

February 15, 2005

BPA Fact Sheet
Learning from the APPA Study
Restructuring at the Crossroads:
FERC Electric Policy Reconsidered (December 2004)

This fact sheet summarizes a number of important points the American Public Power Association makes about FERC RTO policy in its December 2004 report. BPA's perspective follows each point.

- Collectively, public power systems are net buyers of wholesale power. A wholesale power market that works is critically important to them.
 - BPA agrees. The Grid West proposal would not replace existing Northwest power markets, which are bilateral markets. The Grid West proposal would create voluntary markets in ancillary services such as reserves, imbalance energy, and dispatch to support reliable transmission services within a voluntarily consolidated control area.
- Public power systems look for policies that respect long-term contractual arrangements and keep the cost of capital low by reducing the risk incurred as a result of such commitments.
 - BPA agrees. Under the proposed Grid West approach, existing contracts would be honored. Transmission users would also be able to request and obtain long-term transmission contracts to deliver new long-term generating or contract resources to load.
- This is not to say that all RTOs are without value and should simply be dismantled. They have eliminated pancaked transmission rates (allowing transactions to take place over a broader geographic area, provided that the necessary transmission infrastructure is available) and developed transparent spot markets in which APPA members can purchase needed incremental power and lay off excess short-term power.
 - The Grid West pricing proposal is yet to be completed. One goal, however, is reducing pancaked rates.
 - The Grid West proposal does not include a day ahead spot market for energy. Each consolidating utility must submit a balanced schedule, including sufficient ancillary services to keep its lights on. The proposed Grid West markets are limited to ancillary service markets.
- These financial transmission rights (FTRs), however, are limited in number, transmission path and direction because they are tied to the physical capability of the transmission system under specified conditions. Thus, in many cases there are insufficient FTRs available even to hedge existing firm transmission service arrangements. As a result,

many APPA members have FTR portfolios that are insufficient to hedge fully their current power supply and transmission arrangements, due to the “proration” of FTRs.

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APPA members are deeply concerned about their inability to hedge fully their transmission congestion costs, and thus to assure their ability to obtain transmission service at a known and reasonable rate over a long time horizon (often measured in decades, not years).

- The Grid West proposal does not include financial transmission rights.
- The Achilles Heel of financial transmission rights based on locational marginal prices is that it taken alone does not ensure construction of adequate transmission infrastructure.
 - BPA agrees. The Grid West proposal does not include financial transmission rights. Grid West will have transmission backstop authority to meet reliability and maintain transfer capability of critical paths.
 - In addition, BPA is supporting creating regional adequacy standards for both transmission and generation.
- Rather than pigeon-holing new transmission facilities as needed for either reliability or economic purposes, the focus should be on how much transmission is required both to keep the lights on and keep rates to consumers at just and reasonable levels.
 - BPA supports this goal. The Grid West proposal distinguishes between reliability projects and projects that relieve significant, chronic commercial congestion. BPA intends to continue to encourage Grid West members to support providing Grid West backstop authority to be used for either purpose.
- An RTO must develop a rigorous regional transmission planning and construction process that ensures the region has a robust (but not gold plated) transmission system. Each affected RTO region should have the flexibility to develop through a collaborative process an associated transmission facilities cost-allocation method that works best for its stakeholders and for electric consumers.
 - BPA agrees. BPA has insisted that any proposal must include system-wide planning, including backstop authority, to assure that transmission needed for reliability gets built and paid for by those transmission owners that benefit.
- An important way to address Transmission Owners’ reluctance to construct needed new transmission facilities would be to encourage joint participation by other utilities serving load in regional transmission systems and in new transmission construction projects.
 - BPA supports joint participation in new transmission facilities. However, this is very difficult to achieve on a voluntary basis without an independent entity to

resolve issues associated with who should pay what share of the costs. Grid West would have this responsibility, if requested by a sponsor of a new project.

- Investment in the transmission system must carry with it future long-term certainty of transmission service at a just and reasonable cost and, for contributing public power systems, rights that reflect their long-term contributions to the fixed costs of the underlying system as well as their investment in new facilities.
 - BPA agrees that investors that fund infrastructure must receive long-term price certainty with respect to their investment.
- APPA members are also increasingly alarmed by the spiraling development and operational costs of RTOs.
 - BPA is similarly concerned about managing Grid West costs. To this end BPA supports phasing in functions over time, heavy reliance on existing systems, and a simpler proposal. In addition, a number of provisions were added to ensure greater accountability for cost control including having the Grid West budget prepared by a budget committee that includes Grid West members.
- FERC's reason for requiring independent boards was a good one: to avoid RTO governance structures that could be "captured" by one or a few industry sectors, leading to bias in RTO operations and transmission service provision.
 - BPA believes a board that is independent of market participants has great potential to solve transmission problems by providing effective decision-making.
- [However,] independent RTO boards can lack direct accountability to the industry participants in the RTO's region and to the electric consumers the RTO ultimately serves. [Further,] some independent boards seem to rely to a very significant degree upon RTO management and staff (who can also be inexperienced). This can lead to insufficient oversight (in the cost area discussed above, for example). Recent corporate scandals in this and other industries point out the need to avoid board that are too dependent on management and staff, without independent knowledge of what is happening "on the ground," both within their own RTO organization and in the RTO's region.
 - BPA supported strengthening the Grid West proposal to make the Grid West board more accountable to the region's stakeholders by, for example, creating a joint budget committee with stakeholders to prepare a budget, making it easier to elect and remove board members, strengthening the voting power of states representing consumer interests, and reducing the voting power of entities without significant ties to the region.
- RTOs will only be able to operate effectively if they are accountable and have the respect of all industry participants that must deal with the RTO. That respect has to be gained and maintained through RTO board and management accountability.

- BPA agrees. To this end BPA supported modifications to the Grid West proposal to strengthen regional accountability, including making it easier to elect and remove board members, creating a budget committee that include members to propose Grid West budgets, allowing the members to force a supermajority vote (7 out of 9) by the board to override the members, and establishing a governance committee to focus on best governance practices.
- RTO management and board cannot be subservient to industry participants, but they should not be able to simply ignore them.
 - BPA agrees. This is why BPA supported several proposals to modify Grid West bylaws to strengthen regional accountability. Additional work is needed to assure Grid West policy is driven by Northwest interests.
- Regional differences and preferences have to be respected.
 - BPA agrees. The Grid West proposal is a Northwest proposal; it was not driven by FERC's requirements.
- Lack of clarity or specificity with respect to calculation and posting of Available Transmission Capacity ("ATC") has led to concerns by some APPA members about manipulation of ATC calculations.
 - BPA agrees. The Grid West proposal includes adopting a common, flow-based ATC methodology that would be applied system wide.