

WSPP Inc.

WSPP WECC

Recap of Reserves Training<sup>1</sup>

Arnie Podgorsky, Wright & Talisman PC

(Also see Jeff Atkinson's presentation regarding open issues)

(See particular presentations for all details)

June 5, 2008

1. Jeff Atkinson, WSPP Chair, presented how consideration of BAL002 came about, the status of BAL002 and timeline, and briefly presented how BAL002 would work.
2. Scott Kinney, for Northwest Power Pool, with representatives of the CAISO, demonstrated how reserve sharing works:
  - Generation covered is within metered boundary
  - Participants reciprocate by delivering their Contingency Reserve Obligation to others
  - Telemetry- automatic governor response to frequency

And, the Pool showed us how deployment occurs upon occurrence of a DCS contingency (and not necessarily a specific interchange cut).
3. Phil Tice showed us WECC Energy Product codes
  - Codes are to assist BAs to map out flows on the grid
  - Codes do not determine commercial product definitions, which are provided by counterparties (via, e.g., but not exclusively, the WSPP Agreement)
  - The comparison slide of WECC product codes and WSPP Products is demonstrative only. Some WECC codes may apply to other products, e.g., OATT products (reserves under Schedules 5&6) as well as WSPP or other commercial products
4. David Lemmons demonstrated the calculation methodology and that the new standard assured that reserves would be in place at the BA; the BA would obtain the reserves, and deal with deliverability and deployment (to keep the system up); counterparties would not be required to provide reserves with each transaction.

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<sup>1</sup> This summary does not state any position of WSPP Inc. (formal or otherwise) or a legal opinion, but is merely counsel's best effort to summarize many points (but not all points) of the training sessions.

5. Does the new Standard raise problems for BA?
  - May be difficult for BA to ascertain its obligation hour to hour
  - May be difficult to assure deliverability due to transmission congestion (but this problem exists under current (old) standard). Podgorsky raised whether Transmission Reliability Margin (TRM) could be used to enhance deliverability issues.
  
6. We discussed the position of some Buyers that under old standard, the Seller's reserves enhanced likelihood that Seller would deliver.
  - But reserves were NOT 107%, they were some 7%. Contractually, "reserves" were to add a reliability margin to the system grid-wide, not to assure delivery under a specific transaction.
  - And, if Seller fails to deliver, neither Seller nor Buyer have authority to dispatch the reserves? Only BAs and RSGs dispatch reserves. So Buyers could not benefit directly from the reserves.

So, while Buyer's concern for delivery deserves great respect, and WSPP has sought to address from time to time, any Schedule C reserves requirement did not assure that delivery.

7. We discussed Schedule C- "with reserves"  
Here's the language:

C-3.3 Firm capacity transactions shall include buying, selling, or exchanging capacity between Parties with or without associated energy. Firm capacity is deemed a capacity sale from the Seller's resources and backed by the Seller's capacity reserves.

[The term "capacity reserves" is not defined in the WSPP Agreement, nor anywhere else in WECC, NERC, NWPP, etc.]

C-3.4 Firm energy transactions shall include buying, selling, or exchanging firm energy between Parties. Subject to mutual agreement, firm energy is deemed a quantity of energy the Seller has agreed to sell and deliver and the Purchaser has agreed to buy within a specified time period.

C-3.10 Seller shall be responsible for ensuring that Service Schedule C transactions are scheduled as firm power consistent with the most recent rules adopted by the applicable NERC regional reliability council.

Is the requirement to schedule consistent with RRC rules a requirement in WECC to carry contingency reserves? Some say yes; some say no, and some say if it does require reserves there is an antitrust problem. WSPP takes no position.

BAL002 implementation eliminates the question going forward. However, some Buyers feel that they negotiated long-term deals under the old standard, that the WSPP Agreement required Seller to provide reserves, and that the change will deprive them of the benefit of the bargain. WSPP takes no position but invites parties to avail themselves of WSPP mediation. Note, the Task Force may consider developing informal straw-person proposals to assist parties in settling disputes.

8. We discussed an IPP selling out of a single unit under Schedule C. Can a Buyer, upon learning that Seller has a single unit, deem the sale a Schedule B? If this occurs, what is impact—does it make Transmission Provider more likely to cut the B transaction if curtailment required?

Neither Schedule C nor WECC coding require multiple generation sources behind a firm product. Some believe the IPP should be required to sell as unit contingent (Schedule B) and WECC tag accordingly. Note that deliverability risk depends on unit performance, and relationship of IPP to BA or RSG. (Will the BA/RSG keep the schedule if there is delivery failure?)

Or is it really truly Schedule C, and the Buyer needs to decide whether to buy from this Seller with its one unit? Is the 1-unit IPP less reliable than a Big Dog that is short gen, but sells firm by flipping power from a 3<sup>rd</sup> party? Depends on the facts.

FERC envisioned IPPs in Order No. 888, that open access via OATTs would foster IPPs and resulting competition. Undermining IPPs by cutting them out of a firm market could undermine the pro-competitive goals of Order No. 888.

Can WSPP fix aspects of this by providing for special damages for cuts just before or during the hour? This would go a long way. But WSPP has made little – ok, no – progress with this.

9. Is BAL002 perfect? Is it an improvement? Some think BAL002 does much good for the majority of the industry. The deliverability question (whether under the view of some that the old standard made firm more firm, or whether with respect to IPPs) represents a small portion of the market.

#### RECAP of June 6, 2008

10. Arnie Podgorsky presented the recap of June 5, 2008.
11. \_\_\_\_\_ of Goldman Sachs presented the view of the financial sector, that that sector wishes other players well in addressing the issues presented by BAL002 and took no position. Goldman seeks liquid and robust markets that foster trading.

12. Brenda Anderson presented BPA's views about BAL002. [ ]
13. Leesa Nayudu presented several scenarios to demonstrate how reserves requirements would be calculated by and as between BAs. Leesa also identified some concerns about trading reserves under Schedule C. Some suggested that Leesa or the Task Force address how Reserves would be deployed.
14. Arnie Podgorsky described regulatory aspects as follows:
  - a. Trading of reserves at market requires (for jurisdictional utilities) a separate market based tariff that meets specific requirements (product identification and specific description, and supported by market power study under most circumstances).
  - b. A new WSPP service schedule could fulfill the product identification and description requirement, but market power would need to be addressed on a member by member basis, particularly given FERC's recent decision about WSPP's "up-to" pool-wide demand charge.
  - c. Even with a market based tariff, there are restrictions on selling to affiliated Transmission Providers for the Providers' provision of reserves under OATT Schedules 5 & 6 (which are cost based), as well as certain other restrictions. WSPP can set these restrictions out specifically when and if appropriate.
  - d. Non-jurisdictional utilities need not have market based tariff, but if the Buyer is jurisdictional, the Buyer will likely want a market study to demonstrate that the acquisition price was reasonable (among other possibilities of supporting that demonstration).
  - e. Schedule C is inadequate to support reserves trading unless supported by a confirmation that provides the product identification and description.
  - f. A new WSPP service schedule would need to address identification and description, deliverability (possibly a zonal approach?), damages or other remedies for failure to provide the product, technical requirements such as telemetry, and, tie to compensation for deployment (an energy transaction).
15. Jeff Atkinson presented a summary of remaining issues followed by discussion.