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BEFORE THE  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

-----x Docket Numbers

IN THE MATTER OF: : EC01-156-000

ALLIANT ENERGY CORPORATE SERVICES : ER01-3154-000

-----x Docket Number

AMERICAN ELECTRIC POWER COMPANY : ER01-2995-000

-----x Docket Numbers

ARIZONA PUBLIC SERVICE COMPANY : RT01-44-000

: RT02-1-000

: EL02-9-000

-----x Docket Numbers

AVISTA CORPORATION : RT01-15-000

: RT01-35-000

-----x Docket Numbers

CALIFORNIA INDEPENDENT SYSTEM : EL00-95-023

OPERATOR : EL00-98-022

: RT01-85-000

-----x Docket Number

CALIFORNIA POWER EXCHANGE CORP. : RT01-93-000

-----x Docket Number

CITIZENS COMMUNICATIONS COMPANY : RT01-89-000

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1           ELECTRICITY MARKET DESIGN AND     : Docket Numbers  
2           STRUCTURE                             : EC01-146-000  
3   : EC01-156-000  
4   : EL01-80-000  
5   : ER01-3000-000  
6   : ER01-3154-000  
7   : ER02-323-000  
8   : RM01-12-000  
9   : RT01-2-000  
10    : RT01-10-000  
11   : RT01-67-000  
12   : RT01-74-000  
13   : RT01-75-000  
14   : RT01-77-000  
15   : RT01-86-000  
16   : RT01-87-000  
17   : RT01-88-000  
18   : RT01-94-000  
19   : RT01-95-000  
20   : RT01-98-000  
21   : RT01-101-000

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1 INVESTIGATION OF PRACTICES OF THE : Docket Numbers  
 2 CALIFORNIA INDEPENDENT SYSTEM : EL00-98-047  
 3 OPERATOR AND THE CALIFORNIA POWER : EL00-98-049  
 4 EXCHANGE : EL00-98-050

5 -----x Docket Numbers

6 INVESTIGATION OF WHOLESALE RATES OF: EL01-68-000  
 7 PUBLIC UTILITY SELLERS ON ENERGY :  
 8 AND ANCILLARY SERVICES IN THE :  
 9 WESTERN SYSTEMS COORDINATING :  
 10 COUNCIL :

11 -----x Docket Number

12 MONTANA-DAKOTA UTILITIES COMPANY : EL01-116-000

13 -----x Docket Number

14 NATIONAL GRID USA : EL01-80-000

15 -----x Docket Number

16 NSTAR SERVICES COMPANY : RT01-94-000

17 -----x Docket Number

18 OPEN ACCESS SAME TIME INFORMATION : RM00-10-000

19 SYSTEM :

20 -----x Docket Number

21 OPERATIONAL AUDIT OF THE CALIFORNIA: PA02-1-000

22 INDEPENDENT SYSTEM OPERATOR :

23 -----x

24

25 -- continued --

1 PACIFIC GAS AND ELECTRIC COMPANY : Docket Numbers

2 : EL00-95-024

3 : EL00-98-023

4 : RT01-83-000

5 -----x Docket Numbers

6 REGIONAL TRANSMISSION ORGANIZATIONS: RT01-99-000

7 : RT01-100-000

8 : RM99-2-000

9 -----x Docket Number

10 REGIONAL TRANSMISSION ORGANIZATION : RT01-1-000

11 INFORMATION FILINGS :

12 -----x Docket Number

13 REGULATIONS GOVERNING : RM98-1-000

14 OFF-THE-RECORD COMMUNICATIONS :

15 -----x Docket Numbers

16 SAN DIEGO GAS AND ELECTRIC COMPANY : EL00-98-021

17 : RT01-82-000

18 -----x Docket Number

19 SAN DIEGO GAS AND ELECTRIC COMPANY : EL00-95-000

20 v. :

21 SELLERS OF ENERGY AND ANCILLARY :

22 SERVICES :

23 -----x

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25 -- continued --

1 SOUTHERN CALIFORNIA EDISON COMPANY : Docket Numbers

2 : EL00-95-025

3 : EL00-98-024

4 : RT01-92-000

5 -----x Docket Number

6 SOUTHWEST POWER POOL, INC. : RT01-34-000

7 -----x Docket Number

8 STATE-FEDERAL REGIONAL PANELS : RT02-2-000

9 -----x

10 STATE-FEDERAL WESTERN REGIONAL

11 PANEL DISCUSSION

12  
13 The Horton Grand Hotel

14 311 Island Avenue

15 San Diego, California

16  
17 Tuesday, April 30, 2002

18  
19 The above-entitled matter came on for  
20 discussion, pursuant to notice, at 3:00 p.m., Pacific  
21 Time.

22  
23  
24  
25

1 ATTENDEES

2

3 Federal Energy Regulatory Commission:

4 Chairman Pat Wood, III (Telephonically)

5 Commissioner Nora Mead Brownell (Telephonically)

6 Commissioner Linda K. Breathitt (Telephonically)

7 Commissioner William L. Massey (Telephonically)

8

9 In San Diego:

10 Kevin A. Kelly, Director, Policy Innovation &

11 Communication, OMTR

12 Charles Whitmore, Office of the Executive Director

13 Edward M. Meyers, Director of State Relations, Office

14 of External Affairs

15 Sarah McKinley, State Relations, Office of External

16 Affairs

17

18 Telephonically:

19 Richard O'Neill, Chief Economist

20 Kevin Cadden, Director, Office of External Affairs

21 Shelton M. Cannon, Deputy Director, OMTR

22 William A. Meroney, Group Manager, Market

23 Development, OMTR

24 Michael Coleman, OMTR, Western Region

25

1 Arizona Corporation Commission

2 Jerry Smith

3

4 British Columbia Utilities Commission

5 Peter Ostergaard, Commissioner

6

7 California Public Utilities Commission

8 Carl W. Wood, Commissioner

9 Steve Weissman (Telephonically)

10 Sean Gallagher, Staff Attorney (Telephonically)

11

12 Colorado Public Utilities Commission

13 Polly Page, Commissioner (Telephonically)

14 Wendell Winger (Telephonically)

15 Larry Shiao (Telephonically)

16 Inez Dominguez (Telephonically)

17 Sharon Podein (Telephonically)

18

19 Idaho Public Utilities Commission

20 Marsha H. Smith, Commissioner

21 Bill Eastlake

22

23 Montana Public Service Commission

24 Jay O. Stovall, Vice Chairman

25 Bob Anderson, Commissioner

## ATTENDEES (CONT'D.)

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Nevada Public Utilities Commission  
???

New Mexico Public Regulation Commission  
Lynda M. Lovejoy, Commissioner  
R. Prasad Potturi

Oregon Public Utility Commissioner  
Lee Beyer, Commissioner  
John Savage, Utility Director  
Stefan Brown, Senior Economist  
Phil Carver, Office of Energy  
???

Utah Public Service Commission  
Constance B. White, Commissioner  
Becky Wilson, Technical Advisor  
George Compton, Division of Public Utilities

Washington Utilities and Transportation Commission  
Marilyn Showalter, Chairwoman  
Richard Hempstad, Commissioner  
Dick Byers, Senior Energy Policy Advisor

1 Wyoming Public Service Commission

2 Steve Ellenbecker, Chairman

3

4 Unidentified Affiliation

5 Paul Walker

6 Mr. Winter

7 William Hederman

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## 1 PROCEEDINGS

2 (3:00 p.m.)

3 MR. MEYERS: Welcome, everybody, to the West  
4 Regional Panel Meeting. I'm Ed Meyers. I'm Director of  
5 State Relations at the FERC. This is our first on-site  
6 Regional Panel Meeting, and we're here in San Diego. We  
7 have a number of commissioners and staff around the table.  
8 Obviously, we have FERC and other state commissioners  
9 joining us by phone.

10 Let's start with some intros. I'll just go down  
11 my list here. Let's begin, please, with FERC in Washington.

12 MR. MIRAMI (Telephonically): In Washington here  
13 is Pat and Nora and me, Ed. Sara is in my office doing some  
14 transcription.

15 MR. CADDEN (Telephonically): This is Kevin  
16 Cadden speaking.

17 OPERATOR (Telephonically): Excuse me.  
18 Mr. Winter (ph) has joined.

19 MR. MEYERS: All right. Now let's do the FERC in  
20 San Diego.

21 MR. WHITMORE: This is Charlie Whitmore.

22 MR. KELLY: Kevin Kelly.

23 MR. MEYERS: All right. We'll go through the  
24 states now and provinces. Alberta -- anybody here from  
25 Alberta?

1 (No response.)

2 MR. MEYERS: Arizona.

3 MR. SMITH: Jerry Smith, Staff.

4 MR. MEYERS: And by phone, anybody?

5 (No response.)

6 MR. MEYERS: Okay. B.C., British Columbia.

7 MR. OSTERGAARD: Peter Ostergaard, Chairman of  
8 the British Columbia Utilities Commission.

9 MR. MEYERS: Thank you, Mr. Chairman.

10 California.

11 MR. CARL WOOD: Carl Wood, Commissioner.

12 MR. MEYERS: Anyone else?

13 (No response.)

14 MR. MEYERS: Colorado.

15 MR. WINGER (Telephonically): Wendell Winger,  
16 Staff, the Colorado PUC. With me is Inez Dominguez, also of  
17 Staff, Larry Shiao of Staff, and Commissioner Polly Page is  
18 going to join us momentarily.

19 MR. MEYERS: Thank you.

20 And Idaho.

21 MS. SMITH: Marsha Smith, Commissioner.

22 MR. EASTLAKE: And Bill Eastlake, Policy Advisor.

23 MR. MEYERS: And Montana, please.

24 MR. ANDERSON: I'm Bob Anderson, the  
25 Commissioner. I want to congratulate Pat on the little

1 baby.

2 MR. PAT WOOD (Telephonically): Thank you, Bob.

3 MS. BROWNELL (Telephonically): And we want to  
4 congratulate you, Bob, on your engagement.

5 MR. PAT WOOD (Telephonically): Oh, how do you  
6 know everything?

7 MS. BROWNELL (Telephonically): He sent an  
8 announcement.

9 MR. STOVALL: Commissioner Jay Stovall of  
10 Montana.

11 MR. MEYERS: And Nevada.

12 (No response.)

13 MR. MEYERS: Nobody from Nevada?

14 MS. SMITH: Nevada (alt pronc).

15 MR. MEYERS: Nevada.

16 (Laughter.)

17 MR. MEYERS: New Mexico.

18 MS. LOVEJOY: Linda Lovejoy, Commissioner.

19 MR. POTTURI: Prasad Potturi, Staff.

20 MR. MEYERS: Oregon.

21 MR. BEYER: Lee Beyer, Commissioner.

22 MR. SAVAGE: John Savage, Staff.

23 MR. BROWN: Stefan Brown, Staff.

24 MR. CARVER: Phil Carver, Adjunct Staff.

25 OPERATOR (Telephonically): Mr. Gallagher has

1 joined.

2 MR. MEYERS: Utah, please.

3 MS. WHITE: Connie White, Commissioner.

4 MS. WILSON: Becky Wilson, Staff.

5 MR. COMPTON: George Compton, Advocacy Staff.

6 MR. MEYERS: Washington State.

7 MS. SHOWALTER: Marilyn Showalter.

8 MR. HEMPSTAD: Dick Hempstad, Commissioner, and  
9 Dick Byers of Staff will be joining us shortly.

10 MR. MEYERS: And Wyoming.

11 MR. ELLENBECKER: Steve Ellenbecker,  
12 Commissioner.

13 MR. MEYERS: Thank you.

14 Anybody else?

15 MR. MIRAMI (Telephonically): This is Bill Mirami  
16 (ph) of FERC Staff in Washington.

17 MR. MEYERS: Hello, Bill.

18 MR. LONGENECKER (Telephonically): Bill  
19 Longenecker, FERC Staff, Washington.

20 MR. GALLAGHER (Telephonically): Sean Gallagher  
21 from the California Commission.

22 MR. MEYERS: Anyone else?

23 (No response.)

24 MR. MEYERS: Okay. Let's get started.

25 OPERATOR (Telephonically): Ms. Sharon Podein has

1 joined.

2 MR. MEYERS: Sharon, would you care to identify  
3 yourself, please?

4 MS. PODEIN (Telephonically): Yes. I'm Sharon  
5 Podein with the Colorado Public Utilities Commission.

6 MR. MEYERS: And welcome.

7 MS. PODEIN (Telephonically): Thank you.

8 MR. MEYERS: This is a Regional Panel Meeting  
9 that was established under FERC's order of November 9th,  
10 2001. The purpose of the Regional Panel Meeting this  
11 afternoon is primarily to discuss RTO issues. We're going  
12 to be discussing size issues, scope and governance.

13 OPERATOR (Telephonically): Excuse me. Richard  
14 O'Neill has joined.

15 MR. MEYERS: Hi, Dick.

16 MR. O'NEILL (Telephonically): Hi.

17 MR. MEYERS: Of the FERC.

18 Size, scope and governance will be the main  
19 topics. I will mention that during the CREPC meeting that  
20 was just concluded, the commissioners and staff developed  
21 some other agenda items, which fall nicely under that size,  
22 scope and governance umbrella. So we'll be getting into  
23 those various subtopics, as well.

24 So there are a number of issues involving the  
25 RTOs -- RTO West, the California ISO and WestConnect. The

1 meeting is established for commissioners and staff only of  
2 FERC and the states. We recently extended that to include  
3 the Canadian and Mexican regulators. Is there anyone who  
4 doesn't fall within that?

5 (No response.)

6 MR. MEYERS: The meeting is transcribed. It's on  
7 the record. Transcriptions of this meeting will be placed  
8 in the RTO dockets.

9 We don't have any presentations planned. The  
10 object is just to get a good discussion going. Perhaps we  
11 would like some opening comments, if Marsha or anyone else  
12 would care to give some, and then we'll hear from FERC if  
13 they have some.

14 MS. SMITH: Just very briefly -- and I apologize  
15 that my cold has affected my voice. It's just our hope that  
16 the state commissioners and staff members participating  
17 today can gain a better understanding of what is important  
18 in the FERC process and the goals that they have, and that  
19 during the course of our discussion, on the FERC side they  
20 will have a better understanding of the concerns that are  
21 specific in the West, and deal directly with our operations.  
22 And we just want to thank the FERC commissioners for  
23 accommodating our CREPC schedule. We very much appreciate  
24 that.

25 Thank you, Ed.

1 MR. MEYERS: Thank you.

2 Yes, Bob Anderson.

3 OPERATOR (Telephonically): Paul Walker is  
4 joining.

5 MR. ANDERSON: Hi, it's Bob Anderson. Just to be  
6 a little clearer about our agenda, Ed mentioned that we'd be  
7 talking about RTOs, and their size, scope and governance.  
8 Much of the CREPC meeting was about market design.

9 OPERATOR (Telephonically): William Hederman (ph)  
10 is joining.

11 MR. ANDERSON: So I think that's going to be a  
12 lot of our focus today. And the relationship between RTOs  
13 and market design, they're chicken-and-egg problems. There  
14 are SEAMS problems and a variety of issues having to do with  
15 things like locational marginal pricing, RTCs, ETCs, and all  
16 kinds of things that differ somewhat from our RTO-filing-to-  
17 RTO-filing. So we're interested in exploring how these  
18 things all fit together and how we can end up with a good  
19 functioning market, recognizing some of the dilemmas  
20 involved in the somewhat piecemeal approach to these  
21 filings.

22 MR. MEYERS: Anyone else here around the table?

23 (No response.)

24 MR. MEYERS: And I'm wondering if Pat or Nora  
25 would like to have some opening comments.

1           MR. PAT WOOD (Telephonically): Hi, y'all. This  
2 is Pat Wood. I want to thank everybody for joining us today  
3 on this Regional Panel. This is about our fourth one. Our  
4 first one we had several months ago with Commissioner Kelly  
5 and staff from the Midwestern Commission talking about what  
6 we needed to get out on the table from the state side and  
7 the federal side about how to capture as many benefits as  
8 possible for customers from the (indiscernible) wholesale  
9 power market in a thoughtful manner. I would say that that  
10 yielded quite a bit of fruit just in that short period of  
11 time, and we kind of moved one past the scope and governance  
12 and configuration issues, going back into the easy issues,  
13 into a lot more substantive discussions about specifics  
14 about market structure.

15           And now I'm very pleased to hear, Bob, your  
16 comments about that, because, quite frankly, we could spend  
17 another ten years talking about scope and governance. But  
18 if somewhere we can drill down to the details about, how do  
19 you make power markets work on the detailed level? -- that  
20 we really do (indiscernible) to getting wholesale markets  
21 working in a rational manner, like they really probably  
22 should've been for the last 50 years, but, obviously, in  
23 your part of the country, have not been doing so.

24           So I view the West as really the main area of  
25 focus of this Commission. We got filings, or will as of, I

1 guess, Wednesday, have filings from the entire inter-  
2 connection in front of the Commission for us to consider  
3 about issues both relating to those easier issues of scope  
4 and governance, and the more detailed issues about some of  
5 the market design details. So this is a real -- for us, a  
6 pregnant time to talk about, what are the joint goals that  
7 we've got here? What are the concerns that y'all have and  
8 that we have about how to weave the wholesale markets in the  
9 West together in a manner that makes a lot of sense, and  
10 whatever benefits the customers?

11 So that's what we'd like to do, too, and look  
12 forward -- I know y'all have had a good amount of discussion  
13 out there already, and I look forward to (indiscernible) on  
14 where y'all are, and hearing from you what you think we can  
15 do to help, and go from there.

16 MR. MEYERS: And Nora, please.

17 MS. BROWNELL (Telephonically): I would simply  
18 echo Pat's comments, and thank you all for your focus on  
19 this. I think this has been a long, agonizing birthing  
20 process, and I think we're all kind of ready to move on to  
21 the next step. So I appreciate your efforts. And, really,  
22 Pat and I, and then followed up, I guess, by our colleagues  
23 who will be doing the second shift, are here to listen as  
24 much as anything.

25 MR. MEYERS: Okay. Great. And with that, we're

1 wide open now. And so who has the first comment or  
2 question? Everybody at once, or one at a time?

3 MR. ELLENBECKER: This is Steve Ellenbecker from  
4 Wyoming. As we discuss this process of birthing now --  
5 excuse me -- I would like to clarify from my perspective a  
6 couple of things. First, it appears to me -- and I'm most  
7 familiar with RTO West, so let me focus on that as the  
8 example. If that organization has finally come together by  
9 way of this second-stage application after a precarious  
10 effort among the involved parties, I think it's at least  
11 important for the FERC to consider the notion of authorizing  
12 the proposal as they have put it together after much discord  
13 through the developmental stages of the parties, and even  
14 being able to reach agreement. I think --

15 OPERATOR (Telephonically): Excuse me. Michael  
16 Coleman is joining.

17 MR. ELLENBECKER: I think it was such a sensitive  
18 process, that if the participants learn now that there are  
19 many elements expected by the FERC that they didn't  
20 anticipate, or perhaps elements that should've been included  
21 back as early as Order 2000 and earlier, instructing what  
22 would be required for the market design, we may or may not  
23 have succeeded in seeing an application come forth from  
24 these participants in the Northwest.

25 So I think in support of the notion of the three

1 RTOs in the West, that one of the areas that the FERC can  
2 reconcile differences among, if you're willing to accept  
3 their characteristic differences, is to require of them that  
4 they literally make this a single market through their SEAMS  
5 initiatives to work among the three RTOs, if you do give  
6 them your final approval, and make your approval contingent  
7 upon them formally -- not informally, but formally --  
8 resolving before you in a filing back to you -- very  
9 formally, as I would see it -- the manner in which they mean  
10 to reconcile their differences, giving due respect to these  
11 differences that the individual participants had in even  
12 agreeing to membership with one of the RTOs, but require  
13 them, then, to formally demonstrate to you that they can  
14 operate as a single market by resolving the differences in  
15 characteristics and making those work across their SEAMS and  
16 boundaries in a manner that satisfies you and in a manner  
17 that convinces you gives us a single market in the West. I  
18 think that's one way, finally, that you can look at these  
19 three organizations with their different characteristics,  
20 maybe in an affirmative way, but in the end, require of them  
21 that they come back with an additional filing now to  
22 reconcile their differences in a way that works.

23 MR. CADDEN (Telephonically): Any other of the  
24 western connectors from the RTO West area care to follow up  
25 on the Commissioner from Wyoming's idea? Ed, did you hear

1 me?

2 MR. MEYERS: Yes. Connie White, Commissioner.

3 You have to remember to identify yourself when  
4 you speak for our court reporter here.

5 MR. CADDEN (Telephonically): This is Kevin  
6 Cadden. Thank you. Kevin Cadden. You're right.

7 MR. MEYERS: Okay. And I didn't do it when I  
8 talked, too. Sorry.

9 MS. WHITE: This is Connie White, Utah  
10 Commission. I agree with what Steve Ellenbecker said. But  
11 I did want to sort of extend that into a slightly different  
12 area. There is some disagreement among the CREPC folks here  
13 as to whether we wanted to urge the FERC to take each  
14 filing -- RTO West, the California ISO, the other one -- to  
15 take it all or none, or to accept, you know, piece parts of  
16 the pro- -- of -- of any one RTO proposal. In other words,  
17 there was concern that -- I'm sorry -- there was a  
18 discussion over whether we would urge FERC to just adopt it  
19 all or nothing, or tell FERC to go ahead, and our  
20 recommendation would be to take the parts that you like, and  
21 reject the parts that you don't. So there's not really  
22 agreement in this group on that.

23 But I wanted to point out that --

24 (Pause; changes microphones.)

25 In my commission, and I think in every

1 commission, when you look at a stipulation, or, you know,  
2 some kind of agreement between a lot of parties, obviously,  
3 it's the result of a lot of compromising. If FERC were to  
4 look at, say, RTO West, and accept parts of it and reject  
5 parts of it, it may be causing real problems, because I  
6 think it was -- it does appear to have been very much of a  
7 deal, some parties giving up something, some parties getting  
8 other things, in order to make the whole thing work. And if  
9 parts of it are accepted and parts rejected, you know, the  
10 whole thing may fall apart. I don't know. I can't speak  
11 for those people. But since it's the result of so many  
12 compromises and so much give-and-take, I think I would urge  
13 FERC to just keep that in mind as you consider the RTO West  
14 proposal.

15 MR. MEYERS: Okay. I have in the lineup Bob  
16 Anderson, and then Marilyn Showalter.

17 MR. ANDERSON: Thanks. This is Bob Anderson. I  
18 guess this is sort of along the same lines, but with a  
19 different argument. It's about the standard of -- or who --  
20 who has the burden, or how high the burden is to get  
21 approval. I think we've learned a lot from experience,  
22 especially in California. The California deregulation was  
23 designed by incredibly bright minds through a lot of  
24 process, a lot of study. And a system was put in place that  
25 flopped. The outcome was unforeseen by most people.

1 Perhaps there are some exceptions at this table. But I  
2 think it illustrates how unforeseen circumstances happen  
3 when you try to build a market based on theory. Theories  
4 are good, but implementing them often doesn't conform with  
5 the greatest expectations of the greatest minds. That's  
6 likely to be the case here.

7 I'm not here to say that the RTO West filing is  
8 going to work the way they think it will. I doubt if it  
9 will. And I doubt if any of the others will either.

10 I think the California ISO is developing  
11 structures and methods and implementations that are a big  
12 improvement. I think the California market is going to be a  
13 lot better as a result of what it's learned in the last  
14 couple years. And I think the other filings are likely to  
15 have similar unforeseen outcomes.

16 So I would urge that the standard for approval be  
17 fairly low. In other words, tend to trust the filings, not  
18 expecting that they're going to work the way they say they  
19 will, but because you expect that they won't, and that no  
20 matter what, even if you reject and require refile, well,  
21 whatever they refile's not going to work the right way  
22 either.

23 So I think it makes sense to be liberal in  
24 judging the filings. Get 'em in place. Let's get some  
25 experience with them working. And it's probably going to

1 take several years of experience with different kinds of  
2 conditions, like how much water there is in the Northwest,  
3 and so on, and weather factors, all kinds of factors beyond  
4 the control of the markets that are going to test these  
5 markets and these structures. And we're going to have to  
6 learn as we go.

7 So just to summarize, don't be too picky because  
8 the filing doesn't exactly conform to theory, because no  
9 matter what, they're not going to turn out the way anybody  
10 expects.

11 MS. SHOWALTER: This is Marilyn Showalter,  
12 actually responding to both Connie White's and Bob  
13 Anderson's comments. Following up on Bob's, I was following  
14 right along with him until he said, Therefore, you know,  
15 don't be too picky. I would've thought the lesson of  
16 California is that we should be deeply skeptical of  
17 theoretical proposals, and quite confident based on evidence  
18 about the real world from real-world operators that any  
19 given new proposal will work. In other words, the burden of  
20 proof should be on those proposing a new system to convince  
21 the decision-makers that in fact it's going to work.

22 To Connie's point about the sort of --

23 OPERATOR (Telephonically): Excuse me. Shelton  
24 Cannon is joining.

25 MR. MEYERS: Shelton Cannon.

1 MS. SHOWALTER: To Connie's point about approving  
2 as a whole, a package, of an RTO, normally, when a  
3 commission is presiding over litigation, it has in front of  
4 it all of the affected parties. In fact, you know, that's  
5 why you have intervenors. And you have all affected  
6 parties, who maybe propose a settlement, and then you know  
7 that quite a bit of work has been put into a proposal by the  
8 affected parties. I think a commission retains its  
9 obligation to approve any proposal on the merits, not just  
10 based on the fact that the parties agreed to it.

11 And so I think the same is true here. FERC has  
12 an independent obligation to assure itself that, whatever  
13 the proposal is, it's actually going to work. And again,  
14 there's the lesson of California. Just because of  
15 California came up with something doesn't mean that FERC  
16 should have approved it.

17 But beyond that, in this case, at least with  
18 respect to RTO West, I think that FERC should bear in mind  
19 that not all of the affected parties are the filing parties.  
20 In my state, there are 63 utilities. Only three of them are  
21 FERC-jurisdictional. And yet all of them are affected.  
22 Also, of course, Canada is affected.

23 Also, Bonneville is a major part of the system.  
24 So Bonneville operates 80 percent of the transmission. It  
25 may be a filing entity, or in essence a filing entity. But

1 if Bonneville's not part of the picture, there really is no  
2 RTO. But even if it is part of the picture, the filing that  
3 is in front of FERC at any given time on RTO West is the  
4 product of a lot of discussion along the region, but only  
5 the formal product of the filing utilities.

6 So I would urge FERC essentially to keep an open  
7 mind, as I believe it's obligated to do anyway, and take in  
8 essence a fresh approach or a fresh skepticism about  
9 whatever proposal is in front of it, and be certain itself  
10 that this is going to work. Because in the end, it is  
11 FERC's approval of something, as it was in California, that  
12 is the triggering event. And so the responsibility on FERC  
13 is very, very high. I would urge definitely a show-me  
14 attitude, demonstrate that it's going to work, and not be  
15 too lax about it.

16 MR. MEYERS: We're going to hear from Lee Beyer,  
17 Commissioner from Oregon.

18 MR. BEYER: Thank you. I guess I would like to  
19 add onto that. I think the need for flexibility is very  
20 clear. We've been working on the RTO West proposal for  
21 quite a few years -- well, I guess not years, but quite a  
22 while. Anyway -- years, years -- and realistically, we're  
23 getting pretty close to something that appears workable.  
24 Certainly we don't have universal agreement. And in fact,  
25 my commission isn't at the point where they'd say we've got

1 the deal done. But it's getting closer.

2 To be clear, at least from Oregon's perspective,  
3 we believe that the RTO direction is a good direction to go.  
4 There's certainly some questions about it. Certainly, as  
5 Commissioner Showalter said, without BPA in the game, there  
6 isn't an RTO.

7 OPERATOR (Telephonically): Steve Weissman  
8 joining.

9 MR. BEYER: But I think what's important to us is  
10 that we focus on what's workable within the regions and not  
11 get overly hung up on the standard market design issues.  
12 Those are certainly important, but what's more important is  
13 finding a decision and a structure that'll work for the West  
14 and the Morthwest together. And I believe in the last two  
15 days that we've spent here in San Diego, we've recognized  
16 some differences in the Western Interconnect, and we've  
17 recognized some ways that three RTOs could work well  
18 together here. I think we have a good history of working  
19 together, and that will continue. And we ask that the  
20 Commission exercise some flexibility in looking at the three  
21 proposals.

22 MR. MEYERS: Who's next?

23 MR. OSTERGAARD: Maybe I can say something on  
24 behalf of British Columbia.

25 MR. MEYERS: And say your name, please.

1 MR. OSTERGAARD: Yes. My name is Peter  
2 Ostergaard. I'm with the B.C. Utilities Commission.

3 A couple of comments, echoing the thoughts of a  
4 couple of earlier speakers, in the BCUC's view, RTO West  
5 won't work without BPA involved. I agree with Commissioner  
6 Ellenbecker that FERC be cognizant of the need of the three  
7 RTOs if approved to manage SEAMS issues.

8 And just a comment for educational purposes,  
9 there is no Canadian equivalent for FERC at the national  
10 level as it relates to approving Canadian utilities'  
11 participation in RTO. The comparable regulatory agencies  
12 are the provincial utility commissions. And speaking for  
13 the B.C. Utilities Commission, we would be pleased to have  
14 our staff work with FERC's staff on a protocol or letter of  
15 understanding on managing the regulatory processes involved  
16 in reviewing RTOs as it relates to the two jurisdictions.

17 MR. MEYERS: Okay. Who's next?

18 MS. SMITH: Do Pat and Nora want to respond?

19 MR. MEYERS: There's a request for some feedback  
20 on the comments thus far, if anyone would care to chip in a  
21 comment or two here and there from FERC.

22 MR. PAT WOOD (Telephonically): This is Pat.  
23 Peter, your thought on any kind of formalization papers, I'd  
24 be more than delighted to do. I've had similar discussions  
25 with the eastern provinces, and I think that would be

1 definitely very fruitful. Y'all are a real critical part of  
2 what we're trying to do down in (indiscernible), and really  
3 do want work as close as we can.

4 I hear what you're saying on RTO West. I guess I  
5 would like to get an understanding from those of you who  
6 have been there the past couple of days how some of the  
7 issues that RTO West has faced do kind of flange up with  
8 what the other two groups or RTO proponents are talking  
9 about, and, I guess, what thoughts there are about potential  
10 SEAMS issues that don't. That will be things that we're  
11 going to have to deal with when we look at all three sets of  
12 proposals this summer on the table together.

13 MS. SHOWALTER: This is -- I can repeat what John  
14 Carr said. This is Marilyn Showalter. This isn't my own  
15 answer. I'm just repeating what John Carr of PacifCorps  
16 (ph) said when the same question came up earlier in the day.  
17 I think his point was really regard- -- he said even if the  
18 three RTOs had the same models, or the same LMP, or the same  
19 sort of -- same methods of determining price, even in that  
20 case, there would be a lot of SEAMS work to do.

21 I'm not -- I'm probably getting out of my league  
22 here, but I took it to mean that just having different  
23 methodologies or different prices -- price mechanisms  
24 themselves really isn't determinative of whether SEAMS will  
25 or won't be successful, that work has to be done in any

1 event. That's what I got out of his answer. And I see a  
2 couple of heads nodding around the table.

3 MR. ELLENBECKER: This is Steve Ellenbecker from  
4 Wyoming. It is, I think, at least worth clarifying that the  
5 three developmental stage RTOs have already established an  
6 interim SEAMS working group, a steering group, that covers  
7 such functions as including the planning of expansion of the  
8 transmission grid. It appears that they are attempting to  
9 put in place an interim group that will function to address  
10 the SEAMS issues even during the developmental stage for the  
11 late stage RTO, being RTO West, for example.

12 So I think with your enforcement and your  
13 insistence, they are putting in place a mechanism formally  
14 comprised of the technical experts within the three RTOs,  
15 the means with which or through which you can oversee their  
16 development of responsive answers that can address the  
17 differences; for example, the differences in the RTOs,  
18 speaking again of RTO West, that give strong recognition to  
19 the importance of hydro generation, coupled with base load  
20 thermal generation in the West and the Northwest, and the  
21 integral reliance upon the economic resource dispatch in the  
22 West that they've given strong consideration to in  
23 respecting their bilateral contracts in that RTO formation.  
24 Nonetheless, that has to be meshed with, for an effective  
25 west-wide market, CALISO's resemblance, as I would put it,

1 using my own words, something that more closely now in its  
2 maturity resembles the PGM model.

3 And so I don't know that, speaking for myself, we  
4 have the answers of how they can resolve their differences.  
5 But they should have the means, as long as you require it,  
6 to resolve their differences.

7 MS. BROWNELL (Telephonically): Steve, it's Nora  
8 Brownell. And I appreciate your suggestion, as I think  
9 reenforced by others. Having watched the working groups on  
10 the SEAMS issues in the northeast for three of the four  
11 years I was a state commissioner, one suggestion that I  
12 would make, and that is that the working group itself set  
13 deadlines for itself. Otherwise, it becomes an endless  
14 conversation which goes nowhere, which is what I suspect  
15 you're suggesting.

16 I would also say that we will offer any technical  
17 staff support that the group needs in developing some  
18 answers. Some of our staff have given this a great deal of  
19 thought, have some experience in kind of looking at broader  
20 market issues, and I think would be a good resource for  
21 people. And so while the staff on the phone may kick me  
22 when they see me next, I think that we want everyone to  
23 succeed, and we want to get there with as clear a picture as  
24 we can develop, so that while we may not be creating perfect  
25 systems, we are getting as close to the perfect as we can

1 get, answering Marilyn's concern that we can't take any  
2 rifts (ph) if we make this transformation.

3 MS. SHOWALTER: This is Marilyn Showalter. I  
4 think this group is being a little reticent. I don't know  
5 why. But earlier in the day, we generated a lot of issues  
6 that we wanted to pose, if possible, as questions to you.  
7 And whether you can answer them or not may be a legal issue,  
8 and may be just a knowledge issue. But in the broadest  
9 sense, we have the question of the interaction of the  
10 standard market design and RTOs. I'll give you a subset of  
11 questions underneath that. But one of which is, well,  
12 what's more important to FERC? The standard market design  
13 or RTOs, are they part and parcel of each other, or should  
14 one precede the other? A more specific question was, how do  
15 the bid-based markets in the standard market design relate  
16 to the economic dispatch of western generation resources  
17 today? So that -- in other words, how does that bid-based  
18 theory comport with how dispatch actually occurs here in the  
19 West?

20 Another subquestion under that broad  
21 relationship, how does FERC square long-term contracts with  
22 creating a market? FERC has in the past, anyway, endorsed  
23 the idea of long-term contracts for utilities as increasing  
24 stability. And in any event, in the West, or at least in  
25 the Northwest, 80 percent of the power is under long-term

1 contract. And generally speaking, that's thought to be a  
2 good thing. On the other hand, if you're -- are you trying  
3 to create a robust short-term market, or day-ahead market,  
4 or spot market? And if so, is it necessary to undermine  
5 long-term contracts, or should whatever kind of short  
6 market -- short-term market exists be subordinate to the  
7 sort of greater and higher purpose of long-term contracts?

8 But in any event, there's some kind of tension  
9 there. I'll stop with those subquestions, if you have any  
10 reaction or thoughts.

11 MR. O'NEILL (Telephonically): Can I step in?

12 This is Dick O'Neill.

13 MR. MEYERS: Please, Dick.

14 MR. O'NEILL (Telephonically): I don't see any  
15 conflict between long-term contracts and a spot market.  
16 They exist as complements for each other. One should not be  
17 considered superior to the other. People should be able to  
18 choose whether they want to be in a long-term contract  
19 relationship, or whether or not they want to be in the spot  
20 market. They are complete complements as far as I'm  
21 concerned. There is no desire to force people into a day-  
22 ahead or short-term market. And as a matter of fact, as a  
23 general matter, you don't want to do that.

24 MR. PAT WOOD (Telephonically): This is Pat. I  
25 guess there was another question that Marilyn asked first.

1 I do think that an RTO, really, when you look at our working  
2 paper that we put out on the standard market design back in  
3 mid March, it becomes pretty clear that the RTO is an  
4 efficient way, probably the most efficient way, to  
5 accomplish out of what SMD is trying to capture in the way  
6 of benefit. And just because of the economies of scale and  
7 scope that an RTO would be versus a smaller utility-specific  
8 control area.

9 So (indiscernible), the option there, because  
10 RTOs are not mandatory. For someone to do something other  
11 than RTO, for the life of me, I don't know how you really  
12 end up making the case that customers actually save the  
13 money of kind of having the utility-specific control areas  
14 and all the redundancy that that entails. So that -- an RTO  
15 is a vehicle by which SMD can be officially realized, I  
16 guess would be the one sort of answer to that question.

17 As to the realities of dispatch, I think over  
18 time clearly I've seen in my own home state, I've seen in  
19 every market in this country, including all the gas markets,  
20 have more competition and more access to supplies outside of  
21 the immediate control area of a given utility, you do have  
22 dispatch change to some extent. Certainly as in your-all's  
23 part of the country, as load continues to grow, and, you  
24 know, need for additional generation arise, then certainly  
25 dispatch patterns will change.

1           So I think my hope would be that whatever we work  
2 with, and whatever the local RTO developers and proponents  
3 (sic) come up with, is really a living type process that  
4 adapts to the dispatch patterns of the physical grid as they  
5 mature and change over time.

6           MR. MEYERS: Other comments, questions?

7           MS. LOVEJOY: This is Lynda Lovejoy from New  
8 Mexico. I have a couple of questions or concerns. I don't  
9 know if this was posed to you earlier, but it certainly was  
10 discussed within our group, and it certainly is a very good  
11 question which I believe New Mexico has always been  
12 concerned about. And that is, what's the role of the states  
13 in reviewing modifications of RTO after it goes through a  
14 FERC process? I think that's a very good concern.

15           Also, with regard to WestConnect, when do we  
16 expect to hear from FERC on the WestConnect's application I  
17 believe they filed October 16?

18           MR. CADDEN (Telephonically): This is Kevin  
19 Cadden. I'd like to jump in there. We're getting some  
20 feedback from someone who's either in an airport or a train  
21 station, or a home. I thought I heard children in the  
22 background. We'd ask them to mute their phone.  
23 Commissioner Lovejoy, could you just start from the  
24 beginning again with that question? You broke up a lot for  
25 us. Thank you.

1 MS. LOVEJOY: I forgot my question.

2 MR. MEYERS: I have it here.

3 MR. CADDEN (Telephonically): I thought Ed would  
4 have it.

5 MS. LOVEJOY: I had a couple of concerns that we  
6 discussed within the group today, and -- well, one,  
7 primarily, and that is, what's the states' role in reviewing  
8 modifications of RTOs after it goes through FERC's process?  
9 And the other question that I had was on WestConnect, since  
10 that is the RTO in our area, when would they expect to hear  
11 from FERC with regard to their filing? And that's been  
12 since October 16th. Those are the only two comments I have,  
13 or questions.

14 MR. PAT WOOD (Telephonically): Lynda, this is  
15 Pat. I'm sorry. We're still getting a lot of interference.  
16 On the last question you asked, the question was, as to  
17 WestConnect, what would be the time frame that you expect us  
18 to respond?

19 MS. LOVEJOY: Yes.

20 MR. PAT WOOD (Telephonically): Our plan is to  
21 look at RTO West, California and WestConnect, and I believe  
22 there's a separate filing from TransConnect, all together  
23 this summer and move pretty fast on that. California's not  
24 coming in until tomorrow. But we expect to move on all  
25 those together, because they, you know, all are in one

1 interconnection. And because of the SEAMS issues y'all have  
2 been working on, we care a lot about that, too, and we'll  
3 probably want to talk to you all again as we're working on  
4 these filings. We can at least talk to the SEAMS steering  
5 group that's working on a lot of these specific issues.

6 But as to the state process, I think we put in  
7 the March 17th working paper we anticipate that there will  
8 be an ongoing formal role of the states. I guess we kind of  
9 kept an open mind to that to get ideas from y'all about what  
10 you all think is an effective way to be involved. I think  
11 certainly we've got the experience of PGM, where's there is  
12 a formal state advisory committee that really gets to see  
13 everything and is consulted on pretty much everything by the  
14 ISO membership and ISO director or board. I'm not sure  
15 there's a formal veto or formal approval role. I think the  
16 states there kind of did not want one because of their need  
17 to maybe later adjudge issues. They don't need to -- didn't  
18 want that.

19 But we're pretty open if you want that. Quite  
20 frankly, as I've said privately and publicly, this is your  
21 RTO. I mean, we have to set it up under the Federal Carr  
22 Act (ph). But quite frankly, it's there to serve your  
23 citizens and your rate-payers that a lot of you are, you  
24 know, there to protect. And so we welcome any good ideas  
25 about how we can effectively look at overseeing these

1 operations.

2 MS. BROWNELL (Telephonically): I would just say  
3 that in PGM it's been a very effective and strong working  
4 relationship. The moral equation, even without voting power  
5 of a commissioner or a commission, is quite strong, and it's  
6 been quite effective. There may be other ways that you want  
7 to recommend. But that one has worked.

8 MR. MEYERS: And this is Ed Meyers. I just want  
9 to echo that, too. We just inserted ourselves as co-owners,  
10 you might say, of the RTO. And we discussed reliability,  
11 and reserve margins, and long-term contracts, and how it  
12 relates to the spot market, and so forth. And so it was  
13 something that formed early on. I don't know if you're  
14 considering that in the West here.

15 Dick had a comment -- Dick Hempstad of  
16 Washington.

17 MR. HEMPSTAD: I want to shift to a different  
18 issue that I don't think has been directly addressed, and  
19 that is, what is the interaction between the standard market  
20 design and the RTO proposals being filed? The standard  
21 market design proposal's coming from FERC, and it has some  
22 very specific expectations. The filings that you will be  
23 getting from the West do not, I think, probably any of the  
24 three, do not meet the premises of the standard market  
25 design structure. Are we to assume that the RTO proposals

1 will be evaluated independently of the assumptions of the  
2 standard market design, or are you going to screen the RTO  
3 proposals through some kind of a litmus test reflecting the  
4 assumptions of the SMD?

5 MR. PAT WOOD (Telephonically): Dick, this is  
6 Pat. Certainly I think one of the advantages to having the  
7 substantive filing in here as we're talking about the more  
8 broad issues in a rule-making is that in fact these filings  
9 help kind of shape the rule-making. So I would say that  
10 certainly from my initial pass-through when RTO West was put  
11 forward, it certainly accomplishes a good part, if not all,  
12 of the goals that we at the wholesale regulatory level are  
13 trying to achieve. I don't want to prejudge the filing, but  
14 I do think that clearly the effort that's gone in there has  
15 a lot of good potential, that it in fact may not just be  
16 good for RTO West, but may be good for the rest of you guys  
17 out there.

18 So it may be designed on a hydro-based system,  
19 but I think there's a lot of ability -- and as we pointed  
20 out, throughout the document there's ability for regional  
21 variations there that make a lot of sense. The main thing  
22 we want to make sure is that regional variations that are  
23 done for one, particularly in your case out in the West,  
24 don't have a negative impact on what the other two are  
25 doing, and in fact maybe can enhance how the SEAMS issues

1 get resolved.

2 So I would say, you know, we'll keep in touch on  
3 the details, but clearly where RTO West is going seems to be  
4 very consistent with the overall thrust of SMD. And if  
5 there's differences on the details, I think I speak for all  
6 my colleagues, that, you know, that's kind of why we need to  
7 get these ideas out there and get the filings before  
8 (indiscernible) so that we can hit the right bounce between  
9 how prescriptive we want the rule to be -- well, that's not  
10 a good word -- how detailed we want the rule to be, and how,  
11 you know, useful it is to -- to help (indiscernible) filings  
12 that come from all over the country.

13 MS. BROWNELL (Telephonically): I would add that  
14 we got a considerable amount of feedback during RTO season  
15 (ph) and the development of the White papers from the  
16 participants, particularly in the West, that putting out the  
17 White papers and have the discussion about the potential  
18 aspects of standard market design was helpful as they  
19 formulated and reformulated their own thinking about what  
20 would be incorporated in the filing. What we did want to do  
21 is close the gap so that people weren't making filings only  
22 to have kind of the rule change later.

23 So while it's put some pressure on everybody,  
24 including our own staff, having these events happen kind of  
25 on parallel tracks I think has helped keep everybody

1 informed along the way as they develop their plans.

2 MR. MEYERS: Bob Anderson.

3 MR. ANDERSON: We talked some this afternoon  
4 in -- we -- we put the question to the filing -- to the  
5 spokesman for the filing companies. We got some microphone  
6 trouble here. We said, what if the FERC rejected your  
7 filings, or approved them -- or required the refile,  
8 saying that the standard market design prescribes certain  
9 things; you need to refile so that it conforms with them?  
10 And the response we got -- I'm not going to attribute this  
11 to any individual or any RTO -- was along the lines of,  
12 well, gee, if they don't approve our filing substantially,  
13 then we'll really have to go back to the drawing board.  
14 We'll have to ask within our company, should we stay on this  
15 path? It was sort of a bluffing game, sort of like a stare-  
16 down to see who blinks in that circumstance.

17 But I think there is a point that's well-taken.  
18 There's a bit of fragility in this. There were some  
19 difficult negotiations that led to these filings. These  
20 filing companies do have fiduciary responsibilities that  
21 they care about. At the same time, we commissioners have  
22 responsibilities under our state laws when it comes to rate-  
23 payers' interests and balancing the interests of rate-payers  
24 and their serving utilities.\

25 So I don't think these filing companies are like

1 livestock who can be directed and turned from one direction  
2 to another docilely. I mean, I think they've got  
3 responsibilities, and we do, too. So I think when you  
4 consider these filings, you have to be very careful if you  
5 try to make them conform to a standard market design that  
6 may not exactly conform. I'm losing my microphone. Maybe  
7 I've made my point and I should stop here.

8 MS. SHOWALTER: Is there any reaction to Bob's  
9 comments? I didn't want to start onto something else,  
10 although it's related.

11 (No response.)

12 MS. SHOWALTER: I guess not.

13 Well, this is sort of another in the "what if"  
14 department, and may or may not come to pass. But the  
15 question is, what if, you know, an RTO, let's say RTO West,  
16 outlines a proposal, gets pretty detailed, does the  
17 cost/benefit study, and, lo and behold, if one finalized, it  
18 doesn't look as if the benefits outweigh the cost? At this  
19 moment, there is a cost/benefit study that shows, I would  
20 say, quite slim benefits about in the area of one percent.  
21 But there are critiques out there of it, of the study, and,  
22 you know, maybe it's as little as one third of one percent.  
23 But the whole RTO West is not quite formulated yet. So none  
24 of this is for certain. But it is a possibility that after  
25 all this design work, the whole thing isn't really shown to

1 pay off.

2 If that happens, would FERC entertain other  
3 possibilities? And the reason I raise other possibilities  
4 is that other people in the region are thinking about other  
5 possibilities. And maybe this is more of a heads-up than  
6 anything else. But there is discussion among the public  
7 entities that -- to the effect of, well, couldn't we do --  
8 couldn't we meet the goals of FERC's requirements for an RTO  
9 in a less costly and basically less revolutionary way? And  
10 they are working on this. There aren't any details on it.  
11 I haven't seen them. So I'm not trying to represent it.  
12 But it's along the lines of, well, why can't we have  
13 something that all of the utilities, not just the FERC-  
14 jurisdictional utilities, engage in as equal partners that  
15 would include Canadian utilities, as well, that's much more  
16 reflective of how -- of the relationships that actually  
17 exist in the Northwest? And we would all contract with one  
18 another to produce -- you know, and then there's a list -- a  
19 scheduling function, a tariff, non-discrimination, other  
20 items. And it itself, I suppose, could be called, you know,  
21 "RTO West Alternative" or an "Alternative RTO." It could be  
22 called whatever you want. But it would look not like what  
23 FERC called for, at least it would not be -- it would not  
24 even be the product necessarily of the filing utilities.

25 I throw this out partly as a heads-up, but partly

1 as a question. If it gets down the line, and whatever the  
2 product is for the RTO West filing is not actually cost-  
3 beneficial, then what? Would you entertain some other  
4 alternative that tried to achieve the same ends?

5 MS. BROWNELL (Telephonically): You know, it's in  
6 the standard market design paper. I think we left an option  
7 open for joining an RTO or not. I've seen -- you know,  
8 there are more cost/benefit studies out there than one.  
9 I've heard of one emerging in the Northwest where there are  
10 significant benefits. I haven't seen it. I don't know.  
11 But it's almost impossible for us to say, yeah, we like  
12 option two, because we haven't seen it. That's not our  
13 mission. If it comes in, I think we'd have to consider it  
14 on the merits. But we appreciate and applaud the work that  
15 the RTO West participants have done, and recognize the  
16 fragility. But that fragility came together to present a  
17 document that I think we're going to take very seriously.  
18 And we appreciate the compromises that people made along the  
19 way.

20 So I think we need to look at the work that's  
21 before us and that's been done. If something else emerges,  
22 so be it. Can't say what we would do.

23 MS. SHOWALTER: I'm sure that's as good an answer  
24 as we can expect. Thank you.

25 MR. MEYERS: Anything else before Pat and Nora

1 leave and Bill and Linda come in?

2 Yes, Marsha Smith.

3 MS. SMITH: I've been asked by others to raise  
4 the issue of, since we perceive this as perhaps ongoing  
5 dialogue, and that maybe we'll have another opportunity to  
6 talk again, maybe during the Western Conference Meeting in  
7 June, to find a way to include the Governor's Office staff,  
8 the Energy Office staff, and the other policy and, you know,  
9 quasi-regulatory groups in the West who participate actively  
10 in CREPC and actively in these issues within the western  
11 interconnection, within the RTO formation process. And if  
12 there's a way we can do that, they would appreciate it very  
13 much.

14 MR. MEYERS: I'd like to say along those lines --  
15 this is Ed Meyers -- that there tentatively is planned on  
16 June the 12th another Regional Panel in the West, in  
17 Scottsdale, Arizona. The format that's being considered is  
18 a regional workshop as opposed to a Regional Panel per se,  
19 which would enable under FERC rules that we have developed  
20 and are continuing to develop to have all the participants  
21 who are at the regional meeting in Scottsdale to be in the  
22 room, and perhaps even participate in the discussion,  
23 although moderators may limit the discussion primarily  
24 between the states and provinces and of the FERC, as we've  
25 been doing. So that would also be transcribed, and it would

1 still be fully within the FERC rules.

2 As far as extension of the format to the Regional  
3 Panel, that would be something that would have to be  
4 analyzed pretty closely.

5 MR. CADDEN (Telephonically): This is Kevin  
6 Cadden jumping in here, Chairman. Anyone who knows me knows  
7 that I would love to open up this process to the Governor's  
8 Office and to state legislators and organiza- -- and  
9 governors' offices. I have met extensively with the chief  
10 counsel of this agency, and she has told me we are not  
11 permitted to do that, that we are pushing the envelope as it  
12 is on a lot of this stuff, and that on RTO development that  
13 was discussed in the November 9th order, to bring anyone  
14 else in, it would be going too far.

15 Now, Chairman, you had indicated before about  
16 having another conversation with the state commissioners?

17 MR. PAT WOOD (Telephonically): Yeah, I think the  
18 commissioners mentioned parts of the (indiscernible) before  
19 on some of the specific issues, particularly just getting  
20 updates from you all, from any kind of, you know, late-  
21 breaking issues resolving some of the things. I know you've  
22 got the price reciprocity, Common Systems Interface Group,  
23 the market monitoring issue. They have come before -- we've  
24 come to closure on those, as we have to do this time with  
25 the filings before us. If there are consistencies being

1 developed that maybe aren't there today -- or they may be  
2 there today -- I just haven't gotten an update on everything  
3 that happened with you all at this meeting -- but I'm  
4 assuming that that was part of the progress and was moving  
5 pretty fast on some of these SEAMS issues -- (indiscernible)  
6 know that.

7 But also as we face some other issues as dealing  
8 with the three filings together, you know, unlike the  
9 Midwest, we don't have an organization -- unless we want to  
10 kind of see what WECC or one of those groups wants to do to  
11 kind of be the intermediary that really resolves all these  
12 SEAMS issues, I mean -- or -- you know, if that that -- you  
13 know, (indiscernible) thought that was at least in their  
14 bylaws, it'd seem like a duty they'd want to do, or could do  
15 well.

16 But anyway, if there's not a group out there that  
17 performs the umbrella function, as we have MISO doing in the  
18 Midwest for a number of selections of transmission utilities  
19 out there, then we will have to do that ourself. And so the  
20 more help we have in that effort, the less we have to kind  
21 of keep fixing it, you know, as (indiscernible) come in the  
22 door. So I would look forward to that.

23 For issues that aren't involved in litigation, I  
24 think we can meet and talk about that (indiscernible)  
25 together. So it's just because these are pending filings,

1 we've got to treat that a little more delicately

2 (indiscernible).

3 MS. BROWNELL (Telephonically): We are, on the  
4 other hand, communicating regularly with the National  
5 Governors Association, with Regional Governors Association,  
6 with the NCFL, and other groups. If there are organizations  
7 that we might be missing, happily steer them our way, and we  
8 would joyfully work with them.

9 I just have a question, though. What is it --  
10 how do you see your various groups coming together to work  
11 with the WECC, and what is their ultimate role, in your  
12 view?

13 MS. SMITH: I guess -- I don't know, Nora, if  
14 that's direct to me. This is Marsha Smith. But I see WECC,  
15 the W-E-C-C, as our umbrella group. I guess I have great  
16 expectations of it. The first board meeting was just two  
17 weeks ago, and it was essentially an organizational meeting  
18 where the board was first seated.

19 Our next board meeting, I believe, is June 4th  
20 and 5th. I think we're going to meet every other month for  
21 this first year, recognizing the important issues that are  
22 ahead of us and the need to get a working relationship  
23 established among the board, and get some of these issues  
24 resolved. So I guess I have great hopes for the WECC being  
25 our umbrella organization.

1           In the meantime, we have our SEAMS group.  
2           Everything out here has to have an acronym. And it's called  
3           SSG-WI, which is the SEAMS Steering Group, Western  
4           Interconnection. And it is very active. I anticipate its  
5           activity will continue at a high pace so that RTOs will  
6           reach accommodations on some of these issues. And that was  
7           the indication I believe we had at the meetings today when  
8           they reported to us. So I think all that work will  
9           continue. And we'll update you -- or they'll update you, I  
10          guess, as it progresses.

11           I don't know if others have a response.

12           MR. MEYERS: Would you anticipate that the WECC,  
13          the W-E-C-C, would get into supply and demand projections  
14          and long-term contract issues, and reliability and reserve  
15          margins and the like, or is that an evolutionary process  
16          down the line?

17           MS. SMITH: Well, Ed, this is Marsha Smith again.  
18          I would expect it would get into the issues of reliability  
19          and reserve margins, because it will be our interconnection-  
20          wide reliability organization. There are different ideas  
21          among western interconnection members about how -- the  
22          expansiveness of the powers of WECC. I for one hoped it  
23          would be the interconnection-wide expansion planning group.  
24          Others believe that function belongs at the RTO level with  
25          coordination at SEAMS. So clearly there's a lot of things

1 we have yet to work out.

2 MR. MEYERS: All right. Well, does that wrap it  
3 up for this segment with Pat and Nora? Anything else before  
4 the switch?

5 MS. BROWNELL (Telephonically): I enjoyed. Thank  
6 you.

7 MR. MEYERS: Thank you very much.

8 MR. PAT WOOD (Telephonically): Thank you all,  
9 too. Thanks, Ed.

10 MR. MEYERS: Thank you.

11 MR. CADDEN (Telephonically): Ed, this is Kevin  
12 Cadden. Are Commissioner Breathitt and Commissioner Massey  
13 calling in yet?

14 MR. MEYERS: Hello? Do we have the  
15 commissioners?

16 MR. CADDEN (Telephonically): Commissioner Massey  
17 and Commissioner Breathitt I have not see, and I assume that  
18 they're (indiscernible) --

19 MR. MEYERS: Well, we certainly have them  
20 scheduled for this time. We can give them a couple of  
21 minutes.

22 MS. BROWNELL (Telephonically): I'll run down the  
23 hall and see if there's anybody in their offices to call  
24 them.

25 (Pause.)

1 MR. MEYERS: We're in recess here.

2 (Off the record Recess from 4:04 p.m., until

3 4:06 p.m.)

4 MR. MEYERS: Okay. We're going to go back on the  
5 record. Do we have Bill Massey and Linda Breathitt at this  
6 point?

7 (No response.)

8 MR. MEYERS: Okay. And, Marsha, you had a  
9 question for the group.

10 MS. SMITH: I think Ed had a question for the  
11 group.

12 (Laughter.)

13 MS. SMITH: The question was, would we like to  
14 continue the discussion if the commissioners do not join us,  
15 but we have a number of FERC Staff people who are on line  
16 and could help us? I guess I haven't heard much FERC Staff  
17 involvement.

18 OPERATOR (Telephonically): Linda Breathitt is  
19 joining.

20 MS. SMITH: Oh, okay.

21 MR. CADDEN (Telephonically): Commissioner  
22 Breathitt is now on the phone, Ed.

23 MR. MEYERS: Good evening, Commissioner  
24 Breathitt.

25 MS. BREATHITT (Telephonically): Hi.

1 MR. MEYERS: We're so glad you're here.

2 MS. BREATHITT (Telephonically): Thank you. Who  
3 was that?

4 MR. MEYERS: That's Ed Meyers.

5 MS. BREATHITT (Telephonically): Oh, hi, Ed.

6 MR. MEYERS: And Marsha Smith was in the middle  
7 of a statement here.

8 MS. SMITH: Well, it's totally moot now.

9 MR. MEYERS: Yeah, now it's moot.

10 We had a good discussion for the previous hour.

11 We haven't heard from Commissioner Massey yet, but I'll just  
12 summarize what I have thus far, and perhaps other people can  
13 jump in. We have a full group here. Should we go around  
14 the room once again and --

15 MS. BREATHITT (Telephonically): Oh, no, don't  
16 worry about that.

17 MR. MEYERS: Okay.

18 MS. BREATHITT (Telephonically): I don't want  
19 to -- I'll get the transcript. I just want everybody to  
20 keep on the momentum that you obviously have.

21 MR. MEYERS: All right. Steve Ellenbecker urged  
22 that there be a means of reconciling differences in a way  
23 that works as the FERC considers the three RTO filings.  
24 There was some discussion, both in the CREPC meeting and  
25 also today in this call, about whether the RTO filings

1 should be consider in all-or-nothing basis, or whether you  
2 should carefully pick and choose what works, since obviously  
3 it's an awesome responsibility to make RTOs work in the  
4 West, as it is everywhere else. And so there was no  
5 resolution of that point even among the people out here on  
6 this table.

7 MS. BREATHITT (Telephonically): Which filing are  
8 you -- were you talking about RTO West in particular?

9 MR. MEYERS: I think Marilyn and Bob were instru-  
10 mental in this discussion. So I'll ask them to -- and  
11 Connie -- why -- but she's not here -- why don't you two  
12 talk with Linda about that.

13 MS. SHOWALTER: Okay. This is Marilyn Showalter.  
14 It came up in the afternoon before this conference call that  
15 the filing parties have worked very hard on their proposal  
16 and have lots of compromises and that sort of thing. And so  
17 from their point of view, they would hope that FERC would  
18 adopt all of it in the same manner that sometimes  
19 commissions approve settlements among parties.

20 MS. BREATHITT (Telephonically): Yes, I see.

21 MS. SHOWALTER: And my own view was otherwise,  
22 however. First, with respect to RTO West -- well, the  
23 first -- the broadest point is that FERC has an obligation  
24 independent of any proposal or any party's or set of  
25 parties' proposals to ensure that what it is approving is in

1 fact in the public interest and will work.

2 And I think the clear example of this is

3 California. California thought what it was doing was a good  
4 idea, and FERC approved it, and in my view, should not have.

5 And FERC should learn from that and say, well, whatever the  
6 proposal is in front of us, we need to be assured it will  
7 work.

8 The second point is, with respect to RTO West, it  
9 is a filing by the filing utilities, i.e., the juris-  
10 dictional -- FERC-jurisdictional utilities, which is by no  
11 means all of those affected -- so for example, in my state,  
12 there are 63 utilities. Three of them -- three of the 63  
13 are FERC-jurisdictional utilities. But they're all  
14 affected. Canada and the Canadian utilities and their  
15 customers are also very affected by this filing.  
16 Bonneville -- it -- it is key to any RTO in the Northwest,  
17 and it probably will be a participant -- it is a participant  
18 in RTO West.

19 But the point of this is that, with respect to  
20 RTO West, this is not like receiving from the universe of  
21 affected parties a proposal in front of FERC. It is  
22 receiving a proposal from certain utilities, who have, I  
23 think, consulted with other utilities and other interested  
24 stakeholders, but it's simply not the same animal.  
25 Therefore, I urge FERC to keep an open -- and I would say

1 skeptical -- mind, and hear from everyone affected by RTO  
2 West, with a particular eye to evaluate whether the proposal  
3 will in fact work on the ground, that is, to get well beyond  
4 theory -- economic theory -- and into the reality of the  
5 Northwest, which is very, very different.

6 I really don't mean by my comments at all to say  
7 RTO West won't work, or that there may or may not be a  
8 better alternative. I simply believe so strongly that the  
9 final decision-maker on something like this is the FERC, and  
10 potentially the state commissions. And we've got that  
11 responsibility, and have to keep it, and we should not  
12 exercise it unless we're really convinced ourselves  
13 independently that whatever's in front of us is in the  
14 public interest.

15 MS. BREATHITT (Telephonically): I have a couple  
16 of comments, if it's appropriate for me to respond right  
17 now.

18 MR. MEYERS: It sure is.

19 MS. BREATHITT (Telephonically): Okay. My first  
20 comment is that the filing -- the deadline for response to  
21 the filing is in, what, June?

22 MR. MEYERS: We seem to think May 29th.

23 MS. BREATHITT (Telephonically): May 29th. Well,  
24 almost June. So I would encourage entities such as state  
25 commissions or -- let's see, now, there's no one else on

1 this conference call, but people will read the transcript --  
2 because certainly if there are parts of the RTO West filing  
3 that you take issue with, let us know that in your responses  
4 to the filing, because we do read the comments, whether they  
5 are strong protests, or mild protests, or they're just  
6 phrased in the style of comments. We take those into  
7 account, and those will help guide the Commission in its  
8 deliberations for coming up with a final decision.

9 My second comment or point to make is that, if  
10 you go back and look -- and I'm not expecting you to do  
11 that -- but the past -- past -- the recent past history of  
12 the RTO filings that we've had have had various iterations.  
13 So we'll get the filing, and the Commission will respond,  
14 and there are often two or three or four compliance filings  
15 that come along after. And in the case of the New York ISO,  
16 the New England ISO, CALISO, the Midwest, we're continuing  
17 to fine-tune and improve the processes and procedures of  
18 ISOs through a stakeholder process.

19 So it's been the history that no filing has come  
20 in so perfect that the Commission could bless it all at one  
21 time. And if they are compliant, we will approve parts of  
22 it and send parts of it back. Then that comes in as a  
23 compliance filing, and we have to go through several  
24 versions before it meets all of the Order 2000 functions and  
25 characteristics.

1 Does that help at all, Marilyn?

2 MS. SHOWALTER: Yes, it does.

3 MR. MEYERS: Marsha.

4 MS. SMITH: Linda, this is Marsha Smith.

5 MS. BREATHITT (Telephonically): Hello.

6 MS. SMITH: Hi. How you doin'?

7 We had quite a discussion at the CREPC meeting

8 over the concern of the interface between the RTO proposals

9 and the standard market design proposals.

10 MS. BREATHITT (Telephonically): Yes.

11 MS. SMITH: And I guess it comes down to, the

12 ultimate question is, which one is the trump card? In other

13 words, does the standard market design proposal trump the

14 RTO proposal, or is it vice versa?

15 MS. BREATHITT (Telephonically): Well, hopefully

16 they're going to be complementary, and that they're not

17 going to fight with each other. And if they do, that would

18 be where -- and I hope the Commission has some flexibility

19 vis- -vis regional differences. That's a great question,

20 but it's a hard one to know the answer to right now, Marsha.

21 MS. SMITH: Well, and I don't expect you to

22 answer it. I was just wanting to let you know that that is

23 a concern. And it is a concern because we already know -- I

24 don't know if they're complementary. Maybe FERC can find

25 that they are. But, for example, RTO West has a variation

1 of locational mar- -- what is it?

2 MS. BREATHITT (Telephonically): Right.

3 MS. SMITH: LMP. It's not pure, but it's a  
4 variation, because, as they described it, a blend between  
5 what works in the Northwest and PGM.

6 And then as far as transmission rights, they have  
7 options, but not obligations, and then no day-ahead energy  
8 market. In fact, I distinctly recalling the WestConnect --  
9 is that -- there's so many connects and disconnects.

10 MS. BREATHITT (Telephonically): I know. There's  
11 TransConnect, and WestConnect, and -- I know.

12 MS. SMITH: But I think it was WestConnect who  
13 clearly stated that their proposal doesn't foresee the ISO  
14 as being a market manager.

15 MS. BREATHITT (Telephonically): Yes.

16 MS. SMITH: So I don't know if the --

17 MS. BREATHITT (Telephonically): Well, that's --  
18 that would be --

19 MS. SMITH: -- flexibility --

20 MS. BREATHITT (Telephonically): I think there's  
21 that proposal where the ISO isn't the market manager is  
22 coming out of SeTrans, too. So we're several years into  
23 this now, and we're seeing some things emerge that make more  
24 sense now that we've had some experience.

25 MS. SMITH: I guess I just hope that the

1 flexibility is there, too, because I think there may be some  
2 distinct differences that could grow together over time, but  
3 initially need to be accommodated.

4 MS. BREATHITT (Telephonically): I think there's,  
5 at least on my part -- and I haven't heard anything to the  
6 contrary from my colleagues -- that we are according quite a  
7 bit of flexibility to the West, and that it looks like for  
8 the time being that there will be -- I think the number  
9 is -- is Kevin Kelly in the room?

10 MR. KELLY: Yes.

11 MS. BREATHITT (Telephonically): -- I think three  
12 or four RTOs in the West. I think there's been quite a lot  
13 of work done through the new WECC on overlaying some common  
14 practices.

15 But I think we intend to demonstrate quite a bit  
16 of flexibility, particularly with respect to financial  
17 rights versus physical rights, and timing, and the ability  
18 to allow several RTOs to be brought forth. And I just hope  
19 that is going to be a positive development for the West.

20 MS. SHOWALTER: Commissioner Breathitt, this is  
21 Marilyn Showalter. I'm just glad to hear your comments  
22 about flexibility. I think if you look at the development  
23 of RTOs over the last two years, what has been the pattern  
24 across the nation is a differentiation among regions for  
25 what I think are probably very good reasons, at least they

1 are very good reasons in the Northwest, having to do with  
2 hydro and other things.

3 So as that has gone along, we've seen why there  
4 do need to be differences in RTO structures. I think that  
5 probably in the same way as the standard market design  
6 starts out as kind of a uniform staff proposal, what will  
7 happen, and I hope can happen, is that where it doesn't fit,  
8 it shouldn't be made to have to fit, and that over time you  
9 would see both RTOs and standard market design evolve in  
10 ways that would be standard an uniform where it makes sense  
11 to do that, and would be differentiated where it makes sense  
12 to do that. In the end, with the ultimate goals -- which I  
13 don't think is competition, or I don't think is even the  
14 markets -- I think the ultimate goal is safe and reliable  
15 and affordable power for people, that those would be met  
16 in -- that universal goal would be met in a way that is  
17 achievable within the different regions and their real  
18 differences.

19 MS. BREATHITT (Telephonically): I agree with  
20 everything you said.

21 MS. SHOWALTER: Thank you.

22 MS. BREATHITT (Telephonically): It's incumbent  
23 upon all of us, and it's incumbent upon the Commission, to  
24 make sure that any standard market design that's implemented  
25 doesn't harm a unique feature of a region, or a unique

1 characteristic that makes power flow one way or the other in  
2 that region. And I've heard Pat say that. And actually in  
3 the standard market design paper that we issued, there is  
4 language specifically addressing regional flexibility. It's  
5 just we say that, but you want to know if we'll act on that,  
6 and if saying that means that that will be something that we  
7 will be sensitive to. I will be.

8 MR. ANDERSON: Linda, this is Bob Anderson. I  
9 hope none of us reads the transcript of the first hour,  
10 because Marilyn and I are agreeing with each other a lot  
11 more in this hour than we did in the first hour.

12 MS. BREATHITT (Telephonically): Well, I know,  
13 and here I am coming in at 7 o'clock without knowing what  
14 Pat and Nora have said, but --

15 MR. CADDEN (Telephonically): Commissioner  
16 Breathitt, this is Kevin.

17 MS. BREATHITT (Telephonically): Hey, Kevin.

18 MR. CADDEN (Telephonically): How are you? I  
19 think your last comments under -- this is just Kevin. I'm a  
20 novice here. I'm a new FERC'er. I believe that your  
21 comments accurately reflect what Commissioner Brownell and  
22 the Chairman said earlier.

23 MS. BREATHITT (Telephonically): Oh, good.

24 MR. MASSEY (Telephonically): This is  
25 Commissioner Massey. I've been on the phone since about

1 7:05. I don't know what time it is now. I've just been  
2 listening to the comments. And I agree with everything  
3 Linda's said. The only caveat I have is, one person's  
4 regional flexibility is another person's regional chaos.

5 MS. BREATHITT (Telephonically): Yeah, that's  
6 right, Bill.

7 MR. MASSEY (Telephonically): So, you know, we  
8 can all agree that there should be regional flexibility.  
9 But we might actually come down in a different spot in terms  
10 of what the flexibility ought to be.

11 MS. BREATHITT (Telephonically): Yeah.

12 MR. MASSEY (Telephonically): So, you know,  
13 I'm -- and all of you know this -- I'm the guy who jumped  
14 out and said that I favored a single RTO for the entire  
15 western interconnection. I did that more than two years  
16 ago. I must say, out west there doesn't seem to be a great  
17 deal of support for that concept.

18 MS. SMITH: Can we ask, Bill, have you repented?

19 (Laughter.)

20 MR. MASSEY (Telephonically): Yeah, I'm now born  
21 again. I'm in favor of total regional flexibility.

22 (Laughter.)

23 MR. MASSEY (Telephonically): No, I've been  
24 listening because I want to hear the flavor of your comments  
25 and hear your concerns. I have a great deal of respect for

1 every person on this call, and know many of you personally.  
2 We've been on panels together and had interaction. And I  
3 know that you have the best interests of the West at heart.  
4 And so I want to pay very careful attention to what you have  
5 to say.

6 MR. KELLY: This is Kevin Kelly. If I could  
7 throw in a comment? It seems to me some of the comments may  
8 be contradictory, at least they are in my mind when you dig  
9 below them. For example, when Commissioner Showalter says  
10 we need to make real sure that these things are going to  
11 work, one of the things that runs through my mind is ISOs  
12 that have tried to set up a market without a day-ahead  
13 market found it threatened reliability.

14 And we heard this afternoon that Texas is  
15 questioning whether the lack of a day-ahead market is  
16 something that needs to be reexamined. You know, from at  
17 least the staff point of view, if you want to make sure  
18 something's going to work and be reliable, you make sure it  
19 has a day-ahead market. And yet when we talk about regional  
20 flexibility, we bear in mind that at least two of the three  
21 western proposals are to have no day-ahead market. So while  
22 it's easy in the abstract to say, make sure it works and be  
23 flexible, sometimes those two principles could conflict with  
24 one another if you think the flexibility threatens the  
25 market working.

1 MS. BREATHITT (Telephonically): Kevin, this is  
2 Linda and Bill and others on the phone. It was pointed out  
3 in the RTO West filing that the intended implementation is  
4 2005. And so much can happen between now and 2005 that it  
5 may be, as in Texas, that what is proposed now may change.  
6 Texas didn't want to consider one before, but now thinks  
7 it's wise. You know, it's the whole issue of things -- we  
8 learn more as time goes by and things evolve. And it could  
9 be that the issue presents itself and it needs to become  
10 part of RTO West before it's even up and running. That's  
11 just a thought or a comment.

12 MR. MASSEY (Telephonically): Linda, are you  
13 saying the day-ahead market?

14 MS. BREATHITT (Telephonically): Yeah. I'm just  
15 saying that because it's not proposed now doesn't mean that  
16 by '05 it won't be.

17 MR. MASSEY (Telephonically): Well, I think --  
18 this is Commissioner Massey. I think Linda makes a good  
19 point. You know, if you look at the standard market design,  
20 one of the issues that is peppered throughout it, and it's  
21 one of the issues I think the Commission feels the strongest  
22 about, is facilitating a robust demand response where  
23 possible. Our staff and other experts tell us that a day-  
24 ahead market, for example, is a fairly critical feature in  
25 terms of achieving the demand response that you want. So I

1 think not to just be a Johnny-one-note on the day-ahead  
2 market, but there are features of the standard market design  
3 that sort of all fits together as a package that I think are  
4 fairly important to the Commission.

5 MR. MEYERS: Bob Anderson.

6 MR. ANDERSON: I'm back. Bob Anderson again. At  
7 the risk of forgetting what I said in the first hour and  
8 contradicting myself, I guess I have to issue a disclaimer  
9 to that effect. But I think one of the points that we have  
10 learned over the last several years is that the law of  
11 unintended consequences really applies in this industry,  
12 that the best intentions, the best studies, the best minds,  
13 and the best theories often create structures and decisions  
14 and markets that simply don't work the way we thought they  
15 would. California is the best example of that. Montana is  
16 another one. And there are plenty of others around the  
17 country that, because of the unique characteristics of  
18 electricity as a commodity, and because of factors that  
19 affect the market that are beyond our control, factors like  
20 climate and precipitation and all these other things, that  
21 they just don't work the way we design them.

22 So it's easy to talk about flexibility, but the  
23 kind of flexibility that we really need to have is the  
24 ability to react to events despite our best intentions. We  
25 can argue about theories and decide on one, but it may not

1 actually work that way in practice. So I guess that I would  
2 argue that the standard market design not be too  
3 prescriptive, that there's not a single answer to a lot of  
4 these issues, that different proposals, different designs,  
5 can work. The way to consider them is probably to think  
6 about principles first rather than methods. And if you can  
7 accomplish principles --

8 MS. BREATHITT (Telephonically): Bob?

9 MR. ANDERSON: -- or if you're going to be guided  
10 by principles, then you're probably going to get a better  
11 outcome.

12 But the point is, don't let the standard market  
13 design be too precise, too prescriptive, and to trump the  
14 RTO filings. Give the RTO filings a chance to work. Give  
15 them some opportunity to react to markets when they don't  
16 turn out the way we predicted.

17 MS. BREATHITT (Telephonically): Bob, I have a  
18 comment. This is Linda Breathitt. It just builds on a  
19 comment that I made earlier when I joined in. It's that in  
20 ISOs that are up and running, we are constantly changing and  
21 fine-tuning their features. So my thinking is that if there  
22 are -- if something is implemented, and it isn't working, or  
23 it needs to be corrected or tweaked, every time we have a  
24 Commission meeting there are at least -- I mean, Bill,  
25 aren't there at least six orders on each one tweaking or

1 changing features of MISO, or New York, or New England, or  
2 California?

3 MR. MASSEY (Telephonically): Yes. It seems to  
4 take --

5 MS. BREATHITT (Telephonically): We're constantly  
6 changing them.

7 MR. MASSEY (Telephonically): It seems to take a  
8 disproportionate share of the Commission's time to -- to --  
9 you know, to modify these market designs and structures.

10 MS. BREATHITT (Telephonically): So it's fluid.  
11 It's not static. I don't know if that is a comforting thing  
12 to say, Bob, in response to that. But the Commission, you  
13 know, has been open, and hopefully will continue to be, to  
14 make these corrections.

15 MR. BEYER: This is Lee Beyer from the Oregon  
16 Commission. Linda, I would like to just agree with what you  
17 just said in terms of the need to be flexible. I think, as  
18 Bob pointed out, it's the people, the filers for the RTO  
19 West, are -- we think they're at a pretty good stage now.  
20 Certainly none of the commissions have agreed to them yet,  
21 but they're -- it's been a tough road to get there. They  
22 make some sense to us to move forward with that. And I  
23 think it's going to be an evolutionary process, and we're  
24 going to learn, and there's going to be some mistakes, and  
25 there's going to be some adjustments. But I think --

1 MS. BREATHITT (Telephonically): That was my  
2 point.

3 MR. BEYER: I think the flexibility that's  
4 there -- and I guess we'd ask that you, to the extent you  
5 can, if there's a test between the standard market design  
6 principle that's out there and the filing, at least give  
7 some credence to the work that we've done in the West.

8 MR. MASSEY (Telephonically): I think the record  
9 will reflect that that's what Commissioner Breathitt said  
10 about ten minutes ago, that in terms of -- she -- moving --  
11 the allowance of flexibility. Commissioner, am I incorrect?

12 MS. BREATHITT (Telephonically): No. I mean,  
13 that was that point that I had been making throughout the 30  
14 minutes I've been on the call. But I think what I'm hearing  
15 the commissioner from Oregon say, and what Marsha Smith was  
16 saying, was, FERC, make sure that there's -- that the  
17 standard market design and RTO West don't come smack up  
18 against each other and one hurt the other. But you would  
19 rather give -- what I'm hearing the commissioner from Oregon  
20 say, and Idaho say, is that you want to give primacy to the  
21 RTO West filing. Is that correct?

22 MR. BEYER: That's correct.

23 MS. SMITH: Well, shall we --

24 MR. BEYER: Maybe not.

25 (Laughter.)

1 MS. SMITH: I guess we have to give the caveat  
2 that, at some point, the RTO West filing is likely to be  
3 before the Commission for a decision. So I wasn't intending  
4 to indicate support or approval in advance of the filing.

5 MS. BREATHITT (Telephonically): No, I know. You  
6 want us to do our job --

7 MS. SMITH: Right.

8 MS. BREATHITT (Telephonically): -- in ruling on  
9 it. But you're saying, give that a chance to work before  
10 it's changed from SM- -- that before SMD totally changes it?  
11 Is that what you're saying?

12 MS. SMITH: I think that's what Commissioner  
13 Anderson said. I believe mine was an inquiry, just a  
14 question --

15 MS. BREATHITT (Telephonically): Okay. Okay.

16 MS. SMITH: -- as to whether in FERC's mind the  
17 standard market design was essentially a more important  
18 standard to achieve than perhaps the RTO filings.

19 MS. BREATHITT (Telephonically): Yeah. And  
20 that's hard to answer.

21 MR. MASSEY (Telephonically): Yeah. This is  
22 Commissioner Massey. The standard market design is just a  
23 working paper at this point. So there's not even a notice  
24 of proposed rule-making, and certainly not a rule. I do  
25 think it's an extraordinarily important initiative. The

1 Commission, in letting a hundred flowers bloom in market  
2 design ended up with California, basically because we  
3 deferred to a proposal that arose locally.

4 And having -- you know, Linda and I were at the  
5 Commission at the time. And I must say, I don't want to go  
6 through that again. So the standard market design is  
7 intended to take what we've learned over the last few years  
8 about the structure of wholesale markets and to apply it to  
9 the extent it makes sense everywhere in the country. There  
10 may be unique circumstances in your region and in other  
11 regions, or maybe the circumstances won't be so unique. But  
12 that's something the Commission will have to look at, you  
13 know, obviously, keeping your concerns in mind.

14 But I think we're back to the question of one  
15 person's regional flexibility being another person's  
16 regional chaos. I must say I'm concerned about that. I  
17 want to show flexibility for regions that truly need it and  
18 deserve it, but I really don't want to have -- I don't want  
19 to suffer through another California market design  
20 catastrophe.

21 MS. BREATHITT (Telephonically): I don't either,  
22 Bill. I don't want to suffer through that either. We're  
23 learning a lot.

24 MS. SMITH: We're unanimous on that, because the  
25 people around the table have all agreed that, you know,

1 we're still trying to dig out of it. So we don't want to do  
2 it again either.

3 I did want to ask Commissioner Massy and  
4 Commissioner Breathitt a question that came up in the first  
5 hour, because I thought you should have the benefit of it.  
6 It was a question asked by Commissioner Showalter, who has  
7 since had to depart. And it was something like, we have  
8 these filings, people worked hard, the filing -- the  
9 jurisdictional filing utilities, as Marilyn stated earlier,  
10 are not the full complement of utilities in the Northwest  
11 that are affected.

12 MS. BREATHITT (Telephonically): I heard that  
13 question, Marsha.

14 MS. SMITH: And others may eventually get to the  
15 point where they think that the RTO solution or structure is  
16 not the best, and they may propose others. I think the  
17 question -- I'm probably not doing it justice the way she  
18 posed it -- was would FERC be willing to consider some  
19 institution or structure that's not an RTO if one came  
20 forward and the RTO failed, for whatever reason?

21 MS. BREATHITT (Telephonically): I didn't hear  
22 that part, so that part's new.

23 MR. ELLENBECKER: This is Steve Ellenbecker from  
24 Or- --

25 MS. BREATHITT (Telephonically): That's a

1 hypothetical question that I -- I guess my comeback to that  
2 is, if that fell apart, is there a backstop? Is that what  
3 she was wondering?

4 MS. SMITH: Well, I think it was something like  
5 that, that, say, for example, some people didn't feel that  
6 the benefit of having the RTO essentially either outweighed  
7 or even equalled the cost, and were to propose something  
8 less costly that they believed still achieved the FERC goals  
9 as set forward in their Orders 888 and 2000 and others,  
10 would the FERC be flexible enough to consider some other  
11 methodology that's not an RTO?

12 MR. ELLENBECKER: Commissioner, this is Steve  
13 Ellenbecker from Wyoming. I think in the regional meeting  
14 we just concluded among the states there was grave concern  
15 expressed by at least one of the RTO applicants in the West  
16 that the standard market design could become utilized to  
17 become the benchmark of deciding whether or not that  
18 particular RTO would be approved. And I hope that wouldn't  
19 be the case, because what it seems, observing this in the  
20 West for at least one of those RTOs, was the difficult  
21 process they have endured for years and years, including  
22 some predecessor failed efforts at RTO-like organizations to  
23 even reach agreement by a reasonable number of parties to  
24 call themselves a proposed RTO. And I think if you impose  
25 what some of them might consider to be new elements over the

1 Order 2000 filing on them, you might lose or run the risk of  
2 some of them trying to run from the organization they  
3 thought they were members of.

4 We know that you need to ensure that whatever you  
5 approve stands the test of being a mechanism through which  
6 new unaffiliated with transmission owner generators have a  
7 fair opportunity to get access to this grid. And we need to  
8 care an awful lot about making sure that there are still  
9 people out there with an obligation to serve retail  
10 customers, we hope -- we hope -- at prices lower than were  
11 in effect on this point before we went into this process  
12 with you. I don't think we can remove ourselves from the  
13 process, because it's even interconnected in our levels of  
14 regulation.

15 But I hope you look hard at the characteristics  
16 of the West; for example, with RTO West, the balance in the  
17 resource nature between hydro and thermal generation here  
18 and how they've worked together historically and through  
19 today to meet the needs of end-use customers in a critical  
20 fashion. I hope you'll give that fair consideration when  
21 you look at the way they've put their RTO together compared,  
22 for example, with CALISO, that no doubt has it, I would  
23 think, probably correct this time around.

24 And then look hard, finally, to, as I said in the  
25 first hour, the SEAMS steering group. And don't just let

1           them informally go about the process, in my opinion, of --

2                   MS. BREATHITT (Telephonically): The what? What  
3           is SEAMS?

4                   MR. ELLENBECKER: The SEAMS steering group.

5                   MS. BREATHITT (Telephonically): Oh, yes, the new  
6           group that's forming. Yes.

7                   MR. ELLENBECKER: Yes. But I would hope you make  
8           it a requirement in this interactive method that they stay  
9           formally -- not informally, but formally -- abreast with you  
10          of the developments that they achieve. If you approve the  
11          different organizations, I think you should make it a formal  
12          requirement that they demonstrate to you. And Commissioner  
13          Massey, on your point that if we don't have maybe one RTO in  
14          the West, at least let's have one market, I think they  
15          should demonstrate to you all that they find a means to  
16          resolve their different operating characteristics in a way  
17          that gives the people in the West one market to rely on.

18                  MR. MASSEY (Telephonically): Steve, I think --  
19          this is Commissioner Massy -- I think that's a very helpful  
20          comment and a very, very thoughtful comment. I appreciate  
21          it.

22                  MR. ELLENBECKER: Thank you.

23                  MS. BREATHITT (Telephonically): I agree. And it  
24          sounds like that you have spent plenty of time with the RTO  
25          West process that you support it and you're comfortable with

1 it, and that's one of the things that you were presenting  
2 just now.

3 MR. ELLENBECKER: Thank you.

4 MS. BREATHITT (Telephonically): Thank you.

5 MR. MEYERS: One of the things that we did  
6 cover -- this is Ed Meyers -- in the first hour was the  
7 potential of the WECC, the Western Electricity Coordinating  
8 Council, to serve as an umbrella organization between the  
9 potential RTOs that are up for consideration now. And we  
10 covered that with Pat and Nora. And I'm wondering if anyone  
11 would care to discuss that, particularly in light of  
12 Commissioner Massey's earlier concern about having one large  
13 RTO, and whether, you know, you could have three or four  
14 with a well-functioning umbrella organization that would  
15 accomplish much the same effect.

16 MR. MASSEY (Telephonically): Thank you, Ed.  
17 This is Commissioner Massey. I'd really like to hear about  
18 that. I know it would be repetitive, but I would appreciate  
19 it.

20 MS. BREATHITT (Telephonically): I didn't -- I --  
21 it would be helpful to me, too, Bill, because I wasn't in on  
22 the first hour. I just know that there's this new -- the  
23 WSCC has been renamed, and I am just not -- haven't been  
24 brought along yet.

25 MR. MASSEY (Telephonically): I'm really

1 interested in that.

2 MS. SMITH: This is Marsha Smith. The way Ed  
3 looked at me and pointed at me, I assumed that I needed to  
4 take the first stab at this. First of all, it's a very  
5 sensitive topic in the West. WSCC has not just been  
6 renamed.

7 MS. BREATHITT (Telephonically): Okay.

8 MS. SMITH: It's real sensitive.

9 MS. BREATHITT (Telephonically): I'm sorry for  
10 being na ve. I apologize for being na ve.

11 MS. SMITH: No, Linda, you're not. I'm just  
12 educating you that we have a new organization, the WECC,  
13 with seven independent board members, and then 20 other  
14 members elected from five separate classes. So I think it's  
15 quite monumental that, for the first time, the transmission  
16 owners do not own the organization that oversees the  
17 reliability in the western interconnection. And I think it  
18 has a great potential to be an excellent umbrella  
19 organization. And I think we can expect it to grow into  
20 that role as the board gets more comfortable with itself and  
21 with its responsibilities. So I think a lot of us have  
22 great hope for the WECC.

23 I've said that twice now, and nobody else here  
24 has responded. So Peter --

25 MR. MASSEY (Telephonically): Marsha, this is

1 Bill Massey. You're so persuasive, they're just in awe.

2 (Laughter.)

3 MS. SMITH: Actually, Bill, I'm kind of diseased.

4 So they've spaced themselves a long ways from me, and they

5 don't want to, you know, actually breathe in any air that I

6 breathed out.

7 MR. MASSEY (Telephonically): Oh, no.

8 MR. OSTERGAARD: Just to reiterate what Marsha

9 said -- this is Peter Ostergaard from the B.C. Utilities

10 Commission -- British Columbia looks forward very much to

11 having the WECC, a very helpful, persuasive and useful forum

12 that not only looks at the reliability issues, but grasps

13 with market issues, as well.

14 MS. BREATHITT (Telephonically): This is

15 Commissioner Breathitt. I am needing to sign off right now

16 15 minutes early. I hope that that's not going to cause a

17 problem. I hope not. I will read the transcript to get the

18 last 15 minutes that I'm missing.

19 MR. MASSEY (Telephonically): Well, Linda, this

20 is Commissioner Massey. I'm going to stay till the bitter

21 end.

22 MS. BREATHITT (Telephonically): Okay. Great.

23 MR. MASSEY (Telephonically): Until the last dog

24 dies.

25 MS. BREATHITT (Telephonically): Good, Bill.

1           MR. MEYERS: And this is Ed Meyers. Actually,  
2 I've surveyed people around the table here, and we have  
3 nothing from this end. I'm wondering if people on the  
4 telephone calling from the other states or people there at  
5 the FERC have anything for this group.

6           MR. CADDEN (Telephonically): Ed, this is Kevin.  
7 I don't have anything.

8           MR. MEYERS: Okay. Is there anything further,  
9 then? Marsha.

10          MS. SMITH: I was just going to ask Commissioner  
11 Massey if he had any other questions of us. We've been here  
12 at the CREPC meeting. You know how those are. They have  
13 quite a bit of discussion. So if you had particular topics  
14 you were interested in, we probably discussed it.

15          MR. MASSEY (Telephonically): I tuned in when  
16 Marilyn Showalter was making her comment. I think I have  
17 the flavor of what most of you are saying. It doesn't  
18 surprise me at all, because many of you have made similar  
19 comments over the past few months. The congressional  
20 delegation from particularly the Pacific Northwest has  
21 submitted letters to us in which they outline a number of  
22 similar comments.

23           I think I understand your perspective. You want  
24 the unique needs of the West and the Pacific Northwest and  
25 the Southwest, and the West in general, to be taken into

1 account by the FERC in our decision-making, and you don't  
2 want us to so rigidly adhere to any rule-making or market  
3 design proposal, or anything else, that we, you know, fail  
4 to address your unique concerns. I think I hear that coming  
5 loud and clear.

6 MS. SMITH: I guess the other topic I know is  
7 near and dear to your heart is the demand side. I'm looking  
8 at Ed to see if that's a legitimate topic. I,  
9 unfortunately, was out procuring antibiotics for the course  
10 of the discussion, but I guess I could put Commissioner  
11 Anderson on the spot to say how the group -- we had quite a  
12 lengthy discussion on the demand side part of the market and  
13 what our expectation is for future work on this topic out  
14 here in the West.

15 MR. ANDERSON: This is Bob Anderson. I think  
16 throughout the West we agree with you, Bill, and others on  
17 the FERC, that the demand side is a necessary complement to  
18 the supply side, as well as getting the transmission system  
19 to be functional so that we can achieve the goals, which  
20 include economic efficiency. So we surveyed all the states  
21 about all the demand side programs that have been  
22 implemented over the last couple of years, especially during  
23 the time in 2000 and 2001 when prices were spiking. So we  
24 had a lengthy report from each state on the different kinds  
25 of programs.

1           Not to bore you with that report, it's our  
2 intention now -- we have a working group chaired by Bill  
3 Eastlake of the Idaho Commission Staff. This working group  
4 is going to try to summarize and perhaps find some best  
5 practices to recommend to each other, and also to the FERC,  
6 because we believe there has to be harmony between the  
7 wholesale and the retail aspects of demand side response  
8 programs.

9           So we're all in this together. I think we have  
10 the same goals. The challenge is to overcome some of the  
11 barriers to effective implementation, and we're going to try  
12 to do that by learning from each other and sharing with each  
13 other, but also recommending to the FERC in response to the  
14 SMD issues about how best to implement demand side programs.

15           MR. MASSEY (Telephonically): This is  
16 Commissioner Massey. I'm really pleased to hear that. In  
17 this month's Electricity Journal there's an article by  
18 Alfred Kahn in which he says, well, you know, he had focused  
19 on many other kinds of markets over the years, but hadn't  
20 focused a lot on electricity until the last two years. He  
21 thought more and more about it, and he believed that the  
22 most critical thing that all of the academics and policy-  
23 makers and regulators could do is try to figure out how to  
24 facilitate a demand response in this inelastic market. And  
25 he said he thought that ought to be the number one priority,

1 a first principle that all of us ought to be working toward.

2 I read that with a great deal of interest, that  
3 he's been around markets of all kinds for 50 years and knows  
4 a lot. And so I'm really pleased to hear that. The FERC  
5 knows that we can come up with a wholesale market design  
6 that is very user friendly for demand resources. But that  
7 only paves the way. We can't make it happen without state  
8 participation. And so we really welcome it.

9 And I must say, we don't have in mind simply  
10 having wholesale prices so high that they put a whole bunch  
11 of businesses, you know, in bankruptcy. That's -- you know,  
12 that's one way to achieve a demand response. It's a  
13 horrible outcome, and that's not what we have in mind. We  
14 have in mind just and reasonable prices, and markets that  
15 facilitate the maximum demand response, both in the short-  
16 term and the long-term.

17 MR. MEYERS: Does that pretty much take care of  
18 us for this evening?

19 (No response.)

20 MR. MEYERS: We're going to use this call to help  
21 form the agenda for the June 12th Regional Panel Meeting  
22 that's tentatively set for Scottsdale, Arizona. We  
23 certainly appreciate the West for extending its CREPC  
24 meeting to accommodate the Regional Panel. And thanks also  
25 go to the folks in the East for giving up at least part of

1 your evening. Thanks, everybody, and that concludes this  
2 Regional Panel for the West.

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4 (Proceedings adjourned at 4:53 p.m.)

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CERTIFICATE

I certify, under penalty of perjury, that the foregoing is a verbatim transcription prepared from the electronic sound recording produced at the proceedings in the above-entitled matter, and is a true and accurate transcript of said proceedings to the best of my ability and belief.

\_\_\_\_\_

Michael J. Williamson

Date

Transcriber