

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

-----x

- IN THE MATTER OF: :
- CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :
- CONSENT MARKETS, TARIFFS AND RATES - GAS :
- CONSENT ENERGY PROJECTS - HYDRO :
- CONSENT ENERGY PROJECTS - CERTIFICATES :
- DISCUSSION ITEMS :
- STRICKEN ITEMS :

-----x

COMMISSION MEETING - 795TH REGULAR MEETING

OPEN SESSION

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

Wednesday, June 12, 2002

10:10 a.m.

1 APPEARANCES:

2 COMMISSIONERS PRESENT:

3 CHAIRMAN PAT WOOD, III, Presiding

4 COMMISSIONER LINDA KEY BREATHITT

5 COMMISSIONER NORA MEAD BROWNELL

6 COMMISSIONER WILLIAM L. MASSEY

7 SECRETARY MAGALIE ROMAN SALAS

8

9

10 ALSO PRESENT:

11 DAVID L. HOFFMAN, Court Reporter

12

13

14

15

16

17

18

19

20

21

22

23

24

1 PROCEEDINGS

2 (10:10 a.m.)

3 CHAIRMAN WOOD: (Presiding) Good morning. This
4 meeting of the Federal Regulatory Commission will come to
5 order to consider matters which have been duly posted in
6 accordance with the government and the Sunshine Act for this
7 time and place. Would you please join me in the pledge to
8 the flag? No comma after Nation.

9 (Laughter.)

10 (Pledge of Allegiance recited.)

11 CHAIRMAN WOOD: Old people can't change. All
12 right. I'll be hitting a big milestone in a few weeks, so
13 I'm kind of thinking about that a lot lately. Madam
14 Secretary?

15 SECRETARY SALAS: Yes. Good morning, Mr.
16 Chairman. Good morning, Commissioners. Let me first point
17 out the items that have been struck from the agenda since
18 the issuance of the Sunshine Notice on June 5th. The struck
19 items are as follows: E-7, E-13, E-19, E-28, E-30 and H-1.

20 Your Consent Agenda for this morning is:

21 Electric: E-1, E-3, E-4, E-5, E-6, E-9, E-10, E-
22 11, E-12, E-15, E-17, E-18, E-20, E-21, E-22, E-23, E-25, E-
23 26 E-27, E-27, E-29, E-31 and E-32.

24 Gas: G-2, G-3, G-4, G-5, G-6, G-8, G-9, G-10, G-

1 11 and G-12.

1 Hydro: H-2 and H-4.

2 Certificates: C-1, C-3, C-4 and C-5.

3 The specific votes on these consent items are as

4 follows:

5 E-32, Commissioner Massey concurring with a

6 separate statement, and Commissioner Breathitt votes first

7 this morning.

8 COMMISSIONER BREATHITT: Aye.

9 COMMISSIONER BROWNELL: Aye.

10 COMMISSIONER MASSEY: Aye with my concurrence on

11 E-32.

12 CHAIRMAN WOOD: Aye.

13 SECRETARY SALAS: The first item on the

14 discussion agenda for this morning is E-2, DTE East China

15 LLC, with a presentation by Robert MacHuga, Tony Ingram and

16 Giuseppe Fina.

17 MR. MacHUGA: Good morning to you all. E-2

18 addresses DTE East China LLC's proposal for the cost-based

19 rates. The draft order finds that DTE East China's proposed

20 rates are unjust and unreasonable due to inadequately

21 supported rate divisors in its calculation of the cost-based

22 rates. The draft order thus conditionally accepts the

23 tariff sheets and requires DTE East China to revise its

24 proposed rates for this peaking generator.

1

Thank you.

1 CHAIRMAN WOOD: One of the reasons I called this
2 up was -- I like the way the order came out and I will vote
3 to support it -- is to put it in context. We have focused
4 as an agency quite substantially on the effects that
5 vertical market power can have on the effectiveness of
6 wholesale power competition, and that certainly began in
7 Order 888 with the behavioral remedies that the Commission
8 promulgated and the courts have recently affirmed and has
9 continued with Order 2000, and in our forthcoming S&D
10 rulemaking on a more structural remedy. And I think
11 certainly the mitigation of vertical market power as we
12 found successively on the gas agenda is a very important
13 thing to do.

14 What we haven't spent as much time on since I've
15 been here is, except for our revisions to the market power
16 test, the hub-and-spoke test on horizontal market power and
17 the generation, competitive generation market, is just
18 equally as important. And I think to make sure that we
19 sustain over a time a competitive wholesale power market,
20 it's real important to make sure that generation stays
21 sufficiently disaggregated across the country and in each of
22 the power markets that we oversee to make sure that there is
23 healthy, sustainable competition.

24 In that context, we revised last year our screen

1 for market power analysis from the old hub-and-spoke test to

1 a more surgical test, the SMA. And while we have suspended
2 the implementation of the remedies of that test, we continue
3 to process applicants both in their triennial reviews and de
4 novo for satisfaction of the SMA test. And of course, the
5 majority of people are passing that and they go through and
6 things are basically done at the delegated level.

7 Where companies are perceiving that they will not
8 pass the SMA test, such as the one before us here today,
9 there are of course a couple of alternatives. One is to get
10 into an RTO that has market mitigation and oversight
11 capabilities, or two is to come in as this outfit did here
12 before that has happened, the set up of a market mitigation
13 regime has happened, and propose some cost-based rate caps.

14 I think it is very helpful if we start to
15 indicate more forcefully that concentration of generation
16 market power is not a desired outcome. And while we don't
17 have the divestiture remedy that others in other countries
18 have used successfully to make their markets more
19 contestable and competitive, I think we need to indicate as
20 I think this order does that -- or does by indirect
21 reference that we really would prefer if people want to
22 invest that they invest outside their own footprint. I have
23 no problem with people being large generation companies, but
24 when they're large in just one area, it becomes really a

1 long-term problem for the success of competitive generation

1 to bring benefits to customers, which is what the whole
2 point of all this is about.

3 So I think this order clearly is of a realm of
4 that where you do have significant market power or your
5 affiliates do in a small area of the country that a cost-
6 based rate cap would be implemented.

7 I don't want this order to be read for something
8 bigger than that. I think it is an affiliate issue here, an
9 affiliate's building in its mother company's footprint and
10 therefore increasing the concentration of generation there.
11 We can't prohibit that, but we can move forward and make
12 sure that the effects of that decision do not result in the
13 potential to assert market power.

14 So I think this case is actually the first one
15 we've seen in this regard since the adoption of the new
16 market power screen, and I look forward to our completion of
17 the market power screen policy later this year. But I
18 thought this case was of interest enough to call it
19 separately.

20 COMMISSIONER BROWNELL: Just quickly, Pat, I
21 would actually add my thanks for bringing this up for
22 discussion because I think it is an issue, and I think it's
23 a growing issue actually. I hope we'll be looking out in
24 other areas of the country, because I don't want to through

1 the work we're going through to create competitive markets

1 only to find out that we've allowed a whole new issue of
2 market power to emerge.

3 I would just add, though, that we're also going
4 to look carefully at people who are running to RTOs or
5 announcing they're going to join RTOs with the assumption
6 that they then are safe for some period of time during that
7 developmental stage. I think an announcement of joining an
8 RTO and actually being an active part of an RTO are two
9 different things. We're going to be looking at that very
10 carefully too.

11 COMMISSIONER BREATHITT: I would like to add to
12 this healthy discussion, though, that where companies decide
13 to build at risk often is a question of where they think
14 they can find the real estate where they believe they can
15 get their fuel source and interconnect and also where they
16 think they can find sources of customers for that power to
17 go.

18 I hope that we're going in the right direction
19 with our affiliate rule and in our codes of conduct which
20 would also mitigate I think some of the things that, Pat,
21 you were saying. But, you know, I think it's a healthy
22 discussion, but we also want investment.

23 CHAIRMAN WOOD: One thing that I would I guess
24 offer there is that I think that when people just feel

1 comfortable building in their own backyard, that might say

1 about something that we need to do to make sure everybody
2 else's yards are mowed and cleaned and welcoming as well.
3 And I would hate to think that the only place that a well
4 financed company would feel it could acquire real estate,
5 fuel, transmission interconnection and good customers is in
6 their own historic footprint.

7 That's a very good observation. And I think
8 certainly we've taken some steps on interconnection. I
9 would hope that our successful agenda in the gas world for
10 the last couple of decades has made the fuel more, at least
11 as to gas, more available. But certainly the accessibility
12 of customers and the availability of real estate are issues
13 that sometimes are really outside our domain.

14 I think, though, that we would be helping the
15 market long term if we did say, while it's legal to build in
16 your own footprint, it's not really the best long-term
17 outcome for competition, and to what extent we can urge them
18 to find as equally attractive alternatives in other parts of
19 the country where they don't have generation dominance, to
20 try to facilitate that decision. Because I agree, we do
21 want the investment. I just am not sure we need the
22 investment by the same company in the same footprint, if
23 we're hoping to get a more contestable disaggregated market.

24 COMMISSIONER MASSEY: I have a question. The

1 proposed cost-based rate for this unit was what?

1 MR. MacHUGA: The hourly rate was proposed at
2 \$223 a megawatt.

3 COMMISSIONER MASSEY: And our order is what?

4 MR. MacHUGA: Our order would change the
5 methodology slightly and divisor. Are you asking me what
6 the rate would be?

7 COMMISSIONER MASSEY: Yes.

8 MR. MacHUGA: My quick calculation is that it
9 would be about \$49 a megawatt.

10 COMMISSIONER MASSEY: Okay. Thank you.

11 CHAIRMAN WOOD: We do ask them to go back,
12 though, and adopt the method that we've done earlier, the
13 AEP methodology, and send that back and say redo the
14 calculations and refile here. Is that the way we've
15 characterized this order?

16 MR. MacHUGA: Yes. The AEP method and peak
17 periods.

18 CHAIRMAN WOOD: So by saying that we
19 conditionally accept the revised tariff, we accept it but
20 tell them to come back in and basically replace the core
21 part of it?

22 MR. MacHUGA: That's true.

23 CHAIRMAN WOOD: Okay. Linda?

24 COMMISSIONER BREATHITT: Aye.

1

COMMISSIONER BROWNELL: Aye.

1 COMMISSIONER MASSEY: Aye.

2 CHAIRMAN WOOD: Aye. Thank you all.

3 SECRETARY SALAS: The next item for discussion
4 this morning is E-24, Western Area Power Administration,
5 with a presentation by Andrew Farrell, Edward Ristway and
6 Gary Cohen.

7 MR. FARRELL: Good morning. Today's order
8 accepts a letter agreement between the Western Area Power
9 Administration, Trans Elect and Pacific Gas and Electric
10 that sets forth basic terms for the construction of
11 transmission upgrades to Path 15 in California.

12 These planned upgrades are in response to
13 President Bush's May 2001 National Energy Policy Report that
14 recommended the Department of Energy authorize Western to
15 explore ways to relieve congestion on Path 15.

16 The upgrades will include a new 500 kV
17 transmission line that will increase south to north
18 transmission capacity from 3,900 megawatts to 5,400
19 megawatts. The expected completion date is fall 2004 with a
20 projected cost of approximately \$300 million. This
21 concludes my presentation.

22 CHAIRMAN WOOD: I just want to say I'm encouraged
23 by these parties' agreement to move forward with the
24 construction of these upgrades to the long-pilloried Path

1 15. I think it was a creative approach with three pretty

1 different partners involved, and I recognize that today's
2 order is really a first step, though, and I do look forward
3 to further proceedings that will ultimately bring this one
4 home. I know the state commission has a role to play in
5 permitting this facility, and I think they've got
6 jurisdiction to do that. But I do think that the need for
7 this line has been made and proven in more different forms
8 than just about any other transmission project in U.S.
9 history. So I look forward to being able to move on this as
10 quickly as we can.

11 COMMISSIONER BROWNELL: Pat, maybe in our
12 periodic California infrastructure updates, we could add to
13 the list the status of the permitting that is going to be
14 required of this to make sure that that moves forward
15 expeditiously, because as you say, many others actually have
16 a role to play, and I want to make sure that we're seeking
17 that active partnership and getting this moving.

18 COMMISSIONER BREATHITT: I am pleased that we're
19 addressing this phase of the Path 15 project today. When I
20 first came to the Commission I started getting courtesy
21 visits from parties who were frustrated at the inability to
22 get Path 15 constructed because of very complicated pricing
23 mechanisms, and we have some parties that stepped up to the
24 plate that found a way to do that, and I'm very pleased that

1 the Commission has approved this phase of the project and am

1 looking forward to seeing the full application when we do
2 get that.

3 This has been addressed in several congressional
4 hearings that we've been to, and the Department of Energy
5 issue pointed out, Pat stepped up and gave that extra
6 attention and some push. So this is a good project.

7 COMMISSIONER MASSEY: Yes. The entire time I've
8 been here, the entire nine years, there have been regular
9 expressions of concern about congestion on Path 15. So this
10 is a good project, and this order has my full support.

11 I do have a question. We approve a target 50-50
12 capital structure for Trans Elect for the first 36 months of
13 operation. Why is that a good idea?

14 MR. FARRELL: In the order I think we find that
15 because Trans Elect is in a position of raising most of the
16 money here, basically that it's a predicate for obtaining
17 financing, and it's not unreasonable. It's not an
18 unreasonable request.

19 MR. RISTWAY: Also as a start-up, they don't have
20 an established capital structure.

21 COMMISSIONER MASSEY: We do not approve a target
22 capital structure for PG&E. I think the order says, because
23 PG&E already has an established capital structure, so that's
24 the difference, even though they're both investing in the

1 same project.

1 MR. RISTWAY: Yes sir.

2 COMMISSIONER MASSEY: All right.

3 COMMISSIONER BREATHITT: Vote aye.

4 COMMISSIONER BROWNELL: Aye.

5 COMMISSIONER MASSEY: Aye.

6 CHAIRMAN WOOD: Aye.

7 SECRETARY SALAS: The next item for discussion

8 this morning is C-2, Texas Eastern Transmission, with a

9 presentation by Richard Foley, Witt Holden and Mark Zendel.

10 MR. FOLEY: Good morning, Chairman Wood and

11 Commissioners. I'm Richard Foley with the Office of Energy

12 Projects. Item C-2 is a draft order issuing certificates to

13 Texas Eastern Transmission LP in two dockets, CP02-17 and

14 CP02-45. If approved, Texas Eastern would get construction

15 and operation certificates in these two proceedings where it

16 seeks to initiate a new lateral line only services under

17 proposed rate schedule MLS-1.

18 Several other pipelines have initiated this type

19 of lateral line only service in the past few years. The new

20 capacity will enable Texas Eastern to serve the growing load

21 of the local distribution company in New Jersey and to

22 connect the interstate pipeline system to a new 1,240

23 megawatt natural gas fired power plant in Ohio.

24 Staff team on this case includes myself, Witt

1 Holden and Mark Zendel who are here at the table, as well as

1 Steve Gruenke, Joseph Caramanica, Jennifer Kerrigan and
2 Raphael Montag.

3 Docket Number CP02-17, Texas Eastern would be
4 granted authority to provide MLS service to New Jersey
5 Natural Gas Company on Texas Eastern's existing freehold
6 lateral facilities in New Jersey. The new service is made
7 possible by the construction of new incremental facilities,
8 a 5,000 horsepower compressor and certain line pack
9 enhancements.

10 In Docket Number CP02-45, Texas Eastern would be
11 granted authority to construct the new Hanging Rock lateral
12 facilities in Ohio to provide MLS-1 service to Duke Energy,
13 Hanging Rock LLC's new natural gas fired electric generation
14 plant.

15 Several of Texas Eastern's existing customers
16 protested the new MLS-1 rate schedule because it includes an
17 option for flexible hourly firm service, which they say need
18 not be sold separately because they say all customers
19 already receive such service under existing firm mainline
20 rate schedule. New Jersey Natural purchased the optional
21 firm hourly service in addition to primarily getting a large
22 increase in take-away capacity on the existing freehold
23 lateral. Duke Energy Hanging Rock did not purchase the
24 optional firm hourly service because the new Hanging Rock

1 lateral is sized to meet their needs.

1 This dispute about the availability and quality
2 of the flexible hourly service under Texas Eastern's firm
3 mainline rate schedule has been ongoing in several other
4 proceedings and is the subject of rehearing in Texas
5 Eastern's Order Number 637 compliance case.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

1 The draft Order avoids pre-judging the pending
2 Order 637 rehearing by distinguishing the main line hour
3 flexibility issue in that case from the case here, where
4 Texas Eastern proposes to build some special incremental
5 facilities under the proposed lateral line-only rate
6 schedule to satisfy its customers' hourly service request.

7 The draft Order requires minor clarifications to
8 the new rate schedule concerning the definition of market-
9 lateral and the access rules on a market-lateral for other
10 shippers using secondary rights under other firm main line
11 rate schedules. This concludes my presentation.

12 CHAIRMAN WOOD: You referred to the Texas Eastern
13 637 proceeding. Do you know where the Commission came out
14 on that Order on this issue of firm hourly versus firm daily
15 service?

16 MR. FOLEY: The 637 Order was issued, I think, in
17 February, and it came out to say that on the main line, the
18 hourly services were the lowest priority, and that they
19 could be bumped by all the other services in OFO conditions,
20 and other things that would injure the rest of the system.

21 CHAIRMAN WOOD: Did it say anything about this, I
22 guess, concern that was raised by the existing shippers in
23 this case, about each hour you get 1/24th of your daily
24 requirement?

1

MR. FOLEY: The standard is that you get 1/24th,

1 and then as the customer seeks other, more than 1/24th, they
2 get additional gas at a particular hour. But in order to do
3 that, the system has to be available to do that.

4 The system is not available. I think that the
5 Commission ruled that on a firm basis, the system is not
6 available to do that all the time. So, in this case, in New
7 Jersey Natural's instance, they're building some extra
8 facilities for that part of the system near that lateral
9 that will guarantee that that hourly flexibility will be
10 there for New Jersey Natural on that lateral.

11 CHAIRMAN WOOD: That's good. I think we've dealt
12 with this issue, or this issue is kind of coming up more and
13 more about existing shippers' concerns about the increased
14 usage of the system, particularly by customers such as
15 electric generators that have a very different load shape.

16 I'm pleased to see that in this case, the company
17 actually built additional facilities to provide that
18 service. There still may be a concern that that
19 construction does not completely offset any impairment of
20 service that the current customers have been getting.

21 The core question is, are they entitled to that
22 in the first place? Or has it just been benefitting from
23 the fact that the system is not totally full?

24 I understand that debate, that the pipelines

1 argue back, but I think that as long as we don't have

1 developed hourly markets for natural gas like we do on the
2 power side, it's going to be difficult to say that people
3 are -- that their daily nominations are therefore converting
4 to an hourly nomination.

5 I know we don't need to address that here, but I
6 do think of many of the issues kind of bubbling on the gas
7 agenda, and this, in my opinion, is probably the one Tier-1
8 issue, the increasing usage of the system and the
9 implications of that for current customers.

10 I'm mindful of that. I appreciate that what
11 Texas Eastern did here was actually try to address that
12 ahead of time by building more facilities and preserving
13 more upstream capacity on the upstream pipeline to allow
14 that flexibility. So I applaud that and would point other
15 pipelines to not just looking at pooh-poohing this issue,
16 but actually trying to address these concerns that existing
17 customers are making that I think have some validity.

18 I think this is a good Order. Other aspects of
19 it, environmental review and all of that, are nice and
20 thorough, and I appreciate that the Staff took a significant
21 project that was filed in late October and has it ready for
22 approval today. Congratulations; I'm all for it.

23 COMMISSIONER MASSEY: On this question of
24 balancing hourly needs with the needs of existing,

1 longstanding customers, we're going to resolve that in the

1 637 hearing?

2 MR. FOLEY: The rehearing is pending, so we have
3 had the initial Order on the 637.

4 COMMISSIONER MASSEY: This Order is subject to
5 the outcome in that rehearing.

6 MR. FOLEY: This Order just distinguishes what's
7 available in this main line issue. The main line issue is
8 in the 637 case.

9 This new rate schedule is separate, because they
10 have created a separate service and created separate
11 facilities for that service.

12 It's distinguishable -- the result here wouldn't
13 be susceptible to something that might change in the 637.

14 COMMISSIONER MASSEY: Essentially the Order says
15 that we're satisfied with the proposal here with respect to
16 the laterals?

17 MR. FOLEY: Right.

18 COMMISSIONER MASSEY: I think that as a generic
19 issue, this question of hourly needs versus the needs of the
20 longstanding customers, which generally are not being hourly
21 swings, is one that keeps coming up more and more often, and
22 on a number of pipelines as there is more electric
23 generation.

24 I think it's something that we're going to have

1 to speak clearly about and understand very well, so that we

1 are confident that the service of the existing customers is
2 not eroded in some way. So I will be watching that closely.

3 COMMISSIONER BREATHITT: I'll just chime in that
4 I think that it is important for us to always be mindful of
5 the potential for degradation of service. I don't think
6 that that's a great worry in this instance because of the
7 way that's been addressed, but it's an ever-present worry of
8 smaller customers.

9 I chime in with my colleagues on the fact that
10 it's important for us to watch for that. Ready to vote?

11 CHAIRMAN WOOD: Yes.

12 COMMISSIONER BREATHITT: Aye.

13 COMMISSIONER BROWNELL: Aye.

14 COMMISSIONER MASSEY: Aye.

15 CHAIRMAN WOOD: Aye.

16 On the administrative agenda, I do want to use
17 this brief opportunity, while the parties for the A-3
18 presentation are coming forward, to note that from the data
19 that the Secretary gave me last May, 13.8 percent of the
20 documents that were qualified to be filed electronically
21 were filed.

22 This May, that number went from 13.8 to 42
23 percent. It's my hope that by next May, it's 100 percent.

24 I do appreciate that parties are taking more and

1 more advantage of the electronic filing and just want to use

1 this public opportunity to encourage that more and more
2 companies take advantage of that very large number of
3 documents that can be filed electronically today.

4 That information is available in a user-friendly
5 format that I looked at last night, to enable people to file
6 as expeditiously as they can. Let's keep up the good work
7 in that regard.

8 I appreciate any comments from parties that are
9 trying to electronically file and they've got problems with
10 that. Please let me know or let Secretary Salas know, so
11 that we can help you.

12 SECRETARY SALAS: Thank you, Mr. Chairman, for
13 that advertisement; it's very timely.

14 The next item for discussion is A-3, Electricity
15 Market Design and Structure, with a presentation by William
16 Museler, from the New York ISO; Gordon Van Welie of the ISO
17 Northeast; Phil Harris of PJM; and James Torgeson of MISO.

18 In the audience with us today are also John
19 Marschewski and Nick Brown.

20 CHAIRMAN WOOD: Before you all jump in, I want to
21 try to kind of give some context to this. At the last
22 meeting, we discussed a conversation we had with the
23 Northeastern state commissioners recently on the
24 teleconference.

1

And I think there is a strong sense from those

1 three regions that there are a number of issues between the
2 current ISOs today, the seams issues, we call those, that
3 were the subject of a seams agreement memorandum of
4 understanding that, quite frankly, the lack of progress
5 thereon led to the Commission's July Order of last year to
6 start mediation for a single Northeastern RTO and a
7 Southeastern one as well.

8 In the Commission's agenda, moving forward, we do
9 have the SMD rulemaking, which we expect to put out for
10 proposed comment at the end of next month. And we do have
11 the ongoing discussions about a Northeastern RTO or some
12 configuration of fewer than three RTOs up there.

13 But in the meantime, the state commissioners were
14 pretty adamant that there is some low-hanging fruit or
15 branches that can be pulled down to be made low-hanging
16 fruit that can and should be dealt with, even before those
17 relatively soon events come to pass on the other agenda. So
18 that's the invitation of the day, a response to them and to
19 us by you all, who really are extensions of the FERC Federal
20 Power Act authority in the individual regions where you are.

21 You are our firm line. I'm pleased you're here
22 today. Thank you, because you all are busy each summer, as
23 they are all across the country, trying to keep the lines
24 on.

1

But resolving the seams issues is something that

1 we take very seriously, and while it can and should and
2 would and will have been dealt with with any sort of
3 standardization or consolidation or both, we're a little
4 impatient, I think, and don't want to wait that long.

5 What we want to do today is work through with you
6 all, and understand from the materials that have been
7 provided -- there are quite a few issues already here for us
8 to talk about, to identify what are the seams issues that
9 are creating barriers to trade, or at least friction to
10 trade among the three regions today, that can be addressed
11 today in advance of further, more global organizational
12 changes that would happen in the future, and what timeline
13 can we put on those to facilitate their quick resolution.

14 Thank you for coming today. I understand that, Bill, you're
15 first, and I'll turn it over to you.

16 MR. MUSELER: Yes, sir, thank you all for having
17 us here today, because we believe that independent of the
18 RTO initiatives, that solving the seams issues has the
19 potential for providing close-in benefits for the people we
20 all serve.

21 My part of the presentation is to try to give you
22 a context on where we've been, where we are today, and what
23 this looks like moving forward into the future, to define
24 the seams, broadly, because it's a very broad term.

1

But for purposes of this discussion,I think we're

1 interpreting it as barriers or inefficiencies that basically
2 prevent trade between control areas from happening
3 efficiently. Those problems can be caused by market rules,
4 they can be caused by the fundamental designs that the
5 different RTOs or ISOs have.

6 They can also be caused by individual scheduling
7 protocols and just how people do business on a day-to-day
8 basis, and it can also be caused, in the case of through and
9 out tariff barriers, by those tariff.

10 The resolution of these issues -- and you can
11 tell, just by the numbers, that there are a lot of different
12 issues when you have different control areas trying to
13 transact with each other.

14 But to put it in context, I think the resolution
15 of these issues has been accelerating over time. It
16 certainly did not meet your expectations or our expectations
17 when the three of us signed the MOU in 1999.

18 I think it's important to remember that these
19 markets all started at different times. PJM started in
20 1997; New York in 1999; New England in 1999, but is
21 undergoing some fundamental changes right now, and the IMO
22 just started this May.

23 In the year 2000, which was really the first year
24 that the three Northeast U.S. ISOs were up and running,

1 there were a lot of internal difficulties, particularly in

1 New York, with the internal operations of the markets, and,
2 frankly, not a lot got done on the seams issues.

3 In fact, it was difficult to try to identify what
4 was causing the transactional problems, because a lot of it
5 was masked by our internal problems in terms of trying to
6 get our software straight and trying to get the market rules
7 straight. So it's an absolutely valid observation that not
8 a lot happened then.

9 In 2001, many of the problems -- certainly not
10 all -- but many of the internal problems did get resolved,
11 and I think it's fair to say that things at least started to
12 happen with respect to solving the seams issues in 2001.

13 The number of things that PJM did, New York did,
14 New England did -- and I'll just mention a few, but they're
15 all listed in there in more detail in the material we
16 provided for you.

17 But PJM added a number of internal scheduling
18 protocols that made it much more certain that the
19 transactions would actually clear during the checkout
20 process. Every hour, the operators have to go through.

21 Each ISO did a number of things. I'm just going
22 to mention basically one from each.

23 (Slide.)

24 MR. MUSELER: New England began reserve-sharing

1 with New York, particularly in the congested eastern part of

1 New York and the western part of New England.

2 That was the in the amount of 200 megawatts,
3 which actually was used and actually saved both ISO
4 customers a fair amount of money. Since then, finally at
5 the end of 2001, New York implemented multi-hour block
6 trading.

7 Up to that point, New York, because of the
8 original design, could not allow more than a single hour
9 schedule to be accepted day-ahead. That caused the traders
10 in PJM a lot of problems, because people wanted to sell an
11 eight-hour block, and that just couldn't happen.

12 Well, that was fixed at the end of 2001, and
13 those protocols are now the same on both sides of that
14 interface. In 2002 -- and I think it graphically is correct
15 -- when you just look at the diagram that we provided, there
16 was a lot more that was initiated, and a lot of it has been
17 done.

18 There is more that's scheduled for the balance of
19 this year, and when you ask other firm dates for those,
20 there are, for the ones you see in 2001, so we really think
21 we've made a lot of additional progress this year, and there
22 is more to be done.

23 But this year, for the first time, ICAP can be
24 sold from and to any of the three northeast ISOs. PJM, New

1 York, and New England all found ways to make sure we could

1 solve the deliverability requirements that are still
2 somewhat different. But the bottom line is, you can still
3 sell ICAP now from New York to PJM, PJM to New York, New
4 York to New England, and on. So we think that was a major
5 improvement in the ICAP area.

6 Our joint market advisor between New York and New
7 England, every year analyzes the markets, and his view of
8 the seams situation, looking at the 2001 experience, was
9 that there are obviously opportunities on all the
10 interfaces, but that there were significant improvements on
11 the New York-PJM interface.

12 But the one that cried out for the most attention
13 was the New York-New England interface, and in that light,
14 based on his recommendations to New York and his
15 recommendations to New England, New England has implemented
16 a number of transaction rule changes that we believe --
17 they're in place; we've seen improvements in the
18 transactions across that interface, but we really expect the
19 improvements to show in terms of high load times, when they
20 really caused a problem in the past. So we may see a test of
21 that today, as a matter of fact, because the loads are
22 pretty high throughout the Northeast.

23

24

1 New York also implemented some additional changes
2 in 2002 that just went into place. The terminology we use
3 is prescheduling but the issue had been that folks could not
4 schedule long-term transactions, monthly, six months, two
5 years, and feel comfortable that those transactions, that
6 they could have firm transmission rights because New York's
7 system is a financial system.

8 PJM and New England currently have a physical
9 rights transmission reservation process. We found a way to
10 deal with that and we put in this prescheduling regime which
11 does permit people to long-term schedule transactions into
12 New York and be assured that they have confidence that those
13 transactions will be protected and the only time they'll be
14 cut is for physical transmission constraint reasons which
15 would happen on any interface.

16 Then finally in 2002, the Ontario IMO started
17 it's markets. Initially it's just a real time market and
18 while they calculate OBMP, they don't actually charge OBMP
19 rates yet. But that interface with the IMO we worked with
20 Ontario before they went on line, particularly in the hourly
21 and bi-hourly schedule which they do after an initial about
22 two weeks where not a lot transacted because I think all the
23 buyers and sellers were just hedging their bets. We are now
24 seeing a substantial amount of trade reinstated across that

1 interface.

1 There are a couple of problems. I wouldn't
2 characterize them as being major, nothing like the problems
3 we had two years ago between the three Northeast ISOs. And
4 we are resolving those problems so we anticipate that
5 interface will be successful. Obviously it's a not a two
6 settlement system yet. We plan to move to that, although
7 there's no schedule for it. So that one will be different
8 than the way we scheduled the day ahead and the real time
9 transactions between New England PJM and New York. So up to
10 2002, we think we've made progress and that that progress is
11 showing results in terms of transactions. The number of
12 transactions that area cut particularly in-hour is very,
13 very low at this point between New York and PJM, New York
14 and New England.

15 The remaining issues I think, assuming that it
16 takes a little while longer to get to standard market
17 design, and we all agree we should get to standard market
18 design as soon as possible, but the remaining issues are
19 really to resolve those differences between the market
20 designs. I'm putting aside the pancaking for a moment to
21 resolve the remaining differences that are attributable to
22 the different designs of the markets. And in that regard,
23 we think 2003 is going to be the year that we drive those to
24 almost negligible proportions. The reason for that is that

1 New England is going to be implementing a two-settlement

1 system, so they will look very much like PJM in terms of how
2 the market works. And New York, which has a real time
3 system that is fairly limited because of the underlying
4 platform, is moving to a new platform, and in the process of
5 doing that will be adopting the FERC standard market design
6 as well as it turns out the same things that you were
7 advocating in your white paper are some of the things that
8 we need to change in New York. So that, as I said, these
9 remaining schedule difficulties 15-minute scheduling that
10 Phil does now, all of those are features that are planned in
11 what we call RTS/SMD 2.0.

12 You may have seen those terms. So when we
13 implement those and those have started will take us till the
14 end of 2003 because we're replacing all the infrastructure
15 on the real time side in order to do it will, in our
16 judgment, resolve any remaining residual seams issues with
17 the markets being somewhat different.

18 Now moving forward, we think that the
19 standardization of the markets is kind of the final step,
20 whether that's in the context of a larger RTO or whether
21 it's in the context of people adopting the standard market
22 design. I think once you have the standard market design
23 implemented in whatever RTO footprints are open, that we've
24 decided upon, the most important thing, it's important to

1 have the fundamental energy market design be similar. But

1 the most important things from the seams standpoint is that
2 the rules, in terms of how that market transacts at its
3 borders needs to be the same. So I think that's one of the
4 most important parts from the seams perspective in what
5 you're going forward with in your SMD NOPR. Those rules
6 need to be as well-defined as we can all collectively make
7 them because even if you have identical markets, it's still
8 the rules at the seams that are important. Even though the
9 fundamental designs may not conflict, the rules at the seams
10 are important and that should be part of the standard
11 market design.

12 So again, I think we've got what I'll call the
13 technical detailed scheduling/rules seams issues on the
14 table. I think we're dealing with them between all three of
15 -- all four counting the IMO -- of all four Northeast ISOs
16 and in 2003, I think the market standardization, the
17 movement towards that, is what's going to clean up any
18 residual issues. What's the best thing I think, in our
19 opinion, that the FERC can do? We think a push towards the
20 standard market design and issuing your order as soon as
21 possible and your final order as soon as possible is
22 certainly going to be very beneficial to help everyone move
23 in the right direction from the seams perspective. And also
24 while we hope it doesn't get to this point, many of the

1 agreements that exist have in them dispute resolution

1 criteria that may wind up on your desk. We're hoping that
2 we don't need to get to that point, but if it takes that, I
3 think then an expeditious resolution of those ADR issues
4 that come before you will be very important in order to get
5 them resolved and set a standard so that we can move
6 forward.

7 Gordon?

8 MR. VAN WELIE: Bill took us to the 2003 time
9 frame and the whole concept of standardization. I've put
10 some thoughts down here on paper just on pages 2 and 3 of
11 the handout. Having achieved standardization, or let me
12 back up for a moment. I think FERC is doing exactly the
13 right thing in terms of driving and pushing the issue of
14 standardization. I think however that you need to think
15 through some of the mechanisms to establishing
16 standardization in the first place, making it work at an ISO
17 RTO level, and then the whole issue of how to maintain
18 standardization going forward, so I've broken it up into
19 three points or three areas I'd like to discuss.

20 The first is what can FERC do. The second, a
21 proposal for establishing market standardization in the
22 Northeast and that would include the Midwest and then third,
23 maintaining market standardization in the Northeast and
24 Midwest.

1

This is on page 2.a. FERC initiative to support

1 seams issue resolution. I think the NOPR that you're doing
2 is fundamental here. In our discussion on this proposed
3 merger between New York and New England, this whole issue of
4 the elimination of the export fees and pancake rates has
5 come up front and center. I think the bottom line is from a
6 dispatch software point of view. The elimination of these
7 export fees is actually technically a fairly simple matter.
8 What's far more complicated is dealing with the potential
9 cost-shifting issues, and I think you heard that come
10 through in your discussion with the Commissioners up in the
11 Northeast. So we're anticipating that FERC's standardized
12 tariff will require the elimination of border charges. The
13 proposed NERTO filing which we hope you'll see soon
14 eliminates the border charges between New York and New
15 England on day one of the NERTO operation. We say that
16 should be condition on the consideration by the Commission
17 and the states on an expedited basis of mechanisms by which
18 the transmission owners can recoup lost revenues stemming
19 from elimination of these border charges.

20 So from a technical perspective, it's something
21 we can do fairly swiftly in terms of the systems. The issue
22 becomes one of how do you deal with the cost-shifting that
23 results, and ultimately that's not directly within the power
24 of the ISOs or RTOs to be able to resolve, and I think

1 that's when the FERC and obviously the state commissions

1 weigh in and have to help resolve this problem.

2 If we move then into establishing market
3 standardization, how do we lock in the submission that FERC
4 has been moving forward and maintain it. I think the key
5 starts with obviously the market rule and market design, but
6 there's a lot of documentation that supports all of this and
7 I think there's much to be learned from the industries in
8 terms of how one drives the standard. So what I've listed
9 out here is that the following documentation must be
10 standardized as soon as possible.

11 The market design format and the market rule
12 description, business process descriptions, operating
13 procedures, manuals and training manuals, and I think to the
14 extent that the FERC can give guidance in this direction, it
15 would be helpful. That ought to be done within the next 12
16 months or so 2002-2003.

17 CHAIRMAN WOOD: Gordon, is that standardized in
18 the region or nationally?

19 MR. VAN WELIE: Primarily at the moment, I think
20 there's two parts to this. The one is with regard to
21 setting up the tables. You have people that are all moving
22 essentially toward basically the basic PJ market design
23 which will evolve to become the FERC standard market design.
24 So as a starting point, I think these four need to find a

1 mechanism for actually moving this Board forward, and I

1 think we can then provide the impetus for doing this on a
2 national basis. But ultimately, nationally, this problem
3 has to be addressed. If we don't have a solution and the
4 mechanism for addressing this problem nationally, I think
5 the initiative will fail.

6 CHAIRMAN WOOD: Are these the type of things, I'm
7 looking at the gas industry, are these the type of things
8 that the NAESB group would be charged, would be tasked with?
9 Getting the detail filled in, once we announce here's the
10 big vision thing, the details need to be filled in.

11 MR. VAN WELIE: I've got a few concerns about the
12 NAESB group at the moment. The first has been that they, up
13 to now, have been reluctant to give ISOs or RTOs a sector of
14 their own in terms of the debates that have been going on,
15 in terms of formulating how this is going to move forward.
16 The other problem I see though is that NAESB becomes, I
17 don't know what you want to call it, but kind of a national
18 forum for discussing these issues and trying to seek
19 stakeholder input at a national level. Ultimately, NAESB is
20 not a implementor of anything. The RTOs, together with the
21 FERC, are going to have to go off and implement something,
22 so I think the details, the devil is going to be in the
23 details and the people who understand the details best are
24 the ones that are sitting in front of you at this table.

1 And I think we have to obviously participate in forums like

1 this. We each have our own stakeholder processes and I
2 think NAESB has an appropriate role at the national level in
3 terms of facilitating that discussion. But it's not going
4 to be sufficient, I think, to drive the process of
5 standardization. It's necessary but not sufficient.

6 Just building on those points, a little bit
7 earlier on once you've standardized that set of documents,
8 and remember those documents are the key things that drive
9 the software implementation so when you write the spec and
10 send it out to the vendor, you're typically sending them
11 this stuff and saying build it for me. So here's the key I
12 think to actually driving standardization, if we can
13 standardize these documents.

14 The next step really is to standardize the
15 market user interface, what it looks like, in terms of the
16 interface to the market from the user perspective as well as
17 the transaction scheduling practices, procedures, and
18 software that supports how one schedules transactions across
19 the borders. I think that's going to be more difficult than
20 the first one. And what I'm suggesting here is that once
21 you've tackled that first step, you move into the second
22 step. Any standard, any successful standard out there in
23 the world really has an allowance for local conditions or
24 inventor terminology, proprietary functionality, so I think

1 one has to allow for that to develop because there will be

1 differences, particularly when you're tackling something on
2 the scale that you are.

3 Really what you're going to do is provide a large
4 separation. The important thing is that in the piece of the
5 standard this should allow essentially markets to interface
6 without any seams whatsoever. To the extent that you allow
7 some local difference, it may not compromise the
8 interoperability of the markets functioning together with
9 each other.

10 So how would we go about to create a base line
11 standard for the Northeast and Midwest? The FERC SMD
12 initiative is a starting point. ISO New England, and I'm
13 moving to page 3 here, has already adopted the PJM market
14 design format, the market rule description, and the PJM
15 operating manual format. We've got some modifications
16 necessary for local conditions but to the extent possible,
17 we try to clone what PJM has done.

18 My proposal really, and this is something I'm
19 speaking for myself here, I've had an opportunity to speak
20 to Bill about it in some detail, but I've not had an
21 opportunity to speak to either Phil or Jim about this in any
22 detail. But I would suggest that New York ISO and MISO,
23 together with the Canadian entities, should work together to
24 arrive at a single format. The documentation proposal that

1 I put forward to you a little while ago.

1 The other proposal I'd make to you is that we've
2 done a fair amount of work in terms of producing this
3 documentation as part of our SMD implementation and we're
4 willing to make the SMD market rule our next format. The
5 business process descriptions we developed and the training
6 material developed available to the other ISOs and RTOs free
7 of charge to get the ball rolling on this. Hopefully, if we
8 can do something like that, and I'm not fixated on the
9 specific details, and obviously this is something that needs
10 to be agreed to by the parties. You've now established
11 standardization unless we have a mechanism for doing that,
12 here are some thoughts about how we might do that.

13 My feeling is that one needs a systematic process
14 for maintaining control over the evolution of the base line
15 standards and that process needs to be established as
16 quickly as possible among the ISOs and RTOs. The big danger
17 here is that each one of the ISOs and RTOs are operating
18 within their own stakeholder processes who will drive them
19 to implement changes. If these changes are introduced
20 asynchronously independently without anyone checking whether
21 you might in fact be introducing new seams, I don't think
22 that the FERC is going to be close enough in real time, as
23 these things evolve, to be able to control this. There has
24 to be a mechanism to be able to manage this going forward.

1

So my proposal here would be to introduce the

1 principle of synchronized introduction of new features into
2 the various markets. Typically what happens here is to
3 follow a model that is employed in other industries, and I'm
4 thinking here specifically of the software industry. We
5 would have new releases coming out of the market design and
6 the supporting documentation and software on a regular
7 basis. What you would do is, you don't want to do this
8 every month because you'd be introducing a state of constant
9 change into the markets, and what the markets require is
10 predictability, so what you want to do is to limit that to
11 several times a year. As stated in this proposal twice a
12 year in off peak periods. In other words, essentially late
13 winter, early spring, and in the fall time frame, May and
14 October. What you'd want to do is have a discussion about
15 what new functionality is being introduced into every
16 market six to nine months ahead of that time. There are
17 several reasons you'll want to do this. First, you'll want
18 to give the implementation team sufficient time to go and
19 build what has to be specified. The second thing is that
20 you need to do a fast cross check of what's being proposed
21 to make sure that you're not introducing new seams.

22 So how do you go about doing that? The proposal
23 here is to establish an ISO and RTO review committee which
24 makes quarterly reports to the FERC which identifies and

1 eliminates remaining seams, utilizes a fast review process

1 to check that new proposed functionality does not introduce
2 new seams, and I think we need to involve FERC Staff so they
3 can stay abreast of the developments and informally
4 arbitrate disputes before we have to go through a big,
5 formal dispute resolution process. I think there are
6 several advantages to this approach. Once you've
7 established standardization you can then, by having a
8 process for systematically dealing with this, you provide
9 market certainty. I think it's the most efficient way to
10 maintain standardization is a built-in FERC arbitration
11 mechanism and I think it has a far greater predictability
12 with respect to software implementation cycles. And that's
13 needed to lower cost and more robust implementations. So
14 that's really all I had to say about that particular topic.

15 These are ideas at this point, and I think
16 probably bear a lot further discussion to round them out.
17 The final thing I just wanted to put before you that we're
18 making good progress on our SMD-1 implementation in New
19 England. Thus far we are ahead of schedule and under
20 budget. The most recent forecast to the Commission for the
21 start of market trials has been the fourth quarter of 2002.
22 There's an error in the document with market implementation
23 by the first quarter of 2003. If you recall our original
24 filing, it said by June of 2003, we would have implemented

1 SMD. At this point, we are running ahead of schedule and

1 our target is to implement or to move to the next stage
2 which is market trials by September. At this point, the
3 decision for us to move to standardizing the market rules
4 and to extend possible takes on the same software from PJM
5 is paying off because the software we're getting from the
6 vendor is actually fairly robust. We're now in the
7 integration stage in terms of putting the various software
8 components together, and we have moved into the test phase
9 which will take place over the next two to three months. So
10 I'm keeping my fingers crossed at this point that we don't
11 have any severe problems during the next couple of months,
12 and if that's the case, we should be able to maintain
13 schedule for a September time frame, market trial and
14 implementation.

15

16

17

18

19

20

21

22

23

24

1 CHAIRMAN WOOD: By SMD 1.0, you mean basically
2 the fill-in they're using at PJM?

3 MR. VAN WELIE: SMD 1.0 is essentially the PJM
4 market design, plus certain enhancements to the PJM market
5 design. What we've also discovered along the way -- and
6 we're going to have to deal with this as SMD 1.1 and SMD
7 1.2, is that the PJM market design does not cater for some
8 specific conditions in New England.

9 To the extent that it was possible without
10 impacting schedule, we've made some of those adjustments as
11 part of the first implementation of SMD 1.0. Essentially
12 what we are now doing is developing a list of additional
13 features that you will have to add in after that first
14 implementation.

15 So we don't want to delay the first
16 implementation for the sake of introducing some new
17 features, but effectively what we will have done then is
18 cloned the PJM market design and added in some minor
19 additions to it.

20 CHAIRMAN WOOD: Then Bill went on the color chart
21 here, and it indicates that in the next year, New York has
22 implemented SMD 2.0. How would you characterize the
23 differences between what Gordon has put on line now, and
24 where New York is going to be?

1

MR. MUSELER: Maybe two high-level differences:

1 One would be that there are changes required in the New York
2 design to make sure that the remaining seams transacting
3 with those markets are resolved.

4 These are changes where our current real-time,
5 hour-ahead system will be completely renovated and will look
6 like the PJM and the New England real-time system. Things
7 like ex-post pricing, 15-minute scheduling, all of those are
8 things that Phil has that we will change to those protocols
9 by the end of next year.

10 The second major difference will be driven
11 somewhat by what your NOPR says, but based on the white
12 paper, in terms of the New York market design, the co-
13 optimization of reserve and energy markets, those are part
14 of the New York design now.

15 But in the detail, there may have to be some
16 changes to conform to what the NOPR says. Then 2.0 is
17 basically going to make what we think will be relatively
18 minor changes, but nothing is minor when you talk about the
19 software changes here to get us the rest of the way to what
20 the white paper is going to require.

21 And then the biggest changes are the ones that I
22 outlined earlier in terms of our hourly -- what's called a
23 BME, which is going to be completely eliminated. And our
24 hour-ahead and real-time system will then look -- I don't

1 know if the word is identical, but certainly close to

1 identical with what Phil and Gordon will have at the same
2 point in time.

3 Those are the two major differences from where we
4 are now. Then I'd like to offer some additional comments
5 here.

6 MR. VAN WELIE: I'd like to offer some additional
7 comment here. As we start moving forward with this
8 standardization theme, I think if I were a market
9 participant, I would want to lay down the market rules in
10 PJM, New York, New England, and any ISO or RTO and look at
11 them and say they all look the same, and down in the section
12 toward the back, there may be some local differences.

13 That's the point I was making earlier on, which
14 is, as Bill moves to implementing SMD 2.0, they also need to
15 look at -- and I think Bill is agreeable to this -- to
16 changing the format of how we describe these things.

17 Now, we in New England experienced a lot of push-
18 back from many of our market participants to begin with.
19 Because we were introducing change, we understand what
20 they've got today, and that we're giving them a different
21 format, and so there is a natural resistance to change.

22 People are alarmed by what might be hidden in the
23 words of this new format, so I think that's something that
24 we're just going to have to tackle. It would be very

1 helpful if the Commission could give guidance in this area

1 in terms of moving that ball forward.

2 CHAIRMAN WOOD: Great. Mr. Harris, Phil?

3 MR. HARRIS: Thank you, Mr. Chairman. I echo the
4 comments of my peers, and following the wise words of
5 statesmen, the main thing is to keep the main thing the main
6 thing. And as we have a lot of issues to deal with, the
7 main thing is getting standard market design throughout
8 North America, certainly in the United States.

9 The sooner that's done, the sooner it will
10 eliminate seams, and the sooner it will be able to move
11 forward in a much more proactive basis. That's just the
12 head of the coin.

13 The tail of the coin is getting large RTOs
14 established throughout the eastern interconnection. As you
15 see today, kind of the policy that you are, de facto,
16 pursuing, is to get a standard market design out in an
17 Order, and then to have large RTOs that are accountable, to
18 internalize the seams issues and work out the differences
19 between the parties.

20 That's a very good model. It can't come to
21 fruition until you have the standard market design Order,
22 and until you have RTOs in existence throughout the Eastern
23 Interconnection, particularly.

24 (Slide.)

1

MR. HARRIS: So any movement you can make there

1 would be the single biggest step you could do to eliminate
2 seams and to solve the issues.

3 We're pleased to be here to answer those
4 questions, and move forward, but those actions that you can
5 take will drive the industry forward in a faster way than
6 any other way possible.

7 The second thing I want to draw your attention to
8 is, I have a diagram here called the Extra-High Voltage
9 System of the Eastern Interconnection. I have seen some
10 comments in the trade press that are a little bit
11 disturbing, and I think we have to go back to some of the
12 real elementary basics here.

13 The issue is the topography, not the geography.
14 The EHV System, consisting of the 345 and higher lines of
15 the Eastern Interconnection is the super highway.

16 This is where business ultimately is conducted.
17 These are massive lines. These are the conduits, and going
18 from a 345 to a 500 kv line, for example, doubles the amount
19 of input, as a rule of thumb. You go from 500 kv to 765 kv,
20 you double it again.

21 This doesn't mean that the smaller lines are
22 inconsequential, but it means that if you're designing a
23 true interstate network system, you can't be worried about
24 every single exit ramp and import ramp to get onto the

1 interstate. That's what the RTOs should do.

1 We should work out those details where the ramps
2 come in, the ramps go out, internalize those and then
3 coordinate between us. But you should be looking at the EHV
4 system constantly.

5 So how do we get the bulk power commerce moving
6 on the EHV system? Again, we have to look at the electrical
7 topography.

8 As you know, electricity is the speed of light.
9 It's just a fact that it takes 1/64th of a second to go from
10 New Mexico to New Jersey, if you are moving electricity. It
11 is a very ubiquitous product that moves on this high-voltage
12 stream. It's also one that's going to follow the path of
13 least impedance or least resistance. So it has a certain
14 dynamic about how it's going to seek the source, go from the
15 source to the sink in the least resistant way, which is also
16 going to take you back up to the EHV system as you move
17 forward.

18 If we look at this reality of the electrical
19 topography with a general business rule called the 9/10 rule
20 -- and you've heard of that. In inventory of a company, 90
21 percent of the value is in ten percent of the resources.

22 Typically, 90 percent of your revenue is from ten
23 percent of your product. Well, the biggest bang for the
24 buck in solving seams and moving forward into a bulk power

1 market means where does the EHV system reside, and get the

1 EHV system under RTOs in a way that we can move on that.

2 That's where the issues get resolved, and we move
3 forward. If they can look at this diagram, it should be
4 intuitively obvious that AEP is absolutely a critical
5 player.

6 The sooner that AEP comes into a common market
7 and is in an effectual market, it's the fastest way to move
8 the ball forward and the fastest way to be able to address
9 the issues.

10 AEP is definitely the link and the heartbeat of
11 the nation. They're very strong and robust. Their EHV
12 system is critical to be able to move forward, and getting
13 them into a market is where we need to be, and we need to be
14 there as quickly as possible.

15 A second thing is to recognize that we are in a
16 transition. We've heard some comments today, and hopefully
17 we've got some hope and promise for some activities that
18 will be taking place by the end of 2003.

19 Certainly the activities that MISO and PJM are
20 working on to have a joint and common market under a single
21 database with a single building system and a single user
22 interface, by the end of 2005, takes us exactly where we
23 need to be, because that eliminates the issues.

24 So the question is, how do we handle this three-

1 year transition? You've heard Gordon talk about where he

1 wants to go and Bill talks about his three-year transition,
2 and it really is a transition rule that we need to discuss.

3 I know Jim and I believe that we can achieve this
4 noble role that we have, to have this joint and common
5 market, and we're committed to do that, and we've devoted
6 the resources to do that. But how do you handle the
7 transition to get from here to there?

8 The transition basically needs to be managed
9 wisely. As Gordon was talking about, with standard
10 documentation, it is simply plan your work, work your plan,
11 and if we do this around the interstate system, if you will,
12 looking at the EVH topography -- not the geography, because
13 electrons follow the wires -- and AEP becomes part of the
14 market as soon as practicable, and then we start working out
15 the rule base to get the joint and common market moving over
16 the three-year period, this can be done, and it can be
17 achieved.

18 I would be concerned if we started short-changing
19 ourselves, dealing with some micro-issues, and lose site of
20 the big picture as we move forward.

21 The other thing to point out is that there really
22 is a glass half full here. Sometimes it's easy to look the
23 half-empty side.

24 A lot has been done. Bill mentioned a lot of the

1 work that has been done already, and there is more that

1 we're going to be doing.

2 If you look at the pancake rates issues, with the
3 RTOs established, you have eliminated the pancake rates
4 within certain regions. You've also internalized the
5 differences, so you've eliminated seams there as that moves
6 forward.

7 We recognize there's more to do, because rate
8 pancaking, inter-RTOs, is a big issue. At the same time I
9 would caution you that there are other issues that get
10 raised and would be moved to a much larger geographic area.
11 And, talking about eliminating pancaking, you have the issue
12 of the various rate cost-shifting and revenue distribution
13 issues.

14 You also have a new electrical dynamic that we
15 have to study very carefully. You're going to have marginal
16 losses when you're moving power from New Mexico to New York.
17 That's a big distance.

18 What the is the role of displacement? What is
19 really taken on? We need to do a lot more engineering
20 analysis and studies to understand what the appropriate role
21 is of displacement when you're moving over long distances,
22 and the role of losses that occur.

23 Jim and I have agreed that we're going to take
24 this challenge on as we develop our joint and common market.

1 It's appropriate to begin those studies, working with the

1 transmission companies that deal with these higher-level
2 issues as we move forward to the future.

3 In summary, I would say, again, the main thing is
4 the main thing. The Commission should consistently work on
5 that focus, get large RTOs up and running, hold the CEOs
6 accountable to you, and call us in to solve the issues we
7 need to solve, get the standard market design out as soon as
8 practicable.

9 Look at the topography, not the geography,
10 because that's the way the electricity flows that makes the
11 big difference. Concentrate on where you can get the
12 biggest bang for the buck.

13 That means getting the large players with the
14 large EHV systems into a common market as soon as
15 practicable. Recognize that it is a three-year transition.
16 I think that all of the plans that we're talking about will
17 have most of this completed and done by the end of 2005, so
18 it is transition rules and working through those issues as
19 they move forward.

20 But we do see the end state, finally we see the
21 end state, having a truly common market working throughout
22 the Eastern Interconnection, and finally, appreciating that
23 when we start talking about inter-RTO issues, once you've
24 internalized the things within an RTO, once you've reduced

1 pancaking within the RTO, you also are introducing a higher

1 level of complexity that is going to take some more study
2 and analysis to be able to address the issues totally and
3 completely, and not create more problems. Thank you.

4 CHAIRMAN WOOD: You mentioned the importance of
5 getting in your case, AEP under a common market design.
6 What is the nature of your progress on the MOU that you and
7 AEP have signed?

8 MR. HARRIS: We've executed an MOU with AEP.
9 Under that MOU, we figure that in six to nine months, we can
10 have a market running. Right now, AEP is considering
11 whether some of the other Alliance companies should come
12 under that MOU, so we haven't started work.

13 We're completing due diligence and discussions on
14 that. If AEP comes in, stand-alone, under the MOUs we have,
15 we figure we can get a market up by May of 2003 with AEP.

16 CHAIRMAN WOOD: I guess I would characterize that
17 MOU as a little porous, and I'm wondering, has it filled in,
18 or is there still kind of wiggle-out-ability? I am
19 heartened by, I think, the same thing you point out about
20 getting the backbone of certainly the midwestern
21 transmission grid in a workable market; I am pleased with
22 that.

23 But I think this has gone on for several years
24 now, and I'm kind of ready to get the handshake done here.

1

MR. HARRIS: I agree with you; the MOU we have

1 with AEP is pretty simple. We have a period-certain where
2 we have to iron out all the remaining issues.

3 The way we iron those out is, we create a
4 development plan. Once the development plan is done, then
5 it's implemented, and all the MOUs that we have follow that
6 model.

7 You need a period of time when the parties sign
8 the letter of intent and we get into intense discussions to
9 hammer out the details. The devil is in the details.

10 The result of that is the development plan. The
11 development plan then is what we work to. It assigns the
12 costs; it says what are we doing at what point in time, and
13 just as we did with APS, we can meet the plan, plan the
14 work, work the plan.

15 So the MOU process provides the discussion period
16 from 45 to 60 days or whatever it takes to get all the staff
17 together and to work out the details. The whole purpose is
18 to come up with a plan.

19 CHAIRMAN WOOD: Where are we on that 45-60 day
20 period?

21 MR. HARRIS: We haven't started the clock,
22 because AEP notified us that they are working with some of
23 the other Alliance companies to see if they want to join
24 into that particular MOU.

1

CHAIRMAN WOOD: How long is that 45-day clock

1 suspended for that effort?

2 MR. HARRIS: Until we hear from AEP.

3 CHAIRMAN WOOD: Is there someone here from AEP
4 could speak to this?

5 (Laughter.)

6 MR. HARTSFELD: Joe Hartsfeld with AEP. My
7 understanding is that they have been meeting, they are close
8 to discussions. I think they were close to talking
9 yesterday, deciding something.

10 Then again, it may fall apart in the next week or
11 so. So I think we can get back to you, say, in 10-15 days,
12 about the same time we do with AEP-West.

13 CHAIRMAN WOOD: Why don't we just see you at the
14 next open meeting?

15 MR. HARTSFELD: I'll do my best.

16 CHAIRMAN WOOD: So once that's going, walk me
17 through again, Phil, the discussion period.

18 MR. HARRIS: Then we get respective staff
19 together to work out all the details of what we're doing
20 during that process, that 45-60 day process.

21 CHAIRMAN WOOD: What are those kinds of details?
22 Rate issues would be one.

23 MR. HARRIS: Get all the rate issues resolved, so
24 you can get all that worked out. You have to have how

1 you're going to cut over the systems. You have to have all

1 of the operational protocols worked out as to who is in
2 control, when.

3 There are the staffing issues, the building and
4 facilities issues, at host of things like that that have to
5 be put together on how you're going to coordinate and put
6 them together operationally. Timing.

7 What comes out of that is a very, very detailed
8 plan that we call the development plan. That plan then is
9 executed by the parties who have both agreed to the plan.
10 That's where money starts changing hands, earnest
11 development work starts.

12 It has definitive timetables. That's the whole
13 thing that you work to, and then you work that plan, and the
14 parties commit to the plan, and then the plan will give you
15 your effective date down to the ramp-up and cut-over.

16 The 45-60-day period is to develop the plan, the
17 details of the plan.

18 CHAIRMAN WOOD: When is kind of the point of no
19 return and back? Is it after that plan, before that plan?

20 MR. HARRIS: The development plan, there can
21 always be a backout until you've executed the development
22 plan. That's when money starts changing hands to start the
23 development work. That's the commitment.

24 CHAIRMAN WOOD: One of the things that at least I

1 liked when the Alliance Companies put forth their

1 preparatory order about three months ago that we ruled on,
2 was the role of the national grid as a basically replacement
3 company for the functionally unbundled part of the
4 integrated investor-owned utility company, and I guess what
5 I would call structural separation, which is, to me, a very
6 desirable endpoint here, that may well be facilitated by
7 some tax treatment in the pending legislation in Congress.

8 When you go through development plans of this
9 nature, is there a role for either the grid or for some to-
10 be-divested-to entity, to really give this more independence
11 than we've got in the traditional ISO format?

12 MR. HARRIS: Absolutely. There's always that
13 role.

14 CHAIRMAN WOOD: Is that specifically here, or has
15 that gone by the wayside, or is that still present?

16 MR. HARRIS: I understand that that's part one of
17 the issue that's being debated in the new MOU with the other
18 Alliance Companies, as to what their grid is. We've had
19 some meetings with the grid in that context.

20 I think the big picture here is -- and I would
21 challenge one of your assumptions on that -- is that if you
22 have robust, competitive markets working that are
23 appropriately monitored, divestiture is a less important
24 issue. It's also less of an important issue if you have an

1 independent transmission operator or not.

1 It really doesn't matter if you're getting
2 information in the hands of the right people to make the
3 market work. That's what counts.

4 How the information flows, whether it flows to an
5 ITC or directly from the control center of a vertically-
6 integrated utility, is immaterial. That's just a process
7 question.

8 You can work out the details of the process
9 question with the process company, and the vertically-
10 integrated company with the transmission company taking part
11 in the transition. That's just a detail to be worked out.
12 It's not a impediment, whatsoever.

13 CHAIRMAN WOOD: Correct, but in the long-term
14 vision, you're clearly -- at least I do want to have the
15 transmission business done by somebody who doesn't have a
16 generation cousin to be watching out for. If you get
17 congestion, say, on the Delaware Peninsula from your
18 generation down there, you're not really incented to fix the
19 transmission problem.

20 And until we have very permeable entry by
21 merchant transmission companies, for example -- and that
22 requires a lot of state statutes to change on CCNs and the
23 like -- it bothers me that we're still having vertically-
24 integrated companies running transmission and also running

1 load-serving entities and also running generation

1 affiliates.

2 So, true independence of the transmission as the
3 endpoint is something that clearly was one of the things
4 about Alliance that was positive from, I think, my point of
5 view, and probably my colleagues as well.

6 But we don't want to really go a step back by the
7 choices that the companies have made to go east or west.

8 8

9 9

10 10

11 11

12 12

13 13

14 14

15 15

16 16

17 17

18 18

19 19

20 20

21 21

22 22

23 23

24 24

1

25

1 MR. HARRIS: There's absolutely no impediment for
2 transmission, but I would submit to you when you have fully
3 functioning markets and you truly have those throughout the
4 Eastern Interconnection coupled with the regional
5 transmission planning protocol that is done mutually and
6 independently, the very problems you identified begin to
7 cease to exist and cease to exist to a large degree.

8 CHAIRMAN WOOD: They're still there.

9 MR. HARRIS: Because you've got the asymmetry
10 right now. You don't have large RTOs fully in existence
11 throughout the Eastern Interconnection. So once you do have
12 that working, the drivers that are behind it change. So it
13 becomes important then to have neutral and independent
14 marketplaces working and regional planning protocols that
15 allow those who want to be in the transmission business to
16 make that decision and make the business work. That's the
17 important point. They choose to be in transmission because
18 they can make money in transmission. They can give the
19 shareholder value in transmission as a business. That's
20 where the value proposition begins to come in.

21 I'd just suggest -- and I've heard these
22 discussions for many, many years and been part of them for
23 many, many years, that we are already in transition. We
24 have been for the past decade, but as we see markets truly

1 working, we have reasonable protocols that are independently

1 administered that allow for transmission to be an integral
2 player in that as a business. The presumptions about all
3 the separation aren't nearly as persuasive when you look at
4 it in a different reality.

5 COMMISSIONER BROWNELL: Phil, could I just add,
6 you're describing a perfect world. I think if we've learned
7 anything in the last couple of months is that it's a very
8 imperfect world. I appreciate your vision. I simply think
9 when it comes to day-to-day operations, I think Pat's
10 concept where we really truly have independent transmission
11 companies is a business model that we'd like to see go
12 forward.

13 So perhaps they can and certainly will for the
14 foreseeable future mutually coexist, making the independence
15 of RTOs all the more important. But I think that on paper,
16 you're correct. I don't think in the real world, even in a
17 mature market like yours, that is exactly the way it works.

18 MR. HARRIS: Not exactly, but it is a three-
19 legged stool. Transmission competes with generation, it
20 competes with distributed generation and they should be a
21 market player.

22 COMMISSIONER MASSEY: At some point I want MISO
23 and PJM to comment on the configuration that we may end up
24 with at the seam between PJM and MISO in the Midwest. If

1 the companies continue with the choices that they have

1 announced, does this configuration make sense? Will it
2 cause problems? And I'd like for any of you that have an
3 opinion about that to comment on it.

4 CHAIRMAN WOOD: Why don't we have Jim state what
5 he was going to state since the other three guys have gone?
6 Then I think that's certainly the question of the day for me
7 as well. So, Jim, why don't we let you go and then jump
8 right into those comments?

9 MR. TORGERSON: I sent in a statement in advance,
10 which I don't intend to read, but I did want to hit some of
11 the highlights and also give you an update on developments
12 in the Midwest relating to an ITC there. You already heard
13 John Marschewski and Nick are here in case there are
14 questions regarding SPP.

15 I do have to clarify, in the statement I sent in,
16 the joint and common market with PJM is to be operational in
17 2005. The Midwest market is targeted for the end of 2003,
18 and the enhanced market portal that would permit
19 transactions between Midwest and the PJM would be in 2004,
20 which is the timeline we had passed along previously.

21 Our view on developing large, competitive markets
22 is that has to be a key priority for RTOs. We have been
23 cooperating with PJM. That was a natural choice for us.
24 They have experience in operating a security-constrained,

1 bid-based market. When we talked to them, the officers of

1 both companies had a shared vision on where we wanted to go,
2 creating a seamless market and creating a level playing
3 field also for the benefit of all sectors of the electric
4 service industry.

5 The Mid-Atlantic region was also one of the
6 principal areas where members of the Midwest ISO transact
7 business, as you're well aware. We've already gone ahead
8 and acquired the PJM market. We're going to be addressing
9 this at the Advisory Committee next week and taking it to
10 the board, the operating plan for moving forward with PJM on
11 the common market.

12 Our view also on configuration, the RTOs should
13 be configured to embrace contiguous areas to the maximum
14 extent possible. It promotes system planning and expansion
15 by presenting a regional view of the transmission system.
16 And also we believe it will improve reliability, ensuring
17 comprehensive data collection and the operational control.

18 I'm very supportive of common markets. They're
19 great. I think we still need properly configured RTOs.
20 Common markets are going to promote efficiencies in the
21 energy market and enhance and should produce substantial
22 savings to consumers. The common market doesn't always
23 address the critical transmission issues. We have rate
24 design for the revenue distribution and we have transmission

1 expansion. Therefore, we believe that a properly configured

1 RTO is going to be relevant.

2 The noncontiguous configuration we believe is
3 going to present significant operational challenges and may
4 not deliver the benefits that were originally envisioned by
5 RTO formation.

6 The Midwest ISO. We believe we can operate a
7 noncontiguous transmission grid. Our engineers tell me this
8 is doable, but it is not the ideal configuration. Security
9 coordination in itself is going to be more difficult because
10 of the interwoven areas between the Midwest ISO and PJM.

11 When you look at this interwoven border and the
12 island configuration, that will reduce redispatch options
13 for both transmission organizations unless you're operating
14 totally seamlessly. Because making congestion management
15 choices will be more difficult, particularly when you have a
16 constraint in one RTO which could be relieved by generation
17 in another. Unless you're totally coordinated on that, it's
18 not going to work very well.

19 Outage coordination. That's going to be rendered
20 more difficult unless again you have seamless coordination,
21 everything that's transpiring in both RTOs.

22 The jagged boundary between the Midwest ISO and
23 PJM could very well defeat efforts to internalize loop
24 flows, particularly through Commonwealth Edison and in

1 Wisconsin. To give you an example, 55 percent of the

1 Northern states power sales to Wisconsin Electric and 80
2 percent of Amiant sales to Wisconsin Electric and Wisconsin
3 Public Service flow through Commonwealth Edison's system.
4 Those are things we have to deal with.

5 The overlapping RTOs are going to compound the
6 difficulty in planning, coordinating, effectuating
7 transmission enhancements in the generation interconnection
8 when we have to do these studies for those areas.

9 Economics I think as opposed to transmission
10 efficiency appear to be influencing the RTO choices. As one
11 would expect, people are going to look out for their own
12 interests. The power flows are predominately West to East.
13 Members in one RTO may pay a zonal rate to be in that RTO,
14 but if they're in the Midwest ISO and have to go outside,
15 they're going to pay it through an out rate and then a
16 resettle rate.

17 The Midwest ISO is discounting this through an
18 out rate, but we can't eliminate this. The economic
19 disadvantage we believe is going to stay there unless we do
20 eliminate the through and out rate. Midwest ISO does
21 support the Staff's suggestions that were presented at the
22 Commission meeting May 30th to eliminate inter-RTO rate
23 pancaking.

24 The economic considerations impacting the RTO

1 election could be negated by adopting an inter-RTO rate

1 regime that requires load within the sink RTO to contribute
2 to the transmission cost. The source RTO then, either on a
3 transactional basis or through an annual RTO-to-RTO true-up
4 mechanism, we think those need to be looked at. We're
5 willing to work with the Commission on figuring out how to
6 go ahead with that.

7 In the statement I forward to the Commission, I
8 mentioned the flexibility of the Midwest ISO. Likewise, I
9 have to say that National Grid, Amiant, First Energy and
10 NIPSCO have been very cooperative and flexible. The result
11 is that the parties are a few days away from filing a term
12 sheet for the development of a large, independent
13 transmission company under the Midwest ISO. As now
14 contemplated, the transaction would permit the ITC to be
15 formed and operate under the MISO using systems and
16 equipment developed for the proposed Alliance RTO. The
17 target for operation remains October 2002, and the
18 discussions really concern the allocation of the
19 responsibilities between the RTO and the ITC, and it's
20 exactly consistent with the Commission order that came out
21 in April.

22 We've also been dealing with the principles of
23 the administrative cost adder resulting from the ITC
24 operating under the Midwest ISO, and for resolving the rate

1 issues again as contemplated in the April order. Assuming

1 as we now expect that we execute our term sheet within the
2 near future, the next few days, the schedule calls for us to
3 execute and file definitive documents before the Fourth of
4 July and to make rate filings no later than 60 days before
5 the operational date.

6 Thank you. That's my update, and we'll go with
7 the questions.

8 CHAIRMAN WOOD: Why don't you take a stab, you
9 and Phil both, since you all live on the other side of the
10 potential seam that's being discussed here, at answering
11 Bill Massey's question?

12 MR. TORGERSON: I think in the statement,
13 particularly the one I sent in, we highlighted a number of
14 things. The security coordination is one that concerns me.
15 The reliability. When we look at how do we coordinate, we
16 do tagging, PJM does not. If that goes into Com Ed, then we
17 won't know about transactions. I'm not saying it's good or
18 bad. I'm just saying it has to be worked out.

19 When we look at congestion management, like I
20 said, where's the dividing line? Who is going to control
21 which generator, and which ones could be operated?

22 So to answer your question, it's going to be a
23 challenge at best to work this out. I think we have an
24 excellent relationship with PJM, I really do. And I think

1 the prospects of working with PJM are much higher than they

1 would be with working with a number of different
2 transmission owners trying to work out this jagged seam.
3 But still, operationally, it's going to create issues that
4 have to be dealt with, and it's not the ideal.

5 COMMISSIONER MASSEY: And do you think that is
6 true even if standard market design is fully implemented all
7 across that region? What share of the difficulties that you
8 raised would be solved by that?

9 MR. TORGERSON: I think the standard market
10 design would help solve the ones related to congestion
11 management. We'll have the market there. You'll still have
12 to deal with the reliability and the security coordination.
13 We'll still have -- we'll still make sure we're coordinating
14 on planning. The generation interconnection I presume would
15 be resolved in that also, or in the current NOPR.

16 So I think the standard market design is going to
17 go a long way, but we have the next several years where we
18 have operations that have to be worked out.

19 COMMISSIONER MASSEY: Phil, what's your opinion
20 about this? Should we be concerned about where these
21 utilities end up if utilities to East go West and the
22 utilities to the West go East? Should that concern me?

23 MR. HARRIS: In the first instance, we've got to
24 talk about the Eastern Interconnection. It's a 650,000

1 megawatt synchronized motor, and that synchronized motor

1 needs to be working better. It really isn't an East-West,
2 Midwest, Mid-Atlantic issue. It's an electrical engine that
3 we're trying to make work on a much more efficient basis.

4 In that regard, it shouldn't matter if we do the
5 job right. The facts are that many of the things that Jim
6 said are true, and I would support, except I would caveat it
7 in several ways. One particular caveat is what we're trying
8 to achieve by 2005 with a joint and common market, and we
9 design a market that would be one database, one system
10 administered by both of us. With that in place, it's
11 absolutely material where these things are, because you'll
12 have the data and the information to make it work.

13 So by 2005 when that's in place, we both agree
14 those problems go away. So the question is, how do you
15 transition through the phases to get to that thing and allow
16 companies to have choice? I think the transition is less
17 difficult when you break it down into the components and you
18 look at the pieces at what needs to be done.

19 One of the transitional issues is the market.
20 Those that at least have initially selected PJM can have a
21 market fairly quickly. There will be other areas that won't
22 quite have a market working yet. That coordination is no
23 different than we do today, because we have areas that have
24 markets and areas that don't have markets. You put in

1 procedures and protocols and you have to deal with that.

1 And again, all of that is a transitional role until you get
2 to see the joint and common market.

3 Certainly one can sit down even on the electrical
4 configuration and say, well electrically, there can be a
5 little shifting here and a little shifting there to maybe
6 make it better. But you're going to have the seam just
7 because of the network and the differences in when the
8 market development is taking place. We believe that those
9 things can be managed. They have to be planned. They have
10 to be understood in advance and all of those sorts of
11 things, but we don't see anything that can't be done, that's
12 insurmountable.

13 The important thing, again, is to keep the main
14 thing, get the joint and common market up in 2005, maintain
15 our interest, make that work and then figure out how to
16 handle this transition as we move to that state. No one
17 wants an unreliable system. Reliability will always be job
18 one and it will always take priority over everything else to
19 make sure the system operates reliably and things are
20 coordinated as we move forward in the future.

21 COMMISSIONER MASSEY: Are you arguing that once
22 the standard market design is in place and once there is a
23 common market that the scope of configuration questions
24 related to RTOs are irrelevant?

1

MR. HARRIS: I'm talking just specifically

1 between MISO and PJM. But the model that we envision and
2 what we're putting together will be a single large database.
3 It'll have a single billing system, and it will have a
4 common user interface. We'll call it the enhanced market
5 portal. It's being designed as we speak, to allow any
6 market participants to have one port of entry regardless of
7 what they're doing with PJM or MISO. If we have that in
8 place, many of these issues go away. They just don't exist.
9 They're internalized between PJM and MISO and we work them
10 out. That's what we have to keep our focus on is to make
11 that acceptable and achievable in the timeframe we have set
12 out.

13 The disparities you come up with are real
14 operational issues you have to deal with because you're
15 doing the transition. Some things have a market, some
16 things not, some things are developing new markets. In any
17 configuration you do it at a point in time a little bit
18 later. When a new market develops, it's going to create
19 another set of issues and seams. All of that has to be
20 managed wisely, articulated, defined, protocols come up
21 with, then you move to the next step. That's how you move
22 forward.

23 CHAIRMAN WOOD: Is there any reason to restrict
24 that discussion to just you and him? TVA is the hole in the

1 doughnut. The folks to the Southeast. If we are really

1 talking about making that 650 gigawatt machine work well.

2 MR. HARRIS: I understand. TVA and MISO have
3 signed an MOU to work with it.

4 CHAIRMAN WOOD: I'm just wondering can that be
5 elevated to the level of what you and MISO are doing right
6 now?

7 MR. HARRIS: No. TVA doesn't have the authority
8 to actually join and participate at the level we're doing
9 it. We have studies, for instance, to come up with a common
10 IT architecture. We don't want to let the machines and the
11 systems be an impediment to moving forward, so we have
12 studies going. We actually have the first draft of the plan
13 out: How to have a common IT network between the two
14 parties when we move forward. It's things like that that
15 make it work, that TVA couldn't engage in.

16 CHAIRMAN WOOD: What about your two colleagues on
17 either shoulder here? Why would you not want the inclusion
18 in the Eastern Interconnect to be more than just that broad
19 swath of the heartland of you and Jim here?

20 MR. HARRIS: I'll have to let them speak for
21 themselves. I guess it's just a different point of
22 development. It's working very nicely with MISO, because
23 they're in the development process. Bill has a mature
24 system. He's put a lot of money into a mature system. His

1 database, his billing and settlement system, the way things

1 work internally, that we're happy to work that out. The
2 same thing with Gordon.

3 COMMISSIONER BROWNELL: But if they were working
4 towards a PJM model anyway, and the investments I'm assuming
5 have been directed towards that end, I understand the
6 different levels of maturity. But if everybody was going to
7 that PJM platform and that's where MISO is going, what's the
8 difference here?

9 MR. MUSELER: I can't give you a global answer to
10 that, Commissioner, but part of it is in terms of I'll just
11 address what Phil referred to, or what we commonly refer to
12 as one stop shopping, where I assume between MISO and PJM
13 there will be one entry portal and people will be able to
14 transact and go into that and transact between both.

15

16

17

18

19

20

21

22

23

24

1 PJM put in place a year ago CSS which has the
2 ability to partially do that in New York now. We have a
3 project that's going to allow that to go the rest of the way
4 so it will get to the functionality that Phil and Jim
5 described through Phil's CSS system talking to our OSS
6 system and the thing will work and result in the same
7 output. That doesn't go all the way. It doesn't go to
8 common billing systems and the like, but in terms of the
9 function of the market, in terms of the coordination of the
10 markets, so that customers have the ability to go in one
11 portal and be able to get the transactions, to talk to both
12 systems and get confirmed and come out, we think we're
13 moving in that direction.

14 COMMISSIONER BROWNELL: I guess I'm just
15 confused. If the goal is in fact to have the Eastern
16 Interconnect in one common market, why would we want to
17 create presumably one system here and one system there that
18 five years later somebody's going to say, well you spent a
19 lot of money but you didn't get to the goal. If you are
20 developing and you are developing, albeit at different
21 stages, and these guys are developing and you've identified
22 a platform, why do we need two organizations or three or
23 five or whatever it is we're talking about today.

24 MR. VAN WELIE: Let me try and take a shot at

1 that. The first is you're dealing with a transition. Phil

1 said it earlier on. You've got a transition to deal with,
2 you've got an historical starting point. The other thing I
3 would like to do and perhaps you can give me some feedback
4 on this is I think you need to really clearly separate the
5 issue of the market design and the thing that supports the
6 market design. Putting the footprint issue aside, I don't
7 think you in the end want to have one vendor supporting the
8 operation of these markets. You really want to standardize
9 the market design, the rules, the formats, all these
10 artifacts that I've mentioned, such that as you roll out
11 standardization on a national basis, you have several
12 vendors that can support that.

13 Separately what you're then dealing with is how
14 to establish organizations to effectuate what you're trying
15 to get done here, which is to implement markets, solve
16 transmission issues and so forth, and that's when you're
17 into the RTO discussion and how big it should be and what
18 systems it ought to be building. But I think you've got to
19 tackle those two things somewhat separately but in parallel.
20 And I think we need to be careful not to bundle the
21 underlying software system and the market design into one
22 thing. So when we're implementing PJM, when we said we've
23 implemented PJM, we've implemented the PJM market design and
24 certain selected components, but we're here to stack up what

1 we have IT-wise within our organization with what PJM has.

1 You're not going to get an exact match. You'll find the
2 dispatch software being the same, the unit commitment
3 software being the same, but there will be other
4 differences.

5 The same will be true if you look inside Midwest
6 ISO or any particular organization that's out there trying
7 to support a market in some form or fashion.

8 MR. MUSELER: I think we may have a definitional
9 problem, particularly going through last summer's exercise.
10 I believe folks have firmed up what they mean by a single
11 market. A single market is what New York has, PJM has and
12 New England has, and the MISO will have, so it's one market,
13 which generally means one day ahead unit commitment and one
14 common dispatch over a certain geographical area. As Phil
15 puts it more appropriately, one electrical area.

16 The term "common market" I don't think has been
17 firmed up in the discussions everybody has had. I think it
18 may mean different things to different people and I think
19 that's probably, that may be one of the sources of
20 confusion. If the overall objective, which I don't think we
21 could get the whole eastern interconnection onto a single
22 market, but the RTO footprint issue I think is a discussion
23 of which ones do you want as single markets, even they're
24 all relatively the same or relatively identical. Then if

1 they are substantially the same but are still separate

1 markets then you have I think going to, as I understand it,
2 and I certainly think Phil and Jim need to jump in on this,
3 but I think what Phil and Jim are trying to envision here is
4 something that overlays that and makes that all work over
5 these multiple single markets. So I think the definition of
6 a common market is one of the things we're struggling with
7 if we're going to go to a single market in any RTO, then I
8 think, Commissioner Brownell, the discussion you're having
9 about well why do you go to different software packages and
10 things like that I think is a very relevant discussion. But
11 if you're going to overlay different single markets, then I
12 think it's just how does that, and I'll call that the common
13 market, how do those single markets work together so that
14 you don't have inefficiencies that prevent those markets
15 from transacting with each other and causing other
16 difficulties for the customers that want to do business in
17 that larger common market.

18 Again, I think there may be a definitional
19 problem on what we mean by common markets and single
20 markets, but Phil, I think --

21 MR. TORGERSON: Maybe I could add something for a
22 second. The view I had, and we're starting out from
23 scratch, we don't have the market in place, so we looked at
24 it and what market made sense for us and how could we get

1 there as fast as we possibly could. That's why we worked

1 with Phil and his team. When you look from the broader
2 perspective, and I'm not sure of the entire eastern
3 interconnect could work, but if you had a plan to move down
4 the road in the next three to five years, or whatever, to
5 say that you wanted to get to more of a common market, and
6 it would keep people -- the other thing is everybody would
7 have to cooperate and make sure that there are solutions
8 that are being worked on when issues come up and different
9 decisions need to be made that they're being done
10 consistently.

11 Gordon is much more familiar with the software
12 issues than I am but if you point in one direction, I think
13 you can get more to a seamless overall market than just by
14 keeping separate markets, because I think the marketplace
15 ultimately is going to want to be able to do transactions in
16 a number of places, not just limited by where a market is
17 set up. Does it make sense to move power from New Mexico to
18 the Atlantic Coast? I don't know that it does or does not.
19 You've got OSSs, you've got all kinds of consideration, but
20 if people want to trade and start doing that, I think we've
21 got to start pointing in that direction.

22 COMMISSIONER BROWNELL: I just want to make one
23 comment. I'm sorry, Linda. My confusion is not over what a
24 market should look like candidly. I'm driven by the goal of

1 creating organizations, structures, and rules that address

1 two issues; that is natural markets, and reliability. My
2 goal is also to do that in the most efficient way possible,
3 understanding that we're starting from different places, and
4 what I'm hearing is some wonderful plans and real commitment
5 but I'm not hearing the things that convince me we're
6 approaching this the most efficiently. What we don't need
7 is somebody sitting here five years from now saying well
8 they started here and they started here and they did this
9 and thus, so we're going to have to build on that instead of
10 doing it right. I think we're at a point in time that we've
11 learned some lessons and we just need to do it right
12 regardless of kind of summarily focused feelings about that.

13 So I want to be sure whatever we do we're using
14 the resources efficiently, and of course we don't want one
15 software vendor, but I think we need to get our arms around
16 software costs. Let's remember we're accountable to the
17 customers and the customers particularly as represented by
18 state commissioners are really questioning some of the
19 directions this is taking. So I think it's great that
20 you're planning but I think you need to understand that
21 we're looking at some different things, and that's what's
22 going to drive the decisionmaking process here, if I can
23 speak for my colleagues.

24 COMMISSIONER BREATHITT: I wanted to explore a

1 little bit points that have come up with all four of you.

1 And that is cost shifts and transition times. Phil, you
2 talked about how important transition times were and we
3 talked about, or you've talked about, cost shifts
4 particularly in New England being a big concern with the
5 last state panel that we had.

6 What are the biggest contributors to cost shifts?
7 And how can they be addressed? And how long would it take
8 to address them? Because in my mind, I think those are some
9 of the biggest impediments to overcoming seams issues, if
10 you agree with that.

11 MR. VAN WELIE: Let me try and respond to your
12 question about what's the biggest contributor to cost
13 shifts. If you look at the study that was recently done
14 between New England and New York and it's directly
15 consistent with the draft study that PJM put out several
16 months ago then in the FERC ICS Study, the biggest single
17 element there are the inter-ISO or the inter-market fees and
18 export fees. What those do is they cause a distortion in
19 the dispatch. Now, you've got the problem, thinking it's a
20 simple problem, to remove them but two things happen when
21 you do that. The first is the transmission owners generally
22 are recovering some revenues through those tariffs, okay.
23 Maybe ISOs and RTOs are doing that as well, so you'll have
24 to find another mechanism and first of all decide whether

1 you want to give that recovery and the second, once you've

1 made that decision, you can decide how or what the mechanism
2 is for that recovery, and that's a very complicated issue,
3 and really is in the hands of the FERC and the state
4 regulators in the end in terms of how do you address that
5 issue.

6 The second thing then is as you proceed with the
7 elimination of those particular seams, -- I'm sorry, I lost
8 my second point there, and I think I'll have to come back to
9 you.

10 (Laughter.)

11 COMMISSIONER BREATHITT: Talking about export
12 fees for a minute, because you raised that in your initial
13 presentation, is that something that should be eliminated
14 over time?

15 MR. VAN WELIE: We've taken the position
16 basically in this draft RTO filing we put together and the
17 Board still has to vote on that next week, but we've
18 basically taken the position that they ought to be
19 eliminated day one in terms of the establishment of
20 operations of the RTO, but we also recognize this is not
21 something you can just ignore. So the people who are
22 affected by this need to have an opportunity to put forward
23 their case for consideration for recovery of those revenues.
24 I think that's a very important thing.

1

I remember my second point now. The first one is

1 the losses of revenues for the transmission owners. The
2 second thing is, sa you remove this distortion of the
3 dispatch algorithm, you effectively get the power flowing
4 differently, so you're going to end up affecting essentially
5 the clearing price in the different regions because you're
6 now dispatching differently. That's where the big cost
7 shift occurs in terms of the wholesale energy market, so
8 that I think will happen anyway as a function of the
9 elimination of the inter-ISO export fees and as the result
10 of standardization. But nevertheless, the minute you make
11 this visible, it gets people very nervous and the natural
12 question is well, is this something I would like to see
13 happen? Not me, personally, but from a participant point of
14 view, a stakeholder perspective that this does concern
15 people. I don't think we can ignore it. We have to think
16 through it and have an answer. I think ultimately this is
17 going to require guidance from the Commission.

18 COMMISSIONER BREATHITT: The export fees are part
19 of the revenue stream that goes back to the allowed rate of
20 return too. That's why it has to be done extremely
21 thoughtfully, or there'll be rate cases at the state
22 commissions for the recovery of lost revenue perhaps, or
23 perhaps here.

24 MR. VAN WELIE: Until those mechanisms are

1 clearly defined, you're going to find people reserving their

1 positions on whether they ought to support this or not. It
2 would be a natural phenomenon. You'd want to know what's
3 the deal before I actually sign up. I think that's what
4 you're going to see.

5 CHAIRMAN WOOD: This is a follow-on from a
6 conversation we had at the last meeting, but if we say from
7 the onset a transmission provider will get his revenue
8 requirement, we will make sure that happens and the state
9 regulators will agree with that, which is an interesting
10 negotiation, but I think we all generally agree you want an
11 infrastructure company to get sufficient revenues and a
12 sufficient return to keep making the infrastructure
13 investment.

14 The second question becomes, okay, how do you
15 allocate the costs? You know what the numerator is, then
16 we've got to figure out how you allocate it. It's kind of
17 hard to get away from the point of benefitting either the
18 individual or benefiting license plate, which would be in
19 between, be the place where you send the dollars to. That
20 gets real tricky, but at the end of the day, if we want to
21 really have the elimination of pancaking, which I clearly
22 do, then we've got to figure out the proper way to allocate
23 it. I'm pretty comfortable with saying, you know, if ten
24 percent of the revenue requirement in the MISO-transmitting

1 utilities collectively goes to serve PJM load and it's not

1 offset by ten percent of PJM's load going back, then
2 whatever the net difference on an annual basis is, ought to
3 be picked up by the PJM load. If it's just the opposite,
4 TVA goes through. The non-jurisdictional is going to be
5 harder but I think we can still work that out. But I just
6 think it ought to be pretty methodical and not too driven by
7 anything other than what is the proper -- if we try to do
8 those little cuts and fixes, I've been there in my last job,
9 it doesn't count anyway. You might sa well do the right
10 thing on day one, and then if we need three years to get
11 there, then I'm okay with three years. But it ought to be a
12 pretty direct trajectory to get those things fixed. If we
13 fix the money issues, I think all the rest of this gets
14 resolved real fast.

15 COMMISSIONER BREATHITT: And the money issues, I
16 think that's why this is the toughest part of the discussion
17 that we've been trying to think through for the last five
18 years. The transmission rates are on a cost-based system
19 and transmission rates are different all over the country
20 for different companies and how you normalize those or
21 equalize those over time is the toughest part. It's the
22 livelihood of the companies that we want to invest in new
23 transmission and it does have to be done very carefully.

24 CHAIRMAN WOOD: Do you think we could provide

1 guidance on that in this rule, in this SMD rule? That's

1 kind of one we were toying with. It's not at the heart of
2 what we were doing.

3 COMMISSIONER BREATHITT: I don't know. We need
4 to resolve this, but there needs to be a sufficient
5 transition period. I think that's one of the things the
6 states were trying to grapple with.

7 CHAIRMAN WOOD: The problem is, and I think Jim
8 pointed this out in his comment, it's not something that
9 MISO can come in with its filing and say here's the fix
10 because part of the fix is going to involve all his
11 neighbors and a few that aren't at the table here today who
12 are relying on the interconnected grid. And trust me, this
13 was so easy at Ercot, I just can tell you guys.

14 (Laughter.)

15 CHAIRMAN WOOD: We had our wall, it was high.

16 COMMISSIONER BROWNELL: Do we need to do it
17 sooner? I'd like to hear from these guys. What I heard
18 was, we've got to get this resolved sooner, or people won't
19 make the right decisions.

20 MR. TORGERSON: I think it needs to be resolved
21 pretty fast. I'm already hearing from transmission owners
22 and they say look, you've got this out rate and I can go on
23 the PJM. Why would I stay with you guys? Why would I stay
24 in the Midwest ISO if I can do that? So for us, it's an

1 issue, you know, getting an RTO up and running which we have

1 now but then making sure we've got consistency, and that we
2 have stability over time, which is going to help us with the
3 marketplace so I think we need to address it. I know in the
4 order you gave us on the SPP/MISO combination, you had in
5 there that we should address inter-RTO rates. We're
6 supposed to have something for November is the way I read
7 it, so we're already starting to look it. I think the
8 suggestions the Staff had, I think it's a good way to go.

9 Now there are a lot of issues that are going to
10 have to resolve with transmission owners and how to make
11 sure. They're going to be losing revenue, and how does that
12 get recaptured. But as long as we're talking about revenue
13 requirement and they recover their revenue requirement,
14 that's the guideline.

15 COMMISSIONER BREATHITT: Bill, I know you want
16 in. This is just a clarification question. You called it
17 the through-and-out rate. You called it the export rate.
18 Is that the same thing?

19 MR. TORGERSON: Yes.

20 COMMISSIONER BREATHITT: What do you call it in
21 your areas?

22 MR. HARRIS: We just call it the through-rate.

23 MR. MUSELER: The through-and-out rate.

24 (Laughter.)

1

CHAIRMAN WOOD: Standardization folks?

1 (Laughter.)

2 CHAIRMAN WOOD: You've got to crawl before you
3 can walk.

4 COMMISSIONER MASSEY: So you seem to be
5 suggesting that if this problem is solved quickly, if we
6 solved it today, it would influence the choices that
7 transmission owners are making about where they end up, and
8 we might end up with better choices; maybe not. But it
9 would definitely influence the choices.

10 MR. TORGERSON: I think it's an influencing
11 factor on the choices; it's not the only one.

12 COMMISSIONER MASSEY: No, it's not the only one
13 but it is significant.

14 CHAIRMAN WOOD: Do we want to do 206 today and
15 get this rolling?

16 COMMISSIONER BROWNELL: Sure.

17 COMMISSIONER MASSEY: You've got it in your hip
18 pocket, don't you?

19 CHAIRMAN WOOD: No, sir. I'm just thinking as we
20 go here.

21 COMMISSIONER BREATHITT: I can't commit to that
22 because I would want to talk to you all more.

23 CHAIRMAN WOOD: It would allow us to say that the
24 current rate practices as between one issue here is between

1 MISO and the PJM interconnection are unjust and unreasonable

1 and are not in the public interest, and for that reason need
2 to be relooked at and re-rationalized to kind of go
3 consistent with their move toward a common market. Two
4 independent organizations underneath a common market
5 umbrella. That's not exactly what I had in mind but I think
6 quite frankly, from talking to state commissioners up there,
7 if we focus like a laser on making that timeline both
8 punchier and shorter, and we get really the true marriage of
9 SPP, MISO and PJM to really happen. And they'll really be
10 empowered to make that market happen. That ain't what I
11 walked in here wanting to do, but I've gotten more
12 comfortable with that and the more detail I see on that, and
13 the more implemental timelines and the more involved we have
14 our staff SWAT team in the Midwest involved in that effort,
15 I can certainly get to that fix, but that fix is the
16 organizational issues. But the rate issues still are making
17 that a pretty unhappy family.

18

19

20

21

22

23

24

1 I would suggest, since we do have to wait for 60
2 days anyway, that we keep it open.

3 COMMISSIONER BREATHITT: My concern with that
4 would be if the transition period that you all addressed was
5 very critical. And the furthest out-date that I heard was
6 2005. If we opened up a 206 and didn't know how it was all
7 going to get worked out, and the transition takes us to
8 2005, I don't want to create uncertainty with respect to
9 rates.

10 There is so much uncertainty now with different
11 parts of the industry, that the merchant sector and single-
12 digit. I don't know, but I just would need to talk to Staff
13 and talk to you all to understand how that would work.

14 CHAIRMAN WOOD: It just seems to me that if this
15 is going to be the outcome of decisions that are coming
16 under the current rate design, and we know, both from these
17 folks and just about anybody that's been in my office in the
18 last two months, that the rate design issues are causing,
19 basically, transmission and energy market definitions to be
20 made on how your generation companies are going to be
21 benefit. That ain't right.

22 We've got to take that issue off the table, and
23 we do have the tool to do that. I'm not really suggesting
24 that our 206 would have to say "and here's the fix." But it

1 would start the clock rolling.

1 Let's do talk about it over the next couple of
2 days, and see if that's the best way to go forward.

3 COMMISSIONER BROWNELL: It also might create more
4 certainty, Linda, if what I heard from these folks and other
5 folks, certainly from the state commissioners, that I think
6 it might not be pretty getting there, but I think they would
7 like us to get there sooner, because they can't get there on
8 their own.

9 MR. LARCAMP: I just wanted to comment that the
10 Staff, in the context of the SMD project, has done quite a
11 bit of thinking about this. I just would want to look at
12 some options.

13 Certainly the rulemaking option affords greater
14 opportunity for continued dialogue with the state
15 commissions. But we've done a lot of thinking about the
16 rates issues.

17 There are some followon issues about once you
18 paid for it, how to get to use it in the future, that are
19 important issues in terms of the interface between those
20 systems, if you will.

21 We're looking at it in the context of
22 capacity/benefit margin, for example, and if you change the
23 pricing rules, how are you going to change the allocation of
24 that interface capacity for what traditionally has been

1 labeled a reliability issue, but, the more we look at it,

1 also has very clear economic issues associated with it as
2 well.

3 CHAIRMAN WOOD: Let's think about that,
4 internally, over the next few days and keep up. Anything
5 you wanted to follow up with on that rate issue?

6 (No response.)

7 CHAIRMAN WOOD: Gordon, back to your paper, and I
8 want to ask Phil, on page 3 of Gordon's paper, at the very
9 top there, I wanted to ask, actually, Jim. This says that
10 the ISO New England has already adopted the PJM market
11 design format, market rule description, and PJM operating
12 manual format. Where are New York and MISO?

13 Gordon indicated that ought to happen, but I just
14 wanted to know, has anything in that regard happened, as
15 between PJM and MISO in the discussions for the common
16 energy market?

17 MR. TORGESON: Yes. As far as the PJM market
18 rules, we have already acquired those, and we're working
19 with our stakeholder committee to go through their desires
20 versus what's in the PJM market rules.

21 Our view right now is that this is just Midwest
22 ISO without talking to the stakeholders, but that would make
23 more sense, to start implementing with that. With the PJM
24 market rules, we can get there faster.

1

Then we work differences over time. We're also,

1 as Phil said -- we have an IT plan, so we're integrating
2 this directly where we'll use the same software. We'll work
3 on the hardware, so we're not spending money developing our
4 own thing and then coming to a common market.

5 It will be a common market quicker that way, so
6 we're using --

7 CHAIRMAN WOOD: So you all are actually doing
8 what Gordon has recommended be done, anyway?

9 MR. TORGESON: That's where we're headed right
10 now, yes.

11 CHAIRMAN WOOD: So in your discussions, Gordon
12 and Bill, up at NPCC, are you all basically doing the
13 equivalent thing of taking the PJM design and New York and
14 you all are going together on the timeline here? Is that
15 really happening as well?

16 MR. MUSELER: I think the short answer is yes.
17 The SMD 2.0 in New York, I differentiate the rules that are
18 different now between PJM and New England and New York, from
19 the SMD rules. The rules, in English, are going to be the
20 same.

21 Now, the translation of those rules, which I
22 think is the point Gordon was making, into language that
23 will ensure that the application of those rules is the same,
24 the format and the protocols that people use, that's what's

1 different between New York, PJM, and New England now.

1 As we move forward to implement this SMD 2.0, we
2 have to change from the definitional format protocol-type
3 language we have now, and adopt the same kind of language,
4 so that the software specifications that come out of that
5 that will define the standard market design, whether it goes
6 to ABB, or whatever, should get the same results.

7 So the answer is, as we move forward and put SMD
8 2.0 in place, we're going to work with Gordon and Phil to
9 make sure we're using the same definitions and formats and
10 protocols so that the market participants can expect to see
11 the same market outcomes, no matter whose software is being
12 used.

13 CHAIRMAN WOOD: Back to where we started, which
14 is this purple timeline here, which is one of the things we
15 wanted to talk about today, talk to me about how this
16 document actually was created.

17 MR. MUSELER: We started in New York putting this
18 together. We worked with New England and with PJM at the
19 staff level to make sure we had all the items identified and
20 scheduled, and then it was circulated among all three ISOs,
21 and we agreed that this is what we would present.

22 CHAIRMAN WOOD: So that was your response to the
23 requests? I got a letter from the Hydro Quebec people.
24 They are concerned.

1

I think their issue may well be on here as Item

1 28. I could be corrected on that.

2 I would like to have our colleagues at the state
3 commissions and the stakeholders in the three regions that
4 have to deal with these seams issues today, basically concur
5 or make additions or deletions to this thing, so that we've
6 got a kind of actionable document where we could kind of
7 check them off as we get them done, and know kind of where
8 FERC could be helpful or not, and kind of plan our schedule
9 on getting these things done.

10 While the main thing, as Phil says, is going on,
11 on it's bigger track, the grunt work has got to go on at the
12 same time. It's fun to talk about the glorious things that
13 will be, but we do have some things on the ground right now
14 that need resolved. So I would be interested in having some
15 input from our colleagues at the states, and from the
16 stakeholders in the regions to say, yes, we agree with this
17 list, or, gosh, my issue is not on here; it should be.

18 And then kind of have a little bit more dialogue
19 around that. I'm not sure of the best format. I'm looking
20 at Dan for any suggestions to make that happen, but it would
21 be, for me, a useful document that I could just pin on the
22 wall and watch them every week and check them off.

23 MR. LARCAMP: I'd suggest that in terms of a
24 regional panel, that our folks in State Relations have been

1 doing that. Perhaps we could send a letter and e-mail,

1 because we do most of our business with them over the
2 Internet, that we could send a letter out, put a notice, a
3 reflection of that in those docket numbers, so that
4 everything is okay, and pick a reasonable date for them to
5 come back with their comments.

6 I assume that if they don't comment, the
7 Commission will assume that silence is acquiescence, but to
8 basically have our State Relations people working with OGC
9 to get the correct docket numbers on there, and send a list
10 out there, and basically say pick a date for the comments to
11 come in. And then we can collate those for the Commission
12 and see where we're at.

13 CHAIRMAN WOOD: It would be nice to actually push
14 that back to these guys and say you've got active
15 stakeholder processes now. I'd like to see us do our stuff
16 through the states and make this publicly available to
17 interested parties.

18 But you all plow this back through the
19 stakeholder process that you've got going at the three ISOs,
20 and see what they come up with. You all respond to that and
21 maybe give us a fixed answer, so we knock one iteration out
22 of that and then get something back up here at this time
23 next month, so we have got an action plan for the next 18
24 months to really wrap out what are additive today as the

1 seams issues.

1 I guess that at the end of the day, SMD is going
2 to do a lot, but it only goes so far. There are still --
3 standardization is good, but there is still going to be the
4 need, barring a miracle outcome, of some coordination. It
5 may be coordination between fewer than four of you, probably
6 more than four of you, as in the Southeast, and TVA and all
7 that get involved.

8 So the coordination issues will never go away,
9 unless there is one Eastern Interconnect, single
10 organization, which I'm not going to sit around and wait
11 for.

12 We've got to get good at the coordination game,
13 as we're getting hopefully better at the standardization
14 game. I want to say, for me, I'm pleased at the progress
15 you all have made.

16 Clearly it's a lot further than it was this time
17 51 weeks ago when we met to talk about the seams issues on
18 my second day on the job, second real public day on the job.
19 As we see these things coming through in piecemeal Orders
20 that we have to approve, it does, I have to confess, lose a
21 little bit of the vision thing.

22 I think the need to kind of put into context,
23 what we're doing here is ironing the seams so that they
24 don't disrupt business across those seam. To the extent we

1 have, this helps; this helps me a lot, and I would like to

1 make this a standard fixture with driving the coordination
2 game, because you all are independent agencies that
3 basically answer to us, and we're the one that has to pull
4 the two together, as we would on the rate issues or any
5 other type of issues.

6 I know it's in your best interest to solve those,
7 to make your stakeholders happy. On their behalf, I thank
8 you, but we do have, I think, a more active role to play
9 than we've played in the past on managing this process, and
10 we will do so.

11 Any other thoughts on the other seams? Phil,
12 you're kind of the swing guy. You've got these issues, and
13 you've got these issues as well.

14 MR. HARRIS: Mr. Chairman, I want to thank you
15 for the opportunity, I think, for all of us, for being here.
16 We think the model that you set up, even last year, talking
17 about having the CEOs come in and be accountable and answer,
18 is a good way to proceed.

19 And we want to be able to fulfill your needs and
20 to be able to move forward. We will take this quite
21 seriously, to deal with these issues.

22 I did want to correct one thing that my friend
23 was talking about here with the joint and common market.
24 It's very, very important that that be understood for what

1 it is. It really is a new thing.

1 We really believe in the power of computers,
2 technology, and information to enable us to solve problems
3 like they have never been solved before. The market that
4 Jim and I envision and that we're working towards, really is
5 a single database driven in a most efficient way.

6 We're having discussions. We're on the Oasis and
7 doing all the billing for all of us. We're going to find
8 efficiencies and economies, and use the power of information
9 technology to make this happen.

10 And because it's new, we're able to do this, and
11 grow together. Back to Bill's question: Certainly if TVA
12 or CTRANS or Grid South want to participate, we'd be happy
13 to meet with them and share with them, what we're doing.

14 It's ultimately their decision as to how they
15 want to grow and develop, but it's much easier to do it.
16 New England, New York, and IEMO do have a lot of equipment
17 installed and done.

18 That's a different transition path. But for
19 those that are starting, I think that Jim would agree with
20 me that we'd be more than happy to sit down with them and
21 share how we're trying to pull the information technologies
22 together in a way that really, truly, does eliminate a lot
23 of the issues that you get from the jurisdictional entities
24 being involved.

1

COMMISSIONER MASSEY: Are you talking about a

1 single security constraint dispatch for PJM and MISO
2 together?

3 MR. HARRIS: That's correct.

4 MR. TORGESON: I concur with Phil that we will
5 talk to the others.

6 COMMISSIONER BROWNELL: I'd like to build in a
7 recommendation, Jim, that you made, and I think some success
8 that we did have in discussions in MISO-Alliance. I think
9 it is important that we have staff involved, perhaps as we
10 evolved, in some kind of mini-committee that looks at what's
11 happening, to make sure you all are in parallel paths.

12 In the interim, though, I know that you welcomed
13 Don Larcamp in his non-decisional role into discussions
14 within MISO, and I would encourage -- and I think my
15 colleagues would agree that ultimately we are responsible,
16 so it's important that you include Staff when they ask to be
17 included

18 MR. TORGESON: I couldn't agree more, and I have
19 to say that I have to thank Dan Larcamp and Chris Miller.
20 They have provided a great deal of help to us with our
21 discussions with Alliance, so I can't thank them enough.

22 COMMISSIONER MASSEY: I have one more question:
23 Phil, I think I saw in the trade press, a press release from
24 you within the past couple of months, that you and the

1 Alston Company conducted a dispatch, a single-security-

1 constraint dispatch for, I think it was 330,000 megawatts;
2 is that right? Can you talk about how that went? Was the
3 technology there? Was the software there to make that work?

4 4

5 MR. HARRIS: That was extraordinarily
6 interesting, because we ran at least across security
7 dispatch constraint with a huge number of buses, several
8 thousand generating units. It actually closed in 77 minutes
9 to a solution, which is certainly a fast enough solution to
10 run a two-day market.

11 The intriguing thing about that is, that was
12 based on an 800 megahertz PC. You can go down now to a
13 store and buy a 2,000 megahertz PC to run these things.

14 We are entering an era when the power and speed
15 of processors enable us to solve these algorithms like we've
16 never seen before. We're also pleased -- you might have
17 missed this announcement where we had an outside company,
18 like Gordon was talking about, that came in with a new type
19 of mathematical algorithm to enable you to deal with FTR
20 options.

21 This is something that the industry has been
22 wanting to take FTRs to the next level. The problem was
23 that you couldn't provide the solution to the FTRs on a
24 timely basis. We're actually beta-testing that right now,

1 running it in parallel and real-life systems to see if the

1 math really does hold.

2 So far, everything we've seen, the new integer
3 algorithms they have created really do allow us to do this,
4 so we can provide more of the derivative products to FTRs
5 that the market community has been wanting to make a more
6 robust product. So there is a wonderful future as these
7 things start coming out and people are getting involved with
8 them.

9 9

10 10

11 11

12 12

13 13

14 14

15 15

16 16

17 17

18 18

19 19

20 20

21 21

22 22

23 23

24 24

1

25

1 CHAIRMAN WOOD: A couple of follow-ups here. In
2 regard to the issues that Gordon raised on process, I would
3 like to recommend that our SMD staff take a look at that, at
4 those suggestions, and if there are any parties outside who
5 are interested in commenting on that. But certainly seems
6 to have some good process methods as to how this thing is
7 governed on a going-forward basis to maintain the
8 standardization and establish it.

9 So I appreciate good thoughts on that, Gordon,
10 and would encourage that we look at that in the SMD
11 rulemaking process on the procedures part of that deal.
12 We've already talked about the seams issues in the
13 Northeast. We haven't really gotten I think -- we've also
14 talked about potential issues on how we might want to
15 address the rate considerations.

16 While we're doing timelines, we get a nice I
17 think every three weeks or so from Nick and from Jim and
18 from Phil the update on the timetable there. I'd also like
19 to drill down to more detail and see what you all have got
20 there as far as what action lines are needed to make that
21 really happen. More of your charts I guess than the glossy
22 colored ones, which I like. Don't get me wrong. But we
23 want to be right there on the ground watching this process
24 and do what we can to facilitate it.

1

It's clearly to me a responsibility that

1 basically what I'm calling it is a virtual RTO. You're kind
2 of going a bit in the info world, but as Phil characterized
3 it, that's okay. I mean, virtual will get you there like a
4 real does, and I'm slow in getting there, but I'd like to
5 see what the actual physical steps that have to be taken are
6 and put that on my wall too and just check them off as we go
7 past them. Because that's real critical to getting me more
8 comfortable with that.

9 I don't want to put you guys on the spot, but you
10 all have to manage a market that even with the topography, I
11 look at one yellow company that is only interconnected at
12 high voltage to some blue companies, and I've got to say
13 that even the topography here is a little disturbing. I
14 would I guess like to hear from the Alliance folks at our
15 next open meeting, and probably want to invite all the
16 different companies and National Grid, have their
17 businesspeople, CEOs or decisionmakers and see if we can
18 work Phil and Jim, one of your senior folks back in as
19 well, to really talk through how we need to resolve this
20 seam.

21 I think even with the virtual market going
22 together in three years, and assuming we can get some fix on
23 the rate issue, we've still got what to me, and Nora, you
24 put it well, the two things we know about markets and

1 reliability. The reliability stuff of how to dispatch a

1 market there.

2 The point of our agenda is to create efficiencies
3 that result in savings to customers, bottom line. And if
4 all we're doing here is reslicing the pie in a manner that
5 still requires so much workaround on a manual basis, that we
6 really haven't garnered much of the reliability efficiencies
7 there.

8 I'm all for getting to the common info and common
9 energy market, but I want to make sure that the underlying
10 bread and butter of what this is all about still works too.
11 So I'd like to have all those folks come back in the same
12 format as we've got y'all here to talk about the nature of
13 that boundary. Topographically, it's not as ugly, but it
14 isn't anybody I'd want to go out and dance with.

15 (Laughter.)

16 CHAIRMAN WOOD: We need to talk about that with
17 the relevant parties.

18 COMMISSIONER MASSEY: I agree with that. I think
19 Jim Torgerson raised some interesting points about
20 reliability and other issues that may or may not be resolved
21 fully by the standard market design. My question is, if we
22 have RTOs that have more rational shapes, whatever
23 "rational" means, do we eliminate some seams by that? Do we
24 make seams resolution easier if the RTOs are shaped better?

1 So I'd like to hear some discussion on that point maybe next

1 week or maybe now. What do you want to do, Mr. Chairman?

2 CHAIRMAN WOOD: We've had these guys up here.

3 Why don't y'all think about it for two weeks and we'll see

4 where the parties are? I will say it would be real helpful.

5 they're not all here, but I think their folks are, if in two

6 weeks all the issues regarding the Brownian motion about

7 where we're going to move to are resolved, and are resolved

8 smartly in a way that has a topographical map of the

9 electric grid look good from what I call a NERC perspective.

10 That it's manageable, reliable. There are going to be loop

11 flows anywhere you go within the interconnection, but where

12 those get minimized, and all the things we wanted in Order

13 2000 get done.

14 I am holding on tenuously to the voluntary nature

15 of 2000. It gets harder every day. We do have other

16 provisions in the law like 202(a) that look a lot different,

17 but Linda has talked me out of them. But I'm one day going

18 to have to renege if this is just another year of treading

19 water. I ain't signed up for that. We've got markets to

20 put together and put all this jazz behind us.

21 So I think you folks as the professionals that I

22 am depending on to make this all work, I value your

23 opinions, but I also know we've got a bigger charge than

24 just worrying about preserving the voluntary nature of good

1 rulemaking that this Commission laid out in a visionary

1 manner a couple of years ago.

2 So I hope we can in two weeks have smart closure
3 that can be a real short meeting. But I'll bring a pup tent
4 and we'll talk through this with everybody until we figure
5 out how to get the seams out.

6 COMMISSIONER BROWNELL: Can I just ask a couple
7 of follow-up points? In two weeks you would like to invite
8 the CEOs who are still dancing to come in and describe to us
9 how their choices meet the natural markets and reliability
10 issues in a way that satisfies our obligation and also to
11 address the very specific questions I think that Bill raised
12 and Jim identified in terms of reliability, congestion
13 management and other things? And then in four weeks have
14 back a document that then going forward is the working
15 document?

16 CHAIRMAN WOOD: Both growing together, both the
17 Northeast seams and then the PJM, SPP, MISO seams. The
18 timeline document.

19 COMMISSIONER BROWNELL: I would add we need to
20 consider two things. Someone raised arbitration. I think
21 if dates start to slip on this, having been through a
22 telephone 271 proceeding, you know how that works, we may
23 want to consider some mandatory arbitration.

24 I also think in terms of market power, we need to

1 consider, if it's going to take 18 months, two years or

1 three years for a company to be fully integrated into an
2 RTO, we may not want to give a full pass on SMA simply by
3 signaling our intention because they're still going to be
4 out there for some period of time. So I think we need to
5 look at that and maybe refine our thinking about when you
6 get the pass.

7 CHAIRMAN WOOD: I think the pass ought to be
8 whether it actually works, and I think, Bill, you were
9 articulate on this in October when we talked about this to
10 protect the customer now.

11 So I recognize we do have a lot on the plate
12 today, but that one is not off the burner. It's just put
13 til after the Labor Day, and we'll hopefully get that and
14 think it through.

15 COMMISSIONER BREATHITT: Pat, I have one quick
16 question that I picked up. Phil, did you say you don't do
17 tagging in PJM?

18 MR. HARRIS: Only for tags that go outside PJM.
19 When you internalize you operate in a network and tags are
20 meaningless.

21 COMMISSIONER BREATHITT: Isn't that a NERC
22 requirement?

23 MR. HARRIS: If we go outside the region, we put
24 a tag, but not internal to the region. You're operating as

1 a single integrated network with free-flowing ties.

1 COMMISSIONER BREATHITT: You do tagging, but just
2 for outside?

3 MR. HARRIS: But not internally. That's the
4 value of having a large internal market. You don't need all
5 the periphery with it.

6 MR. LARCAMP: Could I ask just one clarification
7 in terms of the Midwest? They will be here I'm sure, but
8 are we inviting National Grid?

9 CHAIRMAN WOOD: I did say them.

10 MR. LARCAMP: And the second is that there is one
11 of the Alliance, Dominion, who has not yet committed on
12 their dance card. Do you want them also?

13 CHAIRMAN WOOD: AEP, Com Ed, Illinois Power,
14 First Energy, Amiant, Dayton, NEPSCOM, Dominion and
15 National Grid would be the invitees. I understand Dominion
16 is having a listening session with its stakeholders tomorrow
17 and they'll have to leave down there.

18 MS. GRANSEE: Just a process note of
19 clarification. Commissioner Brownell had mentioned two
20 weeks. In two weeks the first meeting in July will be three
21 weeks.*(check)

22 COMMISSIONER BROWNELL: If everyone's ready, we
23 could have a special meeting. This is pretty important.
24 Fourth of July even.

1

CHAIRMAN WOOD: Hey, hey, hey.

1 (Laughter.)

2 MS. GRANSEE: We could have a party celebration.

3 COMMISSIONER MASSEY: We need an extra week to
4 get the salsa dance band here.

5 (Laughter.)

6 CHAIRMAN WOOD: No dancing. We're going to sit
7 down, play musical chairs and call it a day.

8 I appreciate you gentleman's time. I know you've
9 got busy demands in the summer. I appreciate your being
10 down here today.

11 Meeting adjourned.

12 (Whereupon, on Wednesday, June 12, 2002 at 12:40
13 p.m., the meeting was adjourned.)

14

15

16

17

18

19

20

21

22

23

24

