Regional Transmission Organizations (RTOs)
Enterprise, Regulator, or Service Organization?

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Background

**FERC Order 2000**

*In Order 2000, FERC identified the primary characteristics and functions of an RTO…*

*…FERC got it right…in part…*
Background

The Four Characteristics:

• Independence
• Scope and Regional Configuration  
  …bigger is better
• Operational Authority  
  …must be able to direct the operation of  
  transmission and generation assets in  
  emergencies
• Short-term Reliability  
  …Eastern Blackout…RTOs must be able to quickly  
  see and respond to contingencies
FERC Order 2000 (Cont)

*The Eight Minimum Functions*
- Tariff Administration and Design
- Congestion Management
- Parallel Path Flow
- Ancillary Services
- OASIS
- Market Monitoring
- Planning and Expansion
- Interregional Coordination
The Core Functions of an RTO can be further characterized as follows:

1) Provide Open & Non-discriminatory Transmission Service…
   - Tariff Administration and Design
     *Open and transparent access*
   - Congestion Management & Parallel Path Flow
     *Allocate transmission to those who value it the most – transparent pricing*
   - Ancillary Services
     *Necessary to support open access*
   - OASIS
     *Open Access and Transparency and..*
The Core Functions

2) Maintain a Reliable System
   • Congestion Management & Parallel Path Flow
     Align congestion management pricing with grid operations
   • Ancillary Services
     Necessary to support reliable operations

*Both Transmission Planning and Regional Coordination are necessary and complementary overlaying functions that support open access and reliable operations*
The Core Functions

Market Monitoring and Compliance

While the function is critical, the question is which entity is best suited to perform the function…

….Since FERC is the only entity with statutory authority (and thus obligated) to ensure just and reasonable rates (i.e., market outcomes), FERC should directly oversee this function.

*Tripartite arrangement between FERC, the States and an Independent Market Monitoring Entity could work...as supported by data provided from the RTOs*
The Core Functions

Data Warehouse

By necessity, RTOs produce and must retain critical market and operational data...RTOs should make data readily available to regulators, oversight agencies, market participants and academics (CAISO proposed “Regulatory Server”)
The Core Functions

FERC
Approves RTO Tariff
Oversees Market Performance

STATE
Resource Adequacy
Demand Response

MARKET MONITORING

RTO
TX Planning
TX Scheduling
Congestion Management
Outage Scheduling
Imbalance Energy
Ancillary Services
OASIS
Short-term Reliability

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What an RTO Is Not...

1) An Entity with the “Obligation to Serve”
   .... Load-serving entities, as overseen by the
   states, should have this obligation…The ISO
   should not have to procure “reliability”
geneneration (e.g., CAISO “Summer Peakers”)

2) Market Monitor and Enforcer
   …Difficult to both facilitate markets with meaningful
   price signals (i.e., scarcity rents) and enforce price
   mitigation…Clouds impartiality and perception of
   RTO. Need completely independent entity to
   oversee RTO operations. and…
What an RTO Is Not…

3) An Enterprise

…While “best practices” should always be advertised, RTOs should not be a marketing warehouse for market hardware and software…detracts from core business.
In Summary

In Order No. 888, FERC established a paradigm wherein open and non-discriminatory access to the still-regulated transmission system is used to facilitate competition in the generation sector. RTOs facilitated the transition from a “functionally unbundled” electric system to “structural” reorganization of the industry. In that transition, the functions ascribed to, and assumed by, RTOs has blurred the line between what can be provided by the market and what must still be regulated…

*RTOs should return their focus to those services necessary to support their core functions, that of ensuring open access and operating a reliable system.*