

# Overview of Attachments N and K of the Open Access Transmission Tariff – Market Efficiency Transmission Upgrades and Economic Studies

Bob Ethier

Director, Resource Adequacy and Chief Economist

March 26, 2008

# Outline of Presentation

- Overview of Attachment N
  - How potential economic transmission projects are evaluated
- Overview of Attachment K
  - How stakeholders may trigger economic evaluations of the transmission system
- Attachment N/K Working Group Charter/Scope of Work Straw Proposal

# Overview – Attachment N

- Attachment N of the Open Access Transmission Tariff (OATT) provides “Procedures for Regional System Plan Upgrades”
- Attachment N has four Sections:
  - Introduction
  - Standards for Identifying Reliability Transmission Upgrades (RTU) and Market Efficiency Transmission Upgrades (METU)
  - Procedures for Identifying RTU and METU
  - Cost-Effectiveness and Cost Allocation Determination of RTU and METU
- While the RTU language has been relied on extensively, to date no METU have been studied or identified

# Attachment N Section II – Standards for Identifying RTU and METU

- Section II describes how both RTU and METU are identified:
  - METU are “designed primarily to provide a net reduction in total production cost to supply the system load.”
  - Specifically, METU are upgrades where, “the net present value of the net reduction in total cost to supply the system load, as determined by the ISO, exceeds the net present value of the carrying cost of the identified transmission upgrades.”
  - Section II lists many factors to be taken into account, including energy costs, capacity costs, losses, release of bottled generation, and operating reserves.
  - Other data may be supplied to stakeholders but not considered in the ISO’s determination (e.g. total cost to load, congestion costs)

# Attachment N Section III – Procedures for Identifying RTU and METU

- ISO shall regularly conduct studies to identify needed system upgrades
- These studies will be shared with stakeholders through the PAC
- If these needs are not addressed through market responses, then METU may be added to the Regional System Plan
  - Section III recognizes that METU may be delayed or dropped from the RSP due to market responses that have development times shorter than those for transmission projects
- These decisions shall be made in consultation with stakeholders

# Attachment N Section IV – Cost Effectiveness and Cost Allocation Determination of RTU and METU

- The cost-effectiveness and cost allocation will be determined pursuant to Schedule 12 and Attachment K of the OATT and ISO Planning Procedure 4.
- These procedures are the same for both RTU and METU
  - This means that costs of METU will be shared Pool-wide based on load-ratio shares of each transmission owner
  - METU costs are subject to Transmission Cost Allocation review under Schedule 12 to determine if any costs should be localized
- These procedures have been implemented for RTU

# Overview – Attachment K

- Attachment K of the Open Access Transmission Tariff (OATT) provides “Procedures for Regional System Plan Upgrades”. Attachment K has a number of Sections:
  - Overview
  - Planning Advisory Committee (PAC)
  - Regional System Plan (RSP)
  - Procedures for the Conduct of Needs Assessments and Evaluation of Proposed Studies
  - Supply of Information
  - Regional Coordination
  - Procedures for RSP development and approval
  - Participating Transmission Owners obligations

# Overview – Attachment K

- Attachment K has a number of Sections:
  - Merchant Transmission Facilities
  - Cost Responsibility for Transmission Upgrades
  - Allocation of Incremental Auction Revenue Rights (ARRs)
  - Dispute Resolution Procedures
  - Rights Under the Federal Power Act
- This discussion will focus on “Procedures for the Conduct of Needs Assessments and Evaluation of Proposed Studies”
- Part 4.1.b “Requests by Stakeholders for Needs Assessments for Economic Considerations”

# Needs Assessments and Economic Studies

- Attachment K describes how the ISO is able to conduct Needs Assessments of the adequacy of the Pool Transmission Facilities to maintain reliability and promote the operation of efficient wholesale electric markets
- There are a number of possible triggers for Needs Assessments (e.g. operational needs, meeting reliability standards, expected constraints)
  - One specific trigger of a Needs Assessment is the submittal of an Economic Study request by a stakeholder

# Needs Assessments for Economic Considerations

- Part 4.1.b states that, “the ISO’s stakeholders may request the ISO to initiate a Needs Assessment to evaluate potential regulated transmission solutions or other participant-developed market solutions investments that could result in (i) a net reduction in total production cost to supply system load based on the factors specified in Attachment N of this OATT, (ii) less congestion, or (iii) the integration of new resources and load on an aggregate regional basis (an “Economic Study”).

# Submittal and Consideration of Needs Assessment Requests

- Requests for Economic Studies by stakeholders must be submitted by April 1 each year
  - These will be posted to the ISO website
- The ISO may add its own proposals
- The ISO shall develop a rough scope of work and cost estimate for all requested Studies
- The ISO shall develop a preliminary prioritization based on perceived benefits
- By May 1 of each year a PAC meeting shall be held at which Economic Study proponents provide an explanation of their request

# Submittal and Consideration of Needs Assessment Requests

- By June 1 of each year the PAC shall meet discuss and prioritize up to 3 Economic Studies to be performed
  - The costs will be recovered under the Tariff
  - Additional meetings may be held to discuss the prioritization or substance of the studies
- If agreement is not reached on prioritization or study substance then the dispute resolution provisions may be invoked by any PAC member by August 30
- The ISO will issue a notice to the PAC detailing the prioritization of the Economic Studies
- There are no deadlines for completion of studies within the Tariff

# Evaluation of Proposed Solutions

- Once a “need” has been identified through a Needs Assessment, the ISO evaluates proposed solutions (Part 4.2 of Attachment K)
- Solutions to a “need” may be market-driven or Regulated Transmission Solutions
  - Market solutions will be reflected in updated Needs Assessments and the RSP as described
  - Proposed Regulated Transmission Solutions are developed or evaluated through Solutions Studies, and approved and classified as Reliability Transmission Upgrades or Market Efficiency Transmission Upgrades under Attachment N as appropriate