

SOUTHWESTERN POWER ADMINISTRATION
CUSTOMER RESPONSES TO
REGIONAL TRANSMISSION ORGANIZATION SURVEY
MAY 2002

NOTES:

- Survey responses herein have been edited only to eliminate specific commenters' identities.
- Acronyms are listed and defined at the end of the document.

✦ What does your company see as the pros of Southwestern Power Administration (Southwestern) joining the Midwest Independent System Operator Regional Transmission Organization (MISO RTO)?

- MISO appears to be further along in the process, has more required FERC approvals than the others, appears to meet FERC size and scope requirements, has a significant membership base, will likely "be a finisher" in the FERC process, and finally is Transmission Owner friendly.
- Southwestern should join the RTO to which the majority of the customers belong. It is our belief that will be the MISO.
- The MISO also appears to be the most open and advanced of the RTO's under consideration. It also has the most range in geography and in membership. It seems to offer better governance and independent operation. Not for profit operation of the RTO is an advantage.
- With the expectation that RTO's will be a fact in the future, I believe that continued participation with SPP in merging with MISO is the best path for Southwestern.
- The majority of Southwestern customers lie within the footprint (or at least is surrounded by it) of the MISO/SPP RTO. It is logical that Southwestern should join the RTO in which most of its customers reside. Combined with a proven record of compatibility with SPP and its other members, Southwestern has reasonable assurances that joining the combined SPP/MISO RTO will preserve its status as a federal entity with special needs.
- We believe that Southwestern should join the MISO/SPP RTO. As an existing SPP member, there will be no cost to join. Southwestern is also a Transmission Owner under the SPP regional transmission tariff and benefits

directly by being compensated for third-party flows and losses over its system that represents a significant income stream. Southwestern's federal responsibilities have long been recognized within the SPP organization and significant modifications have been made over the years to accommodate them. This is a significant advantage in dealing with people and organizations that realize and understand Southwestern's uniqueness.

- Our utility prefers the Midwest Independent System Operator (MISO). (Three survey responses)
- We believe the MISO RTO would provide the greatest benefits to our organization
- Not enough detail information is known about each option at this time

■ **What does your company see as the cons of Southwestern joining the MISO RTO?**

- The cost of the MISO is very high. They have spent a great deal of money to get going and the members are going to have to pay those costs. The through and out transmission rate of the MISO is very high compared to the rate that we currently have with Southwestern in the SPP. (The rate the MISO is using is three times Southwestern's current rate.) Southwestern may not be able to retain the same exemptions received in the SPP membership agreement for delivering hydropower to its customers.
- The unknowns of grandfathered contract transition, transition to a single tariff, and what that tariff will be, handling of below 100kv facilities, operating expense, cost recovery, carry forward of SPP language protection of Federal Facilities, etc.
- The MISO is large but the only Southwestern customers that benefit from the size of the MISO are those that are inside Southwestern's control area.
- So far MISO has promised the moon to get everyone what they wanted - until I see filed tariff language the promises they have made and until Southwestern has done and provided the customers with cost benefit analysis - will be very difficult to evaluate.
- Not enough detail information is known about each option at this time.

■ What does your company see as the pros of Southwestern joining the Public Power RTG?

- The cost of the PPRTG is very low. The size of the PPRTG is smaller but with seams agreements it should offer a large effective footprint. Southwestern would retain more control as a member of the PPRTG as a member of the governing body. The PPRTG also does not require the same level of transfer of control of facilities.
- The PPRTG provides for common interests with other members. More likely to focus on Public Power needs and customers. Could end up being lower cost as it wouldn't be required to be FERC jurisdictional, and might be able to operate as a FERC "Lite" organization. Possibility it might be a "cost of service" RTO.
- Not enough detail information is known about each option at this time.

■ What does your company see as the cons of Southwestern joining the Public Power RTG?

- The final footprint and exact form of the agreement is less known at this time.
- TVA was ordered to join an RTO. Will this organization ever meet some level of FERC recognition? Would this entity and members be portrayed as obstacles to FERC and open access of the transmission system?
- Under the cloak of secrecy that has been maintained - and with Southwestern being excluded from the meeting after several attempts to participate - it would appear that they are not interested in Southwestern being a member.
- In our opinion, the "Public Power RTG" mentioned in the survey is an organization that has been specifically designed to avoid joining a real RTO. It will accomplish little and rather proliferate the balkanization of transmission systems, rate pancaking, and the inconsistent and uncoordinated determination of available transmission capacity (ATC) across the interconnection.
- The Public Power RTG is an unknown with little substance.
- Not enough detail information is known about each option at this time.

■ What does your company see as the pros of Southwestern joining the SeTrans RTO?

- At this time we cannot identify any pros.
- Since they are apparently not reinventing the process but looking for an operator to piggyback on a lot of systems that are already in development, indicates it might be less expensive to operate. Since it is in development, it might be easier to gain more favorable market operation, and other tariff rules.
- While documents are not filed yet - all working documents that are proceeding to final form have had the largest support from Public Power and seems to accommodate all existing grandfathered contracts with specific exclusions as needed.
- One positive feature of this organization might be its inclusion of an Entergy Corporation based Independent Transmission Company (ITC or TRANSCO) as a member. This too is uncertain, Entergy having recently signed a Memorandum of Understanding to work with TVA, Southern Company, and MISO to allow “seamless” wholesale power trading across the combined region.
- SeTrans appears to be more willing to accommodate individual customer needs.
- Not enough detail information is known about each option at this time.

■ What does your company see as the cons of Southwestern joining the SeTrans RTO?

- At this time we cannot identify any cons.
- This is Entergy and the Southern Companies, plus transactionally it might have less familiarity than other regions for Southwestern members.
- The proposed SeTrans RTO is still in its formative stages and may never become an RTO.
- Not enough detail information is known about each option at this time.

■ **What opportunities do you see for Southwestern to form a not-for-profit Transco under any of these RTOs?**

- We don't see any advantage to form or participate in a Transco. FERC may not allow Southwestern to create such an entity anyway. The PPRTG would offer the best solution if this is what Southwestern determines would be a good structure. The PPRTG allows Southwestern to keep the greatest level of control.
- Little, if any. Southwestern is not large enough to form a Transco inside of an RTO. This would seem to undermine what FERC is trying to do. Now TVA is a different story.
- With the FERC treatment of TransLink reasons to become a Transco might be diminished. Didn't FERC require TransLink to use a common tariff with the RTO, and leave scheduling, reliability, operation, and ATC calculation and handling at the RTO. There may still be other values with other TransCo organizations or Southwestern joining as a TransCo.
- I think under all options Southwestern might form a not-for-profit Transco.
- A not-for-profit Transco may be a viable proposal. More study will be required.
- Not enough detail information is known about each option at this time.

■ **What are the positive and negative impacts to your company of Southwestern joining any of the above-mentioned RTOs? Please be as specific as possible.**

- Southwestern should delay its decision to join any of these RTOs as long as possible and preserve their right to leave if forced to join. The rules are not set yet by the government and all the options have not yet taken shape. We don't see any advantage to Southwestern to join an RTO. Southwestern does not need to market power to other regions of the country. Southwestern's customers would be greatly harmed by the increase in the through and out transmission rates if Southwestern were to join the MISO. As the governance of these organizations is constantly modified, there is risk that Southwestern will be able to preserve the benefits over time.
- SEAMS. If Southwestern joins an RTO which places us at or near its border with one or two other RTOs, then we would be subject to extra transmission costs on our purchases and sales, thus, costing us extra money on both sides of a transaction.
- There is the concern that some may try to hold Southwestern out of any RTO. The RTO concept is coming from the FERC, and DOE seems to support it. Any attempt to keep Southwestern from participating, or participation in a way that protects a

minority would be a problem for us. Our organization has had to double wheel for a long time, the greatest good for the greatest number (i.e. lowest overall cost) will, we hope, be a strong guide to Southwestern deliberations.

- If Southwestern joins any RTO other than the MISO, Our customers will have seams issues to address, and may experience greater costs than would otherwise be required. (Two survey responses)
- Our biggest concern is developing multiple seams issues in delivery of our Hydro allocation, and day-to-day operation. If this develops there is a fairly high likelihood we would have to add staff, software, or other infrastructure to deal with all these issues, which wouldn't benefit our members.
- We do not have enough information on the three potential RTOs listed to make any listing of the pros and cons of each. It would seem, however, that the one that emerges as the largest geographically would be the best choice on a functional level. As long as Southwestern is allowed to keep their grand fathered transmission arrangements, then the cost shouldn't be a factor in the initial or early phases.
- There are many issues with any of these developing RTOs and it is likely to be an advantage to try to preserve current benefits of Southwestern's contracts. Some compromises are likely but operation of hydropower projects for current customers should be maintained. Greater regional planning and consolidation of some control area functions may be desirable. These and the expectation of fewer pancakes (less seams) with coordinated transmission operation are expected of the new RTO. Higher cost and interim complexities are also expected, but are areas to be mitigated. The ability to serve native load and continued transmission expansion must continue.
- I am not familiar enough with the specifics of the various RTOs current policies in regard to transmission planning, rates, applicability of existing contracts, etc., to state any preference between the various RTOs under consideration at this time. (Although it seems that MISO might offer the best geographic fit, all other things being equal.) Due to the still evolving status of transmission service in the electric industry, I support Southwestern's careful approach to "actively monitor RTO developments and keeping our options open". The best option for Southwestern may not be entirely obvious today, but may become more so as the Transmission industry unfolds and the picture becomes clearer in the months to come.
- We have long supported the development of efficient RTOs and believe them necessary to achieve reliable grid operations and fair and equitable transmission access. While we intend to participate in the MISO/SPP RTO, we recognize the dilemma facing Southwestern in that its diversity of customers may well be subjected to dealing with the seams between multiple RTOs. We strongly favor not-for-profit RTOs. Several of the key functions set out by the Federal Energy

Regulatory Administration are best served by an independent organization whose sole goal is to serve those needs, not maximize profits. It is also our belief that the transmission owner in a for-profit RTO/ITC has a built-in conflict of interest with generation owners in making its decisions.

- One of the primary advantages of RTO formation for smaller utilities is the elimination of transmission rate pancaking. This, however, is unclear in the Southwestern context due to the complexities of Southwestern's statutory responsibilities regarding non-discriminatory pricing of transmission for deliveries of federal power. Nevertheless, Southwestern's system of 1,380 miles of transmission is an integral part of the regional network spanning three states delivering energy to customers in six states. Southwestern and its customers depend on the regional transmission grid not only to deliver contracted federal power but also for non-federal power that Southwestern might need to purchase during low water conditions. We believe Southwestern could be granted a form of Network Service with all its hydro locations designated as network resources and granted Financial Transmission Rights (FTRs). Holders of these FTRs will be financially hedged from transmission congestion charges. Prior to the implementation of market-based transmission congestion management, when these resources are unavailable or curtailed (for low water or other reasons), secondary deliveries of replacement energy can be transmitted without additional cost. RTO membership also brings with it the input into the planning process. We believe Southwestern should try to determine how its statutory transmission obligations could be successfully merged within an RTO, especially one who has shown a creative willingness to work together with Southwestern.

■ **Which issues do your company consider the most important regarding Southwestern's participation in an RTO?**

- Southwestern must preserve its ability to honor existing contracts and exempt federal hydropower from any other tariffs. These contracts qualify as grandfathered contracts and the firmness and deliverability should be protected at all cost. The transmission capability to deliver federal hydropower should not be opened up in some sort of process to allocate or reallocate ATC. The replacement of these firm rights with some sort of financial transmission rights should not be allowed. Physical delivery should not be made subject to these new rules that are unproven. Federal hydropower should simply be exempted from these processes. The only parties that can claim an advantage to Southwestern joining an RTO are those who wish to avoid paying Southwestern's transmission cost. Those that are already in the SPP only pay the Southwestern rate for wheeling. Southwestern should not join an RTO that would allow any customer to avoid paying their prorata share of Southwestern's transmission cost and raise the cost to other customers.
- We need our grand fathered agreements to continue if not to term, at least some reasonable amount of time after joining the RTO so that we may plan and budget

for the changes. We have concerns about how an RTO will treat loads and generation. Will we still have our banking and inadvertent accounts with Southwestern or will it be with the RTO and settled in cash every month. Another consideration would be the requirements on Southwestern. Will Southwestern be required to do things that raise their costs? How will these new costs be allocated? Will the native load customers have to bear these costs? Will Southwestern be required to commit hydro capacity to the RTO? If so, how will that affect the contract customers? Does Southwestern actually have enough generation to handle the current contracts plus any future requirements? If we have regional transmission issues, such as voltage problems, who addresses this and at what priority?

- Our primary concerns relate to system reliability and cost.
- We would hope that all existing transmission contracts would be grandfathered for the term of the contract.
- We expect that the rate impact would be significant if “zonal rates” were eliminated.
- Language protecting grandfathered delivery of our Hydro allocations. Probably the more pressing part of this is delivery and firmness of delivery rather than cost. Cost though is always an issue.
- Must have real benefits for the customers.
- Existing grandfathered contracts.
- Firm transmission’s value cannot be reduced by non-firm sales.
- Transmission planning and expansion.
- Transmission maintenance.
- Reliability improvements.
- Cannot complicate the process of obtaining power to serve load.
- The purpose and responsibilities of Southwestern’s hydropower projects remains as is.
- Financial Transmission Rights have to be reallocated in real time to existing Firm point-to-point, Non-Firm point-to-point, and Network contracts at no additional charge to the customer in order of the value of the firm product to remain the same.
- No obligation charges to flow or not to flow power over a purchased path.

- Cost shifting.
- System integrity.
- Deliverability of Federal Power.
- The most important issue to our organization is that artificial seams causing increased costs NOT be created.
- Concerning the three RTO's referenced we are very concerned with seams issues in this region and believe limiting the number of seams is preferred. In Missouri MISO-SPP is the only RTO any Missouri utility has committed to. The SeTrans clearly impacts Arkansas but at this point not Missouri, Kansas, or Oklahoma.
- We are very interested in all the points you listed in your letter, as they are extremely important to all Southwestern customers.

■ Other Comments

- The Nationwide transmission grid needs to be analyzed to determine where the weak links are located. Because the system is nationwide it makes sense that FERC would have oversight
- Because of the recent revelations of Enron's manipulation, I believe that a not-for-profit RTO would be more comforting to the general public.
- Presently our goal for operation is long-term wholesale price stability. We support Southwestern's needs to be financially sound as they are the same goals as ours. "Phasing in", or gradual rate increases better fits our operation than a single increase and a constant rate for a 3 or 4-year period.
- We are very concerned about expansion of the transmission system. We believe those who use the system should pay for the expansion. We are working with various merchant entities on projects that add transmission and use this approach. Should we be in a position to use merchant generation from the system, we would expect to pay for that service.
- As we move into the market for Transmission Rights and Congestion pricing our goal is to maintain firm reliable service for our members and transmission owners, and realize we will have to gain proficiency in this area. Hopefully membership in an RTO will dilute the cost if not the complexity of this operation. Additionally it likely would place Transmission Owners on a reasonably level playing field for these conditions and allow for long-term competitiveness.

- Support of the SPP RTO has always followed the logic that increased revenue was greater than the added expense. Spreading costs over a large base of customers has always made more sense than carrying the burden alone. It is likely as we go forward the revenue benefit and cost will cease to offset each other as much. Spreading costs though continues to make sense. For the future, a level playing field for operations, market rules, stability and other requirements of the wholesale market place and serving our members for the long term becomes more important.
- We believe Southwestern's decision should benefit the majority of customers.
- We believe Southwestern should maintain its control area. The hydro system within Southwestern's control area makes control of ACE (area control error) easier than in most thermal based systems. This is a valuable combination of assets that should be recognized for its ancillary benefits.
- It is not at all clear how operating reserves will be moved across an RTO seam. The reserves provided by Southwestern to Participants who have Southwestern contracts are an integral part of the power supply program serving those Participants.

ACRONYMS:

ATC	Available Transfer Capability
DOE	Department of Energy
FERC	Federal Energy Regulatory Commission
FTR	Financial Transmission Right
ITC	Independent Transmission Company
MISO	Midwest Independent System Operator
PPRTG	Public Power Regional Transmission Grid
RTO	Regional Transmission Organization
SPP	Southwest Power Pool
TVA	Tennessee Valley Authority