

WSPP Inc.



October 27, 2008

North American Electric Reliability Corporation
Board of Trustees
116-390 Village Boulevard
Princeton, New Jersey 08540-5721

RE: Adoption of WECC Balancing Standard

Dear Board of Trustees

I. Introduction

I am the Chairman of the WSPP, formerly known as the Western Systems Power Pool. WSPP consists of over 300 members.*

The agenda for the upcoming NERC Board of Trustees meeting notes a recommendation by NERC staff that WECC Balancing Standard BAL-002-WECC-1 ("BAL002") be remanded to the WECC. Because a remand would perpetuate market confusion brought on by lack of clarity on reserves issues, NERC should approve BAL002.

As NERC is aware, in September 2007, WECC issued an interpretation of the current standard under which each entity entering into a commercial transaction that resulted in injection of firm energy into a Balancing Authority's territory was required to identify which party was carrying load responsibility. Some WSPP members were not in a position to comply in circumstances where they injected outside their own BA's territory, and there was disagreement whether WSPP Service Schedule C requires the provision of reserves with firm energy. Consequently, some members maintained that the WECC interpretation would improperly carve them out of markets. Indeed, market liquidity diminished substantially once the interpretation was implemented, to the detriment of competition and market participants.

The effect of the standard reaches beyond the world of reliability into the markets. The details of how the market for physical, term power products has suffered in the West can be found in the report of a WSPP task force established to address liquidity issues resulting from the WECC interpretation and educate WSPP members about the issues. The report can be retrieved at: http://wspp.org/reserves_issues.php. The report is the

product of significant study. It identifies BAL002 as a way to rescue market liquidity. As the report explains, the physical term markets in the West have been in limbo because of a lack of clarity over the reserves issue since September of 2007. The implementation of BAL002 is expected to bring an end to market stultification. If BAL002 is remanded to WECC, market participants can expect the markets to remain in limbo for an extended period while WECC attempts to recreate the wide consensus enjoyed by the proposed standard.

We respect NERC Staff's attention to the issues but the expressed views do not appear meritorious. Staff's comment that "*significant technical and procedural comments were received during the NERC posting on BAL-002-WECC-1,*" overstates the opposition and seems to disregard the WECC vote. Six parties out of the entire WECC submitted comments in opposition.

The comments submitted raise three issues. The first being that there was a lack of technical justification for the 3% and 3% requirement, the second being that a reserves market is needed if the standard is passed, and the third suggesting that parties were barred from participating in the review of the standard.

As NERC considers these issues, we know it will be mindful that it must rebuttably presume that WECC's proposed reliability standard is just, reasonable, not unduly discriminatory or preferential, and in the public interest. *See Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards*, Order No. 672, 2006-2007 FERC Stats. & Regs., Regs. Preambles ¶ 31,204 at P 298 (2006). Under FERC's criteria, those opposed to BAL002 bear the burden of proof that it is unjust, unreasonable, discriminatory or preferential under the Federal Power Act, or contrary to the public interest. The fact that that BAL002 could financially favor, or disfavor, specific participants is not itself a proper basis to disapprove, unless discrimination is shown.

II. Staff's Reasons For Remand Are Not Meritorious

A. Remand For Additional Technical Justification Would Serve No Valid Purpose

Contrary to NERC staff, remand "*to establish a more sufficient technical justification for the change in R1.1.2*" could serve no helpful purpose. Because the standard, as we understand it, is more stringent than the existing NERC standard, no evidence would justify a finding that the standard is improper under FERC's approval criteria. *Id.* The BAL002 drafting team presumably demonstrated the validity of the standard through its studies submitted to NERC. Those opposed have not brought forth data to prove otherwise, and therefore have not rebutted the presumption. As far as I can ascertain from the materials on NERC's website, NERC agrees with WECC's assertion that the new standard is more stringent.

B. Markets For Reserves Is Not A Valid Reason To Deny Approval

There already exists a market - albeit thin - for the buying and selling of contingency reserves. Reserves are traded under Section C of the WSPP Agreement, utilizing a WECC product code designed specifically for tagging such transactions. Those opposed to the standard have pointed to the thinness of the reserves market as being a reason to delay implementation of the standard, or to deny it altogether. But this is a chicken and egg argument. The market for reserves will only develop when the standard is implemented, spurring the demand for reserves.

What is more, thin markets have the same impact – albeit on different participants – whether or not BAL002 is implemented. Under the current WECC interpretation, some WSPP members assert that they are closed out from certain geographic markets because they cannot acquire reserves when their trades sink outside their own BA. It follows that the markets argument is neutral, and not a genuine basis to conclude that BAL002 fails FERC’s criteria.

In any event, beyond the market structure that exists today for reserves, WSPP is creating a new service schedule specific to reserves. Virtually all BAs who have claimed a need to purchase reserves are enabled to purchase reserves via the WSPP, either directly or through their merchant. The market structure exists and will be enhanced.

C. Staff’s Other Concerns Do Not Justify Remand

The WECC drafting team addressed whether or not the WECC process was open to all stakeholders. I would only add that WSPP, given its significant interest in market liquidity, spent more time on this issue than on any other issue in many years. Most if not all of the WECC members are also WSPP members and therefore had additional exposure on this issue from the commercial side. Because the WECC interpretation and proposed BAL002 affect both reliability and the commercial worlds, WSPP and WECC sponsored a joint workshop (the first of its kind) on reserves. The workshop enjoyed participation in excess of three hundred. In that workshop and by circulation of materials and conduct of wide conference calls, WSPP educated hundreds of market participants about the problem, potential solutions, and BAL002.

Staff’s recommendation that BAL002 be altered to “...*permit the use of demand side resources in all facets of contingency reserve.*” is interesting and potentially productive, but under the FERC criteria is not a lawful basis to deny approval or remand. It is our understanding that NERC’s function is to defer to the respective regions, and approve a regionally approved standard unless those opposed sustain their burden of proof with evidence that the proposal is unjust and contrary to the public interest. It is our understanding that NERC’s role is not to devise the best conceivable standard. Staff’s suggestion, interesting and positive as it may be, does not indicate that BAL002 is defective or improper and in fact could apply to the existing standard as well. In any event, the value to be gained by implementing BAL002 now versus later overshadows the

value of altering the standard to include this provision, which could be added later if justified.

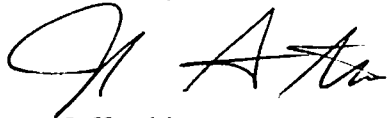
III. Additional Discussion

WSPP (and possibly others) had good reason not to submit comments in support of the standard during the comment period. Many parties assumed that NERC would approve the standard, given the wide support for it evidenced by the WECC voting record, especially since all parties appear to agree that the new standard provides a greater level of protection for reliability, the chief objective of any reserves standard.

The proposed standard was created months ago and has undergone tremendous regional scrutiny and challenge. The standard was widely debated in multiple meetings, including educational workshops. All affected parties had free access to these forums. A tremendous amount of investment in time and effort were spent on the standard's creation, review process, and vote. The culmination of this work was a highly successful vote from three different sectors. The Transmission Providers voted 82% to approve, the Transmission Customers voted 89% to approve, and the WECC Board voted 96% to approve. Staff has too readily rejected these overwhelming votes—without satisfying the FERC criteria for rejection.

The agenda indicates that the Board of Trustees will vote on this issue on October 29. The option to approve BAL002 is still available to the Board. On behalf of the vast majority of the WSPP members, and in deference to the overwhelming vote at WECC, I respectfully ask NERC to approve BAL002 to clarify reserve requirements and provide similar clarity to market participants. I can be reached any time at (509) 750-1972.

Sincerely,



Jeff Atkinson
Chairman, WSPP

*This letter was submitted to the Executive Committee for review. The following WSPP members asked that we state that they do not subscribe to its contents:

Portland General Electric, Puget Sound Energy, Powerex, Seattle City Light, Tacoma City Light.

Given the lateness at which WSPP became aware of NERC's proposed actions, the WSPP went through a much abbreviated process in developing this letter and vetting it with its membership. There may be other parties, beyond those listed above, who would have opted to have their names also listed had they had more review time.