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BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF:                   : Docket Number  
RTO INTERREGIONAL COORDINATION   : PL01-5-000

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Commission Room 2C  
Federal Energy Regulatory  
Commission  
888 First Street, N.E.  
Washington, D.C.

Tuesday, June 19, 2001

The above-entitled matter came on for technical  
conference, pursuant to notice, at 11:15 a.m.

BEFORE COMMISSIONERS:

- CURT L. HEBERT, JR., (Chairman)
- WILLIAM L. MASSEY
- LINDA KEY BREATHITT
- PAT WOOD, III
- NORA MEAD BROWNELL

1 APPEARANCES:

2 PANEL I - SEAMS COORDINATION EFFORTS AT THE REGIONAL LEVEL

3 HONORABLE NANCY BROCKWAY, New England Interregional ISO

4 Coordination

5 NICHOLAS BROWN, Southwest Power Pool

6 YAKOUT MANSOUR, BC Hydro/RTO West Regional

7 Representatives Group

8 J. CRAIG BAKER, The Transmission Alliance Companies

9 PHILLIP HARRIS, PJM Interconnection

10 WILLIAM MUSELER, New York ISO

11 GORDON VAN WELIE, ISO New England

12 FRANK AFRANJI, Western Market Interface Committee/RTO

13 West and TransConnect LLC

14 THOMAS HELLER, Missouri River Energy Services

15 JAMES TORGERSON, Midwest ISO

16

17 PANEL 2 - CONCERNS WITH CURRENT SEAMS COORDINATION EFFORTS

18 HONORABLE ROBERT NELSON, Michigan Public Service

19 Commission

20 HARVEY REED, Edison Electric Institute Alliance of

21 Energy Suppliers

22 REEM FAHEY, Edison Mission Energy

23 JOHN HUGHES, Electricity Consumers Resource Council

24 J. JOLLY HAYDEN, Dynegy Marketing and Trade

25

-- continued --

1 APPEARANCES (CONTINUED):

2 SUSAN N. KELLY, Transmission Dependent Utility Systems

3 JOHN MEYER, Reliant Energy Wholesale Group

4 JACQUES REGIS, TransEnergie

5 EDWARD CAZALET, Automated Power Exchange

6

7 PANEL 3 - SEAMS COORDINATION EFFORTS AT THE NATIONAL LEVEL

8 MIKE KORMOS, Electronic Scheduling Collaborative

9 STEVEN NAUMANN, Edison Electric Institute Energy

10 Delivery Transmission Group

11 WILLIAM BOSWELL, Gas Industry Standards Board

12 DAVID COOK, North American Electric Reliability Council

13 HONORABLE THOMAS WELCH, Chairman, Maine Public Utilities

14 Commission

15 CRAIG GOODMAN, National Energy Marketers

16 GLENN B. ROSS, Virginia Electric Power Company

17 WILLIAM HOGAN, Harvard University

18 CHARLES YEUNG, Enron Power Marketing

19

20 ALSO PRESENT:

21 RAY McQUADE, Executive Director, Gas Industry

22 Standards Board

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1 UNITED STATES OF AMERICA  
2 FEDERAL ENERGY REGULATORY COMMISSION  
3 CONFERENCE ON RTO INTERREGIONAL COORDINATION

4 (11:15 a.m.)

5 CHAIRMAN HEBERT: To exercise the Chairman's  
6 discretion, there's one thing that is absolutely not true on  
7 this notice you have been given. There is no lunch break.  
8 You will be on your own.

9 We have a lot of work to do. We had a Senate  
10 hearing this morning, and we've got one tomorrow as well, so  
11 we really cannot afford the luxury of taking an hour, an  
12 hour-and-a-half out for lunch.

13 I would invite you to do that on your own peril  
14 and at your own will, but we certainly have a few minutes to  
15 gather our thoughts.

16 Then my fellow Commissioners will be here, make a  
17 few opening statements, and we'll get started.

18 Thank you.

19 (Pause.)

20 CHAIRMAN HEBERT: If I can get everyone's  
21 attention, let's go ahead and come to order. Let me just  
22 say welcome to all of you. We're going to have a couple of  
23 brief opening statements. We had more than 70 requests to  
24 speak and we could accommodate, as you know, just a fraction  
25 because of our time limits.

1           For that reason, I would urge all of you to speak  
2 succinctly and within your realm of time.

3           Our goal for the transmission system in line with  
4 the President's National Energy Policy remains ultimately  
5 the creation of a national grid. If we had one today, we  
6 would not have to spend busy months culminating in a hectic  
7 week dealing with the crisis in California and its spillover  
8 effect on the entire west. We would not have to even  
9 convene today's conference, if in fact we'd already achieved  
10 that end.

11           But we do not have a national system. We have  
12 yet to develop full regional grids. That is in fact what  
13 Order 2000 was about. That is in fact what this Commission  
14 continues to strive to do.

15           We have heard many complaints in the Northeast,  
16 the West, even in other areas, the Southeast, the Midwest,  
17 and others, as to how we work together to solve this.

18           Doing it my way helped make Frank Sinatra's  
19 famous public persona but it represents a recipe for failure  
20 in the transmission business.

21           If the status quo were the only other choice, I  
22 would urge today's participants to help FERC write rules to  
23 meld the stubborn into an effective market, but is that our  
24 only choice?

25           The transmission business finds itself in a state

1 of flux but Order 2000 has spawned new change. Transcos, as  
2 for-profit companies, have every incentive to coordinate  
3 across regions in order to transact business.

4 The other transportation industries, rail,  
5 trucking, shipping, and airlines, engage in what we call  
6 interregional coordination. In fact, one container can  
7 ferry goods over ship, rail and truck. All this occurred  
8 without government compulsion.

9 But there lies the challenge. We cannot wait for  
10 the transcos or regional transmission organizations or ISOs  
11 to finish their attempts, but we must not stifle invention.

12 Some would even say that in pushing so hard for  
13 OASIS, and I've heard many say this, that as the medium for  
14 communication in the electric industry, we may have in fact  
15 stifled better technology to the detriment of the market.

16 I don't know if that's true but I don't know if  
17 it's not true, and I want to hear that from you.

18 I asked the panelists to help FERC decide what  
19 areas require uniformity, when we could expect that to  
20 happen, who the RTOs for FERC should take the lead and why  
21 they should take the lead.

22 Two last points, as we've discussed and have  
23 continued to discuss where we go from here, we have pending  
24 cases before us, I would hope that each of you would honor  
25 and respect the integrity of this Commission and not get

1 into pending cases, as that would require me to intervene  
2 and let you know to move in another direction.

3 So let's stay away from those cases. Please  
4 identify your interests in the cases if you have any and my  
5 colleagues have comments, and I will leave it to them at  
6 this point.

7 Let's start with Commissioner Massey.

8 COMMISSIONER MASSEY: Six or seven years ago, the  
9 Commission was facing a situation with natural gas  
10 pipelines, about 80 to 100 of them, in which each natural  
11 gas pipeline had its own idiosyncratic electronic bulletin  
12 board that they had invested quite a bit of money in.

13 But it was very hard for national traders to  
14 navigate across several pipeline systems and do business  
15 because you had to call up each separate electronic bulletin  
16 board to move gas from one pipeline to another.

17 I remember visiting the old New England Power  
18 Company and watching the way they bought gas and dealt with  
19 six different pipelines and they had six different computers  
20 and six different people, and it was a real challenge.

21 The Agency saw that this was a problem, had a  
22 conference just like this. And the message to the industry  
23 was: This is a serious problem, it needs to be solved so  
24 that we can have seamless natural gas markets.

25 Industry solve this yourself. That would be

1 better. You know what the technical standards ought to be  
2 for communication protocols and so forth.

3 So the natural gas industry took up the mantle  
4 and moved forward through the Gas Industry Standards Board  
5 to solve a lot of these seams issues among natural gas  
6 pipelines.

7 We have now promulgated almost 500 standards into  
8 our rules that GISB has adopted through a fair voting  
9 process. I think we're at a similar juncture with respect  
10 to the electric industry.

11 National traders are saying to us, good, you're  
12 moving forward with RTOs. Hopefully, you will end up with  
13 just five or six of them nationwide, but you're going to  
14 have seams between the RTOs and we're going to have to deal  
15 with six to eight dozen different communications protocols  
16 standards for a variety of different practices and that is a  
17 problem.

18 Traders in one RTO ought to be able to move the  
19 power to another RTO seamlessly. To me, that is what this  
20 conference is about. I hope that what we end up with is a  
21 reasonable rough consensus on the functions that have to be  
22 addressed. We should prioritize those functions and it  
23 seems to me we ought to seek a commitment to have an  
24 industry establish interregional coordination standards by  
25 the end of the year and present them to this agency.

1           Otherwise, I think the agency will have to do it  
2           itself, but I think it would be better for the industry to  
3           take up this mantle. It seems to me that's why we are here  
4           today.

5           Thank you.

6           CHAIRMAN HEBERT: Thank you, Commissioner Massey.

7           Commissioner Breathitt?

8           COMMISSIONER BREATHITT: Good morning. I can  
9           still say that. We have issued an order yesterday which was  
10          very important on California and the West.

11          We had a Senate hearing this morning which went  
12          well. We've gotten those two things mostly behind us, and  
13          we can concentrate for the rest of the day on this very  
14          important conference.

15          I would like to thank everyone for coming. We  
16          have very distinguished panelists who have gained a  
17          tremendous amount of expertise in this area over the last  
18          several years, and undoubtedly will provide a lot of insight  
19          into seams coordination issues that I hope to learn from a  
20          lot today.

21          Seams issues range from coordination of  
22          reliability standards across regions to standardized  
23          business and operating protocols, and I think seams issues  
24          is becoming one of the most important matters in RTO  
25          development in today's fast-moving and more integrated

1 electric market, and it is an issue which I have taken keen  
2 interest in in several of our RTO cases.

3 As Commissioner Massey just point out, there is a  
4 lot happening in this arena of interregional coordination  
5 and cooperation. There's working being done in the OASIS  
6 Phase II docket. There's work being done by the electronic  
7 scheduling coordinator through NERC or collaborative. The  
8 ESC collaborative through NERC. There's work being done in  
9 individual RTO compliance filings. There's work being done  
10 through trade associations. There was a lot of work done,  
11 and still to be done, as a result of a very important  
12 settlement between the MISO and the Alliance RTOs.

13 So there's all this very important work going on  
14 in terms of Function 8 of the RTO. I mean, characteristic 8  
15 of the RTO, Functions and Characteristics. It's a function.  
16 I said it right the first time.

17 So we are here today to learn from you and to  
18 begin to understand what more we need to do and whether this  
19 is a track that can be best handled by the industry and some  
20 process like GISB, or whether or not the FERC needs to get  
21 more involved than we already have.

22 With that, I will turn the mike over back to you,  
23 Mr. Chairman.

24 CHAIRMAN HEBERT: Thank you, Commissioner  
25 Breathitt.

1 Commissioner Brownell?

2 COMMISSIONER BROWNELL: Thank you, Mr. Chairman.

3 I'm going to be quick and I'm going to summarize kind of  
4 where I think we need to go.

5 I appreciate all of you being here. All of you  
6 have been discussing these issues for at least as long as  
7 I've been around which seems like forever up until the last  
8 couple of days.

9 I hope today is not a Kabuki dance. I hope we're  
10 going to get to the issues and cut to the chase, the  
11 successful development of RTOs and addressing the seams  
12 issues are critical to making the system work.

13 We can build all the infrastructure in the world,  
14 we can resolve all the outstanding supply and demand issues,  
15 but they won't work unless you do.

16 I hope we can put aside parochial issues and  
17 identify what our real seams issues and what are the ones  
18 that feel good to hold onto. Because we can't share our  
19 turf or our power.

20 I'm asking you to push yourselves and to push  
21 your colleagues to be very honest about this. We need to  
22 drive down the cost of transactions. We need to make them  
23 easier. We need to make them more transparent.

24 If the things that we're doing don't do that, we  
25 shouldn't be in business. So I'm excited about today, but I

1 would really like to stick to an aggressive timeline and  
2 let's get these issues resolved.

3 Thank you.

4 CHAIRMAN HEBERT: Thank you, Commissioner  
5 Brownell.

6 Commissioner Wood?

7 COMMISSIONER WOOD: The main reason I took the  
8 job is not what we did yesterday but what we're doing today.  
9 As I come from the great oasis of ERCOT which has not got a  
10 seam but a zipper around it, --

11 MR. LAUNER:

12 COMMISSIONER WOOD: -- I do note the part of  
13 Texas where I grew up is FERC jurisdictional and that the  
14 great promises that retail competition is going to bring to  
15 the people in Abilene and Waco and Dallas and Houston and  
16 Brownsville are not going to come to the people of Port  
17 Arthur because no retailer has the confidence that the  
18 wholesale market in the Entergy Southwest Power Pool area,  
19 the southern area of the country, is sufficient to support  
20 robust and economically sufficient retail competition.

21 That's a problem. FERC has been talking about  
22 this issue since Order 888. Order 2000 was a significant m  
23 move forward, but I think implementation of these is long  
24 overdue.

25 Seams issues are a subset of the broad

1 implementation issues that I am adamant about. And that  
2 will be my top and only priority as a Commissioner at this  
3 great body.

4 So please know that what you're doing here today  
5 is of paramount interest to me. I appreciate the aggressive  
6 tone that my colleagues have laid out for getting over this  
7 important sub-aspect of the broader RTO agenda.

8 CHAIRMAN HEBERT: All right. Thank you,  
9 Commissioner Wood. And not that there was any doubt, but if  
10 there was any, whether or not these two Commissioners were  
11 ready, that should solve that question.

12 So we are ready to go and it is wonderful to have  
13 five people. I think you cover any issue when you've got  
14 five people with diverse backgrounds that can come forward  
15 and bring out and ferret out all issues.

16 One last thing, and I hate to be rude, but I will  
17 be if I need to. It's important to hear from everyone in  
18 here. We've got a five-minute timer for a reason. I know  
19 five minutes is not a lot of time, but we are going to have  
20 some piling on on certain issues, so let's try not to repeat  
21 issues. If you have something new to add, please add it. I  
22 don't think it's important for you to speak but I do think  
23 it's important for you to be heard. So if you do want to be  
24 heard, tell us something we haven't already heard. I will  
25 appreciate that.

1 I will cut you off at five minutes or, better  
2 yet, Mr. Secretary will and I will be very generous in  
3 giving you an additional 15 seconds after the five minutes  
4 if you have not cleared up.

5 (Laughter.)

6 CHAIRMAN HEBERT: I think there is a one-minute  
7 bell, one minute warning, so you've got one minute. Extreme  
8 situation, one minute, ten seconds.

9 Thank you. It is great to welcome a colleague of  
10 ours, Commissioner Brockway. It's good to have you here.  
11 We invite you. Thank you.

12 MS. BROCKWAY: Thank you very much,  
13 Commissioners. I'm Nancy Brockway. I'm a Commissioner from  
14 New Hampshire but I'm here on behalf of what has come to be  
15 called the Northeast Regional ISO Coordination Conference.

16 We are a joint effort of 13 states and the  
17 District of Columbia and we have state Commissioners from  
18 the NEPCOC and MACRUC Regional Conferences of Commissioners.

19 We come from a state served by the three regional  
20 ISOs, the PGM Regional Interconnection, the New York ISO,  
21 and ISO New England.

22 Now individual state Commissioners may disagree  
23 on specific issues before you, but we are united in our  
24 belief that reducing barriers to economic electricity  
25 trading is important, and that our ongoing efforts to that

1 end should continue.

2 We appreciate the Commission's continued interest  
3 in these questions.

4 I have filed written comments. I have some extra  
5 copies here. I filed them yesterday electronically. I'm  
6 not going to read the full statement. It goes ten minutes,  
7 and I see the clock ticking.

8 But I want to highlight some points. In the  
9 Northeast, conference members have been working on  
10 interstate competition and regional electricity trading for  
11 many years.

12 I'll skip over some of the intermediate history  
13 of our efforts, but since our three markets were approved by  
14 this Commission and opened in the last three years, we have  
15 begun an unprecedented level of coordination among state  
16 regulators across historic regional boundaries, not just  
17 state boundaries but regional boundaries, in order to  
18 promote greater trading within the northeast, and with our  
19 trading partners in neighboring Canada.

20 After we had an October 1999 ISO Coordination  
21 Conference in Albany, and after the three and then four ISOs  
22 in the Northeast area, including the Ontario ISO, entered  
23 into their memorandum of understanding in 1999 in March of  
24 2000, the Northeastern Commissioners of the two regional  
25 conferences signed their own memorandum of understanding,

1 committing us to work together to reduce seams between the  
2 ISOs. I've attached a copy of that MOU to my remarks.

3 Through this process we have fostered seams  
4 reduction efforts by the four ISOs through conference calls  
5 and face-to-face meetings.

6 I should note that our legislatures and state  
7 commissions have disproportionately supported the goals of  
8 interstate competition in the electric industry, that this  
9 Commission holds and recent events in western markets have  
10 cautioned a proper humility for all of us about our tasks  
11 and a re-thinking of many details in market design and  
12 market oversight.

13 The consensus in the Northeast remains that  
14 competitive wholesale markets should continue to be  
15 developed.

16 Our argument is not with the goal of reducing  
17 barriers to economically and socially efficient trades  
18 across ISO boundaries. Our concern is that this  
19 Commission's scarce resources and per force ours not be  
20 disproportionately focused on the exploration of seams  
21 issues to the exclusion of many pressing market design and  
22 implementation issues that remain to be worked out in our  
23 emerging wholesale markets.

24 Competitive markets are not likely to achieve  
25 sustainable public support because seams are reduced between

1 regions within which trading has taken place for several  
2 decades. They are at risk of earning widespread public  
3 disapproval if economic trading within boundaries is  
4 suboptimal and the resulting risk in prices were worse.

5 Also, and here I think is different from the  
6 natural gas system, until new transmission is constructed,  
7 the scale of inter-ISO trades will necessarily be limited by  
8 the intertie capacities between the ISOs and it's small  
9 relative to other problems that need to be addressed.

10 The proponents of priority focus on super-  
11 regional issues should be asked to demonstrate that economic  
12 inefficiencies of remaining seams outweigh the enormous  
13 inefficiency of faulting on-going work on those seams issues  
14 and of improving market design.

15 In my comments, I have identified a number of the  
16 specific areas that the Conference and the ISOs have worked  
17 on. I'll just highlight one of them which is, as you all  
18 know, ISO New England has just voted to adopt PJM standard  
19 market and all the three ISOs are looking to that as a  
20 potential model.

21 We have put six specific improvements in business  
22 practices. In effect, there are nine I listed in my paper  
23 that are being worked on. And through this ISO/MOU process,  
24 each ISO has become intimately aware of others' operations  
25 and business practices, so that when one makes a move, they

1 are aware of and sensitive to impacts on the others.

2 As with all complicated efforts, there are some  
3 who believe the pace is too slow; some too fast; others,  
4 just right. The ISOs have committed their senior executives  
5 recently recognized there needs to be greater accountability  
6 and follow-through and the Commissions have done the same.

7 I will just conclude by saying that we believe  
8 that dealing with seams issues, while maintaining the  
9 separate entities in the Northeast, is the most expeditious  
10 route at this time. The merger of two or more of the ISOs  
11 will continue to be a consideration if the benefits warrant  
12 that move.

13 That avenue would, by necessity, consume  
14 significant resources for negotiating and establishing new  
15 governance processes and market operations, and we think  
16 those are better served at this point by continuing the  
17 seams process and working on improvements to the markets.

18 CHAIRMAN HEBERT: Thank you, Commissioner  
19 Brockway. I will apologize in advance. I'm going to refer  
20 other than Commissioners to everyone as Mr. and Ms. If I  
21 delete your doctor or whatever other title it may be, I  
22 apologize. That's not out of lack of respect. I may not  
23 have it in front of me.

24 We're going to make no difference in northerners  
25 and southerners. Actually, the northerners I know because

1 they speak faster and they get a little more time --

2 MR. LAUNER:

3 CHAIRMAN HEBERT: -- than we southerners do, but  
4 that's just the way it works.

5 Mr. Brown.

6 MR. BROWN: Thank you. My name is Nick Brown. I  
7 work for Southwest Power Pool where over the last 16 years,  
8 I've worked primarily in facilitating a collaborative  
9 process, first on consideration of transformation of  
10 Southwest Power Pool into a regional transmission group, as  
11 contemplated by the '92 legislation.

12 Then we moved on to consideration of seeking  
13 status as independent system operator, as contemplated by  
14 your Order 888.

15 And in order to identify ourselves and our issues  
16 now, I hope you're all aware that we have pending before  
17 you, our request for recognition as a regional transmission  
18 organization pursuant to your Order 2000.

19 Today, we find ourselves here ready to discuss  
20 seams issues between these forming organizations. Most of  
21 the debate over the last three or four years, in terms of  
22 dealing with mitigating seams issues, has been focused on  
23 one of two approaches.

24 First, organizational solutions or mergers that  
25 simply do away with seams.

1           The other approach has been more of a functional  
2 solution where we implement processes that hope to make  
3 seams between regional organizations transparent to the  
4 marketplace.

5           I would pose that both are appropriate. They are  
6 not mutually exclusive and in fact Southwest Power Pool has  
7 worked very hard and continues to work very hard on both.

8           I would ask the Commission's understanding and  
9 patience as we continue to evolve on this road in a reliable  
10 and stable fashion.

11           First, on functional solutions, the Southwest  
12 Power Pool organization has been around for more than 60  
13 years. It is in fact an example of what functional  
14 solutions can provide.

15           Years and years ago, we implemented a regional  
16 telecommunications network that was nothing more than a way  
17 of mitigating seams issues between our diverse members.

18           Then we moved on and evolved into an operating  
19 reserve sharing pool, again another functional solution  
20 developed on a voluntary basis to mitigate seams issues  
21 between our diverse members, then on to regional security  
22 coordination and then finally, in '98, we implemented a  
23 regional tariff which covers and makes available over the  
24 largest geographic part of our nation a single regional  
25 comprehensive tariff.

1 Well, what about these. Why is this continued  
2 evolution of voluntary functional solutions not sufficient?  
3 I think the primary complaint that I've heard is that it's  
4 not expedient enough, it's not quick enough, it's not  
5 getting us to the end of the state fast enough.

6 I disagree, and am reminded of a story that  
7 someone shared with me recently of a butterfly emerging from  
8 a cocoon and needing the process of a very natural drying of  
9 its wings, while an onlooker anxious to get to the end of  
10 the state, decided to aid the process and blow warm air  
11 across the wings. Unfortunately, rather than the end result  
12 being a beautiful butterfly, because the drying process was  
13 quickened, we ended up with a mangled insect.

14 I believe that voluntary functional solutions are  
15 producing results, and then on to organizational solutions.  
16 It is no secret that Southwest Power Pool approached MAPP  
17 first about a merger. Then next with the midwest ISO.

18 Both of these attempts failed for various  
19 reasons, but unfortunately the result has been in our  
20 attempt that we raised the bar of expectations, and it seems  
21 like nothing else will be satisfactory. While I think it's  
22 very appropriate for this Commission to encourage  
23 organizational solutions and SPP will continue investigating  
24 those. We will do so when the fit is right and when the  
25 time is right.

1 I also very earnestly believe that forced  
2 marriages are bad for everyone. So what would our request  
3 be? It would be that the Commission chartered the course in  
4 its Orders 888 and 2000. We request that you not move the  
5 mark at this point, that you stay the course, that both  
6 organizational and functional solutions are encouraged.

7 Thank you.

8 CHAIRMAN HEBERT: Thank you, Mr. Brown.

9 Mr. Mansour?

10 MR. MANSOUR: Thank you, Mr. Chairman.

11 I'm Yakout Mansour, Vice President of BC Hydro,  
12 and I'm also the Canadian Representative on the RTO West  
13 Regional Representatives Group.

14 My interest is in the interregional coordination  
15 within RTOS and particular in the Western system in general.  
16 BC Hydro continues to laud the position taken by the  
17 Commission to encourage Canadian participation in the  
18 process and the development of non-discriminatory power  
19 markets in the west.

20 While recognizing the need to preserve Canadian  
21 sovereignty and regulatory jurisdiction over facilities and  
22 transactions in Canada, market participants in British  
23 Columbia and Alberta are integral to the western electricity  
24 marketplace, as you know, and has been active in its  
25 development.

1           The two western provinces of British Columbia and  
2           Alberta are rich in hydroelectric energy, coal, oil, and  
3           natural gas. Installed capacity is currently in the  
4           neighborhood of 20,000 megawatts with tremendous potential  
5           for growth.

6           Entities in both provinces have been actively  
7           seeking connections and employing stronger ties to the  
8           western marketplace.

9           As the Commission is aware, extensive efforts  
10          have been made by BC Hydro to design a structure that would  
11          accommodate Canadian participation and create a seamless  
12          market that includes the western provinces and states. We  
13          believe those efforts to be consistent with your vision as a  
14          Commission.

15          We regret to report to you that those efforts are  
16          facing resistance from many of the jurisdictional entities  
17          who would rather see seams and restrictions than a seamless  
18          market.

19          I will summarize my comments in two parts. The  
20          first is to report to you quickly the progress of the  
21          Canadian participation in the RTOS process and secondly the  
22          western coordination vision that we see.

23          First, the Canadian participation in the RTOS  
24          process. BC Hydro has been active in the public process of  
25          RTO West development from the beginning. Particularly in

1 this current state of activities it serves as a sounding  
2 board for all stakeholders. But the final decisions and  
3 related negotiations among these utilities are behind closed  
4 doors.

5 One would expect the filing utilities' prime  
6 responsibility is an obligation for filing. It is rather  
7 unreasonable to expect the Canadian transmission owners to  
8 subscribe and commit to the extensive menu of agreements and  
9 protocols that they have not been part of negotiations.

10 Our modeled inclusion in the western market  
11 structure and our interregional coordination model calls for  
12 the establishment of a virtually universal tariff, good  
13 common business practice, congestion management mechanisms,  
14 ancillary service provisions, scheduling system auditing  
15 agreements, and the list goes on.

16 The model calls for the development of those  
17 matters through the collaborative efforts on both sides.  
18 Order 2000 elegantly articulated the vision of the role of  
19 the regulatory agencies on both sides of the border, and I  
20 can't describe it better.

21 We're facing tremendous resistance from many to  
22 achieve your Commission's vision, despite all the tremendous  
23 positive efforts towards some who support it, but the  
24 process is such that consensus among all the filing  
25 utilities has to be in place to accept the Canadian

1 participation and that is not happening.

2 Today, the regulatory staffs on both sides of the  
3 border have been very much more encouraging and supportive  
4 than the participants of these entities themselves.

5 We do not see a tangible basis for those since  
6 our Canadian involvement but our feeling does not seem to be  
7 shared by many of the filing companies.

8 We are currently at a roadblock and ask for your  
9 help in facilitating a process to resolve the issues and  
10 move forward.

11 We made the same request in our November filing  
12 but the filing gave you assurances that they would find a  
13 way. I can tell you there is no way, and you might be  
14 getting a comfortable feeling that is not warranted.

15 On the western wide RTO vision, BC Hydro shares  
16 the Commission's vision that efficient markets will not be  
17 achieved across the western interconnection without the  
18 establishment of a comprehensive approach to transmission on  
19 a region-wide basis, creating independent operating entities  
20 in Alberta, BC, RTOS, and California in one natural market  
21 with potentially different rules, structure and business  
22 practice, would create independent inefficiencies instead of  
23 the inefficiencies that we have today.

24 The Commission's of west wide RTO coordination is  
25 flexible as to whether the structure consists of one or

1 several. We share and support this vision.

2 We've also been following with interest the  
3 opposition to those views. We see the opposition primarily  
4 centered on the practicalities associated with one large  
5 organization but have not seen much effort directed to the  
6 harmonization of several organizations.

7 In this respect, we offer the following quick  
8 comments. The boundaries of RTO west at the start are  
9 efficiently based on who chooses to join one another.  
10 Nevada could join Desert Star and Colorado could join RTO-1,  
11 yet those artificial arbitrary boundaries are taken as God-  
12 given and accept no harmonization until after the fact.

13 There is no reason for one natural market to have  
14 more than one ancillary service market or scheduled system  
15 of congestion management, assumption of coordination and  
16 good faith effort after the rules are established is really  
17 wishful thinking.

18 The Commission could achieve a strong coordinated  
19 RTO. In conclusion, by dealing with all the RTO proposals  
20 in the same natural market in one shot, and demanding the  
21 universality of the proposals on the key issues, like  
22 ancillary service market congestion management, pricing and  
23 scheduling, and in addition the proposal agreements among  
24 RTO industries and markets should prohibit unilateral change  
25 of rules and practice without consensus.

1           In other words, start coordinating and stay  
2           coordinating. I regret to say that leaving coordination to  
3           a voluntary process without clear guidance may not achieve  
4           the Commission's vision.

5           Thank you.

6           CHAIRMAN HEBERT: Thank you, Mr. Mansour.

7           Mr. Baker?

8           MR. BAKER: Good morning. I'm Craig Baker of  
9           American Electric Power Service Corporation, and a member of  
10          the management committee of the Alliance Companies. The  
11          Alliance itself is a collaborative effort of ten companies  
12          encompassing 174,000 square miles in 11 states.

13          We have a peak load of 108 gigawatts and  
14          generating capacity of 115,000 megawatts.

15          In and of itself, the Alliance is larger in size,  
16          capacity, and miles of transmission than PJM New York and  
17          New England combined. The sheer size and scope of the  
18          Alliance has eliminated the need for discussion on seams  
19          issues across one portion, a large portion of the U.S.

20          FERC, in its Order 2000, issued on December 20th,  
21          released 11 days after the Alliance was touted in the Energy  
22          Daily for its proposals on inter-RTO coordination. When  
23          Function 8 required us to look at inter-RTO regional  
24          coordination, we were already well on our way as a result of  
25          our interconnections with four RTOs and two other large

1 transmission service providers.

2 In 1999, we first began discussions with the  
3 Midwest ISO on a merger, and while that merger was not to  
4 be, we have made significant progress in creating unified  
5 super-regions including two independent RTOs with a single,  
6 non-pancake rate structure.

7 The rate structure will permit a population of 70  
8 million to access 160,000 megawatts of competitive  
9 generation at a single rate. The ERCA, an agreement between  
10 Alliance and MISO, which was approved by the FERC on May  
11 8th, provides for the development of procedures and  
12 protocols in several areas to ensure compatibility across  
13 the entire region including coordination on ATC, congestion  
14 management and common business practices.

15 The ERCA was crafted with substantial input from  
16 a group of RTOs known as the Inter-RTO Seams Collaborative  
17 Group or Seams Collaborative.

18 The Seams Collaborative flowed from the  
19 Cincinnati workshop on RTO collaboration sponsored by the  
20 FERC last Spring.

21 The Cincinnati workshop yielded the Seams  
22 Collaborative and has so far been most useful for us. The  
23 Seams Collaborative meets about every three weeks in an open  
24 forum to work on seams issues.

25 The Alliance Midwest ISO, SPP, Grid South, SC

1 Trans, as well as the Northeast Power Coordinating Council,  
2 are all part of the Seams Collaborative.

3 Since its inception, the Seams Collaborative has  
4 worked on functional issues to make transmission services as  
5 seamless as possible.

6 We've developed proposals on market monitoring,  
7 super regional planning and one-stop shopping. We have  
8 reviewed proposals on security, TLR and ATC coordination,  
9 and discussed pricing reciprocity and seams imbalance  
10 issues. Most importantly, this open forum for discussion  
11 and input has been critical to the Eastern grid.

12 We already have in place the framework for  
13 accomplishing the goals we are discussing here today.

14 I think it is important to note at this point  
15 that the Alliance is not interested in seams coordination or  
16 coordination simply because it's good public policy.  
17 Setting policy is FERC's job. We're into it because it  
18 simply makes good business sense to us.

19 The country's transmission grid was built one  
20 company at a time without consistent standards to serve  
21 native load. Collaboration is what we did simply as a means  
22 to hedge against potential problems.

23 According to the Edison Electric Institute in  
24 1995, there were 25,000 interregional transmission  
25 transactions in the U.S. In 1999, there were two million.

1           That's an increase of 8,000 percent in just four  
2 years. We can't afford not to work together. Collaboration  
3 on seams coordination, on other issues, reduces the risk for  
4 each of us.

5           RTOs are the first proactive step in shoring up  
6 the transmission grid. As we prepare for the skyrocketing  
7 risks associated with skyrocketing transmission traffic,  
8 RTOs, most of which are in their infancy, will evolve into  
9 natural affinities that will ultimately see the country  
10 divided into a handful of organizations at levels higher  
11 than we can envision at this point.

12           If there is one message I would like to leave  
13 with you today, it's allow these affiliations to evolve  
14 naturally, not forced into artificial relationships that may  
15 not be the most productive possible.

16           We need to allow RTOs themselves the time to  
17 mature into well-functioning organizations in their own  
18 right before expecting them to affiliate in super regions.  
19 The RTOs will collaborate on seams issues, not because it's  
20 public policy, but because it's good business. That is what  
21 is working for us. It may not be so for everyone.

22           Beware of people who tell you that their plan  
23 will work for everyone. One-size-fits-all can more  
24 accurately be translated into one-size-fits-us.

25           Thank you.

1 CHAIRMAN HEBERT: Thank you, Mr. Baker.

2 Mr. Harris.

3 MR. HARRIS: Thank you, Mr. Chairman.

4 Phil Harris, President and CEO of PJM.

5 Mr. Chairman, you asked us specifically what  
6 could you do. I would recommend there's three things you  
7 could do, and I'll call it the "three Bs."

8 First of all is bound the problem. In the  
9 Eastern interconnection, there's about 638 megawatts of  
10 capacity, 600,000 megawatts of load. This is the largest  
11 synchronized load in the world and it consists of two  
12 countries, six provinces in Canada, 36 states, eight  
13 reliability councils, 22 security coordinators, about 700  
14 marketers and about 2700 entities involved in the  
15 distribution of power.

16 If you do the combinations and permutations of  
17 any event that takes place between those parties, you're  
18 talking about millions of "seams" that can be created. The  
19 thing the Commission can do, first of all to bound the  
20 problem, is to approve the RTOs. With ten RTOs more or less  
21 involved in the Eastern interconnection, you have bound the  
22 problem.

23 You would have ten security coordinators, you'd  
24 have ten CEOs accountable to you and reporting to you, as  
25 public utilities, on how they are addressing the issues.

1 Things internal to that would be internalized to the seams  
2 and you only have to deal between those ten entities.

3 This is a single and probably the most important  
4 thing you can do is approve these, get them up and running,  
5 and have them be accountable to you to bound the problem.

6 The second thing you can do is be objective and  
7 be assertive on FERC Order 2000. FERC Order 2000 has a  
8 clear mandate. It says ensure that the customers have the  
9 benefit of competitive price generation.

10 This is about customers, this is about ensuring  
11 that the customers benefit throughout the entire Eastern  
12 interconnection.

13 If you say that RTOs will be security  
14 coordinators with only ten or so in the Eastern  
15 interconnection, we can solve these day-to-day, hour-to-hour  
16 problems. If indeed RTOs have regional planning authority  
17 and, as FERC Order 2000 says, then we can coordinate and  
18 design the infrastructure and the planning protocol to allow  
19 generation to interconnect and large transmission to be  
20 built appropriately and in the right way.

21 Be assertive with FERC Order 2000. Don't back  
22 down, and be sure customers get the benefit of competitive  
23 price generation.

24 The third thing is to begin a standard market  
25 design. The Energy Policy Act of 1992 said its whole

1 purpose was to assure that generation can compete for the  
2 benefit of the customers. We have nine years of rhetoric,  
3 we have some empirical evidence from real time operations  
4 about what works and what can create a misstep or huge,  
5 unintended consequences.

6 It's time to move on. This is ultimately about  
7 markets, it's not about structure. If any generating plant  
8 in this large, Eastern interconnection, is going to be able  
9 to deliver power across this market to benefit the  
10 customers, you ultimately have to have a standard market  
11 design.

12 We have learned some of the elements that work.  
13 And it's time to begin the process to get those started.

14 So, in the first instance, Mr. Chairman, I would  
15 say, to solve the seams begins with the seamstress. If we  
16 bound the problem, if we are assertive in carrying out FERC  
17 Order 2000, and begin taking positive steps on what a  
18 standard market would entail, then I think we've taken giant  
19 strides forward.

20 Thank you, Mr. Chairman.

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1                   CHAIRMAN HEBERT: Thank you, Mr. Harris. Mr.  
2 Museler?

3                   MR. MUSELER: Good morning. My name is Bill  
4 Museler, President of the New York ISO, but I'll be speaking  
5 on behalf of my colleagues in PJM in New England and the IMO  
6 in Canada who all participated in this presentation.

7                   I'm going to be addressing the use of the  
8 Memorandum of Understanding and its effectiveness with  
9 respect dealing with the seams issues in the Northeastern  
10 part of the United States. When the MOU was signed -- since  
11 the MOU was signed in 1999 by all four parties, the MOU has  
12 been characterized as being ineffective by a large number of  
13 parties. Unfortunately, that in the past has been a valid  
14 observation for a good portion of the year 2000.

15                  In hindsight, it's not very surprising that that  
16 was the case, because at the time the MOU was signed, only  
17 PJM was operating an LBMP market. New England had just  
18 started its interim market. New York and the IMO had not  
19 started any markets. So to believe that those seams were  
20 going to work properly and that we were going to be able to  
21 operate them without seeing what the various markets did on  
22 the interconnections was probably a little bit of a stretch.

23                  However, the four ISOs in the Northeast believe,  
24 and I'd like to share some of the information with you, that  
25 the Memorandum of Understanding is not only accelerating at

1           this point but that is has already achieved tangible  
2           results. That we've got some of the most important seams  
3           issues on our plate and that those are not long-term  
4           solutions but that we have relatively close-in plans on a  
5           number of those, and that the MOU in the Northeast at least,  
6           provides the best vehicle for resolving the seams issues and  
7           not only resolving the seams issues, but also moving towards  
8           common standardized energy products and common standard  
9           market designs as we move forward.

10                   I'd like to just cover a few of the things that  
11           have already been accomplished, and I won't read them all to  
12           you. But for example in New York, the Arrowhead market  
13           settlement has been modified fairly dramatically to avoiding  
14           gaming that was affecting all four ISOs. In PJM, the ramp  
15           reservation rules have been changed to make sure that we an  
16           do transactions and not have unnecessary curtailments  
17           between the ISOs.

18                   And in New England, just as recently as this  
19           spring, they have eliminated a number of import transmission  
20           reservation restrictions and are working towards eliminating  
21           ICAP recall provisions that prevent us from having ICAP move  
22           across the whole Northeast. The ICAP rules are already  
23           sufficiently confirmed between PJM in New York such that  
24           ICAP is traded between the regions.

25                   And one other accomplishment that is not well

1 known, and one issue of that is before you, is the area of  
2 regional planning. The model for regional planning, quite  
3 frankly, that New England has adopted and New York has filed  
4 with you, is the PJM regional planning model. That, if it's  
5 approved, will have all three of the U.S. ISOs operating  
6 under the same regional planning protocol.

7 In addition to that, the Governor of New York has  
8 asked that we perform a study to show either physically or  
9 through additional seams improvements we can improve the  
10 throughput of electrical product across the entire Northeast  
11 and Canada.

12 One of the most visible of the difficulties at  
13 the seams is the issue of scheduling across the interfaces.  
14 And in that regard, PJM has already implemented this June a  
15 pilot in terms of a collaborative scheduling system which  
16 allows for one-stop shopping for market participants to do  
17 business across the interface.

18 The other ISOs, and most importantly, Hydro  
19 Quebec, Detroit Edison and the Maritimes, are engaged in a  
20 process to take that and move it an open architecture  
21 product that we can then apply to all of the ISOs in the  
22 Northeast.

23 The Memorandum of Understanding did get a slow  
24 start for what now are obvious reasons. But we've come out  
25 of that tunnel and we are making tangible progress. We've

1 already accomplished things that are making the transactions  
2 flow much more smoothly across the Northeast this summer.  
3 And our view is that FERC should endorse the MOU process and  
4 encourage its implementation efforts as both the best method  
5 for resolving the remaining seams issues and, as I said,  
6 moving forward to create common market products and common  
7 market designs.

8 Thank you.

9 CHAIRMAN HEBERT: Thank you, Mr. Museler. Mr.  
10 van Welie?

11 MR. VAN WELIE: Yes. Gordon van Welie. Thank  
12 you for the opportunity this afternoon to speak. I want to  
13 talk to you this afternoon about standardized markets and  
14 transmission service.

15 I've got a presentation, and later on we might  
16 just refer to some of the tables in it. But I think that  
17 everyone would agree with the goals of seamless and liquid  
18 markets and reliable, efficient and seamless transmission  
19 systems.

20 How do we get there? What is the way forward?  
21 We believe that the foundation is a set of standardized  
22 market rules and designs. To achieve this universal market,  
23 we need standard transmission products and procedures. This  
24 is one of the critical seams issues that faces us.

25 In the Northeast, PJM, New York and ourselves

1 have agreed to move forward towards common product offerings  
2 with standardized rules. And you've seen us take a  
3 significant step in this direction just in the last few  
4 months.

5 On pages 4 and 5 I've used two tables to  
6 illustrate where we are today in the Northeast. I won't  
7 dwell too much on the details, but I just would like to make  
8 two points with what's coming through on those two tables.

9 In the first instance in terms of today, you can  
10 see that we have significant differences between the  
11 markets. I can tell you from the perspective of New  
12 England, this troubled us, because ultimately we were on the  
13 road to spending a lot of money and time putting in new  
14 markets. We wanted to make sure we made a significant step  
15 forward when we did this. Hence, we decided to move towards  
16 trying to standardize as far as possible on a set of market  
17 designs and rules which will be convergent in the Northeast.

18 If you turn to the second table, which is where I  
19 think we will be once we have implemented standard market  
20 design in New England, you can see there are two main  
21 messages that come through there. The first is that there  
22 has been significant progress within the Northeast. We have  
23 been moving forward. But there are significant differences  
24 to overcome. There are gaps, there are seams that need to  
25 be worked on.

1 I think there's a lot of work ahead of us in  
2 order to do this. I will ask you in a moment how you can  
3 help, but let me save that for a moment and come back to  
4 what is standard market design.

5 On the next page, I outline what this is at a  
6 very high level. Standard market design is a common energy  
7 market and transmission congestion design. It's based on  
8 the successful PJM model with joint enhancements from ISO  
9 New England and PJM. We believe that it can be a foundation  
10 for a national standard. We're not saying here that it's  
11 the best standard. We're just saying that it's something  
12 that works and that we can build on going forward.

13 We also believe that standard market design is  
14 transportable to other RTOs and can be integrated to form a  
15 complete market system.

16 We believe that standard market design embraces  
17 two major Order 2000 issues. Firstly, robust and liquid  
18 trading areas, and secondly, consistent transmission  
19 congestion practices.

20 How can the Commission help? It's been  
21 interesting just listening to the debate so far around the  
22 table that there are clearly local issues that impede  
23 progress with respect to standardization of markets. And  
24 our opinion here is that the standardized markets in the  
25 full sense will not be realized without some firm direction

1 from the FERC.

2 In the Northeast we are committed to continue to  
3 address this process through the MOU process, but we believe  
4 that the FERC can help by pointing the way. We believe --  
5 and this is the second bullet on that page -- in order to  
6 achieve the goal of seamless and liquid markets, the  
7 Commission needs to give direction in the area of market  
8 standardization.

9 And I think there are two things. The first is  
10 in the scope of standardized, and then in the specifics.

11 Finally, there's been lots of discussion as to  
12 the concept of mergers and consolidations amongst various  
13 power pools and control areas. And frankly, we see that as  
14 a measure of last resort. I think there is ample  
15 opportunity to achieve the goals, not through mergers and  
16 consolidations, but instead by focusing the issue of  
17 standardizing markets and the rules and thereby by  
18 addressing the seams.

19 Thank you.

20 CHAIRMAN HEBERT: Thank you, Mr. van Welie. Mr.  
21 Afranji?

22 MR. AFRANJI: My name is Frank Afranji. I'm with  
23 Portland General Electric, and I'll be speaking on behalf of  
24 the Western Market Interface Committee as well as RTO West.

25 Basically within the Western states encompassed

1 by the Western System Coordinating Council, entities are  
2 proposing the development of three regional transmission  
3 organizations: Namely, RTO West, Desert Star, and the  
4 California ISO. There is wide agreement in that area that  
5 the Western Market Interface Committee's Seams Taskforce  
6 will be handling the technical issues that arise between the  
7 seams of these RTOs.

8           There is also wide acceptance that the policy  
9 level issues and the actual negotiations to resolve the seam  
10 issues will be conducted by the three RTOs themselves.

11           In this presentation, I'm hoping to give you a  
12 brief description of what is the Western Market Interface  
13 Committee, also to describe some of the work that is being  
14 done in that process, and then finally summarize some of the  
15 accomplishments that we have done today.

16           The Western Market Interface Committee is  
17 basically co-sponsored by the WSCC and the three RTOs in the  
18 West, and its members vary from marketers to customers to  
19 state regulators and basically the two different business  
20 lines within the transmission owners.

21           It pretty much mimics the NERC MIC in dealing  
22 with the compatibility of interface between the various  
23 control areas. In this case it will be between the various  
24 RTOs, and the commercial and reliability issues.

25           In addition to what the Western Market Interface

1 Committee is doing, we have the RTO West that has been  
2 engaged in a very robust discussion with the neighboring  
3 RTOs for the past year.

4 The Western Market Interface Committee has  
5 created six different work groups, namely, RTO Scheduling  
6 Practices and Procedures, Congestion Management Practices,  
7 Through and Out Fees and Reciprocity, Coordination of  
8 Transmission Facility Outages, Phase Shifter Operations,  
9 Market Tools and Ancillary Services.

10 I'll read to you some of the accomplishments to  
11 date.

12 Number one, there was differences in proposed  
13 scheduling timelines were found that would have caused  
14 scheduling problems at the RTO seams. Through this work,  
15 RTO West has agreed to move some of its scheduling timeline  
16 deadlines to better line up with those of Desert Star to  
17 avoid seam problems.

18 Another major accomplishment deals with phase  
19 shifter operation options. They have been developed and  
20 will involve the marketplace in determining how phase  
21 shifters will be operated to affect scheduling capability on  
22 the congested transmission paths.

23 An option-based market for phase shifter settings  
24 to market firm transmission rights is proposed. The options  
25 have received wide support from the participants on the

1 taskforce representing many sectors of the industry and have  
2 been sent to the RTOs for further review.

3 We're also working on outage planning between the  
4 RTOs, and that's progressing very, very fast and we're very  
5 close to issuing closure. We have created some matrices  
6 dealing with congestion management, and we're trying to  
7 bridge the gaps there. We have a website that has  
8 everything from agendas to reports.

9 In addition to the activities, RTO has  
10 participated, as I said, in numerous discussions with the  
11 neighboring systems, and we have accomplished quite a bit to  
12 date. And because of this, we really don't believe that  
13 there is a need for a West-wide RTO at this time. Because  
14 we are pretty close to resolving some of these seams issues.

15 We have achieved quite a bit of agreements with  
16 Desert Star, and Desert Star and Cal ISO are moving forward  
17 -- excuse me, Desert Star and RTO West are moving together  
18 to work with the Cal ISO. We had several meetings.

19 We also have engaged BC Hydro in Alberta in a  
20 robust discussion over the past year. And we believe that  
21 we are very close to resolving some of the troubling  
22 international regulatory issues.

23 As a result of this, we believe that there is  
24 quite a bit of accomplishment that has happened today, and  
25 we believe that the issues remaining are significant but

1           resolvable.

2                   Thank you.

3                   CHAIRMAN HEBERT: Thank you, Mr. Afranji. As you  
4 know, this Commission is vigilant in trying to do everything  
5 we can for the West and we would compel you to continue and  
6 move forward.

7                   Mr. Heller?

8                   MR. HELLER: Good afternoon, Mr. Chairman, and  
9 members of the Commission. My name is Tom Heller. I'm a  
10 Chief Executive Officer of Missouri River Energy Services.  
11 I'm appearing today on behalf of the Transmission Access  
12 Policy Group, TAPS, and Missouri River Energy Services.

13                   TAPS is an informal association of transmission-  
14 dependent utilities in 25 states. Missouri River Energy  
15 Services is a not-for-profit municipal joint action agency  
16 that supplies energy and services to 56 municipal utilities  
17 in North Dakota, South Dakota, Minnesota and Iowa. We were  
18 the first in Western MAPP to join the Midwest ISO.

19                   I have filed formal comments. Briefly, I have  
20 three points. First, RTOs must be made as seamless as  
21 possible so RTO boundaries do not become a de facto market  
22 boundary. To achieve that goal, Commissioners must insist  
23 that seams agreement should require tariff and rates, terms  
24 and conditions to be identical as possible. That they have  
25 standardized business practices, and that reciprocity and

1 one-stop shopping be within an interconnection. They have  
2 fully compatible and coordinated ATC and congestion  
3 management practices, and that joint planning, especially  
4 for shared constraints, be implemented.

5 The second point. FERC must set an explicit  
6 mechanism to make RTOs accountable for achievement of a  
7 seamless marketplace. This mechanism should include  
8 periodic reports to the Commission, identification of  
9 continuing barriers that are occurring, and the  
10 determination of whether markets are in fact seamless from  
11 the user's perspective. If they aren't seamless, the  
12 Commission should consider forcing RTO consolidation.

13 Third point. The bottom line to us is that seams  
14 agreements are suboptimal. Seams agreements should not be  
15 the first priority. The Commission's first priority should  
16 be the establishment of a truly large regional RTO where  
17 energy markets exist.

18 More specifically in our case, I'd like to  
19 highlight something in the Midwest Area Power Pool and with  
20 Missouri River Energy Services. In MAPP today there occurs  
21 a large market served by a single tariff with nonpancake  
22 rates for transactions up to two years, and a FERC-approved  
23 RTG coordinating planning guide. One year ago, Midwest ISO  
24 and MAPP contemplated a merger with hope of a very large  
25 expanded RTO. Now we see that being fractured. MISO has

1 determined by withdrawal has diminished expanding into a  
2 larger market by the withdrawal of the Illinois companies.

3 The MAPP main constraint now won't be under one  
4 RTO control. As a result, the MAPP-MISO merger may not  
5 occur, which we believe is very important. It requires two-  
6 thirds of the MAPP to be in the Midwest ISO for that to  
7 happen.

8 The Commission's failure to insist on broad scope  
9 has encouraged Western MAPP to try to form other RTOs within  
10 our area. We see that that will bifurcate the control of  
11 the North Dakota-Minnesota constraint that occurs. This is  
12 within MAPP now.

13 In addition within MAPP, a transco is being  
14 formed by several of the RTO members in Central MAPP. It is  
15 intended, as we have heard, to be part of the Midwest ISO.  
16 But this is not certain since at least one of the key  
17 jurisdictional participants, Mid-America, has refused to  
18 join the Midwest ISO. A Commission policy that focuses on  
19 seams agreements rather than insisting on truly regional  
20 scope within a large market that exists today is likely to  
21 encourage TransLink to become their own RTO.

22 The net result of fracturing is that each of the  
23 three major constraints affecting MAPP as well as the  
24 Canadian interface will be under partial RTO control.

25 I think one could look at this as a similar to

1 the dysfunctionality of Frankenstein's monster -- pieces  
2 being put together of similar characteristics.

3 Missouri River Energy Services, on the other  
4 hand, will end up with load which is now within MAPP split  
5 among three RTOs. We do not see this as progress. We see  
6 it as a step backwards, and hope that the Commission would  
7 leave no doubt in anyone's mind that their first priority is  
8 scope of RTOs.

9 Thank you very much.

10 CHAIRMAN HEBERT: Thank you, Mr. Heller. Mr.  
11 Torgerson?

12 MR. TORGERSON: Mr. Chairman, Commissioners,  
13 thank you for the opportunity to address you today on this  
14 important issue. I am Jim Torgerson, President and CEO of  
15 the Midwest ISO.

16 The Midwest Independent System Operator recently  
17 emerged from the settlement process directed by the  
18 Commission, and now the Midwest ISO is in the midst of  
19 determining with its stakeholders, the Midwest ISO  
20 transmission owners, and the Alliance transmission owners,  
21 the details that have to be agreed on to fulfill that  
22 promise that will allow the Midwest ISO and the Alliance to  
23 afford the transmission customers throughout our super  
24 region in the benefits of a single seamless market.

25 In other areas of the country, the RTO

1 coordination and cooperation takes place largely along  
2 boundaries or borders of well-developed organizations or  
3 longstanding interfaces. Because of the departure of the  
4 three Illinois companies from the Midwest ISO, we are left  
5 with some members that are surrounded by Alliance  
6 transmission owners, and the remainder of our transmission  
7 owners separated into two groups, one in the upper Midwest  
8 and a second group in ECAR.

9           It would be an understatement to say that our  
10 success depends on a well-coordinated arrangements with the  
11 Alliance. The development of robust markets within the  
12 Midwest does as well. BEcause of these intertwined areas,  
13 the operational details must be carefully determined and  
14 agreed to by the parties. This takes a great deal of time,  
15 effort and input from many sources, including our  
16 stakeholders. And our people have been working diligently  
17 on it, and I'm very optimistic that the arrangement can and  
18 will work.

19           The cornerstone, as Mr. Baker had talked about,  
20 was the Inter-RTO Cooperation Agreement. And it delineates  
21 about 20 areas where the two RTOs are to agree on protocols  
22 or procedures and make filings or take actions to ensure  
23 compatible operations and that work is underway on all of  
24 these. And in fact, four items due by May 31st, protocols  
25 on ATC coordination, security coordination, TLR coordination

1 and imbalance markets are completed and have been posted on  
2 our websites.

3 The generation interconnection is due at the end  
4 of this month, and the balance over the balance of the year,  
5 including one-stop shopping for the entire super region.

6 Is it working? Yes. Our technical staff and  
7 their Alliance counterparts are meeting and working very  
8 diligently. Do they always agree? No, we don't. No one  
9 should expect total agreement on every single issue. If  
10 that were likely, then the two of us probably would have  
11 merged a long time ago. But you can count on us continuing  
12 to meet and continuing to work against the deadlines we  
13 face. We have specific deadlines for meeting every one of  
14 these criteria.

15 We can reach the high degree of commonality and  
16 compatibility that are tightly entwined arrangement will  
17 demand. The Midwest ISO has other seams that are being  
18 worked on. Our agreement to purchase the MAPP core assets  
19 or MAPP along with the ancillary agreements as part of the  
20 purchase will eliminate the seams because the majority of  
21 MAPP members will be joining the Midwest ISO.

22 There are certain MAPP entities, specifically,  
23 those trying to form Crescent Moon, that may not join the  
24 Midwest ISO. However, we will be offering the transmission  
25 and administrative services from the Midwest ISO through the

1 existing MAPP center in St. Paul, again, eliminating those  
2 seams.

3 Now the Midwest ISO and MAPP are really waiting  
4 Commission action on two filings that will allow this  
5 combination to proceed. The Midwest ISO and the Southwest  
6 Power Pool have had many joint activities, and we're working  
7 together. And also, as Mr. Baker said, the Midwest ISO,  
8 Southwest Power Pool, Alliance, Grid South, PJM, TVA and  
9 Southern have been meeting for over a year in the original  
10 Commission-sponsored seams collaborative process, and  
11 progress has occurred. But we need to let it continue. And  
12 I think with some Commission direction, we can -- with  
13 guidelines and as far as deadlines, that can happen, and I  
14 think we are striving to make sure that we are operational  
15 by December 15th, and more importantly, that we do have a  
16 seamless market by that time.

17 Thank you.

18 CHAIRMAN HEBERT: Thank you, Mr. Torgerson. All  
19 right. We started at left, we'll go right this time. And  
20 we'll start the questions. Commissioner Wood, do you want  
21 to start us out?

22 COMMISSIONER WOOD: Yes.

23 CHAIRMAN HEBERT: And before we get started, let  
24 me remind, the Commissioners are still working on the  
25 California Order. I know we're all trying to get out, got

1 another hearing tomorrow. From time to time we may have to  
2 excuse ourself from the table. We will get your written  
3 comments. If we miss it, we certainly have the recorded  
4 version as well.

5 So thank you. Commissioner Wood?

6 COMMISSIONER WOOD: Let me follow up on this last  
7 set of issues. I'm the new kid here, so kind of dumb it  
8 down for me. Am I hearing from the last two witnesses that  
9 -- and the Alliance witness, Mr. Baker -- give me just a  
10 status. Is this all growing together into being one? Are  
11 we talking about fractionating? I don't even know what  
12 Crescent Moon is, other than something in the sky. What are  
13 we doing? What's kind of going on in that part of the  
14 country?

15 MR. TORGERSON: In the Midwest, the Alliance and  
16 the Midwest ISO are working jointly to create one market.  
17 That was the objective coming out of the settlement process  
18 that the Commission established, that we would have one  
19 marketplace. And that's what we're pursuing.

20 Now Crescent Moon is a formation of public  
21 entities -- Western Area Power Administration, Basin and a  
22 few others -- in the Western part of the MAPP region that  
23 have not elected to join the Midwest ISO at this point and  
24 would like to form their own RTO.

25 The other part of what we were talking about was

1 we have an agreement, the Midwest ISO, to combine or buy the  
2 assets of MAPP, provided two-thirds of the MAPP members join  
3 the Midwest ISO. So far we have 34 percent. We have  
4 conditional members who said they'd join the Midwest ISO.  
5 That would take it over 50 percent.

6 Our Board has the ability to waive that  
7 condition, which we probably will do once we get enough  
8 support from the MAPP members, and that will allow us then  
9 to combine MAPP, have the MAPP become part of the Midwest  
10 ISO region.

11 So we will create a very large region. Part of  
12 the settlement process was that a super region would be  
13 created to encompass all of the Alliance, all of the Midwest  
14 ISO, where transactions can occur seamlessly with one rate  
15 over that entire region. And we're working on all the  
16 issues, because there will be two RTOs, that we have  
17 compatible process between the two.

18 COMMISSIONER WOOD: And so it's the creation of a  
19 super region from I guess the eastern side of Wyoming over  
20 to the Chesapeake Bay? Is that kind of what we're looking  
21 at here?

22 MR. TORGERSON: Yes.

23 COMMISSIONER WOOD: By December 15th?

24 MR. TORGERSON: Yes.

25 COMMISSIONER WOOD: What can we do to help?

1           MR. TORGERSON: Well, the one on -- we need to  
2 get the MAPP closed, deal closed. That's one issue. And  
3 there are some things in front of the Commission right now  
4 -- filings that have to be approved.

5           We need to just continue with the discussions and  
6 the work we're doing with the Alliance. Our technical folks  
7 are working very well together, and if we don't agree, the  
8 Commission has the ability to interject themselves if  
9 someone files something if we can't agree on a process.

10           So far, we're not agreeing on absolutely  
11 everything, but I'd say on 80 percent of the things, we are.

12           COMMISSIONER WOOD: Kick them up when you're  
13 ready. We'll make a cut where you all can't. I don't know  
14 a lot of the history of why there are two if it's one  
15 region. I mean, that's two overheads, two staffs, two  
16 offices.

17           MR. HELLER: Commissioner Wood, Mr. Chairman, if  
18 I may address this as well. The one follow-up I wanted to  
19 make on the issue is that the Crescent Moon RTO does contain  
20 two jurisdictional utilities as well -- Montana-Dakota  
21 Utilities and Northwest Public Service as well as the  
22 public's. They're mostly in the Dakota areas.

23           The concern we have, as I indicated earlier, is  
24 that that formation of that RTO takes an existing market  
25 today, which is the MAPP market, and splits it in two,

1 splits our customers and our market in two, and we take an  
2 existing market that we think is well functioning and have  
3 two RTOs form. We think that's going to be suboptimal.

4 So the iteration between --

5 COMMISSIONER WOOD: Why are they not in MISO?

6 MR. TORGERSON: The reason they haven't joined  
7 MISO is the cost shift that would occur because of our  
8 tariff. Since they have significant generation, long  
9 transmission but no load in their region, our tariff would  
10 require a cost shift to them which is unacceptable. It  
11 would raise their costs significantly to their  
12 constituencies.

13 COMMISSIONER WOOD: What is your tariff?

14 MR. TORGERSON: It's a zonal tariff. It's not a  
15 postage stamp.

16 COMMISSIONER WOOD: Does that mean like a license  
17 plate?

18 MR. TORGERSON: Yes. It would create cost shifts  
19 for them. That's the main reason they have been unwilling  
20 to join.

21 I am meeting with Crescent Moon next week, and  
22 I'm going to talk to them about some alternative proposals  
23 which we're working on that would allow perhaps a second  
24 tariff or another tariff that would alleviate their  
25 concerns.

1           We've had preliminary discussions with them. I  
2 think there are some things that could happen that would  
3 bring them into the seamlessness so we're not duplicating  
4 facilities. We already have the ability to provide them  
5 services for the MAPP center once that's done. So there  
6 won't be a duplication there. But we need them more  
7 directly interconnected.

8           And Mr. Heller mentioned about TransLink. We've  
9 had numerous discussions with TransLink about them becoming  
10 an ITC underneath the Midwest ISO under Appendix I. We're  
11 working directly with their principals on accomplishing  
12 that. I see every reason that that's going to occur. It  
13 will require us to unbundle our administrative adder and  
14 charge them something differently based on the services they  
15 are providing. But we feel we can accomplish that, and  
16 TransLink has given me every indication they will be within  
17 the Midwest ISO.

18           COMMISSIONER WOOD: Okay. Now I've got a lot  
19 more on that, but let me just hop to the Northeast real  
20 quick. Mr. van Welie and Mr. Museler, I'm looking at the  
21 chart in Mr. van Welie's testimony that compares the markets  
22 on page 4. You might share that with Mr. Museler.

23           And then the ultimate there, why do we not have  
24 really one set of rules? You folks are probably the three  
25 most mature, throwing PJM in there, too, our oldest RTOs

1 around. What do we need to do to kind of get some  
2 consolidation of all these seams issues I guess there? If  
3 you all can make it work, then everybody else can get this  
4 done too.

5 You're making a lot of progress here. So I  
6 wanted to just figure out what kind of is left to do.

7 MR. MUSELER: Well, there is quite a bit left to  
8 do. If you work off of Gordon's chart there, you'll see  
9 that at the present time there are two middle markets, the  
10 capacity market and the reserve markets. There are capacity  
11 markets now, but people moving to different capacity  
12 markets.

13 One of the things we are trying to do is get to a  
14 common capacity market. I mentioned earlier PJ -- he just  
15 approved some changes in the PJM capacity market. Our  
16 members were proposing something somewhat different but very  
17 close. We're going to try to conform those and see if we  
18 can get an agreement to adopt those.

19 New England is also moving in a similar  
20 direction.

21 Right now New York has spinning reserve markets  
22 and nonspinning reserve markets. The other ISOs don't.  
23 They are in the process of developing those markets. We  
24 have agreed to try to reach a common reserve market design.  
25 And if we need to change the New York markets, even though

1 they're operating, our Board has agreed that we will  
2 certainly work in that direction.

3 In the transaction scheduling area, we will  
4 either adopt the same protocol which basically comes down to  
5 an argument over do you have physical rights or financial  
6 rights at the interconnections. And we think there's a way  
7 to make those conform and use the financial rights in New  
8 York and the physical rights in the other two. But if there  
9 isn't, we are committed to working towards finding a common  
10 market design so that in its simplest form, we either all  
11 adopt the physical rights system or we all adopt the  
12 financial rights system.

13 In those markets that are still developing, we're  
14 moving I think very well to try to get to a common design.

15 COMMISSIONER WOOD: And the timeline, is that the  
16 year-end deal as well for the three of you all?

17 MR. MUSELER: In terms of the reserve markets,  
18 I'll have to defer to Gordon and Phil.

19 COMMISSIONER WOOD: On the whole, on this whole  
20 chart?

21 MR. VAN WELIE: No. Let me try and explain the  
22 chart again. I didn't put the timeframe in place. The  
23 current market, that doesn't need any further explanation.  
24 What we filed recently for New England is the implementation  
25 of standard market design, and we've committed ourselves to

1 getting those new markets up and running, congestion  
2 management, multi-settlement by the first half of 2003.

3 So we have a project underway at the moment, and  
4 it was a very crucial decision for us three months ago to  
5 pick a direction and go. Our concern was if we had gone the  
6 way we were previously headed, we would have ended up with  
7 another unique solution up in the Northeast.

8 So by taking this step, I think what we're doing  
9 is taking a significant step towards standardizing the  
10 markets. I can tell you it was a very difficult process  
11 within the Northeast within NEPOOL to actually get to this  
12 point.

13 In general, the people support the idea. They  
14 think it's the right thing to do. The problem we've got --  
15 and this is where I was hoping that there would have been  
16 further progress between PJM and New York -- is we were  
17 hoping to kind of ride in on the back of some of the seams  
18 issues that were being resolved between those two parties.  
19 Because in some sense, if we don't solve the seams issues  
20 between ourselves, New York and PJM, we have reduced the  
21 problem from two seams to one to deal with. But  
22 nevertheless, we've got to make progress in this area.

23 I know Bill is anxious to talk about how we might  
24 move forward in this area, but I think it would also be  
25 helpful. I know the situation that I'm in, and I can only

1           imagine that Bill is also in the situation, where there are  
2           many stakeholders putting pressure on the ISO to move in one  
3           direction or another.

4                   I think clear direction from the FERC would be  
5           helpful in fact in allowing us to move forward expeditiously  
6           on this issue.

7                   COMMISSIONER WOOD: And the clear direction, I've  
8           heard that from I think Phil and Mr. Museler, on what? Tell  
9           me what you want to hear, and I would love you to put it in  
10          an Order that I could sign if I agree with it.

11                   (Laughter.)

12                   MR. VAN WELIE: Well, I think the one thing that  
13          I would struggle with here, because I don't want to be so  
14          bold as to presume to have arrived at the best answer yet --

15                   COMMISSIONER WOOD: Be bold.

16                   MR. VAN WELIE: Okay. Well, I think your options  
17          range from mandating something like standard market design  
18          as being the way forward, at the one extreme, to --

19                   COMMISSIONER WOOD: That's an extreme?

20                   MR. VAN WELIE: Well, there are more extreme  
21          forms than that. You can create larger RTOs. That would be  
22          an organizational form of trying to reach the same end  
23          state.

24                   So from a market design perspective, from a seams  
25          perspective, the one extreme would be to say standard market

1 design is the way to go. A lesser approach would be to say  
2 you can pick on certain issues within that such as the issue  
3 of external transactions and the way transactions are  
4 managed across the interfaces and say there you've got to  
5 actually drive a standard.

6 Because I can tell you that the roots of that  
7 problem lie all the way down into the market design as well  
8 as into the software systems. And so you have inertia all  
9 the way down from your IT folks and your vendors, all the  
10 way up to the people, the stakeholders that are putting  
11 pressure to obviously protect their perceived economic  
12 interests, to the extent that there's a religious  
13 affiliation with doing it one way or the other.

14 COMMISSIONER WOOD: And one final question I  
15 think for the three of you all, and I'm particularly  
16 interested because you all have made some structured moves  
17 forward for integration kind of on your own, what -- I mean,  
18 and I've seen these things work -- how much inertia is there  
19 kind of at the staff level toward doing anything, you know,  
20 some other way? You know, my way's better than your way.

21 And maybe it goes on up to your level as well,  
22 but I'm concerned that we never get there with the voluntary  
23 stuff.

24 And it's not just at the stakeholder level, but it goes all  
25 the way down to the administrative staff for these ISOs.

1 Who's overriding that?

2 And I'm going to ask Nancy that same question,  
3 too. Mr. Harris?

4 MR. HARRIS: Thank you, Mr. Wood. First of all,  
5 I'd like to answer the first question. You asked what would  
6 it take to go forward. Well, the standardized market design  
7 is basically a bid-based security constrained dispatch with  
8 nodal pricing, transmission rights, secured with license  
9 plate transmission.

10 Nearly over four years of empirical work has  
11 shown that that works. And the standard market design goes  
12 around that.

13 COMMISSIONER WOOD: Say that all one more time.

14 MR. HARRIS: The bid-based security constrained  
15 dispatch with nodal pricing, transmission rights -- what do  
16 you call them, FTRs or CTCs as the case may be -- license  
17 plate transmission pricing. And then given generators'  
18 choice -- choice to hedge, choice to bid, choice to  
19 bilateral, whatever they want to do, that combination works.  
20 And throughout the world, it's ultimately coming down to  
21 show that that's the combination that works.

22 On the other issue, one of the things I have --  
23 our members have stepped up to the table. We have nearly  
24 four years of work in the market, and our members voted to  
25 provide our blueprint available to anyone at just strictly

1 the incremental cost to make it available, which makes it  
2 about \$500,000 to just get the basic blueprint; about  
3 \$200,000 for each and every element from that.

4 Our members, all 207 members, voted almost  
5 unanimously to do this because they recognized that  
6 different people have investments at different points down  
7 the line. And this is kind of like buying the blueprint of  
8 the house, but at least they can take it as something that's  
9 kind of a way to start that we've learned empirically. And  
10 this was something that came from our members or the active  
11 traders and bidders in the marketplace.

12 And so that is available, and we've made that  
13 publicly available.

14 The third thing is attitudinal. I have  
15 challenged my staff and have challenged our members that our  
16 attitude has to be everything is a variable except for  
17 liability. We are changing too fast. There are too many  
18 things happening. No one has the right answers. We're  
19 learning empirically it is little steps for little feet, it  
20 is trial runs, and if we go into it with an attitude that  
21 everything is variable and no stakes in the ground, then we  
22 can work together a lot better.

23 And so they are beholden to me. They will work  
24 with that kind of attitude. It will be a variable. We want  
25 to look at things and proceed on a rational, reasoned way to

1 the future.

2 COMMISSIONER WOOD: Let me ask Nancy. You know,  
3 we walk in the same shoes on this, trying to balance all the  
4 parties' interests. You've seen the inter-regional group  
5 work. What role can FERC play in kind of getting us over  
6 the hump here?

7 MS. BROCKWAY: Here I don't know whether this is  
8 going into something which is an active docket. You have  
9 before you two filings on the standard market design, one  
10 from the ISO New England and one from NEPOOL I think. I may  
11 have the dockets wrong. But there are two different  
12 approaches to doing that.

13 And the New England Conference of Public  
14 Utilities Commissioners, we either have or are about to  
15 weigh in on that. Actually, I don't know whether I'm  
16 allowed to say any more than that at the time. But do what  
17 we ask you to do.

18 (Laughter.)

19 COMMISSIONER WOOD: In which docket now?

20 (Laughter.)

21 MS. BROCKWAY: Maybe Gordon can help me out.  
22 There's a docket in which the standard market design is  
23 before you, and there are a couple of different ways of  
24 getting to it. And the differences have to do with  
25 governance and also in our view with the independence of the

1 ISO.

2 Another thing that the FERC can do is to send its  
3 staff again to the Northeast and repeat the work that was  
4 done last year in studying the markets. We didn't  
5 coordinate our presentations beforehand, but I think  
6 everyone is telling you that there's been a great deal of  
7 movement very recently since your November 2000 report.

8 And I think the process of coming and  
9 interviewing us and reporting on that would not only give  
10 you some up-to-date detailed information about what's going  
11 on, but it also -- anytime you folks are in amongst us, it's  
12 a sort of physical reminder to get on with the task.

13 This is not something necessarily authorized by  
14 the Regional Coordination Conference, but one thing that's  
15 been of great concern to me is how the individual states and  
16 contribute to these processes. And as I said before, in New  
17 England, and I believe also in MACRUC, people are very  
18 committed to the concept of seamless market.

19 But we also see that there are some particular  
20 issues. And the example that I give is what if New York had  
21 not moved quickly enough to deal with its crisis in  
22 downstate New York and start bringing on capacity? It's  
23 already having an impact on ICAP prices in New England. But  
24 I don't have -- I told Maureen Helmer that I don't really  
25 have a way to call her up. She told me to call her up

1            anyway.

2            But we need a way of communicating these concerns  
3            down at the local level. And we are actually working on  
4            that through this MOU process. And we're going to be  
5            working more on that when we report to you on that.

6            And I think the final thing that I would say  
7            about it is something that I've forgotten so I can't  
8            remember. Must not have been very --

9            CHAIRMAN HEBERT: Thank you, Commissioner  
10           Brockway, Commissioner Wood. Let me go to Commissioner  
11           Breathitt.

12           COMMISSIONER BREATHITT: I have heard calls for  
13           strong FERC involvement and I've heard calls where we're  
14           making a lot of headway on our own without regulatory  
15           intervention so to speak.

16           I would like to ask to anyone who wishes to  
17           answer, what is the danger of letting individual protocols  
18           evolve? Conversely, what are the benefits of letting  
19           individual protocols evolve?

20           MR. HARRIS: Yes, Commissioner. I think it's a  
21           head and a tail to a coin. You can't dance unless there's  
22           two to tango. We need RTO's form. You can't solve the  
23           problems without bounding the problems with 10 or more RTOs,  
24           then you have independent staffs, independent governments  
25           that can work together to solve the problem. That's the

1 head of the coin.

2 The tail of the coin is that, as you are very  
3 well aware from your activities this year, that electricity  
4 touches the very fabric of our lives. A single misstep can  
5 have huge unintended consequences. And so therefore, as we  
6 work through the issues, we must go through a little step by  
7 little feet approach: Test, develop, learn and grow through  
8 the processes.

9 So the head of the coin, you control. Get RTOs  
10 formed, bound the problem, hold them accountable to you, and  
11 ten or so would do it, because you've solved the boundary of  
12 the problem. And then the tails side of the coin is to  
13 allow the process and the talent to work and increment the  
14 way to the future.

15 COMMISSIONER BREATHITT: So, Phil, you are  
16 arguing or making a point that FERC should not come in at  
17 this time with a mandated approach?

18 MR. HARRIS: My point would be --

19 COMMISSIONER BREATHITT: I don't want to put  
20 words in your mouth. That's why I'm asking you if I --

21 MR. HARRIS: My recommendation, the first thing  
22 is we have to get RTOs approved. Then you have ten entities  
23 accountable to you that are FERC-regulated to deliver  
24 results.

25 COMMISSIONER BREATHITT: Ten in the East Coast,

1 did you say earlier?

2 MR. HARRIS: Ten in the Eastern Interconnection.  
3 Then you have independent governance and staffs that would  
4 be accountable to work the issues on this very complex thing  
5 called electricity so we can get measurable and deliverable  
6 results over time. And I think that's the way to go in the  
7 future.

8 MR. MUSELER: Commissioner Breathitt, you asked  
9 what perhaps you could do to avoid some of the problems that  
10 we've experienced. And with perfect hindsight, there are  
11 some things that we have learned and your staff I think has  
12 learned. And I'll just give you one example between New  
13 York and PJM. This is certainly not the fault of the  
14 Commission nor the fault of the parties.

15 But we have in one of the most crucial areas or  
16 issues with respect to seamlessness between the markets, we  
17 have two different approved methodologies for dealing with  
18 transaction scheduling and particularly transmission  
19 prioritization. On the one side there's the physical system  
20 which is much like the pro forma tariff. On the other is a  
21 financial based system which is based much like the LBMP  
22 congestion management system, which is used on both sides of  
23 the fence.

24 Now that I would propose since no one knew early  
25 enough what that was going to do, there is something that we

1 now know and your staff knows if there are two RTOs and  
2 they're both proposing something and those fundamental  
3 systems -- not the details, but the fundamental systems are  
4 different --that's a formula for a problem that we're still  
5 working our way through, and I think we've got a way to  
6 solve it now.

7 But that's the kind of thing that I think the  
8 Commission should be aware of when you are dealing with  
9 various filings, particularly between adjacent RTOs. If  
10 someone were to propose an LBMP system and adjacent to it  
11 some other system for congestion management, I think that's  
12 something you would need to look at very hard. So that's  
13 the kind of thing I think you can pick up and prevent the  
14 problems, now that we've had that experience, from occurring  
15 in the future.

16 COMMISSIONER BREATHITT: Mr. Baker and then Mr.  
17 Afranji.

18 MR. BAKER: Thank you, Commissioner. There are  
19 two things that I wanted to mention, working off of what Mr.  
20 Harris said. I think it's not only have the RTOs approved,  
21 but it's to have them operational.

22 If we at the Alliance were required to expend the  
23 effort between now and December 15th that we are doing with  
24 MISO to solve all these seams issues, with every seam that  
25 we have, given that we're interconnected with four RTOs as

1 well as Ontario and TVA, it would jeopardize being able to  
2 meet the deadline of operational status. As I said, I  
3 believe they will evolve.

4 Secondly, what I'd like to note is that I think  
5 one of the things rather than dictating a specific approach,  
6 creativity comes from the ability of people to work together  
7 and come up with new and different ways of dealing with it  
8 as opposed to one single standard which doesn't allow for  
9 evolution over time.

10 MR. AFRANJI: Commissioner Breathitt, for someone  
11 like me who sat through endless hours at the NERC, NIC,  
12 listening to discussions, downing many cups of coffee to  
13 stay awake because I could not relate to the issue because  
14 it is not a Western issue, I would urge us to take care of  
15 the uniqueness of each region.

16 The OASIS, the TLR issues are prime examples of  
17 why we shouldn't have one-size-fit-all, meaning there are  
18 unique regional aspects. And in the West, I can speak for  
19 the West, we are moving fast forward to resolve those issues  
20 and create what we hope will be a seamless market across the  
21 Western Interconnection.

22 And I feel if there is a nationwide imposed  
23 parameters that it will impact the competitiveness of the  
24 marketing in a very negative way.

25 COMMISSIONER BREATHITT: Mr. Mansour?

1           MR. MANSOUR: Madam Commissioner, when you look  
2           at the Northeast and you see how it came from and how mature  
3           those organizations have been for the last 25, 30 years  
4           maintaining some sort of trade and tide pool operation, they  
5           came from a different state altogether. They have been  
6           formed voluntarily as ISOs before even Order 2000 to a large  
7           extent.

8           Now when organizations like these comes from  
9           that, then they really have every sympathy to try to  
10          coordinate rules that have been existing and we have to give  
11          them time to do so. What I'm having difficulty accepting is  
12          for areas where nothing had been formed, like the RTO West,  
13          doesn't exist yet. Desert Star doesn't exist yet.  
14          California is trying to decide what they're going to be like  
15          tomorrow.

16                 (Laughter.)

17          MR. MANSOUR: And then we accept that they would  
18          be different first and then sit down and coordinate later.

19          Now the danger is the perception of fast, or how  
20          fast do we move, with all due respect, you listen to my  
21          colleagues saying we have been working on it for a year now.  
22          And you know what? The RTOs haven't been formed yet.  
23          There's about five or six working groups with 10, 20 people  
24          in each working group. And they haven't even started yet.  
25          Imagine how many issues each one will do independently as we

1 move forward and how slow that process would be if we allow  
2 new independent entities to structure themselves and their  
3 rules in different way. It's just not going to work.

4 Now you say, what can we do? If it is one  
5 natural market like the West, you can make it clear that you  
6 are not going to accept different concepts and many issues.  
7 You can give that signal, and from the beginning then can,  
8 just like they try to coordinate, it would be easier to be  
9 standardized from the beginning. Or when you get all the  
10 RTO applications, you look at them in one shot and say why  
11 are they different? Or send them back or say, well, if this  
12 worked for you, why does it not work for you?

13 But just accepting people who are just coming to  
14 you to be different and coordinate later is something to me  
15 that's difficult to accept.

16 COMMISSIONER BREATHITT: I'm just going to ask  
17 this round of questioning that I just asked. Then if  
18 there's time with this panel, I'll ask a second one. Don't  
19 answer this, but I'm also curious if FERC or you as an  
20 industry decided that there needed to be standards or  
21 standards that evolved, I'm curious as to how -- what the  
22 dollar amount is on certain things.

23 I know software programs are very expensive.  
24 You've talked about that, Phil. And we've heard in courtesy  
25 visits that RFPs are being issued for software programs, and

1 those have high dollars. But is it expensive dollar-wise to  
2 change a protocol that would have to do with other of the  
3 seams things? So it's a curiosity I have right now that I  
4 don't know much about. Maybe we can get into that in a  
5 little bit. But I want to pass this on to my colleagues  
6 now.

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1           CHAIRMAN HEBERT: Thank you, Commissioner  
2           Breathitt. What I'm trying to do is somewhere in the area  
3           of ten minutes. Commissioner Brownell, let me remind the  
4           Commissioners you're certainly welcome to add questions to  
5           the record.

6           COMMISSIONER BROWNELL: Mr. Mansour, just for a  
7           point of clarification, I think we do know where  
8           California's going to be tomorrow. I think that's what we  
9           did yesterday.

10          I, like Commissioner Breathitt, am just a little  
11          bit confused about "leave us alone" and "give us more  
12          direction." Would it be helpful, perhaps, if we, working  
13          with you, identified the issues on which one might agree  
14          that we need standardization and then set some deadlines  
15          about when we expect to hear from them?

16          We've got a pretty short-term deadline here. I  
17          think you said that some of the issues in this wouldn't be  
18          resolved till the end of 2003. I may not live that long, to  
19          be honest with you.

20          Would it be helpful if we set deadlines for  
21          responses to certain seams issues?

22          And then I have a quick, second question.

23          Phil, you've made your program available, I don't  
24          know, for six or eight months, and I'm not endorsing  
25          anybody's program. But I don't hear a whole lot of takers.

1 I hear us, I think the point that Mr. Mansour was trying to  
2 make is we are starting all over again in a lot of areas.

3 Is the problem that there just isn't commonality  
4 on some of these issues? I'm just confused.

5 MR. HARRIS: Maybe two or three of the points.

6 I think first of all, agreeing with Craig, you  
7 have to have an entity that's up and running to deal with  
8 the problem. That means you have to get RTOs established  
9 and they have to be operational. That should be priority  
10 one. You just can't complete the details you need to  
11 without having these things up and running, independent  
12 governance and so on. That should be job one.

13 Job two, and that is exactly the issue. What you  
14 are hearing here is that if you have individually-developed  
15 standard market designs, and individually-developed rules,  
16 such as in congestion management, you are creating untold  
17 seams among the seams you're trying to solve.

18 So any direction the Commission could give to  
19 that would be exceedingly helpful. The mechanics can be  
20 worked out amongst the details as far as timelines go. I  
21 think the first timeline to stick to is to get operational.

22 You only have basically three operational  
23 entities now that could even have a hope of truly being an  
24 operational RTO. The others have to be created from  
25 scratch, get their governance cleared up and then get in

1 existence. That's a daunting task.

2 In that process then, to come up and agree on  
3 what the standard markets should be and let's work on it.

4 MR. TORGERSON: Commissioner, on should we set  
5 deadlines, I agree with Mr. Baker, that getting the Midwest  
6 ISO and Alliance up and operational by December 15th, we are  
7 working with them. I do not have people that I can put on  
8 another task force to deal with all the other seams issues.

9 However, I think unless some deadlines are set at  
10 a reasonable point in time, things will drag. I think  
11 that's been somewhat of our experience, but I think some  
12 reasonable deadlines in the future could be worked, but we  
13 cannot do all the seams between now and December 15th.

14 We'll have the Midwest ISO will be operational  
15 and we're going to market trials August 1st. In a little  
16 over 30 days, our systems are in. They're being tested at  
17 our site right this minute, and we will be running. But to  
18 do more would be very difficult.

19 MR. BAKER: Just one point I would like to make  
20 and it goes back to the creativity issue and the evolution  
21 of designs. PJM has a market design which clearly works  
22 very well for them. Three of the RTOs who are in  
23 discussions in the seams collaborative process are looking  
24 at a different market design for transmission constraints,  
25 one that is a hybrid that deals with flow gate rights and in

1 combination with locational marginal pricing.

2 I think that needs to be given a chance to be  
3 tested as opposed to just taking the one model which is  
4 functioning and may or may not work because the  
5 characteristics are different in these regions from one to  
6 the other. We have to have a chance to test various models.

7 As long as we can manage the fact that you do  
8 have to interact between a hybrid model and a pure LMP  
9 model, and work together to manage those seams.

10 MR. VAN WELIE: I'm sure the point's not lost on  
11 you, but in terms of having liquid markets, markets that  
12 work and having reliable delivery of electricity, I think  
13 the thing we need is investment. We need capacity, we need  
14 infrastructure, and to jump in here and support what Phil  
15 was saying.

16 In order to do that, you've got to create some  
17 certainty. The first step in creating certainty is to get  
18 the RTOs up and working. The next step in creating  
19 certainty is to give direction as far as standardization is  
20 concerned where it's appropriate.

21 Until you do that, you're going to have people  
22 not taking the step and banking the investments that are  
23 necessary. I think therefore that would be my request to  
24 you.

25 COMMISSIONER BROWNELL: You're preaching to the

1 choir on that one.

2 MR. AFRANJI: Just along the same lines, if you  
3 need investments, my hope is that we take a closer look at  
4 transmission transcos for-profit transmission companies.  
5 Those are the entities that will put forward the dollars  
6 that will do the proper investments and will have all the  
7 efficient reasons to do all the efficient things in the  
8 market, rather than do the gold plated solutions.

9 COMMISSIONER BROWNELL: That's it.

10 CHAIRMAN HEBERT: Thank you, Commissioner  
11 Brownell.

12 Commissioner Massey?

13 COMMISSIONER MASSEY: Let me ask this question to  
14 whoever wants to respond. In each RTO, it seems to me  
15 here's the problem. Here's where we are. If each RTO  
16 invests millions in idiosyncratic software and other  
17 structures to implement idiosyncratic market design and  
18 congestion rules, won't that make it harder ultimately to  
19 get to a common design?

20 Would you all agree that the answer is, yes, it  
21 will make it harder?

22 So what if this Agency got more aggressive, that  
23 RTOs were appropriately formed, sized and shaped, because if  
24 they're the right scope -- I'm intrigued by Mr. Heller's  
25 comment. To eliminate seams right off the bat is to make

1 sure that you have the right scope and shape for the RTOs.

2 But then, number two, what if this Agency, after  
3 this conference, this Commission issued an order saying that  
4 we think that ultimately we need a single market design, a  
5 single protocol for congestion management?

6 You know, we haven't decided what that ought to  
7 be but we're just telling everybody that we think that would  
8 be good for consumers in this country.

9 What would happen then? What do you think the  
10 response from the marketplace would be?

11 Nick Brown, and by the way, Nick, I like your  
12 tie. You told me in Michigan you'd burnt all your ties, but  
13 you've got on one.

14 MR. BROWN: I had, and I appreciate that. That's  
15 three-and-a-half years. You know, I was forced to get one  
16 for last week's meeting, so I decided I'd wear it again  
17 today.

18 MR. LAUNER:

19 MR. BROWN: Bottom line, what would happen if we  
20 had a single market structure? Well, obviously the  
21 marketplace would love it. I think we are headed there.  
22 There is no question in my mind that ultimately that is  
23 where we will be.

24 COMMISSIONER MASSEY: Has this Agency given a  
25 clear signal that that's what we want?

1           MR. BROWN: I think you have. The problem is how  
2 far can we get in one step.

3           Within Southwest Power Pool, we have investor-  
4 owned utilities with transmission assets committed to the  
5 tariff. We have cooperatives, we have municipal, we have  
6 state agencies, we have a federal agency. Trying to corral  
7 that diverse group has been problematic to say the least.

8           And until we can, as Phil said, take some baby  
9 steps and reduce the number of negotiating parties, it's  
10 going to be much more difficult to reach the end state.

11           I'm also reminded I think particularly your  
12 comments on issuing Order 888, the encouragement of regional  
13 laboratories, the bottom line, no one knew the exact end  
14 state of these market-based congestion management systems,  
15 and that we would get there through experimentation.

16           We are headed toward locational based marginal  
17 pricing in terms of dealing with congestion management in  
18 the Southwest Power Pool.

19           We have visited with Phil's staff numerous times,  
20 and one of the things that I've thanked them for is being  
21 very up front about the fact that they're where they are  
22 today through an evolutionary process.

23           They didn't begin with the rules that they have  
24 in place today. They have in fact made numerous filings  
25 with this Commission in changing those rules over time.

1           So the question is, does anyone have it exactly  
2 right today? I don't think so. I think all of the markets  
3 are still evolving and the question is, do we want to force  
4 everything to the same model right now.

5           Yesterday's order by this Commission very much  
6 recognized that markets take time to mature, and that  
7 maturation process I believe is occurring and we are  
8 attempting to get there.

9           And then last, in terms of getting to that end  
10 state, we need certainty going out to the marketplace.  
11 Today to attract the personnel that's necessary to implement  
12 these systems is difficult when the regions are very  
13 uncertain in terms of their ultimate recognition as regional  
14 entities and so on, as well going to the financial markets  
15 to obtain financing to pay for these systems.

16           And yes, they are expensive but at the same time,  
17 saying that it's going to be hard to evolve from these  
18 systems over time, I just don't believe that.

19           Here's why. All of these systems today  
20 especially are not as long-term as at one time EMS systems  
21 were. Average life now is less than three years before  
22 hardware and software has to be changed out. So the cost  
23 and investment in these systems is not what it was at one  
24 point in time, and is not such that it has to be capitalized  
25 over longer periods of time.

1                   COMMISSIONER MASSEY: I'm concerned that our  
2 California experience is the result of let 100 flowers bloom  
3 in the marketplace.

4                   Mr. Mansour, did you have a comment? I know that  
5 several people do. Please feel free to jump in.

6                   MR. MANSOUR: You said what would happen if you  
7 did that. First, asking for standardization within the same  
8 natural market is different from standardization across the  
9 country. Yes, they are different in nature. Some are for  
10 some regions and not for others.

11                  But if it works for one region, it has to make  
12 sense for the entire region or it doesn't. So  
13 standardization for one region, that puts a simple fine  
14 character on it.

15                  What would happen is you would probably end up  
16 with a less expensive system because when you have five RTOs  
17 in the west, for example, each one is developing their own  
18 software. Yes, it costs a lot of money.

19                  If you have them doing the same protocols, the  
20 same timelines, the same reservations, the same scheduling  
21 systems and so on, you would have one set of tools that have  
22 been developed. There's some custom design or tailor  
23 fitting for various operations within the same region, but  
24 to a large extent, it would be the same tool.

25                  Actually, you may end up having even third

1 parties, if things are consistent, offering many of those  
2 services for free. Not necessarily be a cost of RTOs.  
3 We've seen that in the voluntary power exchange and other  
4 things. I mean, there are a lot of things that would have  
5 tremendous benefit if that happens.

6 What you'll also see is resistance. That's what  
7 we're seeing today. God knows what it is. As I said, the  
8 boundaries of RTOs are based on who joins who, and then we  
9 draw the line and say they are different. Just because they  
10 are two different entities with two different sets of  
11 people, you will see that resistance. You can soften that  
12 by not necessarily saying one model and this is the model,  
13 but say one model and work it out. It will all be worked  
14 out.

15 MS. BROCKWAY: Commissioner, I think in the  
16 Northeast, if the Commission were to make such a ruling, it  
17 would accelerate a process that is already well underway of  
18 moving towards a standardized market design. I think the  
19 problem that we have had primarily is -- and maybe it's  
20 limited to us, I don't know -- it is for us a distraction, a  
21 taking of resources away from actually making the markets  
22 that we have now work. And not only do we all know that  
23 there are problems with the markets now, thank goodness in  
24 the Northeast, they are orders of magnitude different from  
25 the problems in the West.

1            Yet, at the same time, they are real problems and  
2 they need to be worked through, and we need to make the  
3 markets better.

4            In fact, one of the major reasons why many of the  
5 Northeast Commissioners have been supportive of the standard  
6 market design that the ISO worked out, ISO New England has  
7 worked out with PJM, is precisely because it allows us to  
8 solve some of those specific market problems. It's not just  
9 standardization, it's the fact that we're now getting some  
10 quicker movement on congestion management and multi-  
11 settlement which, since the beginning of our markets in New  
12 England, have not been there and have caused problems.

13           I think all of us need some humility about  
14 whether or not we know what is the best design, and I would  
15 particularly point to the fact that none of the ISOs or the  
16 RTOs in the entire country have gone through a full cycle of  
17 investment; in generation, investment in transmission,  
18 investment in energy efficiency.

19           We don't know how these markets are going to play  
20 out over that time. We have seen some of the problems that  
21 you get when you have a capacity crunch and we're all trying  
22 to work through those and we'll get some more capacity in  
23 line but then what happens when you get to the next cycle of  
24 that in a commodities market which is going to have a  
25 natural boom and bust cycle.

1           Particularly because of that problem, which I  
2 spent a lot of my time worrying about for the Northeast,  
3 we're coming into a very nice period, we hope, in the next  
4 couple of years, so I'm thinking about 2007 and 2010 and  
5 what type of structures do we need in place then.

6           That maybe at the retail level, we can provide  
7 physical hedges and financial hedges and protect ourselves  
8 from a boom and bust at the wholesale level.

9           But we will be forced into greater and greater  
10 reliance on those if the wholesale markets don't get  
11 themselves straightened out and don't work over the long  
12 term.

13           We think the standard market design is good but  
14 even that has not been road tested through the whole boom  
15 and bust cycle.

16           COMMISSIONER MASSEY: Do we need to move on, or  
17 can Mr. Heller comment? Very briefly?

18           CHAIRMAN HEBERT: Sure.

19           MR. HELLER: Mr. Chairman and Commissioners, just  
20 in response to your question, we would support your  
21 suggestion very strongly of establishing boundaries and  
22 establishing some sort of structure in which business  
23 practices could be looked at similarly across RTO regions.

24           I think if you would open a docket and have an  
25 investigation similar to this on technical issues, what

1 business practices can we standardize on, I think the whole  
2 industry would be much better served.

3 CHAIRMAN HEBERT: Thank you, Commissioner Massey.

4 Just a couple of thoughts and then perhaps a  
5 question or two.

6 There has been much conversation over the last  
7 couple of years, certainly within the last year, about where  
8 we go with seams and how do we solve the problems that we so  
9 clearly know are going take place in the future.

10 I commend you and admire you for thinking about  
11 eight and ten years as opposed to one and two. I think  
12 that's how this gets done correctly, and I think that is in  
13 the best interest of consumers.

14 This Commission has, based on my experience here,  
15 at least in the last half year almost, any time there's been  
16 an interconnection issue or a seams issue that's been  
17 brought before us, we have acted expeditiously and we will  
18 continue to do so.

19 I guess my first question would be, is there  
20 anything we should do in the near term to better fast track  
21 that? Do you see any difficulty?

22 If you don't know of any, don't say any because  
23 I've got several questions, but if you do, I'd like to hear  
24 about it.

25 (No response.)

1 CHAIRMAN HEBERT: Okay, next question.

2 I guess the main reason for calling this  
3 conference right now is just the very ripeness of the issue.  
4 And I think so many of you have talked about that to say  
5 that we kind of guessed at what the issues are. We don't  
6 know what the issues are until we get RTOs. We've got to  
7 have RTOs up and going.

8 Having said that, I think it is right, and I  
9 think now's the time to have this discussion and try to  
10 maybe start making some calls here.

11 But I go back and Commissioner Breathitt and I  
12 have had conversations about Order 2000 and Function 8. We  
13 obviously saw the importance of it in Order 2000 and that's  
14 why it is one of the eight characteristics. Actually we  
15 have four characteristics and eight functions. But it's one  
16 of the eight functions.

17 At this point, what more than Order 2000 Function  
18 8 and requiring that within an RTO, should we be doing? Or  
19 should we call stricter balls and strikes in the RTO filings  
20 themselves.

21 Mr. Museler?

22 MR. MUSELER: I think with respect to, I think  
23 you characterized it within the filings, characterized it as  
24 calling balls and strikes, I don't mean in the details so  
25 much as I mean in the principles. Again, there is enough

1 experience with the markets that have been operating and  
2 even California has contributed some knowledge to the  
3 process, such that both you and your staffs can recognize  
4 when certain features that are proposed, particularly in  
5 adjacent RTOs, are incompatible where we know they're going  
6 to be causing problems.

7           And so in that respect, I'm not suggesting that  
8 you dictate in advance what things should be but as people  
9 propose various options and various ways to design certain  
10 market features, I think it is recognizable for you to  
11 determine that in certain cases, there may be incompatible  
12 structures that are being proposed in adjacent RTOs, so I  
13 would encourage you to call stricter balls and strikes in  
14 that regard, as opposed to trying to define world peace,  
15 which I don't think is possible.

16           MR. HARRIS: Mr. Chairman, I would agree with  
17 Bill. I think, you know, we have seven or eight years of  
18 dialogue. There have been four or five years of operational  
19 empirical experience. I think there's time that you can  
20 make certain decisions on certain things and provide  
21 positive direction. It doesn't mean it's the end state. It  
22 doesn't mean it results in the right thing.

23           But you do have some evidence now on what will  
24 and can work as a starting point. With that done as a  
25 starting point, the Commission should look at some way to

1 backstop the seams issue so that people have a way to come  
2 to you to get resolution that is necessary because you have  
3 asymmetry at the development of marketplaces at this point  
4 in time.

5 We talked about between New York and PJM. Some  
6 RTOs do not have markets. Some have spot market  
7 administration by the RTO. That creates a symmetry. It's  
8 going to be very difficult to get together and resolve those  
9 market seams issues with that kind of environment. We would  
10 need a process that was known and provides some sort of  
11 quick adjudication so we could come to you as a backstop to  
12 resolve these issues so we don't get a bottleneck in working  
13 through them.

14 CHAIRMAN HEBERT: You had mentioned, Mr. Afranji,  
15 the transcos. Does that play a role in what we're doing?

16 MR. AFRANJI: Absolutely. I was having a  
17 different direction, but maybe I'll answer that first.

18 As you well know, there is a transco in the  
19 Northwest with a happy marriage at this stage with RTO West  
20 and we're expanding our discussions to the Desert Star area.  
21 It may very well expand where we have a for-profit company  
22 across a sizeable portion of the west.

23 Where I was going with my earlier comments is,  
24 there are different stages of evolution of RTO formations  
25 across the nation at this stage, and having to standardize

1 or force the standardization may impact the formation of  
2 RTOs in different ways because of their different evolution  
3 stages.

4 And the Northeast pools have been there in place  
5 for a long time. They know exactly -- if not exactly -- but  
6 they know better what direction they should be heading in.

7 As far as the West is concerned, they are just  
8 evolving and trying to come to some consensus, something  
9 FERC has already done that has contributed significantly to  
10 the healthiness of some of the seams discussions we've had.

11 You had a member of your Staff, Mike Kolen, who  
12 attends a lot of them, and he helps to bridge a lot of the  
13 issues. His mere presence has contributed significantly  
14 having to force a standardization that may very well fit in  
15 the Northeast on the West, may do nothing but backfire on  
16 the process of forming RTOs because forced marriages hardly  
17 ever work. They either have an aggrieved party, or you end  
18 up with a divorce.

19 We'd rather, as of now, we have three entities  
20 that seem to be moving forward and willing to work through  
21 the issues, and have made significant progress. And forcing  
22 this issue may, one, thwart the evolution of the for-profit  
23 transmission companies, as well as put in my opinion,  
24 endanger the RTOs themselves.

25 CHAIRMAN HEBERT: Thank you.

1 Mr. Mansour?

2 MR. MANSOUR: I want to address the Canadian  
3 issue of RTO, Order 200, Mr. Chairman.

4 The Order articulated invitation very nicely. It  
5 also articulated the vision of how the two regulators would  
6 work together, and asked us to be available, so the  
7 invitation was well-articulated to the Canadian side, that  
8 there was no expectation to your jurisdictional entities to  
9 actually accommodate the Canadian participation.

10 That is an issue that we're facing. We're not  
11 being accepted as you envisioned, it is considered  
12 voluntary. Over a year of negotiations that go once every  
13 few months, not a priority in spite of the fact that the  
14 Canadian provinces in the West have a major role to play in  
15 the market.

16 So the direction to the jurisdictional entities  
17 to accommodate the Canadian participation is needed.

18 CHAIRMAN HEBERT: Thank you. And I understand  
19 that not only do we need to work strongly with the Canadians  
20 north of us, but Mexico south of us too, to get a North  
21 American grid that will work.

22 Mr. Baker, then I'm going to close out real  
23 quick.

24 MR. BAKER: Yes. I would support the idea that  
25 transcos will facilitate transactions. It's just in their

1 business interests. They make money by filling the pipe and  
2 they will reduce their risk by working well in seams.

3 One of the things that both the Alliance and  
4 Midwest are not planning on running spot energy markets. We  
5 both welcome I believe an independent for-profit entity  
6 coming in and developing those markets in the region. That  
7 is something that we think is better done by someone who has  
8 that market experience as opposed to running transmission  
9 grids, things that you could do to facilitate development of  
10 those for-profit spot markets I think would be helpful in  
11 advancing market development.

12 COMMISSIONER BREATHITT: Could I just ask a  
13 quick, clarifying question?

14 ` Curt, the spot market, are you saying that  
15 there's a difference between developing a spot market, and  
16 the imbalance, two different things?

17 MR. BAKER: I mean those independently. That the  
18 imbalance market has one set of components that the market  
19 operator needs to make sure that he keeps the area in  
20 balance, and then there is the desire, by many market  
21 participants, not all but many market participants, for a  
22 very active spot market where counter-parties can trade and  
23 you can have settlements.

24 CHAIRMAN HEBERT: A couple of things real quick.

25 One. I've heard all of you talk about how

1 important it is that we move forward with the RTOs and we do  
2 that quickly.

3 I think you're going to see and know that this  
4 Commission is committed to that and we hear you.

5 The other thing, Mr. Baker or whoever knows, who  
6 is in charge at this point of the Eastern Interconnection  
7 Collaborative on these seams issues? Who's kind of heading  
8 that up?

9 MR. BAKER: It is a collaboration of all of the  
10 groups. There is a single individual named Joe Bamanek of  
11 Consumers Energy who is the person who has been chairman of  
12 that group on a going forward basis.

13 CHAIRMAN HEBERT: One of the things that was  
14 brought up was the number of people involved in  
15 negotiations. If you would share with Mr. Bamanek -- I  
16 don't believe he's here or going to be here -- that it would  
17 be my recommendation that we try to limit the number of  
18 people involved in that process as to actual people who need  
19 to be there to call balls and strikes, and try to come up  
20 with some recommendation.

21 I think that would help us all. I think  
22 everyone's experience is, the more people you get involved,  
23 the harder it is to make a decision, and I don't want  
24 anything to be misread that I want to exclude anyone who  
25 needs to be in the process, but I certainly want to exclude

1 everyone who needs not to be.

2 All right, we're going to have a break for ten  
3 minutes. Next panel. Thank you, panel, we appreciate it.

4 (Recess.)

5 CHAIRMAN HEBERT: All right, Commissioner Nelson.

6 MR. NELSON: Chairman Hebert, Mrs. Breathitt and  
7 Wood, I appreciate the opportunity to be here today. I am  
8 here today to address the issue of regional coordination of  
9 electric power markets, specifically as it relates to the  
10 Midwest.

11 And in particular, the topic of this panel  
12 dealing with concerns about current seams issues.

13 In this regard, I want to commend this Commission  
14 for approving the March 21, 2001 settlement involving the  
15 Midwest ISO and Alliance RTO. That settlement, which was  
16 approved on May 8th, recognizes that there were two distinct  
17 business models that the affected transmission owners wanted  
18 to pursue, and although it wasn't possible to achieve a  
19 merger of these two models, it was appropriate to devise a  
20 single transmission rate for the area encompassed by the  
21 Midwest ISO and Alliance RTO.

22 To require adherence to the inter-RTO Cooperation  
23 Agreement and the Super Region and to ensure the independent  
24 operation of both the Alliance RTO and the Midwest ISO by  
25 December 15th.

1           The settlement represents on paper, I believe,  
2           the essence of Order 2000's promise; the development of a  
3           seamless market encompassing the broadest geographical  
4           region in this country.

5           Now I know Mr. Baker indicated that he was proud  
6           of that settlement and I think he should be, and I think the  
7           Alliance Company deserves credit for that. In my view, it  
8           was the close coordination of the positions of virtually all  
9           the State Commissions in the Super Region and this  
10          Commission's insistence on securing a settlement for  
11          approving the withdrawal of Illinois Power which made the  
12          difference.

13          Despite all the efforts of this Commission, the  
14          State Commissions, user groups and market participants, the  
15          promise of a seamless market in the Midwest may be  
16          evaporating. And I believe that it's important that these  
17          efforts not go for naught and that with this Commission's  
18          active involvement in the process and its insistence that  
19          the parties adhere to the terms of their promises, this will  
20          not be for naught.

21          In this regard, without getting into the merits  
22          of pending cases, I would simply note that Michigan, joined  
23          by other Midwestern State Commissions, has filed a protest  
24          to the Alliance Company's compliance filing related to the  
25          Alliance RTO.

1           As difficult as I think some of you former State  
2           Commissioners know, it is to get State Commissioners  
3           together on an issue, we managed to get nine State  
4           Commissioners to get together not only with regard to the  
5           settlement but also with regard to this filing that was made  
6           yesterday.

7           So I think it's important that, given due  
8           consideration, it does represent the views of a very broad  
9           range of different views on the State Commissions.

10          In my remaining time, I want to focus on two  
11          things; the importance of a meaningful stakeholder process  
12          to the success of this Commission and the State Commissions  
13          in promoting fully functional and responsive RTOs that will  
14          facilitate the vibrant wholesale competition and broad,  
15          seamless regional markets.

16          Two, the need for this Commission to ensure that  
17          would-be RTOs are taking timely steps toward independence  
18          prior to the planned dates of initial operation. A true  
19          stakeholder process should treat stakeholders not as pesky  
20          antagonists but as partners in an effort to create a  
21          seamless, regional market.

22          My discussions with fellow State Commissioners in  
23          the Midwest convinced me that they are willing and able to  
24          play a constructive role in the stakeholder process.

25          The worst possible outcome for the State

1 Commissions would be to disengage from the process out of  
2 frustration. I therefore urge you to closely review the  
3 stakeholder process in progress to date, and take all  
4 reasonable steps to ensure a stakeholder process in which  
5 reasonable participation of the stakeholders is ensured.

6 I want to emphasize that RTOs don't spring up  
7 fully grown on the date they begin operation. Transmission  
8 owners, who also own generation or whose affiliates who own  
9 generation, will have an inherent incentive to favor their  
10 own generation.

11 Decisions on market monitoring, independent audit  
12 process, energy imbalance service and congestion management  
13 are all critical issues that must be made by a truly  
14 independent entity. Those decisions will be skewed if they  
15 are not made by transmission owners, rather than independent  
16 entities.

17 I call upon this Commission to vigorously enforce  
18 the terms of all orders and settlement agreements including  
19 the stakeholder advisory processes that are meaningful and  
20 developed with the consultation, not the mere presence of  
21 stakeholders.

22 Finally, I want to offer the services of the nine  
23 State Commissions who have devoted considerable time and  
24 effort to achieving the goals of Order 2000 in the Midwest.

25 The State Commissioners have recently organized

1 an effort to share the load among themselves and have a  
2 science technical staff on various State Commissions to work  
3 on behalf of the coalition of states engaged in the Alliance  
4 for MISO development.

5 Without these conditions of intervention,  
6 however, our offer of services like our attendance at  
7 certain stakeholder advisory meetings, will be given as much  
8 consideration as Oliver Twist's plea for more gruel.

9 To the great detriment to the interest of  
10 creating a seamless regional market, we hope you will  
11 consider our involvement a resource on which this Commission  
12 can rely.

13 Thank you very much.

14 CHAIRMAN HEBERT: Thank you, Commissioner Nelson.

15 Mr. Reed?

16 MR. REED: My name is Harvey Reed. I'm here on  
17 behalf of the Alliance of Energy Suppliers. We are  
18 customers of the RTOs and the ISOs. Our perspective is a  
19 little different than what you heard from the previous  
20 participants.

21 We're part of the process by which we try to  
22 reach consensus. The last speaker talked about a  
23 collaborative process. What I've noted from the  
24 collaborative processes for RTO development or for would-be  
25 RTOs, is the individual RTOs and ISOs are developing on

1 their own motion. They're moving in their own direction and  
2 they're not coordinated, as you would think.

3 The transmission owners themselves control the  
4 process in the transco-type RTOs, and you have some say, you  
5 have an ability to get up and say something in those  
6 processes but they're off running the process on their own.

7 And the on-going collaborative processes are not  
8 working and they are in need of revision. I likened them to  
9 the process that I engaged in when I went to New York for  
10 the first time to engage in the process where we had an open  
11 meeting with the New York Power Pool, and they had three  
12 answers for you.

13 One was, we'll get back to you later; two is,  
14 we'll do a white paper; and the other one is, we'll take  
15 that one under advisement. I think that's where we are in  
16 the processes we're engaged in right now.

17 And it's of critical importance for the market  
18 that we actually get collaborative processes that work.  
19 With respect to the RTO development, the energy imbalance  
20 markets and the congestion management systems are in fact  
21 the spot markets that are under development in the Midwest,  
22 and they are already developed in the Northeast.

23 It is those markets that need to be coordinated.  
24 Without some coordination between those markets, you are  
25 going to have disconnects, and those disconnects will

1 manifest themselves both in the forward market and the spot  
2 markets.

3 The open architecture that the Commission has  
4 prescribed allows for different spot markets if you're going  
5 to allow for different spot market designs. It's going to  
6 create seams if you don't manage them as you go forward.

7 And I think there's a lesson to be learned from  
8 the Northeast. The lesson to be learned from the Northeast  
9 is, in the Northeast we created market-driven seams at  
10 50,000 feet. New York and PJM are the same. They are LBMP  
11 markets. Why should there be a problem?

12 Fundamentally, one is a financial model, one is a  
13 physical model, and there's a real difference in terms of  
14 schedule. That market-driven seam has created untold  
15 problems for market participants in terms of trying to fix  
16 the problems. These seams themselves I think we are well on  
17 the way to fixing.

18 I've got a suggestion for you in terms of helping  
19 us get it done. But I think we ought to learn from that  
20 lesson in the other markets that we're dealing with. From  
21 my perspective, absent prescribing a standard market design,  
22 and I don't know if anybody knows what the right market  
23 design to prescribe if you're going to prescribe one.

24 The Commission need to require a seams  
25 coordination template. You just can't leave the

1 interregional coordination to the RTOs to develop on their  
2 own.

3 We have to have some kind of template and it's  
4 got to have a common interface to it. Deviations can be  
5 permitted if they are demonstrably better and they are  
6 agreed to by the neighboring RTOs.

7 Action is required now and the reason why you  
8 want action now is there's a lot of money going to be spent  
9 on systems by those would-be RTOs for congestion management  
10 systems. The time to put the template in place is now, not  
11 after they've built it, built the architecture.

12 With respect to the Northeast, they are well on  
13 their way with the high priority issues to resolving them,  
14 but I think what you need to do is hold the Northeast to  
15 resolving those issues by a date certain. And the date  
16 certain that I would recommend is by this winter.

17 I think they can resolve the seams issues by this  
18 winter and they should be held to it. They've had the MOU  
19 process in place for almost a year-and-a-half. And given  
20 that MOU process, I think we ought to get something out of  
21 it from the market perspective.

22 Thank you.

23 CHAIRMAN HEBERT: Thank you, Mr. Reed.

24 Ms. Fahey?

25 MS. FAHEY: Good afternoon. My name is Reem

1 Fahey with Edison Mission Energy.

2 I would like to focus my presentation on the  
3 Midwest ISO Alliance settlement agreement to create a  
4 seamless market in the Midwest.

5 What I hope to do is share with you three  
6 examples where I believe that the two organizations have  
7 already decided to diverge from achieving the objectives of  
8 this agreement, even though the settlement agreement has  
9 only been approved six weeks ago by FERC.

10 We're already on the wrong path.

11 I would like to direct your attention to the  
12 second page of my handout which should be service territory  
13 of the Midwest ISO. As you can see, there's a large gap in  
14 the middle of the ISO and that's basically the State of  
15 Illinois.

16 The three Illinois entities were allowed to leave  
17 the Midwest ISO to join Alliance. Obviously, this is not a  
18 desirable configuration for the RTO. However, FERC approved  
19 this configuration based on commitments that both  
20 organizations will work to create a seamless market.

21 If this objective fails, then the Alliance RTO  
22 will physically segregate the MISO into two sub-regions, the  
23 Midwest ISO East and the Midwest ISO West.

24 The first area where I see the two organizations  
25 diverging is in energy imbalance, which is a very critical

1 aspect of Order 2000.

2 Both organizations committed to create a day-one  
3 design for energy imbalance by May 31st. However in spite  
4 of that commitment, the designs that they have right now are  
5 fundamentally different. The Alliance RTO has an imbalance  
6 engine that directs the generator to provide increments on  
7 incremental base on 15-minute increments.

8 They have a 15-minute settlement interval. They  
9 do have regional participation, which means if a generator  
10 is within the footprint, it can serve any load imbalance  
11 within that footprint regardless of where that generator  
12 resides.

13 So it's not based on a control area by control  
14 area basis. And they have no penalties.

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1           On the other hand, if you look at the Midwest ISO  
2 proposed design, it's fundamentally different. They really  
3 don't have an intra-hour energy imbalance. They allow the  
4 supplements to have been on one hour versus 15 minutes for  
5 Alliance. They have a vulcanized approach, which means you  
6 can only balance on a control-area-by-control-area basis,  
7 and they are proposing penalties.

8           So there is absolutely nothing compatible about  
9 these two markets. They are fundamentally different.  
10 Again, I would like to emphasize that the settlement  
11 agreement was approved six weeks ago, and this is not a good  
12 start.

13           The second aspect is security coordination. This  
14 is a critical aspect for the Midwest region because it's  
15 frequently congested and it's highly networked, leading to  
16 substantial loop flows.

17           Unlike the assertions that the Alliance made in  
18 front of the judge in the settlement agreement that they  
19 were willing to accept services from the Midwest ISO as long  
20 as the Midwest ISO would be competitive, in this case, for  
21 security coordination, the three Illinois entities decided  
22 that the MAIN region should do their security coordination,  
23 and they did not want to go with the Midwest ISO, even  
24 though the Midwest ISO repeatedly indicated that they would  
25 be competitive, they were actually excluded from providing

1 that bid.

2 Again, this is contrary to what they told you in  
3 the first panel. Things are not going very well.

4 Part of the concerns for security for the nation  
5 is if this proposal is allowed to happen, we're actually  
6 taking a step backwards. The MAIN region has one security  
7 coordinator right now, and if this is allowed to happen, the  
8 MAIN region will have two security coordinators. The MISO  
9 members will have MISO do the security coordination and the  
10 three MAIN members will have the three Illinois companies  
11 that are part of Alliance will have MAIN do their security  
12 coordination.

13 To sum up, I would like to -- I'm going to skip  
14 my last example. However, what I believe needs to be done  
15 is I believe that FERC needs to direct both Alliance and the  
16 Midwest ISO to design this market through a unified effort  
17 instead of independently designing two markets and then  
18 trying to piece them together at a later time.

19 I also believe that FERC is missing from the  
20 scene. I believe that FERC needs to dedicate staff to  
21 attend these meetings to assure that this market is created  
22 seamlessly. And I also believe that FERC needs to call a  
23 time out if the things that I shared with you are happening  
24 before allowing the entities to go operational in December  
25 and experience seams problems, and before each entity spends

1 hundreds of millions of dollars.

2 Thank you.

3 CHAIRMAN HEBERT: Thank you, Ms. Fahey. Mr.  
4 Hughes?

5 MR. HUGHES: Thank you, Mr. Chairman, for the  
6 opportunity to present the views of industrial consumers on  
7 RTO seams issues.

8 I speak on behalf of large multinational  
9 corporations with major manufacturing facilities in most of  
10 the 50 states. If all proposed RTOs are approved, it will  
11 not be uncommon for my members to operate in four, five, six  
12 or more different RTO systems. Their corporate energy  
13 buyers are deeply concerned that each RTO will speak a  
14 different language, operate a different market structure,  
15 administer different tariff provisions and business  
16 practices and force them to manage multiple, inefficient  
17 procurement strategies. Sadly, this is a picture that may  
18 be emerging. Competitive markets exist to serve  
19 end-use customers. RTOs were conceived as an essential  
20 platform for competitive power markets. But if RTOs do not  
21 deliver tangible benefits to end-use customers, then we  
22 don't want them.

23 We are not convinced that the RTOs currently  
24 under development are on track to deliver the promises of  
25 Order 2000. We saw the potential problem several years ago

1 and suggested three separate interconnection-wide RTOs. The  
2 Commission was not willing to accept the merits of that  
3 proposal, understandably. Instead, a more light-handed  
4 approach was adopted, based on voluntary compliance and open  
5 architecture. What followed was a hodgepodge of proposals  
6 that to us defies logical, especially the logic of the  
7 marketplace and reliability.

8 Order 2000's decision to tolerate multiple RTOs  
9 within a single interconnection creates the seams problems.  
10 It has been compounded by the unintended consequences of  
11 Order 888, or more correctly, the inevitable consequences of  
12 no follow-up rulemaking that parallels Order 3636 in the gas  
13 industry.

14 I chaired a small working group at NERC that  
15 recommended the need for interregional coordination of RTOs.  
16 In Order 2000, FERC adopted the recommendation and it became  
17 Function 8.

18 I guess my position today is to warn you that  
19 this problem isn't going to go away, and it will not solve  
20 itself. There is no industry out there that will solve  
21 seams problems all by itself and absolve you of the need for  
22 regulatory activism.

23 In fact, many of the seams problems are embedded  
24 in tariffs and ISO agreements that FERC approved.

25 So my first point is to urge you to recognize

1 that your policies on voluntary compliance and open  
2 architecture are failing. You cannot continue to expect  
3 industry consensus to provide the leadership that will get  
4 the job done. We urge you to assume that leadership role.

5 We offer a series of recommendations. Each of  
6 you should have copies of my written remarks, and I will go  
7 over just a couple of them in the time that remains.

8 But first, RTO proposals must be consolidated in  
9 some rational fashion. You have wisely pushed for West-wide  
10 RTO. Continue to do so.

11 We urge you to direct the merger of some RTO  
12 proposals in the East. Something has to be done there.

13 Next, FERC staff must attend all RTO meetings to  
14 serve as an informal mechanism that provides each of you  
15 with timely feedback on the progress or lack of it. Failure  
16 to do so would undermine the credibility of both the RTO and  
17 this agency.

18 You should establish more definitive milestone  
19 objectives with the threat of penalties in all future  
20 compliance filings in your Order 2000. You enumerated  
21 several possible hammers that are available. Should  
22 transmission providers continue to resist your directives,  
23 we urge you to use them.

24 Finally, we are deeply concerned with NERC and  
25 its failure to rationalize commercial practices with

1 reliability standards.

2 NERC continues to be dominated by transmission  
3 providers, many of whom are also control area operators and  
4 security coordinators. Some are using NERC rules to  
5 preserve for themselves and their merchant affiliates  
6 certain commercial advantages that are denied to other  
7 market participants.

8 There is much industry talk about an expanded  
9 GISB that might assume responsibility for these commercial  
10 practices. Unfortunately, the industry is getting mixed  
11 signals from this agency, and this is inhibiting efforts to  
12 advance to a workable solution.

13 Finally, there seems to be a presumption among  
14 some regulators that Adam Smith would frown upon any  
15 exercise of regulatory activism. I represent free  
16 enterprise, including some of the most successful  
17 corporations in the world. We want to limit government's  
18 role in competitive markets as a matter of principle and  
19 practicality. But there are no competitive electricity  
20 markets in the United States today. There's nothing but a  
21 costly brawl between the new and old owners of market power.

22 Only FERC can undo the baggage of six decades of  
23 regulation, and that's going to require some action.

24 Thank you very much for your attention.

25 CHAIRMAN HEBERT: Thank you, Mr. Hughes. Mr.

1 Hayden.

2 MR. HAYDEN: Thank you, Chairman and  
3 Commissioners. I'm Jolly Hayden, the Vice President of  
4 Power Delivery for Dynegy. I've been there for about six  
5 years. Prior to that I grew up about 12 years in the  
6 regulated environment in a control room, so I've been on  
7 both sides of the fence.

8 Let's be perfectly clear here. I don't think  
9 there's anyone in this room that is naive enough to think  
10 come December 15th that when we flip the switch for these  
11 RTOs that our seams issues go away. Any of those who have  
12 had any experience on the trade floor will tell you that we  
13 have serious problems still out there.

14 These seams in competitive markets we see price  
15 anomalies that have occurred over the last several years,  
16 and they're still occurring today. And I would argue  
17 they're not going to be fixed anytime soon. In fact, those  
18 of us in this room that have grown up with this, we can go  
19 back to 1989 when a little group formed called an Inter-  
20 Regional Transmission Coordination Forum. It was created to  
21 discuss parallel flows. Some of the same things we were  
22 talking about then we're talking about today. Acronyms have  
23 changed. The number of players have changed. The problem  
24 is still the same.

25 I have provided for you three examples, and I've

1 targeted the Northeast. We won't go through them. I didn't  
2 target the Northeast to try to pick on the Northeast. I  
3 highlighted the Northeast because the previous panel had  
4 mentioned we had the most experience under our belt in the  
5 Northeast.

6 Again, as previous panelists have mentioned, at  
7 the 50,000 foot level, they are similar market designs. But  
8 yet when we come into the day-to-day operations, we have  
9 serious glitches.

10 During Q&A if you want to discuss those examples,  
11 feel free to do so. But I'd highlight '99, the blowup in  
12 Cinergy and the Northeast's contribution to that. I talk  
13 about last year and the price spike in New York and if we  
14 have a summer this year, I highlight a problem in the  
15 Northeast that could contribute to another problem in price  
16 anomalies.

17 The bottom line that we see in the seams  
18 problems, the business practices and rules is that it  
19 increases liquidity, it increases market vulcanization, it  
20 increases market volatility. I would argue that it reduces  
21 reliability, therefore, and obviously it reduces market  
22 confidence.

23 The thing that I want to also emphasize, back to  
24 the early days from my career is that in the early '90s when  
25 we talked about when we think of seams issues, we think

1 about the last four or five years. But in the early '90s we  
2 were one outage away between MAIN, ECAR and TVA of blacking  
3 out a large portion of my home state. This was before a  
4 power marketer exists. The only difference is now we have  
5 increased volumes, an increased number of players, and  
6 obviously that adds to the complexity.

7 What I would like to I guess go to in the last  
8 few pages is Dynegy has proposed ten steps to interregional  
9 coordination. Rather than to go through each one of these,  
10 I would like to say that I can summarize those in two major  
11 points. We on several occasions have put this in various  
12 filings along with many others. But one of the problems we  
13 have is there's too many different tariffs out there --  
14 network service, point-to-point, et cetera. There is a  
15 difference.

16 Some of this was highlighted before. We want to  
17 get everybody on the same page. We want everybody in the  
18 same boat. Everybody needs to be on the same tariff. The  
19 bottom line is, if we're all on the same tariff, we'll all  
20 suffer the same consequences and ills and then we'll all  
21 have the same motivation to fix it.

22 The other thing that I want to highlight is the  
23 fact that having gone through the NERC process in my career,  
24 you know, progress has been very slow. I think the  
25 collaborative process, the voluntary process -- we need to

1 go from the voluntary process to more of a mandate and  
2 Dynege supports, as previous speakers have stated, somewhat  
3 of a GISB approach.

4 We'd implore you to, as you said earlier  
5 Commissioner, call the balls and strikes, tighten the strike  
6 zone. The time is now. We can't keep waiting.

7 Thank you.

8 CHAIRMAN HEBERT: Thank you, Mr. Hayden. Ms.  
9 Kelly?

10 MS. KELLY: Thank you. I'm Susan Kelly,  
11 appearing today on behalf of the Transmission Dependent  
12 Utility Systems. Thank you for giving us the opportunity to  
13 speak, because we know there are many others who requested  
14 and were not given a slot.

15 The Transmission Dependent Utility Systems are  
16 made up of the following rural electric cooperatives which  
17 are owned by the members that they serve and strive to  
18 provide service at the lowest possible cost to their  
19 members: Alabama Electric Cooperative, Arkansas Electric  
20 Cooperative, Golden Spread Electric Cooperative, Kansas  
21 Electric Power Cooperative, North Carolina, Old Dominion and  
22 Seminole.

23 As you can tell, most of these people are in  
24 regions of the country that have yet to see up and running  
25 ISOs. SO we're in the early stages of RTO formation.

1           We depend on the transmission systems of the  
2 investor-owned utilities near us to get our power to our  
3 loads. And that informs our world view. We have strongly  
4 supported the formation of RTOs since the start of the  
5 rulemaking process that's resulted in Order 2000.

6           We believe that wholesale markets would  
7 immeasurably benefit if we had fully independent and  
8 optimally sized RTOs. We understand and sympathize with the  
9 seams-related concerns that people who are asking for this  
10 conference to be held identified. But we believe that  
11 inter-RTO cooperation is almost a second-tier issue compared  
12 to the bigger problem: The acknowledged failure of many RTO  
13 proposals filed to date with this Commission to meet  
14 Characteristic Number 2, which is scope and configuration.

15           Our message to you is simple. To realize the  
16 benefits that RTOs can provide, the Commission must get  
17 scope and regional configuration right. As matters now  
18 stand, many RTOs are undersized and gerrymandered. This is  
19 because they have been set according to the individual  
20 business strategies of the transmission owners. Mr. Mansour  
21 on the previous panel got it right. Wherever three or more  
22 of them are gathered together, you have an RTO.

23           These factors should not determine RTO  
24 boundaries. Rather, the needs of regional wholesale markets  
25 should determine RTO boundaries.

1 Starting in January of this year, this Commission  
2 has worked very, very hard to issue a whole series of RTO  
3 orders in the Southeast and the Midwest regions that are yet  
4 to have RTOs in place. I'm not going to read back to you  
5 your own orders. You know them better than I do and they're  
6 actually in the written versions of my remarks. But I would  
7 love to quote to you from your own order pearls of wisdom to  
8 the industry. It's from the SPP order.

9 CHAIRMAN HEBERT: I thought you weren't going to  
10 do that.

11 (Laughter.)

12 MS. KELLY: I left all the other stuff out. This  
13 is just the one quote: "We want to see evidence of serious  
14 efforts to form RTOs that combine a number of RTO proposals  
15 to form major RTO regions in the Southeast, the Midwest and  
16 the West." Well, so do we. We want to see that, too. But  
17 so far, we haven't seen it. We've seen lots of paper filed  
18 in May, lots of Memoranda of Understanding. But we have  
19 seen no concrete results.

20 So long as the Commission allows transmission  
21 owners to freely join and freely leave RTO negotiations, and  
22 even RTOs, we will see the transmission owner equivalent of  
23 what I call Temptation Island.

24 (Laughter.)

25 MS. KELLY: We have seen individual members of

1 our group have reported the following subliminal messages --  
2 not quotes -- subliminal messages at RTO negotiations:

3 One. Without me, you don't have critical mass.  
4 So if I leave the table, you're dead. I can put a huge hole  
5 in your doughnut. If I leave, I'm going to divide your  
6 region in two.

7 Or, I'm really big enough all on my own. I don't  
8 need any of you at all because I'm big enough on my own to  
9 be an RTO.

10 Or, yes, it's true, I originally agreed to  
11 participate, but that was then and this is now.

12 These things are driving us all crazy. We cannot  
13 get a firm grip on who is in what RTO for keeps, not just  
14 promise rings, not just engagement rings. We're talking  
15 marriage here.

16 The Commission needs to do a mid-course  
17 assessment on whether its policy of allowing transmission  
18 owners to chose their own RTO is working and a specific  
19 proposal in my paper as to how you could do proposed  
20 boundaries in the Southeast and in the Midwest that would be  
21 considered presumptively compliant with Order 2000. And if  
22 those people who did not want to use those boundaries would  
23 have to prove to you why their boundaries are better.

24 We think this would put a stop to indecision and  
25 heavy-handed negotiating tactics. Of course, we realize

1 that even if you get the seams right, this is not going to  
2 be the end of the problem, the boundaries. There are still  
3 important seams issues to be addressed.

4 We'd like to see standardization of firm service  
5 offerings across RTOs because the rules are very different,  
6 as other speakers have identified. But we ask you to deal  
7 quickly and effectively with the scope-related issues in the  
8 Midwest and in the Southeast. As Commissioner Wood said  
9 just yesterday, the consumer should come out of this better  
10 off, not worse off.

11 Thank you.

12 CHAIRMAN HEBERT: Thank you, Ms. Kelly. Mr.  
13 Meyer?

14 MR. MEYER: Thank you, Chairman, fellow  
15 Commissioners. My name is John Meyer. I work with Reliant  
16 Energy and I've participated personally in at least three of  
17 the RTO formations. Probably I would have been more -- not  
18 all of them are voluntary. That's going to be the scope of  
19 my message as far as participation.

20 The Commission asked for three things we could  
21 do. I want to emphasize three particular things I think  
22 FERC can do for the industry.

23 Number one. Make sure the number of seams are  
24 minimized, start out with lesser problems.

25 Number two. FERC should require a collaborative

1 process for seam solutions as well as market structure  
2 developments that each RTO must have.

3 Lastly, standards should be developed, must be  
4 developed by all stakeholders and adopted by FERC similar to  
5 what happened in the gas industry. I'll try to explain  
6 these in the next comments as time permits.

7 As I go to my first Slide, it deals basically  
8 with what RTOs really should be focused on. I can summarize  
9 it real easy by just saying that not all existing ISOs can  
10 or should become an RTO. Basically, that's because RTOs  
11 should be developed or evolve around natural regional energy  
12 markets, not who gets together first.

13 The measurement in RTO's scope and configuration  
14 has been discussed quite a bit, as laid out in Slide 2. I  
15 think that's very important. Because to be an RTO, you  
16 should internalize most of your congestion and you should be  
17 able to demonstrate these, able to meet the reliability  
18 objectives, including having a self-sufficiency and  
19 generation capacity. You need to show that seams will be  
20 minimized or eliminated.

21 And of course we talked about one transmission  
22 rate, no pancake rates. And lastly, all transactions can be  
23 hedged and effective congestion management system. That  
24 means not only one that's designed well, but one that's  
25 implemented correctly such that all congestion rights aren't

1 allocated immediately such as the market has access to none  
2 of them.

3 To accomplish this, it's going to need more than  
4 voluntary only formation. That's as far as I'll state that.  
5 Obviously, as Commissioner Massey said earlier, even with  
6 this great objective, we're going to end up with five or six  
7 RTOs. It's probably not realistic to think you're not going  
8 to have one in Texas, one in the West and three or four in  
9 the East.

10 I'm not proposing an Eastern RTO where you have  
11 three only, though some people have. So you're going to  
12 have some seams to deal with. You're not going to eliminate  
13 the problem, but you can minimize it. And the problem  
14 evolves in seams, as we've heard, different market  
15 structure, different congestion management, even different  
16 standards.

17 The request and reservation standards, study  
18 processes are totally different. So Slide 3 deals -- what  
19 we've got to do is figure out how to standardize things,  
20 particularly reservation scheduling and the studies for  
21 requests.

22 Slide 4, which is on the top, deals with actual  
23 tariffs, timing. These aren't things that we dug up. These  
24 are actually approved tariffs such that if you tried to  
25 reserve between RTOs you will be stuck in timing differences

1 that will create you to have partial paths such that you may  
2 reserve one path and be stuck paying for it and get denied  
3 by the other one. You just cannot make it smoothly.

4 These are in approved tariffs. I will skip to  
5 Slide 6 actually and just talk a minute about total transfer  
6 capability. This is a real simple one I've dealt with I  
7 don't know how long both in utilities and with NERC, and we  
8 still can't get it right. We go between two areas, control  
9 areas or RTOs, and we can't have the same transfer  
10 capability going in the same direction, total transfer  
11 capability. I'm not talking about ATC. Because it depends  
12 on the number of commitments, on how they treat different  
13 reliability criteria, et cetera. But we can't even get the  
14 standard right.

15 And lastly, I guess I want to deal on Slide 8  
16 with the collaborative formations. I've led several  
17 efforts, particularly in Texas, and tried to lead them in  
18 other places, but basically if you don't have stakeholders  
19 to buy in with the transmission providers, you're not going  
20 to get a meaningful participation or process or really  
21 acceptance by the industry.

22 This requires deliberate processes formed with  
23 stakeholder voting in all stakeholder such that the industry  
24 and FERC endorsement will make it a go. GISB is a good  
25 example. I think what has happened there, and I would

1 endorse moving that to the Energy Industry Standards Board.

2 Finally, just resummarizing, make sure as RTOs  
3 get approved that the number of seams get minimized. We  
4 don't have too many to work with. Make sure that their  
5 collaborative processes required from each RTO or they don't  
6 get approved so that these things can be worked out among  
7 stakeholders and encourage standards to be developed by an  
8 industry standards board and then incorporate it into  
9 tariffs such that the whole industry will benefit.

10 Thank you.

11 CHAIRMAN HEBERT: Thank you, Mr. Meyer. Mr.  
12 Regis?

13 MR. REGIS: Thank you, Mr. Chairman. First of  
14 all, I would like to thank this Commission for giving me the  
15 opportunity to speak at this conference here. My name is  
16 Jacques Regis, the president of TransEnergie. My interest  
17 here -- and I'll be focusing on taking full benefit of  
18 existing transmission facilities via better coordination.

19 Now I would just say there were some slides  
20 handed out to your people. I guess I'll be using these to  
21 make my presentation. First of all, TransEnergie is the  
22 entity that was created in 1997 by Hydro Quebec to open its  
23 transmission grid. It's an open tariff. And it's regulated  
24 by the Regie d'Energie du Quebec.

25 As you can see, then that is well known, I guess,

1 we have important export capability in the range of 7,000  
2 megawatts. And that is nearly 4,700 megawatts, which is for  
3 the U.S., New England and New York. So we have 17  
4 interconnections. So we're quite concerned about what's  
5 going on, and our purpose is really to see from example here  
6 how we can get better return on what's going on.

7 I'll be just stating from NERC's summer  
8 assessment report from this summer concerning the New York  
9 and New England situation has been a tight situation. If  
10 you look at the assessment of available assistance, PJM, no  
11 surpluses, Ontario, no significant export availability, and  
12 up to 5,000 megawatts of assistance available from Quebec.

13 Now I'll be using two examples here to show how  
14 that can be improved or better use of the existing  
15 facilities. There's two main interconnections with the U.S.  
16 One is with New York with the 765 kV interconnection line  
17 which has the built capacity of 2,370 megawatts. Now for  
18 sure it's subjected to transmission constraint. ANd here  
19 I'm not trying to jeopardize reliability. We're always  
20 talking of considering the reliability.

21 Before June 2000, it was limited to 1,200  
22 megawatts. Better reserve here and coordination could  
23 permit use up to 1,800 megawatts. It's presently limited to  
24 1,500 megawatts because of voltage constraints in New York.  
25 Real time transmission between TransEnergie and New York

1 could permit the deliver of up to 1,800 megawatts.

2 TransEnergie could increase the capacity up to 2,370  
3 megawatts in the short term.

4 On the New England side, the DC line with New  
5 England, which was built with a capacity of 2,000 megawatts,  
6 is subjected to voltage limits in New York and PJM. It's  
7 used at the capacity between 1,200 megawatts and 1,500  
8 megawatts.

9 PJM emergency redispatch procedure increases up  
10 to 2,000 megawatts. Permanent implementation of such a  
11 procedure could increase normal use at 2,000 megawatts.

12 In conclusion, regional coordination could  
13 increase our interconnection actual transfer capacity up to  
14 their maximum capability for the benefit of the Northeast  
15 region. TransEnergie is ready to participate in any form  
16 related to the transmission issue in the Northeast, and that  
17 would be a mandate for change as an objective.

18 Thank you.

19 CHAIRMAN HEBERT: Thank you, Mr. Regis. Mr.  
20 Cazalet?

21 MR. CAZALET: I'm Ed Cazalet from Automated Power  
22 Exchange, a for-profit power exchange scheduling coordinator  
23 and proudly FERC jurisdictional.

24 (Laughter.)

25 COMMISSIONER BROMWELL: Good move.

1 (Laughter.)

2 MR. CAZALET: I'd like to speak about simplifying  
3 the seams between RTOs and thereby simplifying the RTOs  
4 themselves. The Eastern Pool RTOs use or are moving towards  
5 LMP with, importantly, security constrained unit commitment  
6 in the day ahead markets.

7 Western RTOs, D Star, RTO West, are moving toward  
8 a flow-based system that requires balanced and covered  
9 schedules. "Balanced schedule" simply means that for each  
10 participant, the supply they bring to the market must meet  
11 the load they bring to the market.

12 "Covered schedules" means you must acquire  
13 transmission rights necessary to deliver that portfolio of  
14 generation and loads, acquire transmission rights not only  
15 in your own RTO but in adjoining RTOs. Some RTOs, mostly in  
16 the Midwest, were opening initially with contract path  
17 methods but intending to move to more flow-based systems  
18 that use LMP for the real time within the hour dispatch.

19 Pool RTOs using security constraint unit  
20 commitments as the three Northeast RTOs have been grappling  
21 with this increasing wall of complexity and trying to  
22 coordinate those RTOs. Separate RTOs employing these  
23 securities constrained unit commitments can't easily  
24 coordinate these optimizations. This complexity is delaying  
25 progress in solving these seams problems.

1           Flow-based scheduling uses balanced energy  
2 schedules covered by transmission rights on parallel paths  
3 in all RTOs as I just mentioned. This allows the  
4 participants to self-manage the congestion among the RTOs  
5 before it gets to the RTO itself. This simplifies the RTOs  
6 themselves and puts the problem where it can best be handled  
7 in the forward markets.

8           The FERC has in its recent California orders  
9 especially, has emphasized the need to develop and rely on  
10 forward markets and forward transactions to minimize the use  
11 of spot markets. Again, this is where congestion management  
12 seams problems need to be solved among the market  
13 participants.

14           This can be achieved simply by requiring balanced  
15 and covered schedules. Once FERC makes clear that the  
16 participants are responsible for balancing energy schedules  
17 and covering those schedules, then independent parties --  
18 software developers, scheduling coordinators, the market  
19 participants themselves -- will figure out how to do all  
20 this and do it in innovative new ways that reduce the cost  
21 of RTOs and don't lock us into a single way of doing things.

22           We will continue to face this complexity,  
23 delaying solving seams problems, delay in getting these  
24 markets up and running until you've simplified these rules.  
25 And I think I laid out the simplest possible prescription

1 for how you design the seams between the markets.

2           Until these mechanisms are in place, these RTOs  
3 will largely operate as islands and will not achieve your  
4 goal, FERC's goal of a seamless national energy network.

5           Thank you.

6           CHAIRMAN HEBERT: Thank you, Mr. Cazalet. Let's  
7 start with Commissioner Brownell.

8           COMMISSIONER BROWNELL: Mr. Hughes, you suggested  
9 in point number 4 that NERC is dominated by transmission  
10 providers and that some are using the NERC rules -- I'm  
11 quoting you -- to preserve for themselves and their merchant  
12 affiliates certain commercial advantages that are denied to  
13 other market participants. Could you say more about that?  
14 And could you say if some of those issues are addressed in  
15 the proposed reliability legislation or they're exacerbated  
16 or don't have any effect at all?

17           MR. HUGHES: For the first part of your question,  
18 I would direct you to two excellent reports prepared by a  
19 NERC taskforce called the Control Area Criteria Task Force.  
20 One report deals with a new reliability model which is an  
21 attempt to develop a new paradigm, sort of an engineering  
22 paradigm of the industry that is immune to old industry  
23 structures.

24           It doesn't deal with control areas, for example,  
25 or vertically integrated utilities. It breaks the industry

1 into core functions that will always exist but will be  
2 reconfigured in different ways as the markets evolve. What  
3 that taskforce concluded was that some of these functions  
4 have a competitive advantage to them, and therefore, it is  
5 essential that those functions be corporately independent of  
6 any merchant entity that is in the market to seek commercial  
7 advantages.

8 The second report that I mentioned deals with  
9 this issue in quite a bit of detail. What happened during  
10 the deliberations within NERC was that many entities did not  
11 like the use of the term "independent" in the reliability  
12 model. And we're concerned that NERC might even make any  
13 suggestion that some entities not qualify as security  
14 coordinators or as balancing entities or some of the new  
15 functions that are specified in the model.

16 So therefore, the separate report had to be  
17 prepared. Unwittingly, it's a very good report. It's a  
18 very readable report. And in fact on the broader issue of  
19 this reliability model, I would urge the Commission to adopt  
20 it and to begin using it as a typology by which you rewrite  
21 your rules and regulations in the future. It is an  
22 excellent way of looking at the industry. And for some of  
23 us that are really concerned about market power, it's a  
24 really easy tool to use to uncover where market power abuses  
25 are likely to happen in some of these new structures that

1 are being formed out there.

2 COMMISSIONER BROWNELL: Could you just restate  
3 the two reports? Pat and I are slow writers.

4 MR. HUGHES: I can send them both to you  
5 electronically. One is called "The Reliability Model" I  
6 guess. It's the final report of the Control Area Criteria  
7 Task Force on reliability modeling. And the second report  
8 is a big block letter, Independence on it. They're both  
9 located in the same location at the NERC website for the  
10 Control Area Criteria Task Force.

11 I think Marv Rosenberg is in the room here. He  
12 could probably get those documents for you.

13 CHAIRMAN HEBERT: Since you brought that up, why  
14 don't you provide that for the record?

15 (Information.)

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1                   COMMISSIONER BROWNELL: Thank you. Others on the  
2 panel agree that the model that is espoused in this report,  
3 this latter report, is acceptable and a good idea?

4                   (No response.)

5                   MS. KELLY: Before we have consensus -- that  
6 would be wrong. I just want to note that my group has not  
7 given me any signoff one way or another.

8                   COMMISSIONER BROWNELL: So we'll expect a  
9 postcard in the mail saying what a great idea it is because  
10 everybody else is?

11                  CHAIRMAN HEBERT: Speaking of that, since the  
12 entire panel did speak to it, Ms. Kelly, why don't you check  
13 with your people and get back and make it for the record?

14                  MS. KELLY: I'll do that.

15                  (Information.)

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1           COMMISSIONER BROWNELL: While we're in consensus,  
2 we're on a roll here, I might as well keep going. Did I  
3 hear a universal endorsement of GISB as the mechanism for  
4 getting to uniformed business rules? Yes?

5           MR. HUGHES: I think it's officially our  
6 position. We're still sitting on the fence. We would like  
7 to work with both organizations to see how this shakes out.

8           COMMISSIONER BROWNELL: But you're asking us, in  
9 your testimony, you're asking us for a signal. So to get a  
10 signal, you know, everybody has an opinion. We'd like to  
11 hear yours.

12          MR. HUGHES: What we like about the GISB model is  
13 up front. It is an industry segment model and nobody, no  
14 group, has a lock into the positions taken. That's not true  
15 with the NERC. With the NERC, you have a 50-50 split  
16 between consumers and providers. Then they have some other  
17 groups out there within those two groups. But it's  
18 basically a bicameral type of structure, and transmission  
19 customers are often affiliates of the utilities.

20          So, you know, there's a potential for the  
21 transmission providers to basically carry the votes whenever  
22 they really want to in any kind of a voting structure like  
23 that. GISB gives us protection away from that.

24          COMMISSIONER BROWNELL: Bob, you wanted to say  
25 something?

1           MR. NELSON: Commissioner, I purported to speak  
2 for nine commissioners earlier, and I don't want to speak  
3 for them on that issue either until I get back to you. But  
4 on the surface, I think it makes sense.

5           COMMISSIONER BROWNELL: To the extent that we can  
6 get at least some resolution on some of the issues, it  
7 leaves us free to tackle those more difficult issues. So  
8 that's why I'm pushing people. Yes? Your organization has  
9 not yet taken a stand on this.

10          MS. KELLY: Correct. But we will get back to  
11 you. I would like to note one other thing, though. For  
12 those who have grown up only in the electric industry, the  
13 GISB is a new and strange organization. Those in the  
14 natural gas industry know it well. I used to practice in  
15 the natural gas industry. I know it well. But how do I put  
16 this politely? Maybe I just won't try.

17          COMMISSIONER BROWNELL: No need to be polite.

18          MS. KELLY: There are some factions in the  
19 industry who feel like if it's being imported from the gas  
20 industry it comes primarily through the conduit of the  
21 marketers. And if that is a group that is strongly pushing  
22 for that, then other people naturally say, well, it must be  
23 bad for us, because that's what they want. So everybody has  
24 to get comfortable with the concept.

25                 Let me just say, I think it is correct that there

1 is sector voting, that there are procedures in place to  
2 ensure that the rules are fair, but I think more work needs  
3 to be done to make people in the industry who may not be  
4 intimately familiar with that model more comfortable with  
5 it. I just wanted to note that.

6 COMMISSIONER BROWNELL: May I echo my colleague,  
7 Commissioner Wood on this issue? The purpose for which we  
8 are all here is the customer. So you guys get comfortable  
9 with each other, but we're here for the customer. And so  
10 that's what at least is going to drive me, and I think I'm  
11 quoting him accurately from this morning. Yes?

12 MR. REED: I can't speak for my group whether  
13 they would endorse GISB. But what I can tell you is what we  
14 would endorse is a collaborative process where you have  
15 stakeholder involvement. It sounds like the GISB would meet  
16 that criteria. We'll get back to you on it.

17 COMMISSIONER BROWNELL: Yes?

18 MS. FAHEY: I'd like to make a comment regarding  
19 the reliability model. In my opinion, there's another way  
20 to achieve this independence by making sure that RTOs are  
21 formed correctly and by making sure that FERC insists that  
22 the current vertically integrated utilities do not keep the  
23 control areas, which is what we have in the Midwest. If  
24 they did not keep the control areas, we would not need this  
25 model. If we would end up with one control area for the

1 whole region, it's a lot better.

2 COMMISSIONER BROWNELL: Thank you. Since we even  
3 just got close to agreement here, I'm going to quit.

4 (Laughter.)

5 CHAIRMAN HEBERT: Commissioner Massey?

6 COMMISSIONER MASSEY: If you wouldn't mind moving  
7 to Commissioner Wood. I'm going to have to leave at ten  
8 minutes of three for a conference call and I'll be gone  
9 about 20 minutes.

10 CHAIRMAN HEBERT: Do you want a minute and a  
11 half, then?

12 COMMISSIONER MASSEY: I want a minute and a half.  
13 I'll take that.

14 (Laughter.)

15 COMMISSIONER MASSEY: Is there a consensus in  
16 this group that this agency should move forward aggressively  
17 to ensure the right scope and configuration for RTOs? Does  
18 anybody disagree with that?

19 (No response.)

20 COMMISSIONER MASSEY: Let the record reflect no  
21 one disagrees. Point two, should this Commission be pushing  
22 toward standardization of a number of rules and practices  
23 among the RTOs? Is there a consensus on that? Should the  
24 Commission be mandatory about it or just nudge the industry  
25 along, number one? A nudge or a mandate? What do you

1 prefer? A hard nudge. Let's compromise on that.

2 (Laughter.)

3 MS. KELLY: Can I say it's which area that you're  
4 discussing which determines the answer. I was listening to  
5 the first panel and thinking about the offer that Mr.  
6 Harrison made, the K-Mart Blue Light special and the PJM  
7 software at marginal cost for you only today, and the  
8 concern that I have about that is that that model grew up in  
9 an area with a tight power pool foundation, a centralized  
10 market.

11 Now we're talking about RTO formation where  
12 markets are much more fragmented, bilateral. There is no  
13 entity, despite the invitation the Alliance has made, who  
14 has rushed in to start setting up the spot market in the  
15 Midwest from a central market.

16 We need to be careful about exporting models that  
17 depend on that paradigm to upper regions of the country that  
18 don't yet have it. That is a major caveat, and why I'm not  
19 like rushing to put my hand up. But there are certainly  
20 many areas, such as firm service offerings, business  
21 protocols, ramp-up rates, lots of technical areas where more  
22 consistency would be very helpful.

23 COMMISSIONER MASSEY: If I could just make one  
24 other point, and then I've got to go. Maybe staff can tell  
25 me. I think GISB has promulgated between 400 and 500

1 standardization rules. Has this agency ever rejected one?

2 (No response.)

3 COMMISSIONER MASSEY: I don't think we have. Oh,  
4 we have? Never mind.

5 (Laughter.)

6 COMMISSIONER MASSEY: I can't make that point.

7 In any event, we have, I hate to say rubber-stamped, because  
8 that sounds like we didn't review them, but we have put in  
9 place I think 450 or so standardized practice rules that  
10 were determined by this approach with fair voting rules  
11 where no segment of the industry dominates. And it seems to  
12 me that has a lot of merit in that approach. Yes?

13 MR. NELSON: Commissioner Massey, on the issue of  
14 prescriptive versus voluntary, I think a number of my  
15 colleagues have been urging through our group, our  
16 coalition, to urge the FERC to be more prescriptive and I  
17 think it's only as a result of the fact that the voluntary  
18 agreements that have been reached, for example, in the  
19 Midwest, although well-intentioned, are not being complied  
20 with.

21 It's FERC's duty I believe to step in and make  
22 sure that provisions in those settlements are enforced. And  
23 to me that means being more prescriptive than in the past.

24 MR. REED: On the seems issues, I think you need  
25 to be more prescriptive. I would say a hard nudge is the

1 approach, because you want to get feedback from the  
2 participants in terms of what the standards should be. But  
3 then I think a push in the direction of having a rule would  
4 be the appropriate approach.

5 COMMISSIONER MASSEY: I'm assuming you all agree  
6 that we should throw this out to a fair process in the  
7 industry and let you do this, but with some very firm  
8 expectations by this Commission.

9 MR. HAYDEN: And deadlines.

10 COMMISSIONER MASSEY: Anybody disagree with that  
11 on this panel?

12 (No response.)

13 COMMISSIONER MASSEY: No one disagrees. Thank  
14 you.

15 CHAIRMAN HEBERT: Commissioner Wood?

16 COMMISSIONER WOOD: Mr. Hayden, you mentioned  
17 kind of about the fact that there's network service, the  
18 point-to-point service. Can all service just be network  
19 service, or why or why not?

20 MR. HAYDEN: We would advocate a network service  
21 for generators would be very desirable. In fact, I argue  
22 that it exists today for incumbent utilities. For instance,  
23 you'll go out on several OASIS sites that will identify --  
24 their marketing arm will identify a specific generator to a  
25 specific delivery point. That unit trips the balance of

1 their portfolio, picks up the supply and nothing changes. I  
2 don't have a problem with that. I just want to be able to  
3 do it with my IPP if I have resources that are in an  
4 electrically equivalent neighborhood.

5 COMMISSIONER WOOD: What's stopping that now is  
6 what? The network service takes it all up?

7 MR. HAYDEN: Technically, they're saying they're  
8 under point-to-point. I would argue they're under pseudo  
9 network from a generation perspective. So they're taking  
10 generator supply, making -- using, even though they're  
11 supposed to be under point-to-point. Very rarely have I  
12 seen, never have I seen where they end up getting cut  
13 because the primary generator went in that control area,  
14 tripped off. And it was always the portfolio picked it up.  
15 Network customers on the load side have some benefits along  
16 that line.

17 I think it makes sense -- I refer to it, the OCRT  
18 tariff from '97 -- I refer to it as the wholesale network  
19 tariff.

20 COMMISSIONER WOOD: Ms. Fahey?

21 MS. FAHEY: Along the same lines, specifically,  
22 the vertically integrated utilities because they own control  
23 areas sell something called system power, which is out of  
24 their portfolio.

25 However, IPPs who are within the same control

1 areas that own multiple units within that same control area  
2 are not awarded that flexibility. So you have to point to a  
3 unit that serves a load, and if that generator trips, that's  
4 it. Your transaction gets cut and you can't say, well, I  
5 want to redirect it to my other unit.

6 COMMISSIONER WOOD: Has this Commission ever  
7 addressed how that squares up with the comparability  
8 mandate?

9 MS. FAHEY: I believe it was addressed in the  
10 Entergy case with denial of rehearing. It has been  
11 addressed.

12 COMMISSIONER WOOD: I know I asked something that  
13 you don't agree with.

14 MS. FAHEY: Basically is what you get a  
15 vertically integrated utility, what they've always been  
16 doing.

17 COMMISSIONER WOOD: Mr. Meyer?

18 MR. MEYER: Reliant would certainly support a  
19 system where all load and all generation was treated the  
20 same as far as availability on tariffs. In fact, we think  
21 that's the only fair way to do it.

22 COMMISSIONER WOOD: It's the only way I really  
23 know. I'm looking at your list, Mr. Meyer, of industry  
24 standardization bullets and I don't know if anybody has  
25 these. I'll just read them off.

1           He suggests that industry standards are called  
2           for in the following categories of areas, and what I want to  
3           ask for is if anybody disagrees with any point on this list:  
4           Reservations, scheduling, real-time data. I'm not sure what  
5           "models of analysis" means.

6           MR. MEYER: How each RTO, or right now it's  
7           transmission provider, uses the data to determine whether  
8           that's a valid path or not or they need a further request.

9           COMMISSIONER WOOD: Okay. Information systems  
10          and sharing and then coordination. Those last two are a  
11          little broad, but has anybody heard anything that sounds  
12          very nonstandardized or standardizable?

13          MR. MEYER: Commissioner Wood, what I was trying  
14          to go toward is that commercial practices should be  
15          standardized.

16          COMMISSIONER WOOD: I'm trying to get a little  
17          more granular on that, because we all can agree at the  
18          general level. I just want to see if I'm starting to touch  
19          anybody's raw nerve on doing scheduling on looking at how  
20          they vary across the country.

21          On your chart number 4, Southwest Power Pool  
22          Energy Map, needs all the PJM ones. The mission of monthly  
23          firm, point-to-point transmission service timelines, they're  
24          pretty all over the map. If we're trying to cut costs to the  
25          customer of what a lot of you guys that are on the market

1 side of the equation are doing, and Ms. Kelly, what your  
2 people end up paying for, it seems to me that standards are  
3 the way to save money.

4 I'm just trying to figure out whose feet we're  
5 stepping on by doing it, but I haven't heard anybody squawk  
6 about it. The first panel it was obviously an institutional  
7 interest, that they want to do it their way and nobody  
8 else's way. We did that in the gas industry and it cost  
9 everybody a whole lot of money.

10 My good friend Rae McQuade from GISB is here from  
11 way back in '92 before that group was set up. Commissioner  
12 Langen had me driving around about every electronic bulletin  
13 board, which is what we called EDI back then, in the state  
14 of Texas and a few other states, too, to find out what was  
15 the state of the industry.

16 Unfortunately, we'd already diverged. And Rae,  
17 you're ten speed, and what was Panhandle Eastern's called?

18 MS. McQUADE: I've tried to forget those days.

19 (Laughter.)

20 COMMISSIONER WOOD: They were all going this way  
21 and it just cost them a whole lot of money. It's like a  
22 video machine. I don't care if it's VHS or Beta or whatever  
23 it is, I just want to watch a movie. The delivery system  
24 may not be the best one out there, but we've just got to  
25 pick something and go.

1 I appreciate this group's strong push toward the  
2 need for this agency to help in standardization. Like I  
3 think my colleagues here, I'd much prefer that to come from  
4 a consensus effort, but I know that consensuses are better  
5 had with what was it, timelines. And what was our deal for  
6 the settlement this morning?

7 CHAIRMAN HEBERT: Timelines and uncertainty.

8 COMMISSIONER WOOD: You don't know what we're  
9 going to rule. We might decide 24 hours is good. We might  
10 say you've got to do it in two seconds. It would be helpful  
11 if you guys would write the timelines, the timeframes, the  
12 protocols and all that stuff, and just let us throw you a  
13 party when we sign off on it.

14 (Laughter.)

15 CHAIRMAN HEBERT: Thank you, Commissioner Wood.  
16 Commissioner Breathitt says she has one short one for a  
17 short person.

18 COMMISSIONER BREATHITT: And it may have already  
19 been answered. It was a note I took when you were speaking,  
20 Mr. Reed. You called for a template that needs to be  
21 established. You particularly, though, sit in the  
22 Northeast.

23 Pat may have just also answered my question by  
24 saying maybe the template needs to come from you and we  
25 bless it. I wanted to ask you who needs to establish the

1 template.

2 MR. REED: I think the template needs to come  
3 from us, and if you bless it, the template needs to deal  
4 with the firm transmission rights, scheduling and checkout  
5 and curtailments, ATC and TTC.

6 Firm transmission rights need to be defined. And  
7 we'd like to have a common interface tool so we can access  
8 in one area the ability to schedule and get the information  
9 back, put the information in it and get it out.

10 COMMISSIONER BREATHITT: So you are presuming the  
11 whole universe of seams issues. You have, I don't know,  
12 narrowed it or defined it to about eight or so more critical  
13 ones?

14 MR. REED: Those are the ones that I'd like to  
15 see addressed as soon as possible.

16 COMMISSIONER BREATHITT: Thank you. That was all  
17 I had, Mr. Chairman.

18 CHAIRMAN HEBERT: That's great. Thank you,  
19 Commissioner Breathitt. Commissioner Breathitt and I have  
20 been working together too long, because I had the same  
21 question. What was the template? So -- no, I haven't asked  
22 it. So that shortens me by one. So, thank you.

23 Independence. Everyone seems to think -- and I  
24 agree. You've heard me speak about independence many a day,  
25 and as we talk about models, is there anyone that disagrees

1 that independence, when we look at these RTOs, is going to  
2 be the mechanism that makes it work?

3 MR. HAYDEN: I'd like to add one caveat. When we  
4 think of independence, most of us think of, you know,  
5 separating the generation from the wire side and all that.  
6 But there's also another facet that I think we've got some  
7 examples of entities that are for all practical purposes  
8 transmission providers only. Well, they also happen to be  
9 the load-serving entity for that region in the country. And  
10 I think that skews their judgment or their actions at times.

11 In my state of Nevada, I would argue that a  
12 transmission provider is a transmission provider. That's  
13 all they do. A customer, therefore, is a customer. It  
14 doesn't matter if there's a generator going out, someone  
15 going across, someone coming in to serve load. And I think  
16 that's an ultimate state that I would like to see us get to.

17 And then they'll focus with the right incentives  
18 from a ratemaking perspective what will start to devote new  
19 technologies to help increase throughput, because that's how  
20 they're going to make their gravy. That's where they're  
21 going to be incentivized.

22 I get a paycheck because I bring deals to the  
23 table and I deliver. They need that same kind of incentive,  
24 and the same kind of liabilities if they don't perform.

25 CHAIRMAN HEBERT: You just want to segregate

1 operational and functional control, correct?

2 MR. HAYDEN: That is correct. And then  
3 incentives along with that.

4 MR. HUGHES: Mr. Chairman?

5 CHAIRMAN HEBERT: Let me go to the Commissioner  
6 and I'll come back to you, Mr. Hughes.

7 MR. NELSON: I think in my comments, and I think  
8 I want to reiterate what Ms. Fahey said, it's important when  
9 we look at independence to look at the independence prior to  
10 the formation of the RTO, and I think there are decisions  
11 being made right now in the Midwest that are being made on  
12 behalf of the transmission owners in effect for an RTO in  
13 formation.

14 I think that's where we are very concerned,  
15 because I think the decisions to be made in the next three  
16 to six months are critical to where the RTO is going to wind  
17 up. And so at this at this point in time, we believe that  
18 independence should be assured by this Commission in  
19 establishing deadlines and other orders.

20 CHAIRMAN HEBERT: Mr. Hughes?

21 MR. HUGHES: There's one issue associated with  
22 independence that's perhaps above the whole area or RTOs.

23 CHAIRMAN HEBERT: I don't want to re-debate the  
24 RTO process with you.

25 MR. HUGHES: Oh, no.

1           CHAIRMAN HEBERT: Other than that, go ahead.

2           MR. HUGHES: Well, and that deals with if in fact  
3 this Commission ends up approving several say transcos as  
4 RTOs in the Eastern Interconnection, then --

5           CHAIRMAN HEBERT: You got a couple in mind? I  
6 know you do, so don't say it. Go ahead.

7           (Laughter.)

8           MR. HUGHES: We may have some concerns with  
9 letting them be their own security coordinators. Because  
10 that's a role that then they could use -- they're in the  
11 business of making profit. And to some extent, they may be  
12 competing with other transcos for the flows, you know, in  
13 the interconnection. And there may be interests associated  
14 with congestion management schemes that would create  
15 advantages for them.

16           And so therefore, the security coordinator needs  
17 to be very independent from just about any profit-making  
18 function.

19           CHAIRMAN HEBERT: I hear you. I appreciate that.  
20 So often what we try to do is kind of reinvent the wheel  
21 when we're trying to make something happen. Here we're  
22 trying to get the seams issues out when clearly we have said  
23 through Order 2000 we think it's important in the RTO  
24 filings.

25           We've been acting on RTOs. Granted, we want

1 things to go even faster than they are and we're trying to  
2 develop the scope. What would be wrong with FERC just  
3 taking its Order 2000 process and expediting the compliance  
4 filings and trying to move quicker into the Function 8 as  
5 opposed to reinventing and doing something brand new? Do  
6 you follow me? We've got a process in place. Tighten up a  
7 little bit, move forward quicker. Ms. Fahey?

8 MS. FAHEY: Yes. I don't believe the process is  
9 working well at all. I believe if you're going to get the  
10 markets to work well, you need to, for example, in the  
11 Midwest, you have to design the market as one. And to have  
12 two separate entities designing the same market, the same  
13 rules, dealing with the same issues, and then try to piece  
14 them together through Function 8, oh, and by the way, we  
15 have a procedure or, you know, the seams collaborative  
16 effort meets once a month to talk about 50,000-foot level  
17 issues, that's not working.

18 I mean, we need to design the markets  
19 fundamentally at the starting level where we talk about  
20 congestion management and energy imbalance, which are the  
21 building blocks. And I think that's what's needed.

22 CHAIRMAN HEBERT: Yes. I don't disagree. And  
23 there are so many other issues that actually are in the  
24 middle of this that we don't even talk about them. And we  
25 sent a letter, what, a couple of weeks ago over to the SEC

1 where we're continuing to try to work with other agencies to  
2 deal with issues involving taxation and capital gains and  
3 others so we can move quicker through this process. But I  
4 hear you and I understand that.

5 But I do want you to know there are other things  
6 that you're probably unaware of that we are doing to try to  
7 get us there quicker. Ms. Kelly?

8 MS. KELLY: Yes. I wanted to address your  
9 comment about just getting the current compliance filing  
10 process speeded up and more stringent.

11 I've been increasingly concerned as we have  
12 reviewed compliance filings recently, not going into any  
13 details about who, because that would be wrong -- but the  
14 problem we have is that at this moment it's the transmission  
15 owners that are writing the compliance filings, not the  
16 RTOs, in the regions of the country where they are not yet  
17 currently up and running.

18 So what you have as we rush towards a December  
19 15th implementation date is that, well, we have to do it  
20 because it's got to be done by December 15th. And yet the  
21 people that are doing it have an interest in the market.  
22 And they are making decisions, they are buying software,  
23 they are setting up rules, and they're the wrong people to  
24 do that. So I am very concerned about the why the compliance  
25 process is going, and I just wanted to make sure you

1 understood that.

2 CHAIRMAN HEBERT: Okay. Thank you. Mr. Hayden?

3 MR. HAYDEN: Thank you. To add to that, I think  
4 it's a very valid point. I'm a private pilot, and I'd like  
5 to refer to the airline analogy that you guys actually  
6 addressed earlier in the day. You know, is it better to be  
7 more from the top down? The FAA I guess with the  
8 transportation carriers, the Deltas and Uniteds and all  
9 that, is it not the FAA that basically design how the air  
10 traffic control, the ATC system, would work? And isn't that  
11 what we're after?

12 Aren't we after the ATC, the air traffic  
13 controller, or the ITC, as Dynegy called it, or the RTO, who  
14 has no interest whatsoever in what the airlines charge, how  
15 many people are in the seats, what kind of food they serve,  
16 although some of us may wish they'd interject on that one.

17 But the bottom line is, their job is to ensure  
18 that we keep the planes separated. And they work -- yes,  
19 there is regions broken up within the country, but they've  
20 got this umbrella, you know, protocols and rules and  
21 structure that they abide by. And you as a carrier have to  
22 live by that. You may not necessarily agree with it, and  
23 you may incur costs to comply with it. But isn't that what  
24 we need to go to? And didn't that come from the FAA?

25 CHAIRMAN HEBERT: Mr. Regis?

1 MR. REGIS: Yes. Just as a Canadian entity, I  
2 cannot say that I agree or not with the panel here because I  
3 guess we have certainly different concerns.

4 But certainly one of them is more to say that if  
5 the end result of all this RTO implementation, from the  
6 example I've just presented earlier before would not solve I  
7 guess. We'd still have a problem, because there are seams  
8 issues which are not addressed to such an implementation.

9 And I'm still concerned. I don't know if the end  
10 result will be done. Maybe eventually, but I guess there  
11 will still be a lot of these issues on the table which won't  
12 be addressed specifically. And the concerns as a Canadian  
13 entity is how we get into that discussion to be sure that we  
14 can bring the best solution I guess for the market on the  
15 table if it involves a Canadian entity participation under  
16 the terms that we're in the grid, we're interconnected, for  
17 sure I guess that should be considered.

18 CHAIRMAN HEBERT: Mr. Meyer?

19 MR. MEYER: Just to reemphasize, your question  
20 about going through the compliance in the fashion we're  
21 going, I would still have some concerns, because as I  
22 pointed out, I don't think the RTOs are focusing on the  
23 regional marketplace, and I don't think there's enough  
24 attention made on their configuration and size.

25 And we're not talking about gigawatts. We're

1 talking about being able to command these functions that  
2 deal with mainly the seams.

3 CHAIRMAN HEBERT: I guess that was one of the  
4 things I was going to ask, and we can kind of close it out  
5 with that. I'm not certain that -- and perhaps there's a  
6 lot of time spent on ownership issues and how we move  
7 together as one and enlarge as opposed to trying to deal  
8 with the seams issues themselves. So that's the reason for  
9 this conference.

10 One last thing. Speaking of deadlines, people  
11 have spoken to issues that require supplemental information.  
12 Any supplemental answers, I need and the Commission needs  
13 within five days. Please don't ask me for an extension. If  
14 you all want us to act fast, we need you to act fast. Five  
15 days. Thank you.

16 Next panel, five minutes. Thank you for being  
17 here.

18 (Recess.)

19 CHAIRMAN HEBERT: All right. Mr. Kormos?

20 MR. KORMOS: Thank you. Good afternoon. My name  
21 is Michael Kormos, and I'm General Manager of Operations for  
22 PJM and Chairman of the Electronic Scheduling Collaborative,  
23 the ESC.

24 I want to thank the Commission for allowing me  
25 the opportunity on behalf of the ESC to provide our insight

1 on the issues regarding interregional coordination.

2 My comments today represent the ESC and its  
3 diverse membership and are not necessarily intended to  
4 reflect any opinions of PJM.

5 The ESC originated as the NERC Electronic  
6 Scheduling Task Force over a year ago with the issue to  
7 address how electronic scheduling could be handled. Shortly  
8 after its formation, Commission issued its ANOPR regarding  
9 OASIS II. After reviewing the ANOPR, the original group  
10 decided to expand its membership and scope to respond to the  
11 ANOPR and ultimately work with FERC to develop standards.

12 The group decided to open up its membership to  
13 all interested parties and made specific requests to other  
14 industry groups to participate and work on the ANOPR goals.

15 The group has been very active over the last  
16 year, meeting 12 times with participation from over 65  
17 companies and organizations. The group is quite diverse,  
18 with all segments of the industry in attendance. As I  
19 already mentioned, the meetings are open to anyone who  
20 desires to attend, and everyone gets a voice and a vote at  
21 the meeting.

22 The current issues of Function 8 inter-regional  
23 coordination are very relevant to the work of the ESC. The  
24 ANOPR discussed standardizing transactions into, out of, and  
25 through RTOs. And in order to accomplish the goals of the

1 ANOPR, the resolution of these seams issues are critical.

2 The seams issues are caused by a lack of  
3 consistency in business rules and market designs. These  
4 issues significantly impact the ability of the ESE to  
5 achieve concessions on how electronic scheduling can best be  
6 accomplished.

7 Many of the decisions that have been made or are  
8 being made regarding the designs of RTOs were done for  
9 explicit commercial, or in some cases historic operations  
10 reasons, and in many cases were approved by FERC. It is  
11 very difficult to resolve these issues through an open  
12 industry stakeholder process and consensus-building group.

13 Another significant obstacle for the group is the  
14 very status and intent of the RTOs and how they plan to  
15 operate. Not only are many of the assumptions, designs and  
16 functions of RTOs different, but the timing and development  
17 of RTOs vary significantly as well.

18 At the current time there are still many more  
19 questions unanswered than have been answered regarding how  
20 many RTOs will operate. Because of this situation, ESC held  
21 a two-day workshop in the spring to hear from RTOs on their  
22 intended direction.

23 From this meeting and others, the ESC recognized  
24 that a single set of business rules was not forthcoming in a  
25 timely fashion, and that the best course of action was for

1 the group to find as much commonality as possible in the  
2 existing models but allow for and accept regional diversity  
3 to exist when it does not impact significantly our desired  
4 results.

5 The ESC, however, does not believe that all  
6 regional diversity should be acceptable if we are truly to  
7 facilitate an efficient North American market.

8 The Commission needs to recognize the importance  
9 of balancing the needs for regional diversity versus the  
10 need for standardized business practices.

11 The ESC has identified a significant number of  
12 issues concerning electronic scheduling where common  
13 standards will most likely be a problem. Examples of issues  
14 of the ESC is dealing with are schedule timing and approval  
15 rights, physical versus financial transmission rights,  
16 congestion management and transmission losses as well as  
17 others.

18 These issues are very complex, and a range of  
19 solutions offered by RTOs can be quite diverse.

20 The ESC is currently developing a set of business  
21 practices to be filed with the Commission by the end of the  
22 summer. We believe they will standardize much of electronic  
23 scheduling while allowing for regional diversity to exist  
24 when appropriate.

25 This has been and continues to be a very

1 difficult balancing act that is further impacted by the  
2 incomplete status of many of the RTO proposals. The ESC is  
3 carefully trying to weigh recommendations for  
4 standardization versus innovations by the markets. ESC  
5 respectfully requests that the Commission do the same when  
6 reviewing and approving RTO filings. Many of the current  
7 seams were caused by unique and different structures and  
8 procedures approved by FERC in the current tariffs. We  
9 believe RTOs may face the same dilemma.

10           The ESC does not desire to stifle innovation and  
11 hopes to be able to help foster moving the industry further  
12 through the use of and acceptance of better technology.  
13 However, the ESC cautions that there needs to be -- I'm  
14 sorry. The ESC believes that many of the RTOs can and  
15 should work out these things between themselves, but FERC  
16 needs to intervene when differences cannot be resolved.

17           Having FERC approve and enforce them where  
18 standard market design for transmission and energy service  
19 will greatly reduce the existing potential seams.

20           In conclusion, the ESC would recommend that FERC:

- 21           1. Review and approve the business standards  
22 filed by the ESC regarding electronic scheduling.
- 23           2. Carefully evaluate the need for individual  
24 RTOs to be exempt from the FERC-approved standards when  
25 approving them.

1                   3. Ensure RTOs offer consistent levels of  
2 service regarding congestion management and open access to  
3 transmission service and other markets.

4                   4. Be willing to intervene and resolve seams  
5 issues that cannot be resolved through normal RTO  
6 negotiations.

7                   Thank you for the opportunity.

8                   CHAIRMAN HEBERT: Thank you, Mr. Naumann. While  
9 I've got both of them here, let me thank Mr. Spencer for  
10 sitting in and Mr. Watson coming in as well for helping us  
11 out, both of you. Thank you.

12                  All right. Mr. Naumann. Thank you, Mr. Kormos.

13                  MR. NAUMANN: Good afternoon. My name is Steve  
14 Naumann. I'm Transmission Services Vice President for  
15 Commonwealth Edison Company, a public utility subsidiary of  
16 Exelon Corporation, and we're participating as a member of  
17 the Alliance RTO.

18                  Today I'm speaking on behalf of Energy Delivery  
19 Transmission Group of the Edison Electric Institute. EEI  
20 appreciates the opportunity to discuss issues regarding  
21 interregional coordination of seams and have submitted more  
22 extensive comments in writing in this docket.

23                  EEI-member investor-owned transmission providers  
24 believe that interregional coordination of seams issues is  
25 important to the reliable operation of the interconnected

1 transmission systems and to enhance the development of  
2 competitive markets.

3 Many EEI members as well as regional  
4 organizations are actively working on interregional  
5 coordination issues, but not all entities are similarly  
6 situated.

7 In reviewing the needs for seams coordination, we  
8 believe it's important for the Commission to maintain  
9 regulatory stability, such as avoiding new deadlines and new  
10 standards that would distract from the fundamental task at  
11 hand -- to have functioning RTOs by December 15, 2001.

12 Finally, all costs of these efforts, which are  
13 substantial, do need to be recovered.

14 EEI members have been working as part of the  
15 Inter-RTO Seams Collaborative Group that was mentioned this  
16 morning by Craig Baker and Jim Torgerson, and that continues  
17 to make progress. I'm not going to repeat what they have  
18 already said.

19 The speakers on the first panel also discuss  
20 initiatives underway in the Northeast to achieve the  
21 Commission's objective of a bigger seamless market among  
22 PJM, New York ISO, and ISO New England, primarily through  
23 the MOU process involving those three ISOs and the Ontario  
24 IMO.

25 Another tangible success on the seams issue is

1 the Inter-RTO Cooperation Agreement between the Alliance  
2 companies and the Midwest ISO, which was discussed and which  
3 the Commission approved last month.

4 Seams issues pertaining to market structure are  
5 important as we move to regional rules and practices.  
6 Market structure issues are being discussed throughout  
7 stakeholder or customer processes within each regional  
8 organization. And obviously, the Commission is going to  
9 review the filings on these various market structures.

10 A number of EEI members support a standard market  
11 design going forward.

12 I would like to touch on a critical issue,  
13 timing of the implementation of seams coordination. As I  
14 mentioned before, there is a lot of progress, but as the  
15 speakers on the last panel noted, more has to be done.

16 In looking at implementation deadlines, the  
17 Commission needs to understand that at this point in time  
18 there are two types of organizations. There are going  
19 concerns like the three operating ISOs in the Northeast, and  
20 then there are the entities that are trying to become  
21 operational. And these two types are not similarly situated  
22 in what can be done quickly.

23 The new organizations are working diligently to  
24 become operational by December 15th and meet the  
25 requirements by that date. In order for these entities to

1 become operational, there is a very steep hill to climb that  
2 includes procurement of hardware, procurement of software,  
3 hiring of personnel. And I would strongly urge the  
4 Commission to resist making changes that would place the  
5 December 15th date in jeopardy.

6 That said, the second timing issue that the  
7 Commission should consider is which functions relate to Day  
8 1 as opposed to those that could be implemented later in  
9 accordance with Order Number 2000, such as market-based  
10 congestion management and addressing parallel flow path  
11 issues.

12 There clearly is more time to deal with these  
13 later functions. And with respect to the Day 1 functions, I  
14 would ask the Commission, look at the possible impact on  
15 December 15th implementation of any changes to that with the  
16 great benefits that we expect to achieve from RTO formation,  
17 elimination of pancaked rates, better coordination of ATC,  
18 and added independence.

19 The post-December 15th issues such as market-  
20 based congestion management and loop flow coordination are  
21 issues that implicate seams coordination and would benefit  
22 both the RTOs and market participants to increase the  
23 coordination on those issues.

24 Thank you very much.

25 CHAIRMAN HEBERT: Thank you, Mr. Naumann. Mr.

1 Boswell?

2 MR. BOSWELL: Thank you. I'm Bill Boswell,  
3 Chairman of GISB's Board of Directors. With me above my  
4 left shoulder who just sat down there is Jim Buccigross, who  
5 is Chairman of GISB's Executive Committee. Between the two  
6 of us, we can give a good imitation of people who know what  
7 they're talking about, at least with respect to GISB.

8 Let me quickly tell you how we work, how we  
9 became involved in the Energy Board proposal, and how the  
10 proposal is related to the seams issue regarding uniformity  
11 in electric business practices.

12 GISB's Board is responsible for running the  
13 organization and setting the annual plan. Our EC is  
14 responsible for considering and adopting business practice  
15 standards consistent with the annual plan and referring the  
16 standards to our members for ratification. To date, GISB  
17 has enacted well over 400 business practice standards, and  
18 FERC has codified them in its own regulations with respect  
19 to the pipelines it regulates.

20 And Commissioner Massey actually has a very good  
21 memory, because you've adopted every single one of our  
22 standards. Three of them were sent back for further work  
23 and we did that, but you adopted them, too.

24 So GISB standards, however, are voluntary. And  
25 that said, it's our experience that most parties follow GISB

1 standards, voluntary or not, and that we've gone a long way  
2 towards creating a commonly understood set of business  
3 practices within the gas industry that are accepted  
4 throughout North America.

5 This has occurred because GISB structured itself  
6 to operate openly, transparently and inclusively, focusing  
7 on process as a means of ensuring that consensus is reached.  
8 That mode of operation has taken some extra time, frankly,  
9 but it's also given us the credibility within the industry  
10 as a whole, with FERC, with the DOE and with the state  
11 commissions.

12 Minority viewpoints know that they are protected  
13 from the tyranny of the majority in developing and adopting  
14 standards, and all know that the standards themselves, once  
15 adopted, truly are the product of consensus.

16 GISB came into existence because the FERC and the  
17 Natural Gas Council, among others, thought that the time was  
18 ripe for a national approach to business practices within  
19 our industry, one that emanated from within the industry and  
20 one that presented the FERC with something FERC felt  
21 confident was truly consensus-based.

22 EISB is being discussed and may shortly come into  
23 existence precisely because GISB has been successful. And  
24 let me expand upon this a bit. First, GISB did not start  
25 this ball rolling. As of two years ago, we were content to

1 continue what we've been doing since 1994, which is deal  
2 with gas issues at the wholesale level.

3 At our annual meeting September of '99 we were  
4 approached formally by the Committee for Uniform Business  
5 Rules, CUBR, and asked if we would assume responsibility for  
6 maintenance of their efforts to come up with uniform retail  
7 standards for the electric and gas industries as a means of  
8 making it easier for people to do business nationally.

9 CUBR was trying to create an efficient national  
10 market at the state level. It had reached an impasse, and  
11 it looked to GISB to help bridge that impasse. And frankly,  
12 our initial reaction was skeptical or perhaps guarded is a  
13 better term. Our main concern was that in trying to deal  
14 with retail standards and the 50 or so jurisdictions they  
15 represented, some of whom had already dealt with the issue,  
16 was both daunting and likely to lead to a dilution of  
17 primary effort in the wholesale natural gas market.

18 We were also concerned that the request left out  
19 a whole segment of the energy industry, the electric  
20 wholesale market. Nevertheless, we agreed to consider it,  
21 and we started to talk about it.

22 In the fall of 2000, we issued Strawman 1 for  
23 public comment. It was an attempt to describe an energy  
24 standards board that incorporated the things that had given  
25 GISB credibility. We got a lot of comments and came up with

1 Strawman 2, which envisions four quadrants, one for each of  
2 the gas and electric wholesale and retail markets.

3 It also envisions that each quadrant will decide  
4 when and how to populate itself, how its segments will be  
5 defined, and how it will be governed. It also assumes that  
6 each quadrant will vote on its own standards and the members  
7 from each quadrant will ratify these standards. And it  
8 assumes that each quadrant will operate at its own pace  
9 considering and adopting standards when consensus is reached  
10 within that quadrant and not before.

11 And lastly, there's a provision for cross-  
12 quadrant standard-setting. In other words, if one quadrant  
13 comes up with a set of standards the others think might fit,  
14 they get a say too.

15 Quadrant procedures aside, everyone operates  
16 under the EISB rules of procedure. That is, they will open,  
17 transparent, inclusive and sensitive to minority concerns.  
18 And what EISB brings to the table is a process-oriented  
19 structure under which people can feel comfortable that their  
20 legitimate concerns will be addressed.

21 What we think you get out of this is a dynamic,  
22 responsive organization, one capable of assisting and  
23 enhancing communication throughout all sectors of the  
24 industry. And we've shopped this around. We're comfortable  
25 now that this is going to happen, particularly with the

1 FERC's support.

2 Two more comments if I may. When we started GISB  
3 in '74 we had a bunch of people who were certain they had  
4 nothing in common and nothing to say to one another.  
5 Instead, we found out we had a lot to say to each other, and  
6 the natural gas industry is the better for it. We also  
7 found out that our problems were not as big as we thought  
8 they were.

9 And my last point is this. Industry standards  
10 are best developed by those who have to deal with the  
11 problems across the spectrum on a daily basis. And we think  
12 an EISB like a GISB can do this and do it well.

13 CHAIRMAN HEBERT: Thank you, Mr. Boswell. Mr.  
14 Cook, good to have you among us.

15 MR. COOK: Thank you, Mr. Chairman,  
16 Commissioners. David Cook on behalf of the North American  
17 Electric Reliability Council. NERC welcomes the  
18 Commission's focus on interregional coordination. Achieving  
19 well functioning competitive bulk power markets has been  
20 central to the Commission's policy development for a number  
21 of years. Well functioning competitive markets can also  
22 enhance the reliability of the bulk power system.

23 One impediment to achieving that goal is the  
24 current array of differing and incompatible business  
25 practices that characterizes the electric industry.

1           In addressing interregional coordination, the  
2           primary questions that the Commission and the industry have  
3           to face are these: To what degree should business practices  
4           be standardized? How much flexibility should be permitted?  
5           When should that standardization occur?

6           Today there's no common agreement within the  
7           industry on how to answer those questions. I sense through  
8           the course of the day today some coming together around  
9           that. But some entities want nearly uniform business  
10          practices as possible to facility wide area trading with low  
11          transaction costs. Others have developed systems that serve  
12          their own region well but work less well for transactions  
13          that cross regional boundaries or in situations where the  
14          same conditions that they have don't obtain.

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1           Various regions of the country are in very  
2 different stages of development. The Commission, itself,  
3 has sent mixed signals on the subject. I confess to being  
4 part of those mixed signals when I was still on the  
5 Commission Staff.

6           The Commission has encouraged interregional  
7 coordination through Order 2000. On the other hand, it has  
8 accepted tariffs that have the effect of perpetuating  
9 differences among companies and among regions.

10           One example of the kinds of issues that I think  
11 must be considered as we go forward, NERC's market interface  
12 Committee has been addressing seams among regional  
13 transmission organizations, and has developed a checklist  
14 for RTO coordination considerations.

15           I've attached that to my remarks. I recommend  
16 that to you as sort of one indication of the kind of issues  
17 that need to be taken up. The task does not stop with RTOs.  
18 Parts of the grid will not be covered by RTOs.

19           Where they exist, not all market participants  
20 will be members. The grid is also international in  
21 character and interregional coordination must effectively  
22 address all of those areas.

23           Once the industry has a clear understanding of  
24 the answers to that primary set of questions outlined, then  
25 the secondary question, what process do we use, I think

1 becomes much easier to deal with.

2           There are several possible choices, not  
3 necessarily mutually exclusive for the process question.  
4 For reliability rules, NERC will complete its transition to  
5 NARO, will continue to develop for their reliable operation  
6 of the bulk power system.

7           NERC's new independent board of trustees is  
8 scheduled to act on a revised standards development process  
9 in October of this year. That process meets the standards  
10 set out in the legislation for a fair standards development  
11 process, including notice, opportunity for comment, open  
12 balance of interest and due process. No two industry  
13 sectors will be able to control an issue. No one industry  
14 sector will be able to veto.

15           And with passage of reliability legislation, the  
16 reliability rules will become mandatory and enforceable. As  
17 we go forward, reliability rules and market interface rules  
18 will be closely coordinated.

19           Another choice for how we proceed from this point  
20 is to promote the work of the electronics collaborative and  
21 the OASIS scheduling collaborative that Mike Kormos has  
22 talked about. Those groups are continuing the work started  
23 by the OASIS. How and what groups. That's how GISB got  
24 started.

25           A third choice would be to form an electric

1 industry standards board to work on commercial and business  
2 practice standards. As that group touched on market  
3 interface issues, and reliability issues, there would be a  
4 close need for coordination with NERC's reliability rule  
5 development.

6 A fourth choice would be for the Commission  
7 itself to take this on either in individual cases or by  
8 rulemaking, perhaps sponsoring a negotiated rulemaking for  
9 the industry.

10 The reliability of the interconnective bulk power  
11 system demands continued and increased coordination. NERC  
12 is committed to promoting that coordination. Reliability  
13 rules and the market interface rules interact and must be  
14 developed in a consistent and coordinated fashion.

15 I think we will eventually get to a fully  
16 integrated market. The real question and the thing that the  
17 variables that we have control over are sort of how soon we  
18 get there, how effective that is, how efficient that is.

19 Thank you.

20 CHAIRMAN HEBERT: Thank you, Mr. Cook.

21 Chairman Welch, good to have you with us.

22 MR. WELCH: Thank you, Chairman Hebert, members  
23 of the Commission.

24 Maine has a particular interest in this because I  
25 think Maine is now in close competition with Pennsylvania

1 for the most number of customers who actually shift into the  
2 retail market. We are well over a third of our load at this  
3 point.

4 We recognize full well that, absent a vibrant and  
5 genuinely competitive wholesale market for which the  
6 resolution of the seams issues is a necessary precondition,  
7 our retail efforts are going to be completely fruitless.

8 As Commissioner Brockway mentioned earlier,  
9 Commissions throughout New England have been pervasively  
10 involved in the wholesale and retail market development.

11 As State Regulators, we have both the benefit and  
12 the burden of being fairly close to our retail customers.  
13 We agree absolutely that we have to transform the markets,  
14 but if those reforms are going to last, we have to do it in  
15 a way that maintains public confidence.

16 All of our interventions at this Commission on  
17 matters regarding the New England Power Pool and ISO New  
18 England are uniformly directed towards increasing market  
19 transparency and breaking down barriers to entry, but always  
20 with appropriate consideration of the short- and long-term  
21 impacts of our decisions and yours on consumers.

22 The goal of our activities remains the same.  
23 Fully competitive wholesale, and in most areas of New  
24 England, retail markets. In reaching these goals, however,  
25 it has become clear to me that some fundamental issues

1 concerning wholesale electricity markets remain unresolved.

2           How does a market that is experiencing scarcity  
3 attract investment capital without creating increases in  
4 price of electricity that are unrelated to the needs as  
5 opposed to the desires of suppliers?

6           Put another way, where demand is so inelastic  
7 that certain sellers can know with certainty that their  
8 output would be purchased at any price, what constraints on  
9 price can be imposed that will simultaneously preserve  
10 public confidence and still provide sufficient incentives  
11 for capital investment.

12           In this case, is the development of real time  
13 demand response in the market sufficient, and in any case,  
14 how can such a response be incorporated into the market  
15 structure.

16           And beyond that, an over-arching question is the  
17 extent to which owners of generation should be permitted to  
18 have any ownership in, let alone control over, transmission?

19           Or indeed, whether a stand alone transmission  
20 company is in the best position to answer the allocative  
21 question of whether generation or transmission ought to be  
22 built to relieve constraints?

23           The long-term answers to any of these questions  
24 are not obvious. It is certainly not obvious that instantly  
25 eliminating barriers between two or more flawed markets will

1 simply produce a genuinely unflawed competitive market  
2 between them, though we do recognize the obvious benefits of  
3 having a market that is genuinely larger, as opposed to  
4 genuinely smaller.

5 No one knows which markets will form the best  
6 practice. There are serious debates along the lines I  
7 described that are continuing, some of which have been  
8 resolved, some of which have not.

9 And with this background, let me suggest a few  
10 ways in which I believe this Commission can be most  
11 constructive in trying to achieve these goals from a  
12 national perspective.

13 Paradoxically, I think the first answer is to  
14 think regionally. I urge that you not move precipitously to  
15 completely erase existing RTO geographic boundaries, at  
16 least in places like New England, where those boundaries  
17 bear some relationship to a working market, as opposed to  
18 some of the more arbitrary boundaries you've heard described  
19 today.

20 I believe there is still time required for New  
21 England ISO and the other RTOs separately to explore  
22 solutions to their particular market issues, and especially  
23 to find ways to bring their three respective tools, each  
24 with its own idiosyncratic history and practices into  
25 conformity with the Commission's market and structural

1 principles.

2           There are two approaches. One is the top down  
3 approach, which I think, in this context, if applied too  
4 vigorously, risks imposing a solution that really doesn't  
5 work for anyone. And in the Northeastern United States area  
6 risks putting two of the efforts, two of the three, at any  
7 rate, of the efforts in some jeopardy.

8           I think a more evolutionary course may be more  
9 appropriate here, although I think with strong timetables  
10 and specific guidance.

11           Second, I urge the Commission invest the  
12 resources needed to develop an understanding of the issues  
13 in each region and take prompt and decisive action to  
14 resolve market and governance issues that are brought to  
15 this Commission. Relying on collaboration or even self-  
16 governance of market participants has limits. Not every  
17 participant in the market wants a genuinely competitive or  
18 liquid or transparent market. Not every participant wants  
19 decisions concerning structure and rules to be made in an  
20 efficient manner.

21           I think there are categories of decisions that  
22 lend themselves to collaboration, perhaps electronic  
23 business transactions.

24           There are other decisions which most assuredly do  
25 not. For example, who gets the congestion rents. And I

1 think the Commission needs to identify quickly which issues  
2 are required for Commission intervention, and intervene and  
3 make those decisions quickly.

4 Finally, I join others in urging the Commission  
5 to take a direct and active role in the various  
6 interregional discussions and work groups. I think the  
7 personal presence of FERC representatives is absolutely  
8 vital, both to indicate the seriousness of FERC's effort and  
9 to provide the guidance where it's needed.

10 Thank you.

11 CHAIRMAN HEBERT: Thank you, Chairman Welch.  
12 Please tell Mr. Green, please tell Mr. Goodman he was  
13 missed.

14 MR. GREEN: My name is Barry Green, manager of  
15 U.S. Regulatory Affairs for Ontario Power Generation, but  
16 I'm here today as Chairman of the Federal Policy Issues  
17 Group for the National Energy Marketers Association.

18 NEM is a national, non-profit trade association  
19 representing both wholesale and retail marketers of energy-  
20 related products, services, information, and energy-related  
21 technologies. It's membership includes small, regional  
22 marketers, large traditional international wholesale and  
23 retail energy suppliers, renewable energy suppliers, billing  
24 and metering firms, Internet energy providers, energy-  
25 related software developers, risk managers, energy brokerage

1 firms, IT providers, as well as suppliers of advanced  
2 distributed generation and technology.

3 End of advertisement.

4 Our June 7th letter to FERC stated, for the  
5 record, many of the seams issues faced by NEM members and  
6 other market participants in dealing with interregional  
7 coordination issues.

8 Many of these have already been discussed by  
9 other panelists today, and NEM members are in substantial  
10 agreement with much that has been said by other market  
11 participants.

12 I wanted to use my time today to suggest a  
13 slightly different approach. To use a baseball analogy, at  
14 the start of today's technical conference, I think FERC was  
15 in the role of the umpire, dusting off the plate and calling  
16 "play ball!" Many of the panelists -- and I'm happy to say  
17 some of the Commissioners today -- have seemed to be  
18 swinging for home runs.

19 While I have no objection to home runs, and if  
20 they are successful, I think many of the NEM members will  
21 gladly jump out of the dugout and give them high fives.

22 From here, the fence still looks very far away.  
23 There are many issues to be dealt with. And in case home  
24 runs are not achievable, I wanted to look for some singles  
25 to get us a little closer to home plate without necessarily

1 knocking down the fences and redesigning the ball park.

2 One of the first lessons in management theory is  
3 that which gets measured gets done. I think we have ample  
4 evidence to support that in the context of the Northeast.

5 After the RTO NOPR was issued, but before Order 2000 was  
6 issued, the three Northeastern ISOs and later the Ontario  
7 Independent Market Operators, signed a memorandum of  
8 understanding which committed themselves to better  
9 coordination on a regional basis.

10 The first meeting of the Business Practices  
11 Working Group of the ISO MOU was announced just before, but  
12 took place after FERC's Northeast RTO conference in  
13 Philadelphia.

14 A regional day-ahead market study between New  
15 York, New England, and the Ontario IMO was announced just  
16 before the January 15th RTO filing date, but the results  
17 were not available prior to January 15th.

18 And now just before this Technical Conference,  
19 four ISOs plus a number of others have got together to  
20 establish the CSS, a new interface tool, and also have  
21 announced that there will be a future directions working  
22 group established under the ISO MOU and at a meeting which  
23 will be held just after this technical conference.

24 I'm picking on the Northeast because that is the  
25 active ISOs, other than California, which has few other

1 issues, but I personally have no confidence that the other  
2 RTOs will be substantially different following  
3 December 15th. I believe that FERC needs to establish a  
4 mechanism that will hold RTOs accountable more frequently,  
5 in the absence of periodic technical conferences.

6 I would suggest a requirement for quarterly  
7 reports by all RTOs, specific to the seams issues. These  
8 reports would be publicly available to that market  
9 participants are able to comment.

10 And we have submitted previously a list of  
11 subjects that might be included on this report as a sample.  
12 This suggestion is certainly less dramatic than a merger of  
13 the RTOs, or a specific directive from FERC that would  
14 standardize market designs.

15 But it's made with three thoughts in mind. Hope  
16 that ISOs and RTOs really do want to do a good job of  
17 interregional coordination and therefore with increasing  
18 FERC interest in the subject, so it doesn't appear to be the  
19 eighth most important function, and it will get the  
20 attention it deserves.

21 A merger, at least in the short term, would be  
22 very disruptive to the market, and the reporting requirement  
23 may be a better way to get some short-term improvements.

24 And a merger of the Northeast RTOs would not do  
25 anything to solve the problems that are bound to emerge in

1 the Midwest and elsewhere after December 15th.

2 The Quarterly Report represents a starting point  
3 and NEM would be glad to work with FERC and others to  
4 develop it further if it were to be adopted.

5 A final comment, using New York, perhaps unfairly  
6 again, as a benchmark. It is my greatest hope and my  
7 greatest fear that by year end, New York ISO will be looked  
8 on as a good RTO. My hope is that with FERC's prodding, it  
9 will successfully implement many of the current initiatives  
10 that have been already identified and are being worked on.

11 It's my greatest fear that without FERC action,  
12 New York will be largely unchanged, but the new startups  
13 will make New York look good.

14 Thank you very much.

15 CHAIRMAN HEBERT: Thank you, Mr. Green.

16 Mr. Ross.

17 MR. ROSS: Mr. Chairman, Mr. Secretary, before my  
18 time starts, may I indulge myself for a moment, please. My  
19 wife and two children are watching today, and honey and  
20 children, I love you and this is what daddy does for a  
21 living.

22 (Laughter.)

23 (Applause.)

24 MR. ROSS: And these are my dear friends.

25 CHAIRMAN HEBERT: Let's please not take his time

1 away. I'll tell you what. Let's give him an extra 15  
2 seconds for that.

3 (Laughter.)

4 CHAIRMAN HEBERT: Because he deserves it. Glad  
5 your family's along with us. Your Dad's working hard.

6 MR. ROSS: You don't have to go that far.

7 (Laughter.)

8 MR. ROSS: Good afternoon. My name is Glenn  
9 Ross. I work for Dominion Virginia Power. Thanks to the  
10 Commissioners and the Staff for selecting me to speak today.

11 We're not quite half through the year 2001. And  
12 so far, I think it's been an incredible and dramatic year  
13 for change.

14 Before I discuss my proposals, I want to share a  
15 bit of my background with you. On the RTO front, I am  
16 Dominion's representative to the Alliance Management  
17 Committee where I serve as the Vice Chairman behind Stan  
18 Swett as the Chairman.

19 I've just concluded a one-year term as Chairman  
20 of the PJM Members Committee and thanks very much to Phil  
21 Harris for his support.

22 In the reliability area, I am currently the  
23 Chairman of the CERC Engineering Committee. And last  
24 Tuesday, I was approved by the NERC Board as the Advisory  
25 Engineer to the NERC Planning Committee.

1           Finally, I have been involved in the seams  
2           discussion ever since speaking at the Cincinnati  
3           Collaborative Process. And Linda Breathitt also asked me to  
4           speak at the Atlanta Collaborative Process at the meeting.

5           I subscribe to the philosophy that involvement is  
6           the key to making change work. I also fancy myself a bit of  
7           a science fiction nut, and I found this is an analogy, that  
8           the NASA channel is programmable on VCR. My wife often  
9           finds me glued to the television when various components of  
10          the International Space Station are connected.

11          I see somewhat of a parallel in our activities  
12          here today. The United States orbited Skylab and the Soviet  
13          Union orbited the MIR spacecraft. After a time the MIR was  
14          equipped with a special docking collar which did overcome  
15          the absence of standards. I see this as a form of seams  
16          management.

17          Both space projects were a huge success and many  
18          countries participated in the development of the successor  
19          systems that led to the now growing and evolving  
20          international space stations. A new robotic arm has been  
21          installed that was designed after the arm of the space  
22          shuttle. A Canadian company designed that arm.

23          A truly international effort has led to rapid  
24          assembly. Parts and modules have been assembled and  
25          delivered from all over the world. No one country could

1 have completed this task, nor would it have been such a huge  
2 collaborative success had each participant dictated that  
3 their standards be used.

4 The MIR spacecraft has the record for being the  
5 longest successfully orbited spacecraft in history. There  
6 was some thought we might use it and all of its systems  
7 exclusively but that's not what happened.

8 I will say, at this pivotal time in our industry,  
9 our efforts may seem about as important as these historic  
10 events, at least I do, and I think we do.

11 I know there have been times when I felt like I  
12 worked just as hard as the Russians trying to keep my  
13 spacecraft in orbit.

14 We have had our own share of supply incidents,  
15 leaving scars and dents in our RTO.

16 In summary, the solution that is tried and true  
17 may not be the best final solution.

18 My mama used to say, the early bird may get the  
19 worm, but the worm may not be all the nourishment it needs  
20 to grow.

21 Although many important points have been made  
22 today, I will limit my remarks to three goals.

23 First, I hope this Commission will foster an  
24 environment of seamlessness and not seams management.

25 Second, please work with the industry to avoid

1 seams between seams agreements. I think that's a danger.

2 And third, allow for innovation and evolution  
3 with the very complex business we run. To this end,  
4 business practices should be standardized while still  
5 differentiating market design elements.

6 I have, in my state, a limit on the December 15th  
7 deadline to implement the efforts. A date slide here would  
8 create some problems for me back home.

9 NERC and EISB can I believe address seams issues  
10 when entities fall outside of the jurisdictional reach of  
11 this Commission.

12 Dominion supports the EISB model that has just  
13 been discussed, for the development of standard business  
14 practices. Reliability standards are the purview of NERC,  
15 although it may be beneficial, in my mind, to try the EISB  
16 approach, with an already approved NERC reliability  
17 standard, to see if there is added value in the EISB method  
18 proposed today.

19 We support the ERCA as a model for initiating  
20 seams discussions with others, and I also extend my  
21 compliments to Chief Judge Curtis Wagner, for his  
22 participation, leadership, and guidance, during our  
23 settlement process.

24 Long-established business practices can provide  
25 stability but can also block innovation. Innovation is the

1 key to sound business solutions. Evolution spreads good  
2 ideas and corrects imperfections in previous market designs.

3 Seams between seams agreements, once again, may  
4 only slow this process down.

5 I'll close with my two favorite quotes. Those  
6 are those of Stephen Covey: Live out of your imagination,  
7 not your history.

8 The second and probably a better quote today is  
9 from Attorney General John Ashcroft who was talking to the  
10 new Administration about change and about leadership. He  
11 said, and I quote: "The power rests with those that can  
12 solve problems. Little or no power exists with those who  
13 point out problems and criticize the current leaders for the  
14 problems they perceive. Involvement is the key.  
15 Involvement leads to solutions and a greater sphere of  
16 influence."

17 Thank you.

18 CHAIRMAN HEBERT: Thank you, Mr. Ross. It's good  
19 to have the Ross family with us, and I'm a Covey fan myself.  
20 Hopefully we have begun with the end in mind, and we will do  
21 it right. I agree.

22 Mr. Hogan?

23 MR. HOGAN: Thank you very much, Mr. Chairman.  
24 My name is Bill Hogan. I'm on the faculty at the Kennedy  
25 School of Government, and I doubt that even my students are

1 watching.

2 (Laughter.)

3 MR. HOGAN: I'm happy to be here today. I've  
4 been involved in electricity restructuring in many places  
5 but I don't speak on behalf of anybody else here today, and  
6 I'll try to be brief, given that you've heard a great deal  
7 of what I might have had to say.

8 I think the seams protocol and interface problems  
9 are going to be there. They have to be dealt with. Some of  
10 them are simple.

11 There was this problem early on in PJM where the  
12 exit points from PJM to New York were at the same points as  
13 the entry points going into New York. That's something that  
14 had to be solved. Those things can be resolved and they can  
15 be relatively easily.

16 More complicated are issues like day-ahead unit  
17 commitment and scheduling. Here, common unit commitment  
18 decisions and associated day-ahead scheduling offer further  
19 benefits for improved trading and reliability.

20 And I commend to you what was already mentioned  
21 here. The study was completed. I wasn't involved in  
22 producing it, but it's available on the ISO MOU Web page,  
23 and I included it in the submission, How to Get To It. It's  
24 a very good description of day-ahead coordination issues and  
25 different approaches that we have to address that problem.

1 We could all benefit from reading it. I learned a lot from  
2 reading it.

3 And then the emphasis and my contribution in the  
4 handout was on real time congestion management. I was  
5 involved in a study of that as a feasibility study with the  
6 MOU group, and I reported on some of the computational  
7 results with realistic-sized networks. And this was just to  
8 see if in fact it could be done and if some of the  
9 algorithms that we talked about would work. And I think we  
10 demonstrated that they would.

11 That kind of coordination of real time congestion  
12 management is quite possible, and I think we've worked out  
13 the details on how to do it. And now they are working on  
14 pilot programs to implement those ideas.

15 So those are all the kinds of things that are  
16 discussed further in the handout. But what I really want to  
17 do is come back to a basic theme that was launched this  
18 morning and has been continuing here.

19 I think Commissioner Brockway got us off on  
20 exactly the right start when she emphasized, as I would  
21 emphasize, the importance of the market design within the  
22 regions as being much more critical than how you coordinate  
23 them.

24 Good coordination of bad market design is not  
25 going to end up being a very good system. What we really

1 want to focus on and what you need to focus on and where you  
2 would have the most impact is on that market design.

3 That brings us to this question that you heard so  
4 much about today, which is the standardization issue and  
5 standardization of market design. I think it is no surprise  
6 that I agree with Phil Harris, that the market design, a  
7 bid-based, security-constrained, economic dispatch with  
8 financial point-to-point transmission rights and all the  
9 other things that go along with that package is something  
10 that works in theory. And we now have a lot of evidence  
11 that it's been developed that it actually works in practice  
12 and it's the best thing that we have out there.

13 It would go too far, even though I may believe it  
14 myself, to say that we've proven that it's the only way to  
15 do it although I suspect that may turn out to be true. But  
16 I don't think it's appropriate to suggest that you have to  
17 decide the end point for everybody in the country.

18 I do think it is appropriate, however, for this  
19 Commission to take the view that that successful market  
20 design should be the point of departure for every discussion  
21 about market design any place in the rest of the country.

22 In other words, the burden of proof should now  
23 have shifted away from demonstrating that it works, to  
24 demonstrating that something else is likely to work better.

25 That demonstration should face a fairly high

1 hurdle. The arguments for alternative market designs should  
2 at least be intellectually coherent, meaning somebody ought  
3 to be able to explain it and explain how it actually works.  
4 And if they can't, then you shouldn't take it on faith that  
5 markets are going to solve all problems.

6 Because if we've learned anything over the last  
7 year or so, we've learned that if you start out with a bad  
8 design, the market is not going to solve the problem for  
9 you. Markets work very well if you have good market design,  
10 property rights, and all the infrastructure that goes with  
11 it.

12 But if you don't do that, you're not going to be  
13 able to operate successfully. You're not going to be able  
14 to coordinate successfully. So I think the Commission  
15 should be much more aggressive about it and should set the  
16 standard up as the burden of proof that everyone has to  
17 defeat if they want to do something different.

18 I think actually it will work virtually  
19 everywhere.

20 Thank you.

21 CHAIRMAN HEBERT: Thank you, Mr. Hogan.

22 Mr. Yeung.

23 MR. YEUNG: First I'd like to thank the  
24 Commission for allowing me to speak today. I understand  
25 there were a lot of others who requested to speak and

1           couldn't.

2                       However, I'm a little bit had some of my thunder  
3           stolen out from under me with Panel 2. A lot of the points  
4           Panel 2 raised are the points I wanted to raise with the  
5           Commission, and I was glad it was taken by the Commission  
6           and heard.

7                       With that, I'll go through my prepared comments.

8                       Enron believes that transmission providers must  
9           be encouraged to consolidate their efforts and create as few  
10          RTOs as possible. The seams problems that we're dealing  
11          with today are a product of multiple RTOs forming in the  
12          first place.

13                      The fewer the RTOs -- and we've heard it before  
14          -- the fewer the RTOs, the fewer the seams problems there  
15          are.

16                      RTOs must also be encouraged to complete task  
17          force in Order 2000 the comments going to getting the market  
18          models right internally are very key here and should not be  
19          overshadowed by the need to coordinate between RTOs.

20                      However, Enron believes that one of the goals of  
21          this Commission is to emphasize to the RTO designers that  
22          resolution of interregional seams is as important to and can  
23          be accomplished in conjunction with the designer's efforts  
24          to create viable liquid wholesale energy markets within the  
25          RTOs.

1           We hope the Commission will take actions today  
2 going forward. We've heard several good suggestions and  
3 inter-RTO issues must be addressed sooner rather than later.

4           Enron is also encouraged -- concerned that seams  
5 amongst the individual control areas that reside within  
6 certain RTOs.

7           Earlier on Panel 2, John Hughes mentioned a  
8 control area criterion task force model. Seams within RTOs  
9 are detrimental to the marketplace, as inter-RTO seams are.

10          The Commission should consider the impact of  
11 competitive advantages that control areas continue to have  
12 where they continue to exist in the RTO models.

13          NERC has not been able to develop the  
14 requirements for independence on these control area  
15 functions, as Mr. Hughes pointed to earlier. However, FERC  
16 employs the control area reliability model as NERC has  
17 developed in unison with the requirements of independents in  
18 Order 2000.

19          This could be a very powerful and effective  
20 combination to providing truly open markets in the RTO model  
21 design.

22          Enron has also participated extensively in the  
23 electronic scheduling collaborative or the ESC. We feel the  
24 collaborative has worked diligently trying to find common  
25 ground to establish common industry-wide business practices

1 for OASIS Phase 2.

2           However, I think the ESC provides a good example  
3 of how a back end process to developing common business  
4 practices just does not work. The ESC has found that RTOs  
5 are very unlikely to be flexible after they've established  
6 scheduling practices, congestion practices, timing  
7 requirements, and very likely to change those to accommodate  
8 an interregional coordination.

9           What should FERC do going forward? FERC should  
10 move again toward RTO consolidation, fewer market models,  
11 move towards providing a single market model where it's  
12 feasible in certain regions. The market has to deal with  
13 parallel flows and parallel flows know no boundaries.

14           Transmission companies, on the other hand, have  
15 created these artificial boundaries. FERC should require  
16 that inter-RTO issues be resolved before approving  
17 individual RTO proposals.

18           In other words, within the RTO proposal itself,  
19 have provisions in there on how that RTO structure will  
20 accommodate the inter-RTO practices.

21           FERC must press RTOs to proactively manage seams  
22 issues as the interactive RTO processes are developed. We  
23 can't wait till after the fact. We can't wait till RTOs  
24 have completed their model. These things must be done in  
25 parallel with RTO development.

1           And one other point. As was discussed earlier, I  
2 think the NERC control area task force model should be used  
3 as a template as the FERC reviews the RTO proposals.

4           Thank you.

5           CHAIRMAN HEBERT: Thank you, Mr. Yeung.

6           Let me start out just by a quick question, then  
7 I'll go to my colleagues.

8           Mr. Boswell, there's been some concern as to the  
9 attempt to replicate what's been done for the gas industry  
10 in the electric industry.

11          Can you talk to me a little bit about that?

12          MR. BOSWELL: Yes, Mr. Chairman.

13          In the first place, as I mentioned before, this  
14 was not something that we thought up. Folks came to us in  
15 the first place because we were perceived to be doing it the  
16 way that it ought to work, and because we had, for want of a  
17 better term, credibility in terms of how we operated.

18          The model that we have come up with, this  
19 Strawman 2 that I mentioned, and you have a series of charts  
20 before you on this thing, divides the industry, if you will,  
21 into four quadrants. Wholesale gas, which would be GISB, we  
22 would roll into that wholesale electric, and then retail gas  
23 and retail electric.

24          If you think of EISB itself as the over-arching  
25 structure into which these four quadrants fit, then I think

1       you get a better appreciation of how we think it can work,  
2       and how we think it can work well. In other words, each  
3       quadrant pretty much governs itself as long as they do so  
4       consistent with the principles of the organization itself.

5               Open, inclusive, and all the other things that I  
6       mentioned before, all the things that you all are familiar  
7       with, with respect to GISB itself.

8               I think the nice part about it is that the  
9       quadrants can work at their own pace dealing with things as  
10      critical mass is actually achieved within the quadrant  
11      itself. And the quadrants can deal with things on a bi-  
12      quadrant basis.

13              In other words, if something comes in and is  
14      assigned to the electric retail quadrant, and the gas retail  
15      quadrant or one of the other quadrants or more than one  
16      quadrant believes it has an impact on how they're going to  
17      do business from a business practice standpoint going  
18      forward, they can raise their hand and say, wait a second,  
19      what you've come up with is very interesting but the way  
20      you've designed it, it impacts upon us and our members as  
21      well, so let's think it through a little bit further.

22              We believe that's one of the great strengths of  
23      the system. Jim Buccigross is here too. He chairs the  
24      Executive Committee. They are the ones who handle the  
25      standards themselves.

1 I served on the EC for three years before I came  
2 to the Board, but Jim is the one who can talk about how you  
3 actually make a standard from start to finish, and you have  
4 a chart on that. It may be worth taking a minute to run  
5 through that if it suits your convenience.

6 CHAIRMAN HEBERT: Mr. Buccigross, if you've got  
7 something to share, go ahead.

8 MR. BUCCIGROSS: I'm on page five of the chart.  
9 There's two things I want to say.

10 One, GISB and presumably EISB does not work on  
11 standards that we dream up out of our heads. It's  
12 membership driven. The membership comes and says we need a  
13 standard on seams. We need business practices on that.

14 That is then turned into a request which would be  
15 the first blocks there. It goes to the Executive Committee  
16 where the Executive Committee, in a balanced fashion, votes  
17 on whether it believes that's within the scope, does that  
18 have to do with, in GISB's case, wholesale gas, in EISB's  
19 case, wholesale electricity or retail.

20 Assuming it passes that, it goes to a  
21 subcommittee where industry people work on it. GISB is just  
22 really Rae McQuade the Executive Director, and three or four  
23 administrative staff. That is GISB. The rest of the body  
24 are volunteers from the industry. That's the same model  
25 we'll follow into an EISB.

1           So it is the same people that go to the various  
2 committees now that will work on that. That goes back to  
3 the Executive Committee and ultimately goes out to be  
4 ratified by membership.

5           This is actually a very simplified 30,000 foot  
6 view of it. I sat down to do a chart, to do every step, and  
7 when I ran out of space on the paper, I decided that Bill's  
8 looked better than mine, and we'd use his.

9           But there are multiple levels of voting, multiple  
10 levels of participation. There is protection of minority  
11 views, there is protection against tyranny of the majority.

12           CHAIRMAN HEBERT: I'm not as much worried about  
13 the process. I'm beat up on process these days.

14           MR. BUCCIGROSS: Let me just say this. There  
15 were a hell of a lot more people in 1994 saying that GISB  
16 would not work for the gas industry than there are today  
17 saying that EISB won't work for the electric industry.

18           CHAIRMAN HEBERT: Let me ask this to the panel.  
19 Is there anyone else that has a concern or wants to make a  
20 comment about replicating on the electric side what we've  
21 done on the gas side with GISB?

22           Does anybody have anything to add on that?

23           Chairman Welch?

24           MR. WELCH: Yes. I think it's a concern, and I  
25 speak from a position of blissful ignorance on all the inner

1 workings of GISB, but as an entity that relies upon a  
2 collaborative process and a consensus building model, I  
3 think it works very well, or something of that kind works  
4 very well when what you're dealing with is, in what form  
5 should electronic transfers take place.

6 Situations which can be categorized as ones in  
7 which all of the market participants, from the residential  
8 customer up to the producer, would benefit from some  
9 increased efficiency in the system.

10 I don't think the model works at all with respect  
11 to a great many decisions which still have yet to be made  
12 with respect to the electric competitive industry, because  
13 there are a lot of decisions left where you are taking money  
14 out of one set of pockets and putting it into another set of  
15 pockets.

16 What we've seen in New England is the  
17 collaborative models reach gridlock almost instantaneously  
18 in those circumstances. So I think having something like  
19 EISB and GISB are absolutely vital, sort of on an on-going  
20 basis and as an adjunct, but they are not going to solve the  
21 important seam problems, they are not going to solve the  
22 important wholesale design problems because a lot of those  
23 issues do require that this Commission make some very tough  
24 decisions about where the public interest lies, even at the  
25 expense of some of the market participants.

1           CHAIRMAN HEBERT: Let me go to Mr. Green and I'll  
2 come back to you. Thank you.

3           MR. GREEN: The National Energy Marketers  
4 Association does not have a position on GISB one way or the  
5 other. Personally, I think I probably would fall into Ms.  
6 Kelly's description of electric types who are a little  
7 uncomfortable necessarily with importing gas solutions into  
8 the electricity industry.

9           Six months ago, I probably couldn't have told you  
10 what GISB stood for. My concern, though, and it may be  
11 alleviated, is that one of the differences in the  
12 electricity and gas model, as far as I know, is that in gas,  
13 there was no NERC equivalent.

14           My biggest concern with bringing the GISB process  
15 into the electricity industry is the areas of overlap.  
16 Where does a commercial practice that might be solved by a  
17 GISB type process end, and a reliability issue that needs to  
18 go through a NERC process begin?

19           And my biggest fear is that there will be a  
20 number of issues which will end up going through both  
21 processes and perhaps never get solved.

22           CHAIRMAN HEBERT: I'll go to Mr. Boswell. Then  
23 we'll come back to Mr. Cook.

24           MR. BOSWELL: Just to state the obvious, we  
25 cannot be all things to all people. We can be many things

1 to many people, however. GISB has been successful because  
2 we have focused on business practice standards. We have  
3 attempted not to pick winners and losers and we have  
4 attempted not to do things which I would refer to as  
5 financial standards.

6 Picking winners and losers, we avoid those things  
7 like the plague. Indeed, anything that smacks of that has  
8 been precisely the thing that's eventually come up to the  
9 FERC for decision.

10 There are a few things you've asked us to do over  
11 the years that we simply said to you, we can't do that  
12 because you have to make that call. We can't make that call  
13 because you're going to pick a winner or a loser.

14 And I think that's a very prescient comment on  
15 Barry's part. We need to keep that in mind as we go  
16 forward; what GISB does do.

17 And I know you are probably beaten to death with  
18 processes. We have a process in place which makes people  
19 comfortable. In 1994, when this whole thing started,  
20 frankly the LDC community, which I represented at the time,  
21 was one of the leading skeptics here.

22 We said we think this thing is probably pipeline  
23 driven and we're not sure that our interests are going to be  
24 protected, so we built a lot of bells and whistles into the  
25 system to make sure that the people would be comfortable.

1           Because if they don't trust how the system works,  
2           it won't work. So what you need to do is build trust that  
3           what you're doing is something that people can buy into and  
4           that if they think you are moving too quickly, they can  
5           raise their hands and say, slow down a little bit until I  
6           better understand what's going on.

7           You were also absolutely on point, Barry, with  
8           respect to the nexus between NERC and GISB or an EISB type  
9           organization.

10          Clearly, it seems to me that the reliability  
11          piece in many cases is going to be the driver.

12          Once NERC has determined what it is going to  
13          require from a reliability standpoint, then that can be  
14          turned into a business practice standard in support of the  
15          reliability standard itself.

16          But it's going to require close coordination  
17          between NERC and GISB as we go forward.

18          One of the suggestions made by a couple of folks  
19          from NERC, when we talked with them about this a month ago,  
20          is that maybe NERC ought to be part of EISB or at least  
21          affiliated with EISB in some fashion, so that we can talk  
22          with one another.

23          Because all of this thing comes down to  
24          communication.

25          And if you have one group or a series of groups

1           that do talk with one another on a routine basis, they're  
2           going to resolve a lot of problems that would otherwise crop  
3           up.

4                     Fear is one of the things that slows us down in  
5           making any kind of a decision.

6                     And if you talk to other folks, over time, that  
7           fear diminishes.

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1 CHAIRMAN HEBERT: Mr. Cook.

2 MR. COOK: I think of the range of activities  
3 that we've been talking about along a continuum. You've got  
4 some pure commercial kind of things at one end -- billing  
5 practices, some things of that sort. There are other things  
6 in that category at the other end. You've got some very  
7 pure reliability issues -- operating the system at 60 hertz,  
8 and adhering to NERC's first contingency requirements for  
9 transmission security.

10 In the middle, you've got a fairly broad band, I  
11 think, of sort of mixed questions, market and reliability  
12 interface questions.

13 We'll continue to work, and if there should be  
14 developed an Electric Industry Standards Board, there would  
15 be a need for coordination at those intersections. And that  
16 would require sort of additional coordination. It's not  
17 undoable if the industry decides to go forward.

18 I think for the folks who express concerns about  
19 something coming from GISB, from the gas side of the  
20 business, all that is is sort of a governance model and sort  
21 of a way of getting to some decision points through an open  
22 process. The gas folks aren't going to be doing that. It  
23 would be the electric folks that are going to be going  
24 through that process.

25 And so, if they decide to pursue that avenue,

1 it'll be the same entities that are participating in the  
2 NERC process. There's no body of sort of GISB folks waiting  
3 in the wings to do the electric business side of this stuff.  
4 It will be by the industry participants themselves.

5 CHAIRMAN HEBERT: Let me move to my colleagues.  
6 I think we've morphed on this enough. I would invite anyone  
7 who has additional comments on this to please file it within  
8 five days.

9 Let's start with Commissioner Massey.

10 COMMISSIONER MASSEY: Professor Hogan, I noticed  
11 at the end of your slide presentation that you provided in  
12 written form to us, you advocate the presumption in favor of  
13 the PJM market design, and you say time is running out.

14 What do you mean by that, time is running out?

15 MR. HOGAN: Well, I don't want to overdramatize  
16 it. But if you look at California -- and there are many  
17 things about California that are different than other parts  
18 of the country -- but one of the things that people failed  
19 to recognize is that the California market was in trouble  
20 well before last summer, when prices went up.

21 As a matter of fact, from the beginning of its  
22 operations, the California market ran into problems. This  
23 Commission is very familiar with all the amendments that  
24 they were filing to change it, and to try to do it to solve  
25 these problems without using market processes, because

1 they'd ruled these market processes out in their original  
2 design. And at the end of 1999, this Commission found that  
3 critical features of that system were fundamentally flawed,  
4 and directed California to go back and redo from first  
5 principles that market design.

6 That process started in early 2000, and it was a  
7 race against time. And eventually the market broke down,  
8 and they failed to make those changes. Now, in the process  
9 of dealing with the crisis, all of these things have been  
10 ignored, deferred, set aside, and all kinds of ad hoc rules  
11 are going to be developed.

12 Where this market is going to end up in  
13 California -- I have little idea what they're going to do,  
14 because they're in a crisis mode trying to fix this. When  
15 you don't have the crisis upon you is the time you should  
16 fix the market design. We're all worried about what's  
17 happening in the rest of the country because we're delaying  
18 and we're delaying. We're developing things that are  
19 incompatible. We're creating seams problems where we don't  
20 have to do it.

21 That's the reason in part for this conference.  
22 Many of the comments you heard earlier, particularly about  
23 the problem in the west, for example, and the other parts --  
24 and eventually we're going to get in a situation where we're  
25 going to have another crisis that's going to show up, and

1 then another. Or we're going to get embodied with market  
2 designs that don't work, fundamentally, and it's going to be  
3 too late to change them easily.

4 We're going to spend a lot of money. We're going  
5 to create a lot of entrenched interests. I thought this has  
6 been a race against time for a number -- since well before  
7 Order 2000 came out, and I'm amazed we've gotten away with  
8 what we've gotten away with so far. I keep holding my  
9 breath and hope that we can get the successes to spread, but  
10 it's far from obvious that that's going to happen.

11 COMMISSIONER MASSEY: It seems to me what you're  
12 saying is a bad market design that leads to prices that we  
13 don't have any confidence in erodes the credibility of the  
14 movement to competitive markets, and we need to get on top  
15 of that.

16 MR. HOGAN: That's exactly right. The damage  
17 that's been done by the unfortunate crisis that we've been  
18 experiencing, which is a very serious situation in the west,  
19 is damage to this country. It's damage around the world.  
20 This is not the only place where people are talking about  
21 that.

22 The notion that we are going to solve these  
23 problems simply or easily, or that it's going to emerge  
24 voluntarily, I just think is defied by the evidence. And I  
25 believe this Commission in the United States is the one

1           entity that has the capability and the authority to do  
2           something about it, and I think you should.

3                   COMMISSIONER MASSEY: Mr. Boswell, in 1994, when  
4           the Commission had a similar conference, and the gas  
5           industry came in to talk about the EBBs and how to get past  
6           the seams issues that that created, what signals did the  
7           industry get from this agency that turned that around?

8                   What were the elements of the signal, and should  
9           we give the same signal here?

10                   MR. BOSWELL: I recall being in a different  
11           conference room, and a different person -- Betsy Moler --  
12           sitting in the chair. And I recall being the witness for  
13           AGA at that time.

14                   And I recall that you all were up on a dais,  
15           sitting above us, and it was kind of the finger of God  
16           pointing at us.

17                   COMMISSIONER MASSEY: I always felt that way when  
18           she pointed at me, too.

19                   (Laughter.)

20                   MR. BOSWELL: She enjoyed it, I think.

21                   (Laughter.)

22                   MR. BOSWELL: She said, you will do this or we  
23           will do this, and I guarantee you will like it better if you  
24           do it. So it had a strong motivating factor. It reminds me  
25           about the comment from Samuel Johnson, about the process of

1 being hanged concentrates the mind wonderfully on the  
2 future.

3 So in this particular case, a strong signal from  
4 FERC is probably going to be of great assistance here. That  
5 said, we probably have a little bit more going for us than  
6 we did at that time, because there was no GISB model in  
7 existence. There is one now. People seem to be converging  
8 around it.

9 But if you all for example were to say, as a part  
10 of the solution to this problem that we see before us, you  
11 really ought to move in that direction, and you really ought  
12 to do so in a way that folks have become comfortable with, I  
13 think we can pull that off. I think we could have an EISB  
14 in existence before the end of the year. And I will tell  
15 you quite frankly, I would very much enjoy being the last  
16 chairman of the board of GISB.

17 If EISB comes into effect, GISB will roll into  
18 it. And I appreciate David's comment. We're going to be  
19 one quarter of it. We are not going to be four quarters of  
20 it. Each of the quarters will run itself. Consistent with  
21 the way that GISB has set itself up, EISB will be set up as  
22 an organization.

23 Jim, did you want to add anything to that?

24 MR. BUCCIGROSS: No, thank you.

25 CHAIRMAN HEBERT: Commissioner Brownell?

1 COMMISSIONER BROWNELL: Thank you, Mr. Chairman.

2 Tom, you said some issues lend themselves to  
3 collaboration, and some do not, and you needed our help --  
4 definition, nudging, whatever -- on those who don't.

5 Could you specify a little more clearly what it  
6 is you think we need to address?

7 MR. WELCH: First of all, I was talking in  
8 categories. I think there are issues where what you're  
9 doing is just figuring out how, physically or  
10 electronically, people are dealing with one another. Those  
11 I think are going to work themselves out. Everyone has an  
12 interest in doing it.

13 But there is another set of issues -- congestion  
14 management falls roughly in this category; design of  
15 capacity markets falls roughly into that category -- in  
16 which the near-term financial prospects of the market  
17 participants are going to vary greatly, depending on which  
18 result occurs. If you just look at the northeastern  
19 Massachusetts situation, how those costs are socialized  
20 around New England makes a huge difference to the people in  
21 Boston, and a huge difference in the opposite direction to  
22 the people in Maine. Getting people, even regulators, from  
23 Maine and Massachusetts in the same room is not going to  
24 come out with a solution.

25 Similarly in capacity markets, there's a lot of

1 debate, a lot of people of good will trying to put forward  
2 particular kinds of solutions. But they make a difference  
3 in how much money people are going to get in the near term.

4 I think on those kind of decisions, FERC needs to  
5 educate itself quickly with respect to the regional  
6 situations and just make a decision, come to a conclusion --  
7 not wait for the participants to come to their own  
8 resolution and not send it back to them to come to a  
9 resolution, because it won't happen.

10 COMMISSIONER BROWNELL: Thank you. Yes?

11 MR. COOK: Just to follow on your response to the  
12 question, the Electronic Scheduling Collaborative intends to  
13 present to the Commission, I think at the end of August,  
14 what's hoped to be a set of consensus business practice  
15 standards. Their expectation, though, is that they're not  
16 going to be able to get all the way there on some of those,  
17 and they will sort of present those issues to you, lay out  
18 the pros and cons on the issues that are involved. They're  
19 going to ask you to make some cuts on those decisions.

20 COMMISSIONER BROWNELL: Thank you.

21 Mr. Naumann, you make some comments that are I  
22 think countered by some of the earlier panels and my friends  
23 at the end of the table. And I just want to ask you this  
24 question.

25 I feel a little bit caught in a Catch-22. There

1 are some who say do nothing, stay out of the way, let us get  
2 there. You say, well, there's kind of a startup issue, and  
3 we're there, and we can wait for things like congestion  
4 management and other kinds of decisions in a kind of Phase  
5 II.

6 Yet we have Professor Hogan, who wisely points  
7 out you can't coordinate a bad market design. We've already  
8 tried to do that, and I think we've seen the results. So to  
9 say wait, because we don't have to do it the day we open the  
10 doors -- although we know a couple months after we open the  
11 doors we're going to be dealing with that -- I'm just not  
12 sure about leaving that much uncertainty, or the ability for  
13 ten options to get out there and deal with these seams  
14 issues that we haven't even anticipated yet.

15 Respond if you would, and then maybe Professor  
16 Hogan and Mr. Yeung would like to chime in.

17 MR. NAUMANN: I'm not sure that I disagree with  
18 Bill. What I was trying to say is, those issues that are  
19 day-one issues that have to be done by December 15 -- to  
20 require changes at this point from where people are will be  
21 very difficult and costly to implement, because there are  
22 contracts and we're at the mercy to some extent of the  
23 vendors to actually implement these things if you're going  
24 to make December 15.

25 I didn't mean to imply that on the day-two

1 issues, the market-based congestion management,  
2 internalization of loop flow, that you should wait to  
3 December 15 to do anything. What I'm saying is that on  
4 those -- and some of those are the very big issues; I think  
5 the issues, more or less, that will end up coming up here --  
6 that there is more time to start now to get a solution so  
7 that they will be implemented within the Commission's  
8 deadline, or if you're looking at some changes to those  
9 deadlines that that is far more realistic to get done than  
10 the day-one things which, if we slip day one, I absolutely  
11 agree with what Glenn Ross said.

12           Glenn is sitting there with his state deadline.  
13 He needs to be in operation by December 15, and many of us,  
14 we are going to be in operation. So if I was confusing on  
15 that, I'm glad to be able to get a chance to clarify.

16           COMMISSIONER BROWNELL: So you don't think the  
17 risk -- or anybody can comment on this -- that six months  
18 from now, we're sitting here, we've come to a consensus  
19 that, you know, this model doesn't work but this model  
20 really does. We've finally agreed on a model, or maybe two,  
21 of congestion management, and ten people don't sit around  
22 and say, yes, but I just spent 12 gazillion dollars on  
23 software. I can't change that; gee, I'm sorry.

24           MR. NAUMANN: I think the short answer to the  
25 second question is, too bad, although I --

1           COMMISSIONER BROWNELL: I'd like that in the  
2 record and underlined six times for everybody in the room.

3           MR. NAUMANN: Understanding that the expenses  
4 were prudently incurred as something that has to be done.

5           (Laughter.)

6           MR. NAUMANN: But to get to that, part of it is  
7 because the congestion management systems -- again, I'm  
8 putting aside the three northeast ISOs that are far more  
9 advanced -- that there is the longer lead time, and the  
10 Commission can control that process and say -- and I'm not  
11 necessarily suggesting that this is what you want to do --  
12 you may say, by such and such a date, we're going to come  
13 out and we're going to say what are acceptable and not  
14 acceptable designs. And we don't want you to go there yet.

15           You know, Bill may say that's not quick enough.  
16 The problem is, it will take time to do all that. There  
17 are, at least in the area I come from, there are a number of  
18 collaborative efforts -- SPP, within the Midwest ISO, within  
19 the Alliance, within the south -- they're going and doing  
20 their thing.

21           We may need a little direction to say, okay,  
22 Order No. 2000 said we want the market-based congestion  
23 management system to be in operation one year from the  
24 effective date. We still mean that. However, we're going  
25 to need some additional guidance or something like that by

1 this time so that you can implement that.

2 Bill may say we're waiting too long, but I'll let  
3 him say that.

4 COMMISSIONER BROWNELL: I would agree with him,  
5 actually.

6 MR. HOGAN: With all due respect to the  
7 Commission and Order 2000, I think what Steve is responding  
8 to here is one of the few mistakes that were made in Order  
9 2000, and a quibble that I would have.

10 COMMISSIONER BROWNELL: Good catch, though.

11 MR. HOGAN: The decision about what had to be  
12 done immediately and what could be done in the second phase,  
13 the day one and day two -- there was a decision that was  
14 made by the Commission, and it said balancing markets had to  
15 be done right away, and the congestion management system  
16 could be done later.

17 This presents a fundamental problem for the  
18 industry, because these are the same problem. You can't  
19 solve one, as a practical matter, without understanding how  
20 you're going to solve the other. They're very closely  
21 connected with each other.

22 That's water under the bridge, so there's  
23 nothing. What Steve's worried about is upsetting the  
24 processes that are underway to get to day one, given that  
25 that's what the Commission said before. So what can we do

1 about it now?

2 I think his suggestion is exactly the right one.  
3 Since these things are so closely intertwined, when people  
4 are trying to work out the final details and put in the  
5 balancing things, they should have in mind how this is going  
6 to work with the congestion management system that they're  
7 going to adopt as soon as they can adopt. I think a year  
8 later is too late, but the faster the better.

9 But in any event, you ought to give them advice  
10 today on what's going to be acceptable for that, and I've  
11 already described what I think is a starting point, the  
12 point of departure for that. And if the Commission went out  
13 and said that, that would have an effect on how people are  
14 developing these things, and you would head off some of  
15 this, which is going to happen without doubt.

16 The conversation is going to come later -- oh, if  
17 they only told us before, but we can't do it now because we  
18 have all this money we have spent on this software. Some of  
19 that's going to happen anyhow. But I think you should  
20 anticipate where you're going, and recognize these things  
21 are very closely connected to each other, and speak now not  
22 later.

23 COMMISSIONER BROWNELL: Thank you. Mr. Yeung?

24 MR. YEUNG: I think I want to point out that  
25 congestion management is probably one of the biggest issues

1 as far as the market's concerned. If an RTO has a very  
2 effective congestion management process, which allows the  
3 market to buy through the congestion and to manage it  
4 financially, that's what the market wants. A lack of  
5 coordination between RTOs and congestion management schemes  
6 puts a lot of risk on the market.

7 Physically congestion can more than likely be  
8 resolved through physical curtailment. NERC TLR is a  
9 process that's been in use for years. It gets the  
10 congestion off. However, there's no financial restitution  
11 for a NERC TLR.

12 A lack of coordination of congestion management  
13 tools going forward with RTOs will result in physical  
14 curtailments, leaving the market with no financial recourse  
15 to mitigate the congestion. That's what's at risk in the  
16 market.

17 COMMISSIONER BROWNELL: Thank you. Thank you  
18 all.

19 CHAIRMAN HEBERT: Commissioner Wood.

20 COMMISSIONER WOOD: I just have one question.  
21 It's for Mr. Cook and Mr. Boswell.

22 Thinking about the division of labor between EISB  
23 and NERC -- explain to me a little bit more about the makeup  
24 of the subgroups who are really doing the grunt work here.  
25 Independent boards are great and all that, but we know the

1 work gets done down at the staff level.

2 (Laughter.)

3 COMMISSIONER WOOD: Although not yesterday.

4 (Laughter.)

5 COMMISSIONER WOOD: That was up at the top, all  
6 right. In most cases, staff was doing the work.

7 Who are in the bowels of these organizations that  
8 is really doing a lot of the nitty-gritty here?

9 MR. COOK: For NERC, it's industry volunteers.  
10 NERC has three standing committees: an operating committee,  
11 a planning committee, and a market interface committee. And  
12 those committees all have representation from all segments  
13 of the industry: transmission providers, customers,  
14 independent power producers, marketers. You've got some  
15 folks here at the table. You've got two now here who are at  
16 least vice-chairs of some of those committees.

17 Those groups, in turn, have more industry  
18 volunteers and subgroups working under them to do the  
19 developmental work on the reliability standards as they move  
20 forward. And as has been observed, the reliability issues  
21 inevitably touch on market issues. And so the  
22 interconnection with the market and the way those rules get  
23 played out, the effect it has on the market is sort of built  
24 into the process.

25 The organization is in transition. You heard an

1 earlier panelist describe his lack of satisfaction with how  
2 far the organization has gotten. But you know, the process  
3 is underway, and there's lots of participation by lots of  
4 people from all segments of the industry.

5 My assumption is that if an Electric Industry  
6 Standards Board were created, it would be populated by those  
7 same people, or at least those same organizations. The  
8 governance structure is slightly different from the one that  
9 NERC has, but if you take it one step back, in terms of  
10 openness and balance of interest and that kind of stuff,  
11 it's fairly characteristic as well.

12 MR. BOSWELL: I'm a process geek. I'm not a  
13 techie necessarily. The short answer, though, is that it's  
14 done in pretty much the same fashion at GISB as it would be  
15 done at NERC.

16 The people who deal with these things on a daily  
17 basis are the ones who come up with the way it ought to be  
18 done, because they know what does work. And it's balanced  
19 among, at least at the GISB level, all segments of the  
20 industry, from producers to end users, all of whom get to  
21 sit on the committees and talk about how to make this thing  
22 work.

23 What I'd like to do is kind of knock this one  
24 over to Jim, as chair of the executive committee, because he  
25 can tell you very specifically how the EC works to make this

1           happen.

2                   The only thing I'd say before that, though, is  
3           when we developed our first couple of hundred standards back  
4           in the early '90s -- mid-'90s, I guess -- we probably had  
5           500 industry volunteers who deal with this stuff on a daily  
6           basis, working for the better part of a year to come up with  
7           it. It was a major investment of time as well as money, but  
8           frankly no one else could have done it, and I think no one  
9           else could have done it as well. And the Commission has  
10          admitted over the years that you all couldn't do it, either.  
11          Moreover, I'm not sure you'd want to do it.

12                   Jim?

13                   MR. BUCCIGROSS: Thank you, Bill.

14                   It's all levels, is the short answer. At the  
15          Board, you're dealing with senior VPs, CEO level; executive  
16          committee, probably VP, senior director levels. Yet that's  
17          where the business standards are formed.

18                   The implementation standards go down through  
19          various subcommittees where you'll have pure programmers and  
20          techies and EDI people down in the bowels, to use your  
21          terms, doing the real work, making the implementation  
22          manuals and setting those up such that people can then take  
23          those documents and implement the standards.

24                   The standards are great. We put them in a book.  
25          The words say this. But without the implementation scheme,

1 the software and the ability for companies to take the  
2 documents and implement them, they don't do any good. So  
3 the level is all the way down there, from the technical  
4 people who make it work to the Board who does all the grand  
5 thinking to the EC that passes the business.

6 COMMISSIONER WOOD: Where does it all get woven  
7 together? A lot of times commercial practices have a  
8 reliability implication, and what an engineer may think is  
9 great on reliability may just crater a competitive deal and  
10 not really be necessary. But it's like we've got to put  
11 that engineering factor in there.

12 The world I came from had them woven together  
13 just kind of institutionally. And so it is difficult for me  
14 to see about the seam being between a reliability mindset  
15 standing alone and the commercial facilitation mindset. Do  
16 those things just finally get brought together when it comes  
17 to the Commission, or does somebody start doing that before  
18 it comes there?

19 MR. COOK: Clearly that would need to happen  
20 ahead of time if you had a rational set of standards. It's  
21 why NERC developed the Market Interface Committee to deal  
22 with those kinds of issues and to work on those kinds of  
23 situations for the issues that touch on those two things --  
24 that is the scheduling, curtailment, those kinds of things  
25 have implications on both sides. That would still need to

1 be done in a coordinated fashion, presumably just through  
2 NERC as it developed those reliability standards.

3 In the legislation that's pending, one of the  
4 things that the new organization is obligated to do is to  
5 take account of the commercial impacts of those kinds of  
6 things so that that's built into the standards on a going-  
7 forward basis.

8 MR. BOSWELL: We need to develop protocols to  
9 make this piece of it work, because the nexus between those  
10 two actions is probably the most critical part of this whole  
11 thing, at least in my mind. The Market Interface Committee  
12 at NERC, we've already had one meeting with them at a fairly  
13 high level. We've already agreed that we're going to have  
14 more meetings in going forward to figure out what those  
15 protocols ought to be.

16 One of the ways you could handle it is to have  
17 the MIC come into the electric wholesale quadrant of an EISB  
18 to deal with that sort of thing. The electric wholesale  
19 quadrant will as a quadrant have to deal with these issues,  
20 and it will segment itself as makes sense to the electric  
21 industry.

22 We have five segments in GISB right now:  
23 producers, pipelines, marketers, service providers, and end  
24 users. I think I've covered all of them. I mentioned LDCs  
25 before, so there's five. It doesn't have to be five in each

1 of the other quadrants. It'll be whatever number it is in  
2 order to take care of all the interests that are at play.

3 But let's give you an example of a standard, a  
4 business practice standard within the gas industry. We  
5 defined a gas day. What's a gas day? It's a day from 9:00  
6 a.m. to 9:00 a.m. central clock time. It took us six months  
7 to come to that, because we had some people in the west who  
8 didn't want to get up that early, and people in the east who  
9 didn't want to get up that late.

10 But we needed to figure a time when it was going  
11 to work best for the most people. We grumped about it and  
12 we went back and forth, and finally we decided upon that.  
13 Guess what? People lived with it. The same is going to  
14 happen here.

15 But David is absolutely right. We have to find  
16 ways of making this piece of it work. Frankly, I think if  
17 we're dealing with pure reliability, the business practice  
18 standard has to be derived from the reliability standard,  
19 not the other way around. But there are so many things  
20 where it's purely business practice and purely reliability,  
21 and they'll just kind of work themselves out as they have so  
22 far.

23 COMMISSIONER WOOD: If we have one RTO over the  
24 whole east, would there be a need for GISB and the NERC to  
25 deal with all that, or could that just all be in the RTO?

1           MR. BOSWELL: I'll tell you where I'd like to see  
2 it. I'd like to see the RTOs and NERC and others who  
3 participate in the electric quadrant. Because then you can  
4 deal with the business practice issue. You can deal with  
5 reliability. You can deal with any number of things, and  
6 they -- the electric folks -- would be dealing with it  
7 themselves.

8           COMMISSIONER WOOD: Mr. Yeung?

9           MR. YEUNG: Commissioner Wood, I think your point  
10 about the inextricable link between market practice and  
11 reliability practice is exactly what we struggle with. I  
12 served on the Market Interface Committee for several years.  
13 Although NERC has come a long way in getting customer  
14 representation in their standard-setting policy, it's still  
15 very heavily weighted on transmission providers and the  
16 operators and their court.

17           What we're looking at in the EISB process is a  
18 process which provides not only balance, but the appropriate  
19 segment representation on the issues. The Market Interface  
20 Committee does deal with the market interface issues. These  
21 issues currently lie in NERC operating policies, so the  
22 structure is such that these are not market interface  
23 practices, but they are really operating practices that have  
24 commercial impact.

25           And that's what we have to struggle with, and

1           it's always a power struggle between customers and providers  
2           on how these rules should be changed to favor the provider  
3           or favor the customer. And with the dominance of  
4           transmission providers at NERC, that's where these policies  
5           don't even get shaped into the appropriate form for proper  
6           Board approval, and that's what we have to deal with.

7                     EISB looks like it provides a process that at  
8           least gets the segments right.

9                     COMMISSIONER WOOD: Thank you, Curt.

10                    CHAIRMAN HEBERT: Did you have one follow-up,  
11           just real quick, Mr. Ross?

12                    MR. ROSS: Just real quick.

13                    I wanted to state that, although I understood Sue  
14           Kelly's point earlier, it was brought up on this panel. I  
15           represent a very large gas and electric conglomerate. We  
16           work with GISB. I support the EISB concept. I support the  
17           NERC concept.

18                    To stay with my parental analogy from earlier and  
19           the family analogy, two children's playpens may make the  
20           parents' work less difficult than one battling with the  
21           other. So I support the model. I'm not afraid of the GISB  
22           approach to the electric industry. I think it would be a  
23           good thing, so long as we understood NERC is reliability  
24           based.

25                    Thank you.

1 CHAIRMAN HEBERT: Thank you, Commissioner Wood.

2 Mr. Miller I believe had a question or two that  
3 you felt might be important. I'll indulge him.

4 MR. MILLER: Thank you for indulging me. I'll be  
5 as quick as I can, and direct.

6 Barry, I was a little bit surprised when you were  
7 saying that you wanted there -- it sounded as though you  
8 were suggesting that the process that was in place for  
9 resolving the seams in the northeast should be allowed to  
10 continue, albeit with the inclusion of quarterly reports to  
11 FERC to note the progress on that. My question to you is,  
12 given the fact that this Commission has had a number of  
13 orders where they said, we want you to go to a best-  
14 practices model and get back to us on it, and the MOU  
15 process is coming up on about two years old now, are you at  
16 all fearful that these quarterly reports may be just sort of  
17 happy talk to keep us off their backs?

18 MR. GREEN: I am fearful, yes. And I think the  
19 point I was addressing is that in the short term, I'm not  
20 sure that a major market redesign of the three markets gets  
21 us substantial progress quickly.

22 I think there is a hope, with appropriate FERC  
23 oversight -- and the report is not the end, it's a means.  
24 It's a means for FERC to keep their feet to the fire and to  
25 insure that progress is being made, not just reports being

1 issued. And I think in the short term there is the  
2 potential that that may make progress more quickly.

3 MR. MILLER: The other question -- I'll direct  
4 this to Dr. Hogan.

5 Dr. Hogan, I must confess I do have a fondness  
6 for the PJM model myself, but I've heard some concerns  
7 raised with regard to it, how it might be applied to other  
8 parts of the country where there are fairly significant  
9 concentrations of generation. How would you respond to  
10 those concerns?

11 MR. HOGAN: Concentrations of generation and  
12 market power, and all the things that are associated with  
13 it, are real problems that this Commission has to deal with.  
14 The advantage of the PJM model is not that it solves the  
15 market power problem. The advantage of the PJM model is, it  
16 deals with all of these complicated electrical network  
17 problems, those things that make electricity special, so  
18 that it actually operates like other markets which also have  
19 market power problems. But now you can start trying to deal  
20 with them.

21 And I think the way it's done in PJM actually, in  
22 their market power mitigation, is something that can be used  
23 elsewhere, and it's not unfamiliar to this Commission.  
24 Basically, if you think generators have market power, use  
25 bid caps. Bid caps fit naturally into the design of the

1 markets.

2 If you want to emulate the competitive outcome  
3 that produces different prices at different locations, that  
4 flows into the economic dispatch just like everything else,  
5 you don't have to do it on new things. You can just do it  
6 on the existing stuff, and so on. So I think that's the  
7 best of a bad bargain for dealing with that.

8 But you can't ignore the market power problem.  
9 There is no market design that solves the market power  
10 problem. The PJM system is better than anything else in the  
11 sense that it doesn't create new market power problems,  
12 which some of the other designs do. But you still have to  
13 address market power mitigation.

14 CHAIRMAN HEBERT: Thank you.

15 Let's see. We were to finish at 4:30, and it's  
16 about 4:55, so 25 minutes. But we were held up 45 minutes  
17 by the U.S. Senate, so we're 20 minutes to the good. So we  
18 have overscheduled.

19 (Laughter.)

20 CHAIRMAN HEBERT: Although no one really  
21 understands it absolutely, it almost makes you feel good,  
22 doesn't it?

23 I want to thank you, Mr. Miller, and thank Mr.  
24 Gelias. I want to thank Kevin Kelly and his group for  
25 putting this together. I thank all of you for your time and

1 dedication. I know you took time out of your busy schedules  
2 to come and give us information, and those of you that will  
3 file supplemental -- I know asking you to do it in five days  
4 is extraordinary, but we're trying to move as quickly as we  
5 can on everything that we can.

6 Mr. Court Reporter, thank you for your time and  
7 thank you for being here.

8 COMMISSIONER MASSEY: Let me just say to everyone  
9 who participated in this conference -- I don't think I've  
10 ever attended a conference that has been quite as helpful to  
11 me in understanding these complex issues and helping develop  
12 the consensus to move forward. I think it's been excellent.

13 Thank you.

14 CHAIRMAN HEBERT: Thank you, Commissioner Massey.

15 I want to thank my colleagues for being here as  
16 well and working through this. You all have a good day. Be  
17 safe.

18 (Whereupon, at 4:55 p.m., the hearing was  
19 adjourned.)

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