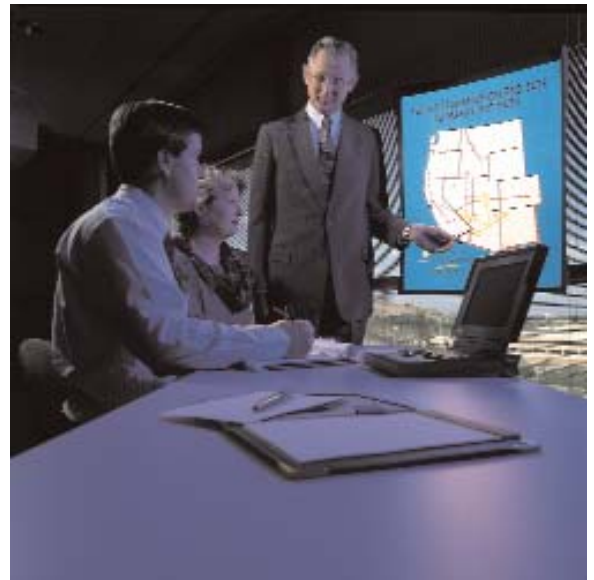


Executive Summary

- A large group of diverse Western utilities is developing a web-based regional transmission market for their surplus transmission. This independently operated common Open Access Same-Time Information System (OASIS) will provide **real economic benefits to western consumers** by utilizing a **single internet site, *WestTrans.net***, for posting and reserving transmission in a large portion of the West.
- The site will simplify and streamline non-discriminatory access to transmission and will enhance existing bilateral electricity markets. Over **15 utilities in the West** are now working together to develop the platform. They own and operate significant amounts of transmission in Arizona, California, Colorado, Western Nebraska, New Mexico, Nevada, West Texas, Utah and Wyoming.
- The common **transmission market will create efficiency** by replacing the participating transmission providers' existing, sometimes cumbersome, and separately operated OASIS sites with a single site.
- The site is expected to be operating as early as **First Quarter 2004**.
- This utility-led independent, voluntary effort can serve as a foundation for much of the West's Wholesale Market Design.
- The initial internet site will include a common platform for the posting of available transmission capacity, tools to create a **secondary market** for transmission, and an **energy bulletin board** to facilitate bilateral electricity transactions.



- The participants will continue to be able to use their transmission systems for serving their native load customers.
- Each of the utilities plans to participate in the first phase of development. The utilities will have the flexibility to choose the extent to which they participate in future phases. This will allow the **participants to pursue additional goals both separately and in common.**
- Subsequent phases of the platform will be pursued over time provided they are **cost-effective and will result in benefits for consumers.** Such projects might include: introduction of an **independent auditor** to validate calculations and **uniform application of business practices,** development of verifiable **price indices,** improvements to **interchange scheduling procedures,** **congestion alleviation** and **regional transmission planning.**

WestConnect

Proposal for a Phased Approach to RTO Implementation in the Southwest

WestConnect initiated consideration and development of an incremental approach for implementation of a southwestern RTO in April 2003 in response to: (1) recent orders from FERC providing guidance on the WestConnect proposal; (2) FERC's White Paper released April 28, 2003; (3) FERC recognition of the seams coordination work among the three western RTOs; and (4) the progress of energy legislation in Congress that may provide for significant variation in market design by geographic region.

WestConnect entities agreed that the overall principles guiding the design of a phased approach to WestConnect implementation should be: customer benefit, cost efficiency, minimization of functions to those that facilitate and add value to the wholesale market and flexibility for future transformation.

“ *We believe that the common transmission market interface will be a significant step forward in market development in the West by simplifying the grid user's ability to complete transactions. It will also be the first step in WestConnect's phased implementation plan that will provide immediate benefit to consumers.* **”**

Jeffry Sterba

Chairman, President and CEO
of Public Service Company of
New Mexico

Objectives

Implement cost-effective market design elements that add value for users of the transmission system, while providing for a cost-effective wholesale transmission services organization that oversees the open access process for the southwestern region, for a transition period, assuring that open access is provided consistently and in a non-discriminatory manner.

Determine the minimum initial functions that need to be performed by the organization to achieve the open access facilitation objective by streamlining and simplifying wholesale transactions in the southwest, gaining many of the benefits for a user of the system that an RTO would provide.

Determine a plan for phasing in remaining WestConnect RTO functionality if warranted by credible cost-benefit analyses.

Communicate WestConnect's proposed incremental approach with other transmission owners and market participants in the West to seek joint opportunities for development of and participation in the market design elements.

Draft Phased Approach

PHASE 1

1. Common OASIS: Independently operated web-based transmission reservation platform

Purposes: Enhance ability of transmission customers to determine transmission availability and reserve transmission through

- One stop shopping for viewing available transmission capacity (ATC) and requesting and confirming transmission reservations
- Interfacing with multiple transmission providers through a single software platform
- Posting transmission information, including transmission rights offered for resale, by path to facilitate the piecing together of transactions involving multiple transmission reservations
- Developing a secondary market for transmission
- Enhancing consistency of ATC calculations among transmission providers
- Increasing utilization of ATC

2. Energy Bulletin Board: Bulletin Board established at the Common OASIS for voluntary posting of offers and bids for energy. Interested parties will negotiate bi-lateral energy transactions off-line.

Purposes: Enhance ability of transmission customers to

- Complete a desired transaction when facing transmission congestion (insufficient ATC) through the purchase and sale of energy at the ends of the congested path.
- Purchase energy-related ancillary services (e.g. operating reserves) required to complete a transmission transaction.

PHASE 2 – to be developed more fully and implemented if sufficient benefits to retail and wholesale transmission customers can be demonstrated through a credible cost-benefit analysis.

1. West-Connect Grid-Wide Tariff: Implement an umbrella WestConnect transmission tariff

Purposes: Enhance transmission access and reduce transaction costs through the elimination of pancaked transmission rates, and minimize impacts of cost-shifting on retail customers through

- Implementing a transmission tariff modeled after the Southwest Power Pool's FERC-accepted grid-wide tariff, with utilization of each transmission provider's Open Access Transmission Tariff (OATT) rates for new transmission service.
- Protecting transmission rights of retail load and existing contracts in the allocation of transmission capacity.
- Honoring existing contracts.
- Recovering transmission costs through license plate rates calculated for each transmission provider's service area and collected from retail customers where the transmission provider's load resides.
- Applying transmission losses zonally.
- Implementing a Transmission Adjustment Charge (TAC) for any transmission provider that does not have retail load (e.g., Western Area Power Administration), collected by transmission providers that do have retail load and remitted to the TAC transmission provider.
- Assessing a "wheeling out" rate for transactions that leave the WestConnect footprint and allocating the wheeling out revenue among the transmission providers on a load flow basis.

2. Congestion Management: Implement a market-based transmission congestion management methodology.

Purpose: Enhance transmission access and facilitate additional energy transactions through the implementation of transmission right auctions. The auction of transmission rights will require revision of each transmission providers' OATT, which currently does not allow for sale of transmission at rates higher than the transmission provider's cost-based price cap.

3. Independent Audit : Quarterly independent audit of use of the Common OASIS by transmission providers, transmission resellers, transmission customers and other market participants.

Purposes: Enhance confidence in and utilization of the Common OASIS and Energy Bulletin Board by market participants and facilitate utilization of ATC through quarterly independent review of

- Transmission customer and market participant access to the Common OASIS and Energy Bulletin Board.
- Timing of provision of updated information and data from transmission providers and resellers to the independent Common OASIS operator.
- Timing of posting updated information and data, including bulletin board postings, to the Common OASIS by the independent Common OASIS operator.
- Calculation of ATC by the transmission providers.
- The disposition of transmission requests received through the Common OASIS.

PHASE 3 – to be developed more fully and implemented if sufficient benefits to retail and wholesale transmission customers can be demonstrated through a credible cost-benefit analysis.

West-Connect RTO, LLC, as filed October 10, 2001: Implement the WestConnect RTO with the features and functions described in the October 10, 2001 filing, including formation of a for-profit limited liability corporation, establishment of an independent board, and installation of infrastructure and hiring of staff necessary to consolidate control area functions and operate the RTO.

Public Power Initiative of the West

Goal

To develop a voluntary coalition of public power agencies dedicated to enhance transmission access and encourage competitive wholesale electric markets for the ultimate benefit of electric consumers in the Western Interconnection.

Public Power Perspective

- Streamlining of transmission access and enhancement of existing bilateral electricity market infrastructure will facilitate more robust wholesale electric competition in the Western Interconnection. This can be accomplished without compromising our status as locally regulated, vertically integrated utilities whose primary purpose is to meet the electric requirements of our native load customers.
- The individual, existing open access transmission tariffs and existing bilateral energy markets form the best foundation upon which to begin making incremental improvements in transmission access and facilitation of wholesale energy transactions.
- Generation and transmission facilities that we own, as well as long-term contracts with suppliers and customers that we hold, allow us to fulfill our obligation to serve end-use consumers. Retention of the physical rights to use our transmission capacity, continuation of unaltered, existing contracts, and robust bilateral energy markets will maintain our ability to deliver low cost electricity to our customers.

Initiative in Progress

- Establish an independently operated common Open Access Same-time Information System (OASIS), that will include tools for reselling transmission once bought and a bulletin board for posting energy pricing information.

Such an OASIS will:

- enhance the utilization of existing transmission capacity,
- develop a workable secondary market for transmission capacity,
- encourage bilateral energy deals that will increase the efficiency and the use of the interconnected transmission network.

Future Initiatives - To be developed more fully and implemented if sufficient benefits to retail and wholesale transmission customers can be demonstrated. Individual utilities will have the flexibility to choose the extent to which they participate in future additional features, based on the value of such features for their customers. This will allow the participants to pursue additional goals both separately and collectively.

Future initiatives could:

- Develop wholesale price indices administered and posted by an independent party to facilitate reliable regional price transparency and support bilateral markets.
- Standardize electricity interchange scheduling to minimize seams issues, increase scheduling efficiency and improve energy accounting between control areas.
- Establish procedures for market-oriented, path-based bidding for transmission capacity to improve management of congestion.
- Improve coordination of transmission planning, expansion, generator interconnection, and operations.



Participants

- Arizona Electric Power Cooperative
- Arizona Public Service Company
- El Paso Electric Company
- Imperial Irrigation District
- Los Angeles Department of Water and Power
- Northern California Power Agency
- Public Service Company of New Mexico
- Sacramento Municipal Utility District
- Salt River Project
- Southern California Public Power Authority
- Texas-New Mexico Power Company
- Tri-State Generation & Transmission Association
- Tucson Electric Power Company
- Western Area Power Administration



westtrans.net

A Web-Based Regional Transmission Market

August 2003

Overview

- Voluntary coalition of load-serving and transmission providing entities dedicated to the enhancement of transmission access and competitive wholesale electric energy and capacity markets
- Preserve non-jurisdictional status for public agency participants
- Participants operate electric systems throughout the WECC

Objectives

- **Long Term** - to be pursued if sufficient benefits to retail and wholesale transmission customers can be demonstrated through cost-benefit analysis.

- Participate in wholesale price indices
- Standardize interchange scheduling
- Establish market-oriented congestion management
- Better coordinate transmission expansion, generation interconnection, and operations

- **Short Term**

- Establish an independent common OASIS

Initial OASIS Features

- Independent site operated by third party
- Requires no changes to existing OATTs
- Multiple Transmission Providers (TPs) on one site with a common user interface
- Ability to display ATC from multiple TPs with one query
- Customer may link multiple paths and providers in one deal
- Individual approval of deals by TPs
- Provide OASIS tools for creating robust secondary market
- Energy products bulletin board to address congestion
- Allow enhancements in the future



A large, light grey, stylized letter 'Q' is centered in the background of the page.

FREQUENTLY ASKED QUESTIONS

Q: Will WestTrans.net improve the wholesale electricity markets in the West?

A: **Yes.** WestTrans.net will improve the availability of information about unused transmission capacity, will provide a basis for a “one-stop shopping” venue, and will provide a means for transmission owners in the West to make excess transmission available to support wholesale transactions without risking permanent loss of the ability to use the transmission to serve local customers.

Q: Is the scope of participation in WestTrans.net large enough to provide real benefits?

A: **Yes.** Present participants in WestTrans.net operate in all states of the Western Interconnection except the three Northwestern states of Washington, Idaho and Montana. Customer owned utilities presently operate a significant portion of the transmission capacity in the participating region. By focusing on operational improvements rather than the more contentious political issues of jurisdiction and divestiture of operational control, WestTrans.net will result in incremental improvements that can be voluntarily utilized by customer owned utilities.

Q: Does WestTrans.net conflict with the future development of WestConnect?

A: **No.** WestTrans.net does not conflict with the future development of WestConnect. In fact, it provides a way to realize immediate benefits while the issues related to cost effectiveness, financial risk and extent of operational control are under discussion.

Although FERC has given preliminary approval to the WestConnect design, the Commission has raised questions regarding some features that are important to many potential WestConnect participants. All participants in this common OASIS initiative are excited about committing to this cost-effective action.

Q: Why not simply commit to a full-fledged RTO similar to PJM?

A: There are probably as many answers to this question as there are participants.

- Some legitimately question the cost effectiveness of integration into a full RTO. As the US Department of Energy's own study pointed out, a full fledged RTO is likely to **increase prices** to many end use customers in the West by 3% or more.
- Some customer owned systems are cautious about the potential for a **loss of local control** and potential **conflicts with State law**.
- The problems encountered in previously deregulated markets have instilled caution in a number of participants. Although FERC suggests that a full fledged RTO, developed along the lines of the proposed Standard Market Design (SMD), is immune from price spikes and market manipulation, many of the participants in this initiative are not convinced that all of the bugs have been worked out. They see this initiative as a way to improve the markets without exposing their customers to unnecessary risk.

Q: Will participating public power entities associate themselves with the WestConnect RTO effort?

A: Not necessarily. The common OASIS serves all participants' needs and does not commit to nor exclude participation in future endeavors.