

Update on RTO Development and FERC's SMD White Paper

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Overview of Major Issues

- FERC's White Paper
- Federal Legislation
- SeTrans Developments
- RTO West, CAISO and WestConnect
- MISO, PJM and SPP Issues
- ISO-NE and New York ISO

FERC's White Paper

- On April 28, 2003, FERC released its white paper on Wholesale Power Market Platform.
- The key elements reflect a retreat from some proposals contained in the SMD NOPR.
- The White Paper also reflects a more realistic view of the current political climate and was influenced by the energy bill currently being considered by Congress.

FERC's White Paper

Key elements include:

- Commission will direct the remaining utilities to join an RTO or ISO.
- FERC will not assert jurisdiction over bundled retail sales.
 - *But is this really the case?* FERC still maintains that jurisdictional utilities must file with FERC service agreements that contain state rates for transmission to bundled retail load.

FERC's White Paper

- FERC will allow for phased implementation and permit regional modifications.
 - Regional technical conferences
 - FERC will exempt RTO from a feature where costs outweigh benefits
- FERC will not review past orders on RTO governance structures.

FERC's White Paper

- FERC will consider through and out rates.
 - Important issue for SeTrans, Midwest ISO and PJM
 - SSG-WI trying to develop reciprocity agreement
- Final Rule will not include mandatory auction of transmission rights.
- States decide resource adequacy requirement.

FERC's White Paper

- Role of the States:
 - White paper calls for creation of regional state committees.
 - The structure and function of these groups would be decided by the states within a region.
 - Each regional state commission would have primary responsibility for transmission cost and transition issues.

FERC's White Paper

- Regional State Commission will decide:
 - whether participant funding would be used for transmission enhancements;
 - whether license plate or postage stamp rates will be used in the region;
 - whether the region will allocate or auction FTRs to customers; and
 - process necessary for existing firm customers to receive FTRs equivalent to existing rights.

FERC's White Paper

- Regional State Commission will also decide:
 - whether transmission upgrades for remote resources will be included in the regional transmission planning process;
 - the role of transmission owners in proposing transmission upgrades; and
 - the role of generation, transmission, energy efficiency, and demand response in resource adequacy.

Federal Legislation

- Senate Energy Committee approved energy bill on April 30 on a 13-10 vote.
 - Bill would require FERC to issue new NOPR
 - No SMD Final Rule before July 1, 2005
 - Senate will try to finish energy bill by Memorial Day recess
- House passed Energy Policy Act on April 6 by a vote of 247-175.
 - House bill contains native load preference

SeTrans Developments

- SeTrans Sponsors have released documents to stakeholders that will ultimately be filed with FERC.
 - Draft OATT, SARA and TOA have been posted
 - Day 2 documents will be released on May 15
 - Stakeholder meetings in May and June
 - Joint public meetings of SAC and Sponsors in July

SeTrans Issues

- White paper issues for SeTrans Sponsors:
 - Use of through and out rates
 - In SeTrans order, FERC found that RTOR proposal should be consistent with Final Rule
 - SeTrans Sponsors sought rehearing on this issue
 - implementation of participant funding
 - role of the states
 - FERC jurisdiction over bundled retail load
 - FERC order on SeTrans required *GridSouth* approach

Western RTO Proposals

- In orders on CAISO MD02, RTO West and WestConnect, FERC directed the Seams Steering Group - Western Interconnection ("SSG-WI") to develop a list of:
 - market design elements;
 - which elements must be designed compatibly to avoid seams; and
 - a plan and timeline for resolution of these issues.

Western RTO Proposals

- As FERC directed, the Western RTOs finalized and executed a MOU on December 5, 2002, formalizing the SSG-WI process.
- SSG-WI is made up of working groups:
 - Congestion Management Alignment Work Group;
 - Common Systems Interface Coordination Work Group;
 - Market Monitoring Work Group; and
 - Pricing Reciprocity Work Group

Western RTO Proposals

- SSG-WI is not a decisional body.
- Any SSG-WI proposal would be implemented through voluntary, independent action of the Western RTOs.
- On January 8, 2003, SSG-WI filed its status report with FERC. Working Groups have been meeting regularly ever since.

Western RTO Proposals

- Status Report on Western RTOs progress:
 - *CAISO*. Moving forward with MD02. California legislature introduced bill to require all ISO expenditures be approved by legislature. Bill to dissolve ISO was tabled.
 - *WestConnect*. Plan to complete cost-benefit study by the end of the year. Vendor will be selected by end of August.
 - *RTO West*. Federal control issues being resolved through DOE. BC Hydro separating operations.

Western Issues

- White paper acknowledges difficult issues concerning BPA participation and FERC states that it will defer to BPA.
 - What about WAPA and other non-jurisdictionals?
- White paper states that congestion management system being developed by SSG-WI should satisfy general principles.
 - Will this require single entity to carry out function?

Western Issues

- Through and Out Rates
 - Through and out rates approved for RTO West and WestConnect. SSG-WI developing an RTO reciprocity agreement.
 - Will FERC allow through and out rates if reciprocity agreement is not developed?
- Day-ahead market for energy required
 - RTO West and WestConnect have not proposed day-ahead energy markets.

Western Issues

- Reciprocity Issue
 - Joint ownership of transmission makes it crucial for all transmission owners to participate.
- Development of CAISO MD02
 - Pombo letter to FERC and Wood response raise possibility that FERC will focus on getting market design set in California and apply it to the rest of the West.

Midwest ISO and SPP

- FERC required Midwest ISO, PJM and SPP to develop common market by October 2004.
 - On March 20, Midwest ISO and SPP called off merger
 - SPP unable to meet merger condition committing at least 2/3 of the load in its footprint to Midwest ISO
 - SPP evaluating its options
 - It could form its own RTO
 - Member utilities could split off and join other RTOs

PJM Seams Issue

- Virginia legislature passed law barring AEP and Dominion from participating in an RTO until 2004.
 - AEP had intended to join PJM by mid-year, but Virginia law put timetable in doubt
 - AEP issue impacts Exelon and DPL
 - Some Midwestern and Mid-Atlantic states, as well as Exelon, argued for forceful action by FERC
 - AEP raised issue of FERC using PURPA § 205

PJM Seams Issue

- FERC order approved AEP's participation in PJM but sidestepped the jurisdictional issue with the State of Virginia.
 - FERC barely mentioned Virginia statute in its order and did not address state commission request to delay action on AEP participation
 - Exelon intends to move forward, but AEP situation creates a hole in PJM
 - PJM predicts integration of ComEd on Oct. 1

Midwest ISO/PJM Through and Out Rate

- ALJ issued initial decision stating that FERC has no precedent for eliminating through and out rates.
 - According to the ALJ, such costs would not produce unjust and unreasonable rates and do not necessarily need to be eliminated
 - Order No. 2000, and various RTO/ISO orders, have not required elimination of access charges but instead encouraged them

MISO/TVA/PJM MOU

- Midwest ISO and PJM announced that they have signed an MOU with the Tennessee Valley Authority to develop a common set of models, rules and tools.
 - The MOU should result in better coordination of flows east/west and north/south
 - TVA has reached similar arrangements with transmission owners in the Southeast

Issues for SPP, MISO and PJM

- How does the white paper impact SPP?
 - White paper states that RTOs must satisfy scope and configuration but new and existing ISOs would not
 - SPP Strategic Report ruled out all options on how SPP should proceed, except for seeking approval from FERC as an RTO

Issues for SPP, MISO and PJM

- The role of regional state committees
 - How will these entities be formed and what will their role be?
- The through and out rate
 - Commission will issue order on ALJ decision.
 - Midwest ISO and PJM seem to be moving towards resolution of this issue.
- RTO participation will be mandatory
 - Will this resolve the Virginia legislature issue?

ISO-NE and NYISO

- In November 2002, ISO-NE and NYISO withdrew proposal to create NERTO.
- In January 2003, ISO-NE announced plan for an RTO for New England. ISO-NE intends to file proposal by June 30, 2003.
- ISO-NE rolled out SMD in New England.
- ISO-NE, NYISO and PJM are working toward resolving ISO seams issues.

ISO-NE and NYISO

- White Paper Issues:
 - Regional State Commissions
 - What role will the states play?
 - NYISO on record with concerns over state authority.
 - ISO-NE has more difficult issue because of multiple states.
 - Scope and Configuration
 - White paper states that existing ISOs would not be required to satisfy scope and configuration.
 - ISO-NE and NYISO will not have to merge but must continue to work toward resolving the seams issues.

Conclusion

"The real work needs to get done in the RTO dockets. If you look at the implementation schedules in the RTOs, you'll see 2005 is pretty close."

Commissioner Brownell,
Restructuring Today
April 24, 2003

- Are we further along today than we were two years ago when we started down the SMD path?
- Why is FERC set on making its Wholesale Market Platform mandatory?