended to acknowledge the views of a significant portion of the regional interests, but did not necessarily represent the views of all the interests at the RRG.

The drafting team generally felt that the proposal should build from the creation of an independent entity to address the problems facing the region's transmission system. The notion of independence needs some clarification, however. Independence means independence from market interests, not lack of regional accountability or lack of regulation. The drafting team believes that an independent entity, as a provider of important commercial services, should be fundamentally accountable to the users of those services, be open and transparent in its operations, act with integrity, operate fairly toward all market participants and within its tariff, and have its own dispute resolution process to minimize the need to resolve disputes adversarially at FERC.

The proposal sets out stages for the various types of functions the independent entity could perform. The proposal recognizes that the beginning state will not necessarily solve all the problems that have been identified. It sets out, at a high level, suggested means to address a given problem at the beginning state. It then sets out, in less detail, some interim state and an advanced target state for each identified function or feature. There is a general description of possible paths for movement beyond the beginning state. Several key elements of the proposal are highlighted below.

Control Area Operations

The drafting team's proposal assumes that there will be a single independent entity responsible for carrying out the functions and features described in the attached table. The proposal allows voluntary consolidation of control areas, and operation of the consolidated control areas would be among the independent entity's functions (with the costs of these services to be paid by the consolidating control areas). Because the structure of and process for forming the consolidated control area has not yet been fleshed out by those that have expressed interest in it, the proposal does not describe all the implications of the independent entity's dealing with a mixture of consolidated and non-consolidated control areas.

Regional Accountability and Governance

Because governance is key to both the ability to evolve in response to unresolved problems and to ensuring that evolution reflects regional concerns and interests, the governance function of the independent entity is elaborated in somewhat more detail than the other functions in the proposal. The drafting team tried to craft a governance proposal that could bridge the gap between those who wanted to specify a clearly defined end state and those who stress the importance of assuring that any progression toward an end state makes sense for, and is supported by, the region.

The general approach to the governance of the independent entity is based on the Stage 2 proposal (for example, it contemplates a board of nine non-affiliated directors elected by representatives of regional stakeholders and various mechanisms to assure stakeholder input into board decisions). To enhance these provisions, the drafting team introduced mechanisms to strengthen accountability to the region for certain significant changes in scope the board would propose to more fully address continuing problems and opportunities.

The following are examples of proposal features that are designed to provide for greater accountability and regional participation in key decisions that fundamentally affect the independent entity's scope:

- (1) Mandatory consultation with states and provinces (and tribes where applicable), including appropriate advance notice of key board proposals.
- (2) Mandatory consultation with regional stakeholders, including appropriate advance notice of key board proposals.
- (3) Vote of the Trustee Selection Committee (six representatives per member class, for a total of 30 votes) before key board proposals can be implemented.
- (4) Need for higher level of board approval (seven of nine board votes needed to proceed) if there are sufficient negative votes from the Trustee Selection Committee.

NEXT STEPS

The drafting team believes that this proposal provides a way to deal effectively with the problems and opportunities the RRG has identified and discussed over the past several months, and is responsive to the need for regional accountability for any solution to those problems. The team recognizes that before a fully-developed proposal can be implemented, both the region and regulators with applicable jurisdiction must have a reasonable basis to conclude that the region will be better off than it would be if it pursued another course (or took no action). The team hopes that it can be a workable proposal for the region to support and move forward.

Development Staging Table

Acronyms Used:

IE = Independent Entity
 ADR = Alternate Dispute Resolution
 → = Steps and timing to be determined

TOs = Transmission Owners
 CAO = Control Area Operator
 A/S = Ancillary Services

DA = Day-Ahead
 HA = Hour-Ahead
 RT = Real-Time

<i>Functions and Features</i>	<i>Independence Important</i>	<i>Single Entity Needed</i>	<i>Stakeholder Identified Problems, Needs and Reasons to Improve</i>	<i>Beginning State</i>	<i>Interim State</i>	<i>Advanced Target State</i>
1. Transmission Service						
1.1 Reliability Coordination	X	X	Limited operational data available to reliability coordinator and CAOs. Since there is no day-ahead look, congestion becomes apparent and is managed in real-time. Difficult to coordinate operations between CAOs. Real-time congestion is managed only by ineffective curtailments, and parties are unsure of reasons for and fairness of curtailments.	PNSC continues to handle with revisions to address scope and effectiveness.	→	Reliability coordination integrated with operations.
1.2 Physical Interconnection	X		Long queues for interconnection requests and fairness concerns.	TO processes requests with IE providing coordination, oversight and IE ADR for disputes.	IE administered process with TOs working out physical detail and IE ADR for disputes.	IE administered process with TOs working out physical detail and IE ADR for disputes.

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1.3 Transmission Service Requests <i>(Single Access Platform or One-Stop Shopping)</i>	X	X	Difficult to arrange multiple reservations for transmission services, and no integration of multiple service requests. Long request queues with separate processing by each TO create transactional friction.	Requests go to IE, which integrates requests and facilitates processing by TOs.	→	IE provides service and access to TO facilities.
1.4 Tariff Administration			Differences in practice and application between providers.	Individual TO Tariffs	→	Single IE Tariff.
1.5 Nature of Transmission Rights and Management of TTC/ATC		X	The mismatch between contract paths and actual flows creates reliability problems and results in underutilized capacity. <i>(Path MW capacity allocated among owners.)</i>	Physical Injection/Withdrawal Rights (not flowgates) from single system evaluation. <i>(IE arranges service among TOs and allocates \$'s to TOs.)</i>	Transition to financial rights needs effective markets, and is subject to the TSC "Special Issues" vote. <i>(See discussion in Section 11 on Governance.)</i>	Financial rights with locational prices

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1.6 DA Scheduling, Congestion Management and Redispatch (<i>Balanced Submissions</i>)	X	X	<p>The lack of a system wide view of reliability implications of combined schedules requires greater capacity margins and impedes best use of the transmission system.</p> <p>TOs manage congestion internally which produces inadequate price signals and a lack of transparency, so parties cannot make best decisions about deployment of resources.</p>	<p>Step 1 TO reviews pre-existing right schedules, IE takes added schedules, accepts inc/dec bids, tests feasibility and accepts added schedules which can be enabled by redispatch (enabling trades between willing buyers and sellers).</p> <p>Step 2 IE begins to check in pre-existing schedule rights in parallel with TOs.</p> <p>Step 3 Inventory of rights by IE and TOs completed</p> <p>Step 4 IE takes over the review of pre-existing rights in scheduling process. <u>(Completed no Later than 2 years after start of operation.)</u></p>	<p><i>See Section 11 on Governance for discussion of transition to financial rights.</i></p>	<p>Manage congestion using market mechanisms. <i>(Congestion charges with financial right hedges.)</i></p>

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2. Planning and Expansion						
2.1 Planning	X	X	A single system viewpoint needed w/o commercial bias.	IE begins producing an annual plan, expanding upon the cooperative planning processes in place prior to start of IE operation. (See Stage 2 proposal for details.)	Continues with annual planning.	Continues with annual planning.
2.2 Expansion	X	X	Lagging infrastructure investment. Mismatch between ownership and solutions.	Backstop for reliability and TTC maintenance.	Physical injection/ withdrawal rights for new construction. (Convertible to financial rights if and when transition occurs. See Section 11 on Governance for details.)	Backstop for Chronic Commercial Congestion when needed subject to TSC "Special Issues" voting process. (See Stage 2 Proposal for details.)
3. Control Area Operations (Services for Voluntary Consolidation)	X	Yes for consolidators	Opportunities for more efficient operations, and operational challenges with standards of conduct.	IE allowed to provide control area services to CAOs who voluntarily consolidate and operate markets needed in consolidated control area. (Moves Stage 2 model with all PTOs consolidating to mixed model with some consolidating and others do not. The mixed approach has implications for many subjects (control area ops, trans. serv., A/S, fixed cost recovery, etc.) Added work needed for consistency between subject areas.)	→ Additional CAOs may choose to consolidate.	IE operates single control area for CAOs who choose voluntary consolidation.

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4. Energy Markets						
4.1 Real-Time Energy (Balancing Energy)	X	X	Internalized by CAO with limited ability of non-CAOs to participate.	Within consolidated control areas, balancing market initiated. (Tariff rates apply to users' imbalances and penalties.)	Balancing market prices used as tariff rate for imbalances within consolidated control areas.	Integrated capacity and energy markets operated by IE with voluntary participation.
4.2 Hour-Ahead Energy		X	Difficult to find counter parties; geographically limited options.	Bilateral arrangements between parties. (Tariffs cover users' imbalances and penalties)	Voluntary HA market added. (Allows users to mitigate imbalance costs)	Voluntary HA market included in integrated markets
4.3 Day-Ahead Energy		X	Difficult to find counter parties; geographically limited options.	Scheduled bilateral transactions plus inc/dec auction market based on voluntary bids which facilitates willing buyer-willing seller trades.	→	Scheduled bilaterals and integrated energy and capacity markets with voluntary participation (with possible unbalanced schedule submissions)
5. A/S—Capacity Related (Operating Reserves, Regulation and Load Following)	X	X	Market access to A/S is limited with technical barriers.	Within consolidated control areas, markets added as needed. (Section 4.1 RT Energy for discussion of balancing energy.)	General Capacity Related A/S Markets	Integrated capacity and energy markets
6. Market Monitoring	X		Complaints to FERC with post-mortem remedies are ineffective.	Start examinations based on available data.	Expand monitoring activity to additional markets. Subject to TSC "Special Issues" voting process to impose penalties. (See Sec. 11 discussion)	Full market monitoring of capacity and energy markets.

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7. Cost Recovery						
7.1 Fixed Cost Recovery		X	<p><u>Rate Pancaking:</u></p> <ul style="list-style-type: none"> • Volumetric recovery of fixed costs imposes barriers to efficient dispatch. • Adds complexity to transactions. • Lost buy/sell opportunities. 	<p>Preference for authorizing Company Rate approach in beginning state. <i>(Depancaking volumetric charges of fixed costs with license plate rates and cost shift minimization. Need to consider how to modify to work with a mixture of consolidated and unconsolidated control areas.)</i></p>	<p>Change to method other than Company Rates cannot be considered for eight years from start of operation and will require TSC “Special Issue” voting process</p>	<p>Company Rate unless modified.</p>
7.2 Losses		X	<p>Loss effects and the recovery of losses don't match, which causes economic inefficiency.</p>	<p>(1) Existing contracts – as defined in contract. (2) New long-term service – follows revenue allocation structure (3) Short-term auction sales – flow-weighted tariff loss factors for facilities affected for given injection/withdrawal points. (Subject to technical check and detail development). <i>(There is concern from one group about continuing with pancaked loss recovery.)</i></p>	<p>IE develops new loss methodology within three years whose adoption is subject to the TSC “Special Issues” voting process.</p>	<p>Loss methodology matching cause and effect and consistent with energy and capacity market operation.</p>
7.3 Entity Cost Recovery				<p>(1) IE has a tariff for grid management fee. (2) Contract services (e.g. for consolidating control areas) paid by contracting parties.</p>		

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8. Regional ADR			Need commitment to settle disputes within the Region rather than take disputes to FERC or 9 th Circuit.	ADR included in the IE's provisions.	ADR included in the IE's provisions.	ADR included in the IE's provisions.
9. Regional Data Repository	X		Under current conditions, complete relevant data cannot be collected because parties are unwilling to share commercially sensitive data with competitors. Contracts do not require data exchange or disclosure.	Data repository initiated for planning, operations and for transmission auction—inc/dec market.	Data repository expanded for additional markets.	Full data repository for market monitoring, planning and operations.
10. Coordination						
10.1 Inter-Regional Coordination		X	Difficult to make interconnection-wide transactions. No consolidated way to deal with CAISO, Southwest, etc.			
10.2 Intra-Regional Coordination			Multiple parties, rules and organizations are unable to deal with above problems.			

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11. Governance of Independent Entity	X	X	Independence needed to implement above indicated features and a single regional entity to implement other features; desire for greater regional accountability.	Stage 2 governance (e.g., region elects board through TSC with limited, staggered terms) with modifications: <ul style="list-style-type: none"> • TSC “Special Issues” voting process for identified transitions. • Mandatory consultation with states, provinces (and tribes as applicable.) 		
11.1 TSC “Special Issues” Voting			Concern about regional accountability before key changes in authority are made.	<ul style="list-style-type: none"> • The Board must vote by at least a simple majority to approve an issue on the “Special Issues” List. • Advance notice provided to the TSC and stakeholders. • After the Board votes, the TSC votes on whether it supports the Board’s decision. • A TSC vote can remand the issue to the Board for a second Board vote, without regard for the number of yes votes on the initial Board vote, if either of the following tests is satisfied, <ul style="list-style-type: none"> ○ At least 16 TSC members vote to reject the Board’s decision AND at least one class votes unanimously to reject the Board’s decision (six class votes) OR ○ At least 2/3 (20) of the TSC members votes to reject the Board’s decision ○ THEN the Board must vote again on the matter and obtain at least seven Board member votes before it can implement the decision. 		
11.2 “Special Issues” List			Concern about regional accountability before key changes in authority are made.	<ul style="list-style-type: none"> • <i>Issue 1</i> – Chronic Commercial Congestion Backstop Authorization (<i>See Stage 2 Proposal for details</i>) – a one time vote to grant authority. • <i>Issue 2</i> – Departure from using Company Rates to recover fixed costs – a one time vote to grant authority. • <i>Issue 3</i> – Authorization for the IE to convert the transmission rights of the transmission owners to financial rights and to issue new financial rights (<i>See Section 11.3 for details on votes</i>). • <i>Issue 4</i> – Authorization for Market Monitor to impose penalties or intervene in markets – a one time vote. • <i>Issue 5</i> – IE gaining authority to adopt and enforce loss methodology that overrides individual company loss methodology – a one time vote. 		

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11.3 TSC Vote Timelines			Concern about regional accountability before key changes in authority are made.	<p><i>Issue 1 (CCC Backstop)</i> – No sooner than when congestion management with transparent pricing is in place; after that, as needed (i.e., Board decides).</p> <p><i>Issue 2 (Shift away from Company Rates)</i> – at eight years following operational start-up, the Board must propose whether to change or not (mandatory review).</p> <p><i>Issues 3 (Authorization for the IE to convert the transmission rights of the transmission owners to financial rights and to issue new financial rights)</i></p> <p>Note – The following are predicates to this transition:</p> <ul style="list-style-type: none"> (a) With respect to aspects of the transmission service proposal, the transition to the IE checking schedules against inventory of pre-existing rights and obligations must be completed no later than two years following operational start-up; (b) The necessary markets must also be in place (inc/dec, A/S, transparency, etc.); (c) By no later than the end of three years following operational start-up, the Board must complete an evaluation of whether it is feasible and it makes sense to transition to financial rights congestion management. <p>No later than 3.5 years following operational start-up, if the Board finds that the transition is feasible and makes sense, it must propose to make the transition.</p> <p>If the Board finds that it is either not feasible or does not make sense (or both), the Board does not propose to make the transition, but it must review its decision every two years thereafter.</p> <p><i>Issues 4 (Market monitor gets authority to impose penalties or intervene in market)</i> – as needed (Board decides).</p> <p><i>Issue 5 (IE can adopt and enforce a loss methodology that overrides individual company methodology)</i> – No later than three years following operational start-up.</p>		