

MEMORANDUM

August 13, 2002

To: Ed Myers and Sarah McKinley

From: Washington Utilities and Transportation Commission

Subject: Questions we would like FERC Staff to address at the Boise and Las Vegas Meetings Regarding Standard Market Design NOPR: RM01-12

We note from the meeting announcements regarding regional Standard Market Design meetings that the Commission Staff would like to receive questions to help tailor its presentations. We are far from digesting the entire NOPR, but we can offer these questions at this time.

- 1) What specific examples of undue discrimination in transmission access in the Pacific Northwest has the Commission documented? Please point to this documentation in the NOPR. Are these examples specific, or are they theoretical and generic?
- 2) Load Serving Entities (LSEs) – we call them public service companies -- must fulfill load service obligations under state law. The Bonneville Power Administration must fulfill wholesale service obligations under federal law. Wholesale marketers and non-utility generators do not bear a legal load-service obligation under federal or state law. Providing non-LSE parties comparable access to transmission when those parties do not bear comparable obligations affords the non-LSE parties a competitive advantage over the LSEs. Does the NOPR address this preferential treatment for non-LSE parties? If so how?
- 3) We understand the NOPR to require a complete separation between the transmission functions and the distribution/retail service functions of an LSE. Are we correct? Please describe how the Commission intends that the newly separated functions will coordinate the operation and maintenance of their interconnected systems? Electricity is not delivered via a single city gate like gas. There are numerous points of delivery and interconnection where it is necessary for public health and safety reasons, not to mention economic efficiency, to insure the coordination of the two systems. Please include in your description how the Commission intends the LSE to coordinate re-energizing of the transmission and distribution grids after storm events that knock out interconnected distribution *and* transmission facilities.
- 4) Please explain in practical detail how the Commission intends that locational marginal pricing will be implemented within the Pacific Northwest's coordinated hydropower system? How many nodes have you assumed in the modeling of our system? Do you assume day-ahead unit commitment of individual dams? of the entire coordinated system? Does the Commission propose a mandatory unit-

commitment scheduling process? How will this affect flexibility in hydropower system dispatch? Finally, does the Commission propose to ensure that non-power obligations of the river system (most of which are not quantifiable in dollars) will be undiminished if LMP is implemented? How?

- 5) The NOPR allows that coordinated hydropower operation could be maintained under bilateral agreements that do not involve bidding into the new centralized markets and do not involve centralized dispatch based on unit commitments and clearing prices derived from the centralized markets. Absent hydropower (which accounts for 60 percent of the energy and at least 70 percent of the capacity in the Pacific Northwest), does the Commission believe that the bid-markets will produce meaningful prices? Would these markets be susceptible to market power abuses due to thin trading volumes? Would a bilateral coordination agreement itself represent a market power abuse? Would all power flowing under the bilateral agreement be subject to congestion prices derived from thinly traded central markets?
- 6) The NOPR proposes a \$1000/mWh cap on wholesale power costs. Is any similar, safety-net cap proposed for financial transmission rights traded in the secondary market? How does the Commission propose to regulate the auction market and the secondary market for financial transmission rights?
- 7) Please describe the Commission's interpretation of the last three paragraphs of the Supreme Court majority opinion in *New York v. FERC* regarding federal versus state jurisdiction over transmission of bundled retail electricity? Has the Commission undertaken any examination of specific discrimination in the retail market? If so, where are the findings documented?
- 8) We understand the NOPR to require LSEs to maintain a minimum 12 percent reserve margin based on peak loads. The Pacific Northwest system is generally capacity rich and energy constrained. Please explain the Commission's rationale for proposing to impose a capacity-based reserve margin in an energy constrained system? Does the Commission intend that the cost of maintaining this capacity reserve margin be recovered in transmission rates?
- 9) The NOPR proposes that existing transmission rights-holders be allocated financial rights as hedges against transmission congestion costs. Would these rights include the transmission capacity currently used by LSEs to meet retail service obligations? The NOPR proposes some change in the allocation or auctioning of these financial rights after 4 years. Please explain what the Commission intends will happen at the end of 4 years.
- 10) Please describe how the Commission intends that retail load should be able to bid demand reductions into wholesale energy markets?

