

However, the delay should not stall the construction of new or enhanced facilities for which needs have been established, unless the RTO makes a positive decision that the facility is not in the best interests of the region. Delaying transmission expansion could result in significant market inefficiencies as well as unacceptable risks to reliability given the long regulatory and construction lead times required to build new facilities.

8. Interregional Coordination (Function 8)

In Order No. 888, the Commission identified eleven principles it would use to assess Independent System Operator (ISO) proposals submitted to the Commission.⁵⁹⁷ One of these principles required that the ISO develop mechanisms to coordinate with neighboring control areas to ensure reliability and the provision of transmission services that cross system boundaries. The RTO NOPR encouraged transmission entities to consider ways to reduce impediments to transactions among themselves,⁵⁹⁸ but a coordination requirement was not included explicitly in the RTO NOPR. Several commenters pointed out that there was no explicit coordination requirement proposed in the RTO NOPR and recommended including a function for RTOs similar to the coordination principle in Order No. 888.

Comments

⁵⁹⁷Order No. 888, FERC Stats. & Regs. ¶ 31,036 at 31,730-32.

⁵⁹⁸FERC Stats. & Regs. ¶ 32,541 at 33,758.

Several commenters identify coordination with other regions as a necessary element that should be added more explicitly to the RTO functions.⁵⁹⁹ These commenters express this need as either required to ensure reliability or necessary for bulk power markets to operate over sufficiently large areas. For example, NERC states that the need for such coordination effort has increased as the management of short-term reliability of the interconnected bulk power system and the operation of increasingly competitive bulk power markets have become inseparable. Accordingly, NERC recommends that an additional function be added to the final rule that requires RTOs to integrate their market interface practices and reliability practices. It identifies OASIS standards, information sharing with neighboring RTOs, ancillary services requirements, parallel path flows, transmission loading relief, and interregional congestion management, as practices and standards that need to be integrated.

Duquesne states that efficiencies can be realized from coordinating and developing a seamless marketplace. It recommends that the Commission require RTOs to coordinate and plan for seamless and uniform transmission rules, scheduling systems and procedures, and reliability standards. In addition, Oneok suggests that the Commission encourage neighboring RTOs to form reliability compacts under which loop flow and

⁵⁹⁹ Many parties supported this requirement including NERC, Justice Department, NARUC, NASUCA, Oneok, PJM, Duquesne and Industrial Consumers.

other issues involving interregional reliability impacts can be resolved.⁶⁰⁰ Also, Wyoming Commission believes that the Commission should be flexible with respect to inter-RTO interaction and that it may be appropriate to address these issues later rather than in initial RTO filings.

Commission Conclusion

Coordination of activities among regions is a significant element in maintaining a reliable bulk transmission system and for the development of competitive markets. In the NOPR, we discussed several region-to-region coordination activities in connection with the parallel path, congestion management, and expansion planning functions. However, the comments persuade us to add a more general inter-regional coordination requirement as one of the minimum RTO functions.

We will require an RTO to develop mechanisms to coordinate its activities with other regions whether or not an RTO yet exists in these other regions.⁶⁰¹ If it is not possible to set forth the coordination mechanisms at the time an RTO application is filed, the RTO applicant must propose reporting requirements, including a schedule, for itself to provide follow-up details as to how it is meeting the coordination requirements of this

⁶⁰⁰ISO-NE, NY ISO and PJM recently signed a memorandum of understanding concerning interregional coordination activities.

⁶⁰¹This is similar to the existing ISO Principle #10 in Order No. 888 for single control area ISOs: "An ISO should develop mechanisms to coordinate with neighboring control areas."

function. We expect the RTO to work closely with other regions to address inter-regional problems and problems at the "seams" between the RTOs. Therefore, as recommended by NERC and others, we will add the following regulatory text to our RTO Final Rule functions:

(8) Interregional Coordination: The Regional Transmission Organization must ensure the integration of reliability practices within an interconnection and market interface practices among regions.

An RTO proposal must explain how the RTO will ensure the integration of reliability and market interface practices. An RTO may ensure the integration of these practices either by developing integration practices itself or by cooperating in the development of integrated practices with an independent entity that covers all regions or, for reliability practices, covers an entire interconnection. The term, interconnection,⁶⁰² refers here to any one of three large U.S. transmission systems. The Eastern Interconnection covers most of the area east of the Rocky Mountains in the United States and Canada. The Western Interconnection covers an area that is mostly west of the Rocky Mountains in the United States and Canada, as well as a small portion of Mexico. The Electric Reliability Council of Texas (ERCOT) Interconnection covers much of Texas.

⁶⁰²"Interconnection" is a term used by the North American Electric Reliability Council and others to refer to an interconnected alternating current transmission system. Engineering considerations require all generators connected to any one interconnection to operate in a coordinated manner, that is, synchronously.

This provision does not mean that all RTOs necessarily must have a uniform practice, but that RTO reliability and market interface practices must be compatible with each other, especially at the "seams." RTOs must coordinate their practices with neighboring regions to ensure that market activity is not limited because of different regional practices.

We understand, as NERC pointed out in its comments, that the reliability and market interface practices are becoming highly interrelated. The reliability practices affect how markets interface with each other, and the market interface practices affect reliability. For example, TLR and congestion management are both used to unload an overloaded transmission interface, and these two practices must work together. We consider congestion management and TLR are best used as sequential steps to unload a line, with congestion management used first to unload a line in a market-oriented manner, and TLR used to unload a line in a fair manner when either congestion management is unavailable or an emergency condition requires immediate action. We therefore list below TLR as a reliability practice and congestion management as a market interface practice, understanding that these and other practices listed affect both reliability and markets.

The integration of reliability practices involves procedures for coordination of reliability practices and sharing of reliability data among regions in an interconnection, including procedures that address parallel path flows, ancillary service standards,

transmission loading relief procedures, among other reliability-related coordination requirements in this Final Rule.

The integration of market interface practices involves developing some level of standardization of inter-regional market standards and practices, including the coordination and sharing of data necessary for calculation of TTC and ATC, transmission reservation practices, scheduling practices, and congestion management procedures, as well as other market coordination requirements covered elsewhere in this Final Rule.

F. Open Architecture

In the NOPR, the Commission stated its commitment to a policy of "open architecture" and proposed to require that RTOs be designed so that they can evolve over time. The Commission noted that there should be no provision in any RTO proposal that precludes the RTO and its members from improving their organization to meet market needs.⁶⁰³ The Commission sought comments regarding the open architecture policy in general and the flexibility needs of RTOs in particular.

Comments

Virtually all commenters support the NOPR's open architecture concept and recommend that an RTO have the ability to evolve over time as it gains operating

⁶⁰³FERC Stats. & Regs. ¶ 32,541 at 33,753.