

# **RTO Workshop Sessions October 15-19, 2001 Issues Suggested for Discussion**

The Commission will conduct a series of workshops on Regional Transmission Organizations (RTOs) during the week of October 15. These workshops will address RTO functions rather than RTO characteristics. The Commission intends to discuss what RTOs must do regarding such functions to enable competitive wholesale power markets to function efficiently. RTO independence and scope are not intended to be subjects of these workshops. The Commission is interested in discussing what functions should be standardized by rule for all RTOs and which should be left for regional choice.

Following are some issues that may be raised in each session. These lists of issues are not comprehensive. The issues are those that appear to be of greatest concern to parties, but panelists may raise other issues under the general topic of each session.

# ISSUES BY SESSION

## 1. MONDAY, OCTOBER 15 Morning Session

### **RTO Markets and Design: Required RTO Markets**

- What markets should an RTO itself establish, and which should be left to entrepreneurs to create?
- Which of these markets should have a standard market design?
- How should an RTO procure imbalance energy?
  - Rely exclusively on bid-based spot market?
  - Procure some or all energy through long-term contracts?
  - Should all sellers and buyers of imbalance energy face the same market-clearing price or should penalties be imposed on participants who deviate from their forward schedules without direction from the grid operator?
- How should an RTO procure ancillary services?
  - Is an RTO required to use a market approach to providing ancillary services in an area where there is market power in one or more ancillary services?
  - Can an RTO that is not a single control area adequately provide ancillary services?
  - May an RTO designate some generating facilities as "must run" units that are needed to meet local load, support voltage, or provide reactive power?
- How should an RTO procure operating reserves (i.e., regulation, spinning reserves, non-spinning reserves)?

- Rely exclusively on short-term bid-based markets?
- Procure some or all reserves through longer term contracts?
- Allow self-supply by market participants?
- How should the costs of procuring reserves be allocated among market participants?

## **1. MONDAY, OCTOBER 15**

### **Afternoon Session**

#### **RTO Markets and Design: Optional RTO Markets**

- Should an RTO operate a day-ahead energy market?
  - If so, should the day-ahead energy market be operated jointly with the day-ahead operating reserves market, with coordinated rules for selecting suppliers and setting prices in each market? If so, what should those rule be?
- What type of bid structure should be used?
  - Single part or multi-part?
  - Should prices include or exclude operating parameters?
- Should an RTO impose some type of capacity obligation on load serving entities?
  - If so, should the obligation be permanent or temporary? If temporary, what conditions must be met before the obligation is removed? What policies or practices could be adopted that would eliminate the need for a capacity obligation?
  - If an obligation is imposed, what type of obligation should it be (e.g., ICAP, forward reserves contract, mandatory call-option, etc)? What criteria should the capacity be required to meet regarding availability, location, price, and other factors?

- How can the capacity obligation be met through the demand side?

## **2. TUESDAY, OCTOBER 16**

### **Morning Session**

#### **Congestion Management and Transmission Rights**

- What form should congestion management mechanisms take and what should be the role of the RTO in managing or operating them?
- What are the advantages and disadvantages of the LMP approach to congestion management? Of the flow-gate approach? Are other alternatives available?
- Should transmission rights be tradable? What form should such rights take, how should they be allocated among market participants, and how should secondary markets be structured to facilitate trading of these rights?
- How should congestion costs be recovered? Should the RTO adopt a market design that requires market participants to pay congestion costs only when such costs are commercially significant, with other congestion costs recovered through an "up-lift" charge? Is such an approach feasible and, if so, what are its advantages and disadvantages?
- What role should congestion management play in encouraging (e.g., through price signals) efficient investments in new generation and transmission capacity? Should the revenues from congestion management be used to motivate expansion to relieve the congestion? Do existing congestion management programs create disincentives to expansion?

## **2. TUESDAY, OCTOBER 16**

## Afternoon Session

### Planning and Expansion

- What is the appropriate range of purposes for an RTO transmission planning process? What selection criteria should an RTO use to decide what specific projects should be included in the regional plan? Should a planning process focus on identifying projects to:
  - maintain system reliability?
  - expand competitive trading opportunities in its region?
  - alleviate congestion?
  - support new and expanded generation projects?
  - provide greater import capability?
  - improve flexibility and stability?

What priority should each have? How often should the plan should be revised or updated?

- What planning process should an RTO develop to identify transmission expansions and enhancements that should be included in its regional expansion plan?
  - Committee process that includes all participants?
  - Process that relies on the RTO and recognized experts?
  - Process that relies on teamwork between the RTO and transmission owners with input from other market participants?
- Who should be responsible for constructing transmission facilities in an RTO? transmission owners? A competitive bidding process? Something else?
- What process should apply to transmission expansions that may not be part of a central planning process? For example, what role should merchant projects play in expanding the grid?

- If there is not enough transmission capacity to satisfy all customers, will the Commission continue to offer the right-of-first refusal to existing users?
  - If so, will this same policy apply when the existing users are a utility's native load?
- Who pays for new transmission capacity? How should cost responsibility for the plan's projects be assigned?
  - Should all projects that are included in the plan be supported by all market participants? Equally?
  - What cost allocation principles should be adopted? The cost causation principle? Something else?
  - If new capacity is priced incrementally (customer is willing to pay), should there be a separate determination of need?
  - If it is priced on a rolled-in basis, do all customers participate in the determination of need?
- How are transmission rights to new capacity allocated? Does this answer depend on rolled-in versus incremental pricing?

### **3. WEDNESDAY, OCTOBER 17 Morning Session**

#### **Standardizing RTO Tariffs**

- Should all transmission service be taken under the RTO tariff? Should this include wholesale and retail load?
- How should network resource rights be allocated?

- How should load serving entities reserve transmission capacity to meet projected load growth?
- How can interconnection procedures allow other suppliers such as merchant plants to be competing network resources for meeting load and load growth without having to be selected as a designated Network Resource at the time of interconnection?
- How should Total Transfer Capability (TTC) and firm and non-firm Available Transfer Capability (ATC) be calculated?
  - Should they be calculated by the RTO?
  - Should an RTO with multiple control areas staff all control centers?
  - Should the RTO compute all TTC and ATC calculations or should it rely on transmission owner personnel at satellite control centers?
- How should Capacity Benefit Margin (CBM) costs be assigned in an RTO? In the past transmission rates have not been calculated with an explicit allocation of costs to this use of the transmission system. As a result, transmission service used to export power outside of a control area pays for the CBM. Should there be an explicit assignment of CBM costs to only the transmission service that serves load in the control area?

### **3. WEDNESDAY, OCTOBER 17**

#### **Afternoon Session**

#### **RTO Facilities, Cost Recovery and Cost Shifting**

- Although Order No. 2000 says all transmission facilities in a region should be operated by the RTO, what wires are considered transmission? Should there be a voltage test? If so, what voltage?

- How can a utility that has made investments and incurred expenses for establishing an RTO be assured of cost recovery? Since most utility revenues for transmission are state jurisdictional, how can FERC and the states jointly assure this? How can this work for utilities with a retail rate freeze?
- Will utilities be able to recover past investments and expenditures made to comply with Order No. 2000, which are made obsolete by new Commission rules (e.g., standard market design)?
- What is the appropriate cost of establishing an RTO? Can transmission customers participate in deciding this cost for a monopoly RTO transmission service provider? Is the Commission the exclusive reviewer of the level of initial investment cost for an RTO, or can state regulators conduct their own reviews as part of their state approval of the transfer of transmission assets to the RTO?
- Will the Commission continue to permit license plate rates for a transition period to avoid transition cost shifting?

#### **4. THURSDAY, OCTOBER 18 Morning Session**

##### **Meeting with State Commissioners**

- The issues to be addressed will be developed by NARUC.
- Possible topics include:
  - How will FERC and states share jurisdiction for an RTO? For such issues as pricing, interconnection, right-of-way maintenance, reliability, market monitoring, and other.
  - RTO cost-benefit analysis, and the benefits and costs to a particular state; the prudence of the level of RTO initial cost – who reviews?

- Transmission cost shifting
- Whether an RTO will facilitate the flow of power out of low cost states, thereby raising their rates

Note that state regulators may be interested in many of the topics covered in other sessions.

#### **4. THURSDAY, OCTOBER 18 Afternoon Session**

##### **Standardizing Markets, Business and Other Practices**

- Should the Commission require a standard market design for some or all power markets? E.g., energy imbalance, other ancillary services, energy, day-ahead, capacity, reserves, other?
- Standardized practices promote the development of competitive markets. Are standard practices needed for:
  - Transmission interconnection?
  - Transmission rights?
  - Operational practices (ramping, nomination timelines, balancing, etc.)?
  - Reliability rules?
  - Seams with other RTOs?
  - Planning, adequacy, and expansion processes and responsibilities?
  - Other practices?
- Standardization may be needed for both internal and external RTO business practices. Which standards should be national and which should be developed by each RTO?

- How should standard practices be achieved? Through a collaborative process? FERC imposed?
- Should reliability standards be national, international, or regional? Given that an RTO should follow reliability rules, what should be the roles of RTOs, reliability organizations, standards-setting organizations, the states, and the Commission in establishing and enforcing reliability rules?
- What information do market participants need from an RTO in order to do business?

## **5. FRIDAY, OCTOBER 19 Morning Session**

### **Market Monitoring**

- What are the appropriate roles of an RTO and an RTO market monitoring organization?
  - For which markets should an RTO market monitor take responsibility?
  - What is FERC's role in supervising an RTO market monitor?
  - What is FERC's role to monitor and police RTO markets independent of the roles and responsibilities of an RTO market monitor?
  - Should the RTO be able to levy penalties or should these be referred to the Commission?
  - What are the appropriate roles of the states and other regulatory agencies in establishing, supervising, and receiving information from an RTO's market monitor?

- How should an RTO's market monitoring unit be organized and operated?
  - How independent from the RTO should the market monitor be?
  - Should the market monitor also audit the operation of the RTO?
- What information should the market monitor collect? Should this information collection and reporting be standardized across RTOs?

## **5. FRIDAY, OCTOBER 19 Afternoon Session**

### **Mitigation of Market Power**

- What measures, if any, should be taken by the RTO to mitigate market power?
- What measures should be taken by federal or state government authorities? By the Commission?
- What is the relationship between the RTO, the RTO market monitor, and the Commission?
- What conditions or events should trigger the mitigation?