INTERCONNECTION AND TRANSMISSION ACCESS: GATEWAY TO GENERATION DEVELOPMENT

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- Marketing capacity and energy from generation is dependent on interconnection to transmission systems for access to the markets (*i.e.*, interested power purchasers).
- Another motive to develop generation is to act as a load serving entity (LSE) — that is, directly to serve the power needs of the Tribal community.
- To effectively serve its community, generation requires interconnection and transmission services for reserve and reliability purposes.

- Generation must be connected to a transmission system to be economically useful
- Traditionally, utilities operated single systems with these functions

Generation
Transmission
Distribution

- A utility's focus primarily has been on its "own" retail customers' existing and growing needs. The levels of its operations were tightly coordinated.

- Coordination with "outside" systems generally was undertaken for regional reliability concerns and for economic opportunities as they arose.

Deregulation overview:

- Under the direction of FERC, the electric industry is undergoing major changes in the purposes and functions of transmission systems and other aspects of the production, delivery and even pricing of electricity. These changes should encourage Tribal resource development.

- Generation is “separated” from Transmission and at wholesale is separately sold at market-based prices by negotiated arrangements or auction.

- Transmission in interstate commerce is sold separately at FERC regulated rates.

Deregulation overview (cont.):

- Even within the same utility the transmission operators and the generation marketers (sellers and buyers of energy) should not coordinate privately.
- Transmission availability for sale is posted on a “public” OASIS (bulletin board), so all buyers have the same opportunities.

The Regulatory Source of Deregulation

FERC Order No. 888 (OATT) (1996):

- Convinced that competition in free and open markets would lead to more efficient allocation of resources, less price and service discrimination and fairer prices for consumers, FERC initiated the Open Access Transmission Tariff ("OATT").

- The OATT is a standardized transmission service tariff that originally must be used by all public utilities (rate-regulated by FERC).

(The OATT (cont.))

- Under the OATT, a vertically-integrated system has to take transmission (for wholesale purposes) under its own OATT rates, terms and conditions.
- The utility has to offer separate (unbundled) rates for generation and transmission services — making it more difficult to favor and bury subsidies to its own generation facilities.

FERC Order No. 889 (1996):

- Requires “standards of conduct” to separate a utility’s transmission function from its power marketing function.
- Purpose: to eliminate a utility’s power marketing group from preferential access to the utility’s transmission information.
- The OASIS is designed to eliminate discriminatory “insider deals” between a company’s own or affiliated generation and its transmission operations.

Order No. 889 (cont.):

- Requires use of a Transmission Open Access Same-Time Information System (OASIS).
- OASIS is an electronic “Bulletin Board” where all transmission buyers may see at the same time what transmission is available.
- Purpose: to establish a transparent market for transmission services.

Changes in the Market 1998-2005

- As a result of generators selling at market-based rates and easier access to transmission, a number of new trends surfaced.
- A huge increase in market activity for the sale of wholesale, and in some states retail, energy.
- The planning and construction of transmission could not meet the demand. Overloaded transmission in some areas of the country forced power curtailments.

Changes in the Market 1998-2005 (cont.)

- Competitive markets, in particular short-term energy markets (*i.e.*, spot markets), became rough. Anticipated sales can go south; and unanticipated need for energy can catch buyers by surprise. In the summer of 1998, spot market prices in one section of the country briefly spiked from an average of $40 per MWh to $7,500 per MWh.
- Also, as investors know, markets carry risks and, as became evident to the nation, fraudulent transactions in complex markets can cause devastating injury.

Changes in the Market 1998-2005 (cont.)

- Several regional independent transmission organizations ("ISO") were organizing at the turn of the century to gain efficiencies of transmission and information acquisition.
- However, new regional transmission was not getting built.
- Despite open access, discrimination against independent sellers continued.

FERC Order No. 2000 (1999):

- Promoted the regional transmission organization (RTO).
- Purpose: further the separation of transmission and generation functions to diminish discrimination against independent generators.
- An RTO is a voluntary transmission operating organization to control multiple transmission systems in a region of several utility systems.
- An RTO is a public utility; its transmission rates are regulated by FERC.

Order No. 2000 (cont.):

- Although joining an RTO is voluntary, an RTO must meet certain criteria to be authorized by the Commission.
- The RTO must be:
  - independent of its transmission owner/members and users
  - have a reasonable size and geographic scope
  - have operational authority over the transmission systems within it
  - be responsible for the reliability of the regional transmission system it operates

Order No. 2000 (cont.):

- Since the RTO is the transmission gateway and provider, it is designed to be objective, independent and neutral in its functioning, so the use of transmission to block access to markets or to favor certain generation over other sellers is substantially diminished in an RTO market.

FERC Order No. 2003 (2003):

- Established standardized generation interconnections procedures and agreements.
- Purpose: to eliminate a transmission owner favoring some generators over others.
- Established one set of procedures and studies to ensure that the interconnection of each generator to the grid “works” and is done with non-discriminatory terms.

Order No. 2003 (2003) (cont.):

- Established a first-come-first-served opportunity for interconnections.
- Established a pricing formula for the study, engineering and construction process by the transmission owner.
- Established uniform agreements governing the interconnection.

Order No. 2003 (2003) (cont.):

- An interconnection agreement does not guarantee that the generator can transmit its energy to a customer. Transmission service must be applied for separately under the FERC-approved OATT.

FERC Notice of Inquiry (NOI)/RM05-25 (2005):

- NOI: Preventing Undue Discrimination in Transmission Service (September 16, 2005).
- Comments must be filed by November 22, 2005.
- Purpose: to reform Order No. 888 (OATT)
- "We have observed that public utilities continue to have the discretion and the incentive to interpret and apply the provisions of their OATTs in a manner that can result in unduly discriminatory behavior…"

The Commission

Notice of Inquiry (cont.):

- The Commission wants specific examples of discriminatory or “unfair” behavior by Transmission operators.

Energy Policy Act of 2005:

- Among many other impacts on the nation's transmission system, the Act provides that the Commission may require non-public utilities ("unregulated transmitting utilities") to provide open access transmission service.