

## **February 2005 Report to Western Governors**

### **The Western Interconnection: Unfinished Business**

#### **FINDINGS**

The West's ability to ensure adequate and affordable supplies of electricity would be significantly improved with better information and greater regional coordination regarding the following important functions:

- Assessment of the adequacy of resources to meet the demand for electricity;
- Planning and expansion of the electric transmission system in a timely and cost-effective manner;
- Enforcement of regional electric reliability standards;
- Monitoring of wholesale power markets to prevent abuses and assure commercial efficiency; and
- Development of consistent commercial practices in wholesale power markets.

The Western states hold the ultimate authority and responsibility to ensure an affordable and reliable supply of electricity for their citizens. The ability of the Western states collectively to fulfill this responsibility depends on effective industry institutions to carry out the above-listed important regional functions. The development and operation of such regional institutions will require the active participation of states and provinces in the development of solutions to the region's power needs.

Western Governors can play a vital role in ensuring the conduct of these important regional functions by:

- Using their 'bully pulpit' to advocate actions by Western industry participants to develop and operate institutions that will ensure the region's ability to provide reliable and affordable electric power. Western Governors may want to consider adopting guidelines upon which they can gauge the progress toward developing effective industry organizations to address interconnection-wide reliability and commercial issues. (See following page for potential guidelines.)
- Agreeing on a plan to pay for enhancing the capabilities of the states and provinces to be partners in resolving regional reliability and commercial issues in the Western Interconnection.

Gubernatorial leadership will provide much-needed impetus for the diverse segments of the electric power industry and state and provincial energy and regulatory agencies to resolve the challenges necessary to ensure adequate, reliable and affordable power supplies to the region.

***Potential Guidelines to Evaluate Western Interconnection-wide  
Electric Industry Organizations***

1. An interconnection-wide organization or organizations should be supported by all participants in the Western power industry and should be capable of developing or coordinating solutions on an ongoing basis to the issues of:
  - a. *Resource adequacy* – Whether the region, under normal and extreme weather conditions, will have in place sufficient generation and demand response resources<sup>1</sup> to meet electricity demand, sufficient transmission to move generation to load, sufficient natural gas resources and infrastructure to fuel natural gas power plants, and sufficient energy and infrastructure to avoid scarcity, high prices, and the ability of market participants to exercise market power.
  - b. *Transmission planning and expansion* – Whether the region has sufficient transmission in the right location to tap diverse and lower cost sources of energy to generate electricity and maintain reliability.
  - c. *Grid reliability* – Whether the region has in place and is ensuring compliance with cost-effective interconnection-wide reliability standards.
  - d. *Market monitoring* – Whether the region, in conjunction with the Federal Energy Regulatory Commission, has in place mechanisms to prevent market abuses and assure commercial efficiency in the wholesale electricity market; and
  - e. *Efficient commercial practices* – Whether there are in place common commercial practices that enable wholesale power markets to operate efficiently.
2. The operation of such an organization(s) should be transparent, including its analysis and decision-making processes.
3. The decisions of such an organization(s) are imbued with the public interest and therefore states and provinces in the Western Interconnection, which are most suited to articulate the public interest, should be full participants.
4. The activities of the organization(s) must not be controlled by a few market participants either through dominance in the formal decision-making structure or through the exercise of budget vetoes of needed activities.

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<sup>1</sup> In this context, demand response resources include energy efficiency and conservation programs.

## **BACKGROUND**

### **I. Introduction**

The Western Governors directed staff of the Western Governors' Association (WGA), in consultation with the Committee on Regional Electric Power Cooperation (CREPC)<sup>2</sup>, to monitor and report to the Governors on the status of the Western electric power industry's capacity and institutions to address outstanding regional electricity issues.<sup>3</sup>

This report finds that the Western Interconnection does not today have in place effective industry institutions to adequately address regional reliability and commercial issues. To achieve their goal of reliable and affordable electric power in the western United States, the Governors should advocate for more effective regional industry institutions.

If the West does not adopt effective regional institutions, critical decisions about the future of the region will continue to be fragmented among the Federal Energy Regulatory Commission (FERC) and many parties outside FERC's jurisdiction, including federal power marketing administrations, rural cooperatives, municipal utilities, Alberta, British Columbia and Mexico. FERC has acknowledged that it does not have the capability to plan the transmission system, effectively monitor all electricity markets, develop and administer technical reliability rules, or unilaterally implement sound resource adequacy standards. Further, it is not in the interest of the West to allow regulatory decisions vital to the economy of the region to default to the federal government's judgment.

### **II. Western Governors**

In December 2002, the Western Governors directed an exploration of expanding the states' capability to deal with regional electric power issues. In late 2003 and early 2004, the Committee on Regional Electric Power Cooperation undertook an evaluation in five areas: (1) reliability; (2) resource adequacy; (3) market monitoring; (4) transmission planning and expansion; and (5) transmission permitting. CREPC found that "at this time, the West does not need the formality of an interstate compact, nor is there a need to transfer any state-level authority to a regional body. However, there is an urgent need to enhance the regional electricity function." At the June WGA business meeting in Santa Fe, Western Governors accepted recommendations for enhancing the capabilities of

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<sup>2</sup> CREPC is a joint committee of the Western Interstate Energy Board and the Western Conference of Public Service Commissioners. The public utility commissions, energy agencies, and facility siting agencies in the Western Interconnection are eligible to participate in CREPC. The Western Interstate Energy Board provides staff support to CREPC.

<sup>3</sup> The directions from Western Governors came in a motion adopted at the WGA business meeting in San Diego on December 3, 2004.

states and provinces in the Western Interconnection to address regional electric power issues.

On December 3, 2004, Western Governors adopted the following motion at the WGA meeting in San Diego.

“To ensure adequate and affordable supplies of electricity, Western Governors believe the region must develop and sustain the capability to address and resolve regional electric power issues on its own. This requires ensuring that states and provinces in the Western Interconnection have the capability to help shape solutions appropriate to the region. It also means that the Western electric power industry needs to have in place effective institutions to address both reliability and commercial regional electric power issues. We direct the WGA staff, in consultation with the Western Interstate Energy Board’s Committee on Regional Electric Power Cooperation, to monitor the status of the Western electric power industry’s capacity to address regional electricity issues. We further direct the WGA staff report to the Governors prior to their March 1 meeting.”

In response to this motion, WGA staff prepared this report in consultation with CREPC. The assessment is based on the following assumptions about the electric power system in the Western Interconnection:

- The Western Interconnection is a highly integrated electric power system;
- Enforceable regional reliability standards are essential to keep the integrated electricity system from cascading outages;
- Wholesale power markets can produce lower costs for consumers only if they are efficient, transparent, diverse, and free of manipulation;
- There remains a large reservoir of goodwill in the industry to work toward a reliable electric power system that allows for efficient power sales;
- Electricity service is vital to the health of westerners and the western economy;
- Evaluating the adequacy of resources to meet demand promotes market efficiency and informs decision-making by regulatory bodies; and
- Decisions on the operation and expansion of the regional electric power system are imbued with the public interest.

### **III. The Current Regional Institutional Landscape**

There are two very different institutions in the Western Interconnection that perform key functions across the entire interconnection: the Western Electricity Coordinating Council (WECC) and the Seams Steering Group-Western Interconnection (SSG-WI).

## **A. WECC and Reliability Functions**

WECC is a voluntary, non-profit corporation whose primary task is to develop and enforce regional reliability standards for the operation of the grid in the Western Interconnection. Western Governors supported the creation of WECC in 2002.<sup>4</sup> States and provinces are members of WECC and hold four of 27 seats on the WECC Board of Directors. Although state and province representatives may participate in WECC Member Committee meetings, where much of the technical and policy work is done, they are unable to do so because of a lack of resources.

WECC has a \$13 million annual budget collected from voluntary dues paid for by its 34 control areas. Control areas pass the cost of dues on to electricity users. In recent years WECC enjoyed a surplus of funds collected as a result of budgets that regularly funded more work than the organization could perform in a given year. That budget practice has been revised and the surplus is now gone, and control areas are reluctant to raise dues sufficiently to allow the organization to pursue priority activities. For example, WECC does not have adequate funds in its 2005 budget to maintain a public database<sup>5</sup> that is needed for transmission planning and resource adequacy assessments – two items requested by Western Governors.

In the past, three large control areas, the California ISO, Bonneville Power Administration and PacifiCorp, have expressed displeasure with WECC's operation in several areas, noting that WECC is funded by voluntary dues. The implied threat that they might withdraw financial support has served to limit WECC's ability to perform important functions.

WECC does a good job of developing and enforcing essential operating criteria for the Western grid. On the other hand, WECC has only just begun to focus on and has encountered difficulties in developing resource adequacy assessments and criteria that are sufficiently robust and transparent to enable policy-makers to make informed decisions that will ensure the adequacy of the regional electric power system and associated fuel infrastructure. Budget concerns at WECC may delay the organization's ability to support the database that is necessary for transmission planning and expansion analyses. WECC is also laboring with diminishing voluntary support from companies. The implications for each respective function are assessed below.

### **1. Reliability Standards**

The major Western blackouts of 1996 led to the creation of WECC's Reliability Management System (RMS). Under the RMS, control areas voluntarily sign contracts that make them subject to financial penalties if they fail to comply with WECC-developed regional reliability operating standards. Eight of the 34 control areas in the

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<sup>4</sup> See April 18, 2002 [letter](#) to WECC from the WGA Chair, Vice-Chair and lead governors for energy.

<sup>5</sup> WECC presently holds data necessary to improve transmission planning. However, that data is confidential. Publicly-available data that can be used by regulatory agencies is essential to transparent planning and analyses.

Western Interconnection have not signed RMS contracts.<sup>6</sup> Significant goodwill and peer pressure within the industry, however, encourage compliance. The effectiveness of peer pressure is limited by WECC's policy of keeping the names of violators of standards confidential (except that a state public utility commission may ask for the names of violators in their state). Here, again, the fact that WECC, in the absence of federal reliability legislation, must rely on voluntary execution of contracts and voluntary submission of information by those who have not signed the RMS contract limits its ability to enforce reliability standards.

The WECC Reliability Management System was designed to be a stopgap measure until Congress enacted reliability legislation that provides a legal backstop for enforceable reliability standards. Western Governors and the Western industry have been lobbying for such federal legislation for four years. In WGA Resolution [03-27](#) Western Governors asked WECC to develop a plan to implement such legislation. On October 20, 2003, the resolution was [communicated](#) to WECC by the WGA Chairman. That effort is on hold because of Congressional inaction.

## **2. Resource Adequacy<sup>7</sup>**

In 2000, WECC suspended its power supply design criteria that had traditionally been used to ensure sufficient resources to address the adequacy element of system reliability. WECC assumed that this function would be addressed by market forces under a restructured industry with RTOs. In 2003, the WECC Board set a goal of establishing resource adequacy criteria. This goal was re-affirmed at the end of 2004. WECC produces a Power Supply Assessment that does not represent all of the elements needed to evaluate resource adequacy. Consequently, there are significant limitations in the Power Supply Assessment, including:

- Control area load forecasts lack transparency because confidentiality restrictions over data prevent all parties, including states, from replicating the analysis.
- Limited WECC staff auditing of company compliance with instructions on load and resource data submitted to WECC.

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<sup>6</sup> The control areas that have not signed RMS agreements are CFE, Portland General Electric, Avista, Chelan PUD, Douglas PUD, Grant County PUD, Seattle City Light, and Tacoma Power.

<sup>7</sup> In WGA Resolution [03-19](#), the Governors requested that "...the Committee on Regional Electric Power Cooperation, the Western Electricity Coordinating Council, and the Seam Steering Group-Western Interconnection assist in the development of a comprehensive assessment of whether there will be sufficient generation and demand response resources to meet electricity demand, sufficient transmission to move generation to load, sufficient natural gas resources and infrastructure to fuel natural gas power plants, and sufficient energy and infrastructure to avoid extreme scarcity, high prices, and the ability of market participants to exercise market power. Such analyses should assume normal and abnormal weather conditions, including drought and extreme temperatures. Such analysis will be valuable to both policy makers and market participants."

- The aggregation of results into six large regions<sup>8</sup> in the Western Interconnection provides insufficient detail to be useful for state/provincial decision-makers regarding resource acquisition decisions.
- The PSA analysis is limited to a comparison of peak demand and peak generating capability (and associated transmission constraints). At present there is no energy assessment that would better reflect resource adequacy problems associated with drought and limits on hydroelectric generation and air emission limits on thermal power plants.
- There is no cross-walk between the load and resource data submitted to WECC and the data submitted to public utility commissions as part of integrated utility resource plans.

### **3. Information Management**

The WGA Energy Roadmap Resolution (03-19) highlighted the need for better information on the Western electric power system.<sup>9</sup> In some cases, the WECC Board has decided that it is an appropriate function for the organization to serve as an information repository for Western electricity analyses.<sup>10</sup> The WECC Board, however, responding to WECC staff fears that release of this information could cause WECC's members to withhold the information from WECC's staff, has approved restrictive confidential information procedures that block access to much of the disaggregated information it collects, such as load forecasts, thereby severely limiting the utility of the WECC information in regional analyses. Reliance on confidential information means the analyses are not verifiable and of limited use to states and provinces in making transmission and generation resource acquisition decisions. WECC has also been unable to raise funds in 2005 to assume the maintenance of SSG-WI's public database for transmission planning or release confidential data (e.g., load forecasts) that are contained in existing WECC databases.

#### **B. Seams Steering Group-Western Interconnection (SSG-WI) and Commercial Functions**

SSG-WI was organized in 2001 as a coordinating body to address commercial issues at the boundaries between proposed Regional Transmission Organizations (RTOs) in the West. SSG-WI is an ad hoc group that has no legal status. It exists at the initiative

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<sup>8</sup> For example, the Northwest region includes Washington, Oregon, Idaho, Montana, Utah, and northern Nevada.

<sup>9</sup> Excerpt from WGA Energy Roadmap Resolution wherein Governors:  
 “k) Encourage the creation of a centralized grid-wide database that tracks prospective demand, and tracks generation and transmission facilities under construction, whether they are permitted, in the permitting process, or under consideration.

l) Support efforts to ensure the availability of information on loads, transmission, and generation where necessary for ensuring the adequacy, efficiency and reliability of the grid.”

<sup>10</sup> For example, WECC has agreed to be the home for the self-financing Western Renewable Energy Generation Information System (WREGIS).

of the participants and has no way to fund its activities other than through voluntary contributions of time and money. The future near-term development of RTOs and the continued existence of SSG-WI are in doubt. The Western industry has long been divided on the respective roles of WECC and SSG-WI, a division of opinion that continues to hamper progress in addressing regional electric power issues.

SSG-WI is governed by a Steering Committee comprised of representatives of the California Independent System Operator and the filing utilities of the proposed Grid West and WestConnect RTOs. SSG-WI has work groups that are open to all participants and where transparency is emphasized. States have been particularly active in the transmission planning and market monitoring work groups. In response to the Governors' request in 2001, SSG-WI developed an interconnection-wide pro-active transmission planning process that produced a report in 2003 and SSG-WI is hoping to produce a report on transmission needed in a "realistic" generation scenario in 2005.

Commercial issues include transmission planning and expansion, market monitoring, and protocols for power sales. SSG-WI's fragile institutional structure and inadequate funding imposes critical limits on its ability to address these commercial issues. SSG-WI has no staff and relies on voluntary contributions from the California ISO and WestConnect and GridWest "filing utilities" to hire consultants that coordinate the work of volunteers from companies and the states and provinces. All SSG-WI Steering Committee decisions must be ratified by the California ISO and the filing utilities, thereby enabling any of the parties to block proposals. The California ISO and WestConnect filing utilities have been particularly reticent in providing financial support for some of SSG-WI's activities. Some have suggested that this reticence is due to those organizations desiring WECC to assume greater responsibilities, something several Grid West filing utilities do not want to see happen. Discussed below are three important commercial functions that need to be conducted.

## **1. Transmission Planning and Expansion**

In 2001, WGA launched a new era in pro-active, stakeholder-driven transmission planning. At the Governors' request<sup>11</sup>, SSG-WI continued the effort and produced an interconnection-wide transmission report in 2003. Equally important, SSG-WI developed a database of public information that is used to model transmission needs. The use of publicly-available data is necessary for the planning results to be used in regulatory proceedings. Two sub-regional transmission planning efforts, Southwest Transmission Expansion Plan (STEP) and the Rocky Mountain Area Transmission Study (RMATS) use the same database. This database, which is housed at PacifiCorp, was to be transferred and managed by WECC beginning in 2004. However, WECC has decided it does not have funds to undertake this task in 2005. Thus, in 2005 the region will again have to rely on the voluntary contribution of a few companies to maintain and update the database for transmission planning in the West. Reliance on voluntary help for core regional electricity functions, such as transmission planning, is not a sustainable practice.

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<sup>11</sup> In WGA Resolution 03-19, the Governors "urge the industry, states, provinces to implement immediately a pro-active Western Interconnection transmission planning process."

Most sub-regional transmission planning efforts in the Western Interconnection are ad hoc with no institutional home. This is true of STEP, RMATS, and the Southwest Area Transmission study (and its predecessor, the Central Arizona Transmission Study). The Northwest Transmission Assessment Committee is housed at the Northwest Power Pool, but like other transmission planning efforts in the West relies on volunteers to do the study. Each of these efforts has broken new ground. For example, STEP experimented with new tools to address the value of transmission in mitigating market power. RMATS, launched by Governors Freudenthal and Leavitt, set new standards for stakeholder involvement, expanded the analysis to transmission financing, and addressed ways to use the existing grid more efficiently. NTAC is integrating into its analysis transmission proposals in Western Canada. SWAT is studying transmission to meet New Mexico's objective of moving significant wind generation west. These ad hoc approaches to transmission planning may not be sustainable because of the weak institutional structure and inadequate funding.

## **2. Market Monitoring**

The West lacks an entity that performs effective market monitoring function across the entire Western Interconnection. Currently, the California ISO and FERC pursue some limited market monitoring tasks. The California ISO does not have the mandate or ability to acquire information to understand the entire western electrical market. Key constraints on the California ISO include the inability to access timely information on bi-lateral power deals in other parts of the Western Interconnection, and difficulty in monitoring bi-lateral power deals within California.

Although FERC improved its market monitoring capability since the Western electricity crisis of 2000-2001, it still does not have the resources to evaluate the mass of market transaction information in the West and the rest of the U.S. FERC has been encouraging the development of a West-wide market monitor to take on some of that work. Sources of information to ensure that states understand in a timely manner what is going on the Western electricity market is limited to trade publications, FERC information, and contacts with local utilities. States have additional authorities to investigate market abuses, but only after the fact.

One of the five primary areas of activity by SSG-WI has been the development of a West-wide market monitor. States have been active participants in the industry discussions on a west-wide market monitoring function. Despite these efforts, there is no West-wide market monitor currently in place now and for the foreseeable future.<sup>12</sup> Should SSG-WI terminate and no successor be formed, there will no longer be a forum for the industry to even discuss west-wide market monitoring.

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<sup>12</sup> Market monitors may develop in the Southwest as a result of conditions FERC is placing on approval of actions requested by Tucson Electric, Arizona Public Service, Portland General Electric and possible other FERC-jurisdictional utilities.

### 3. Commercial Practices

A large number of issues fall under the rubric of commercial practice issues. Resolution of these issues is important to improve the efficiency of power sales and grid operations that may lower costs to consumers. The West does not have in place effective institutions to devise regional solutions to these issues. In the absence of an interconnection-wide institution(s) to deal with these issues it is increasingly likely that “solutions” will be developed in national forums such as North American Energy Standards Board. Because of physical differences and differences in how the Eastern and Western grids are operated, the solutions developed at the national level may or may not work in the Western Interconnection. National solutions will also take a long time to develop.

Commercial practice issues of region-wide scope that need to be examined and addressed include, but are not limited to:

- Pancaking of transmission rates whereby a separate toll is levied by each control area involved in a power sale.
- Scheduling practices that are not uniform among control areas.
- Underutilization of transmission capacity for a variety of reasons, e.g., (1) reliance on a contract path methodology to allocate transmission capacity instead of basing such allocations on the paths over which the power will actually flow, (2) limitations in the types of transmission products offered; (3) higher cost for transmission due to the pancaking of charges by each transmission owner through which a power sale must flow.
- The proliferation of control areas because of the economic advantage enjoyed by companies that operate control areas compared to other market participants. Such proliferation may increase costs and increase the complexity of assuring reliable operation of the grid.
- Cumbersome processes that generators and transmission owners must use to interconnect new generation and secure transmission capacity for the output of such plants. These processes may result in cost-effective transmission lines not being built. They may also limit a state’s ability to achieve its energy policy objectives as expressed in state-adopted Renewable Portfolio Standards and utility Integrated Resource Plans and procurement policies.
- Lack of coordination among multiple control areas that may result in higher costs for reserves, ancillary services, and supplying power to meet minute-to-minute changes in demand.
- Methods of calculating transmission losses that may stymie the dispatch of generation that would lower overall system costs.

## IV. Conclusions

### A. Reliability Functions

WECC is an organization with broad representation in its governance structure. WECC could address a broad range of reliability issues in the Western Interconnection. WECC has not yet fulfilled its potential envisioned by the Western Governors.<sup>13</sup>

- Even though the WECC Board is a model for ensuring broad representation in regional reliability-related decisions, in practice many of the activities implemented by WECC member committees that are largely directed by a few entities which operate large control areas and underwrite a significant portion of WECC's budget. Control areas collect money from transmission system users and pay WECC dues.
- WECC policies limiting information disclosure – policies which are effectively decided by company members – undercut the institution's potential as a valuable source of information and analysis for decisions by companies and regulators on resource and transmission adequacy, transmission planning and expansion, and market abuses.
- Eight of the 34 control areas in the Western Interconnection have not signed contracts to participate in WECC's voluntary stopgap Reliability Management System (RMS). In those control areas there are no penalties for violating regional reliability standards. The West is relying on the WECC's stopgap RMS because of Congress's failure to enact the consensus mandatory reliability legislation.
- There remain divisions within the WECC Board and among WECC members on the role of the organization. For example, it remains unclear what role WECC will play in developing transparent resource adequacy assessments and criteria, in serving as an information clearinghouse for the region, and in conducting or supporting pro-active transmission planning. Some in WECC believe the organization should only address the reliability of system operations. Others believe the organization should interpret its reliability functions broadly and serve as an information clearinghouse for the Western Interconnection.

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<sup>13</sup> A letter from Western Governors dated April 18, 2002, states, "Western governors have consistently supported the formation of WECC and conveyed our views to the Federal Energy Regulatory Commission. The WECC will be a vital institution in shaping reliability and related commercial policies in our multi-national Western Interconnection. . . . With its broadly based governing board, the WECC is well-positioned to develop and implement policies that meet the needs of the Western Interconnection."

## **B. Commercial Functions**

While some industry organizations are emerging to address some commercial issues across some of the region,<sup>14</sup> no effective industry organization exists to address all commercial issues across all of the Western Interconnection.

- SSG-WI is a voluntary coordinating body among proposed RTOs that was created in 2001 to address issues at the boundaries of RTOs. Given the halting progress in RTO development in the West, SSG-WI has not addressed many commercial issues.<sup>15</sup> Relying on voluntary contributions by companies and states, SSG-WI has produced analyses of transmission needs, but has been unable to move ahead in other areas, such as development of a west-wide market monitor, implementing price reciprocity among RTOs, or developing compatible transmission congestion management systems.
- SSG-WI, which has no legal basis and no staff, has initiated an outreach effort to discuss with Western companies their interest in forming a new organization to address commercial issues. Such an organization would include more members than SSG-WI, which is presently comprised of the California ISO and the “filing utilities” for Grid West and WestConnect. Thus far, the outreach effort has not produced a proposal.
- WECC’s Market Interface Committee, whose role is limited to addressing the commercial implications of reliability issues, has not been an effective forum to address the full range of commercial issues and WECC is considering disbanding the Committee.

## **V. Recommendations**

To be prepared, the states and power market participants in the Western Interconnection would benefit from an effective industry institutional infrastructure that is not yet in place. Such an infrastructure requires the active participation of states and provinces in the development of solutions to the region’s power needs. There must be adequate resources to enable states and provinces to fulfill their role in regional electric power decisions.

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<sup>14</sup> For example, wesTTrans.net is an enhanced OASIS site established in 2004 that is now used by 20 transmission-providing utilities for posting available transmission capacity. These 20 government-owned and investor-owned utilities serve a significant portion, but not all, of the Western Interconnection.

<sup>15</sup> On December 9, 2004, a step was taken toward forming an RTO in the Northwest when agreement was reached among nine transmission owners to seat a board of directors for Grid West and to try to develop an acceptable tariff for an RTO within six months. This step came after eight years of effort beginning with the proposed Independent Grid Organization (IndeGO) and the ill-fated proposed RTO West organization. In the Southwest, RTO discussions began with the formation of Desert STAR which was disbanded and replaced by WestConnect which is dormant.

Improving the effectiveness of the industry's region-wide institutions will enhance the ability of states and utilities to ensure reliable and affordable electric power supplies to the economy and citizens of the region. Western Governors can play a vital role by:

- Using their 'bully pulpit' to advocate actions by Western industry participants to develop and operate institutions that will ensure the region's ability to provide reliable and affordable electric power. Western Governors may want to consider adopting guidelines upon which they can gauge the progress toward developing effective industry organizations to address interconnection-wide reliability and commercial issues.
- Agreeing on a plan to pay for enhancing the capabilities of the states and provinces to be partners in resolving regional reliability and commercial issues in the Western Interconnection; and

Below are potential guidelines Governors could adopt to evaluate the progress of Western Interconnection institutions in addressing and resolving region-wide reliability and commercial issues.

1. An interconnection-wide organization or organizations should be supported by all participants in the Western power industry and should be capable of developing or coordinating solutions on an ongoing basis to the issues of:
  - a. **Resource adequacy** – Whether the region, under normal and extreme weather conditions, will have in place sufficient generation and demand response resources<sup>16</sup> to meet electricity demand, sufficient transmission to move generation to load, sufficient natural gas resources and infrastructure to fuel natural gas power plants, and sufficient energy and infrastructure to avoid scarcity, high prices, and the ability of market participants to exercise market power.
  - b. **Transmission planning and expansion** – Whether the region has sufficient transmission in the right location to tap diverse and lower cost sources of energy to generate electricity and maintain reliability.
  - c. **Grid reliability** – Whether the region has in place and is ensuring compliance with cost-effective interconnection-wide reliability standards.
  - d. **Market monitoring** – Whether the region, in conjunction with the Federal Energy Regulatory Commission, has in place mechanisms to identify and rectify market abuses that impede the operation of an efficient wholesale electricity market;; and
  - e. **Efficient commercial practices** – Whether there are in place common commercial practices that enable wholesale power markets to operate efficiently.
2. The operation of such organizations should be transparent, including their analysis and decision-making processes.

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<sup>16</sup> SEE footnote 1 above.

3. The decisions of such organizations are imbued with the public interest and therefore states and provinces in the Western Interconnection, which are most suited to articulate the public interest, should be full participants.
4. The activities of the organizations must not be controlled by a few market participants either through dominance in the formal decision-making structure or through the exercise of budget vetoes of needed activities.

Gubernatorial leadership will provide much-needed impetus for the the diverse segments of the electric power industry and state and provincial energy and regulatory agencies to resolve the challenges necessary to ensure adequate, reliable and affordable power supplies to the region.<sup>17</sup>

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<sup>17</sup> In the WGA Energy Roadmap Resolution (03-19), Western Governors have outlined policies that are necessary to ensure adequate, reliable and affordable power supplies.