

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Entergy Services, Inc.,)
)
)
on behalf of the Entergy Operating) Docket No. RT01-_____
Companies: Entergy Arkansas, Inc., Entergy)
Gulf States, Inc., Entergy Louisiana, Inc.,)
Entergy Mississippi, Inc., and Entergy)
New Orleans, Inc.)

**TESTIMONY
OF
STEVE OWENS
ON BEHALF OF
ENERGY SERVICES, INC.**

October 16, 2000

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Steve Owens, 639 Loyola Avenue, New Orleans, LA 70113.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Entergy Services, Inc. as Director of Regulatory Support for Fossil Operations and Transmission.

Q. ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

A. I am submitting this testimony on behalf of Entergy Services, Inc. (“ESI”) as agent for the Operating Companies, Entergy Arkansas, Inc. (“EAI”), Entergy Mississippi, Inc. (“EMI”), Entergy Louisiana, Inc. (“ELI”), Entergy New Orleans, Inc. (“ENOI”) and Entergy Gulf States, Inc. (“EGSI”).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have twenty-four years of experience in the electric utility industry, including twenty-one with the Entergy System and three with Potomac Electric Power Company. Prior to beginning work in the electric utility industry, I served six years in U.S. Naval Nuclear Power as a reactor operator and nuclear operations supervisor. I am a graduate of the Naval Nuclear Power Program.

1 In the course of my career I have been involved in many aspects of the
2 electric utility industry. I began my Entergy career in 1979 with EAI in
3 project management, responsible for managing the engineering and
4 procurement plan for the construction of EAI's Independence coal fired
5 power plant. Following the construction of the Independence plant, I became
6 responsible for developing the planned outage maintenance plans for EAI's
7 nuclear and fossil plants. In 1983 I was promoted to Supervisor Planning,
8 White Bluff Steam Electric Station where I was responsible for the planning
9 and management of all routine, forced and planned maintenance activities as
10 well as capital improvements. I was promoted to Manager, Planning,
11 Scheduling and Cost Control with EAI in 1984 where my primary
12 responsibilities included managing the cost estimating, planning and cost
13 control functions for all nuclear and fossil power plant capital projects and
14 planned maintenance outages. In 1988 my responsibilities were expanded to
15 include Transmission and Distribution as well as Fossil Operations. In 1992,
16 with the realignment of the functional responsibilities on an Entergy System
17 basis, I was named Manager of Planning for System-Wide Fossil Operations
18 responsible for short and long-range capital planning, planned maintenance
19 outage planning as well as cost estimating and cost control. In June 1992, I
20 was named Manager, Planning for the Entergy/GSU Merger, where I was
21 responsible for developing and managing the plans and schedules for guiding
22 the regulatory approval process, and the development of the operational

1 integration plan. In January 1994, I was named GSU Merger Implementation
2 Project Manager, where my primary responsibilities included the oversight of
3 the merger implementation to ensure compliance with the implementation
4 schedule, oversight of the staffing implementation process, internal and
5 external communications and regulatory reporting on merger implementation
6 status. In 1996, I was named Project Manager, Utility Group, where my
7 primary responsibilities included managing the activities necessary to transition
8 Transmission, Distribution and Fossil Generation to a retail access
9 environment. In 1999, I was named Director, Regulatory Support for Fossil
10 Operations and Transmission.

11

12 Q. WHAT ARE YOUR PRIMARY RESPONSIBILITIES AS DIRECTOR
13 REGULATORY SUPPORT?

14 A. I am responsible for managing the operational development and
15 implementation of Transco that is being established to meet the requirements
16 of FERC Order No. 2000.

17

18 **II. PURPOSE OF TESTIMONY**

19 Q. WHAT IS THE PURPOSE OF THE TESTIMONY YOU ARE
20 PRESENTING IN THIS PROCEEDING?

21 A. The purpose of my testimony is to describe the SPP Partnership RTO
22 proposal including the following:

- 1 1. Discuss the process used to develop the SPP Partnership RTO;
- 2 2. Provide an overview of the SPP Partnership RTO Memorandum of
- 3 Understanding (“MOU”) including conditional issues of the MOU;
- 4 3. Discuss how the RTO minimum functions are allocated between the
- 5 Transco and the RTO;
- 6 4. Discuss the remaining issues that must be resolved in order to complete
- 7 the development and implementation process; and
- 8 5. Provide an implementation timeline for the SPP Partnership RTO.

9

10 **III. SPP PARTNERSHIP RTO DEVELOPMENT PROCESS**

11

12 Q. DESCRIBE THE DEVELOPMENT OF THE SPP PARTNERSHIP RTO
13 PROPOSAL AND THE INITIAL DISCUSSIONS WITH SPP.

14 A. Entergy first began evaluating the Transco, or independent transmission
15 company model in late 1997 and presented an initial model at a Federal
16 Energy Regulatory Commission (“FERC”) workshop on April 16, 1998.
17 Subsequently, Entergy made a declaratory filing on April 5, 1999 asking the
18 FERC to determine if the proposed Transco structure would meet the
19 independence requirements of an ISO as outlined in FERC Order No. 888.
20 FERC issued an order on July 30, 1999 declaring that the proposed structure
21 could meet the independence requirements of an ISO with certain
22 modifications.

1 In late 1999, the Commission issued Order No. 2000 regarding RTOs.
2 Shortly thereafter, SPP sought recognition as an RTO. At the same time,
3 Commonwealth Edison introduced a new model referred to as a “Binary
4 RTO”. In late 1999, ComEd made a binary RTO filing, proposing to allocate
5 responsibilities for the minimum functions and characteristics of an RTO
6 between an independent transmission company and the MidWest ISO. The
7 Commission issued a declaratory order in Docket Nos. EL0025-000 and
8 ER00-448-000 on February 24, 2000 conditionally accepting the proposed
9 binary RTO. As FERC stated:

10 Petitioners have proposed an Independent Transmission
11 Company (“ITC”) coupled with oversight by the Midwest ISO.
12 Under the proposal certain RTO functions will be performed
13 by the ITC under the supervision of or in coordination with the
14 Midwest ISO, while other functions will be performed by the
15 Midwest ISO. We welcome the innovative RTO structure
16 proposed by the Petitioners. The Petitioners have developed
17 creative and innovative approaches to several important issues
18 involved in the formation of such regional entities. While
19 certain aspects of their petition require further development,
20 we believe that Petitioners’ proposal will allow greater
21 flexibility in the formation of RTOs while still satisfying Order
22 No. 2000’s goal of increased regionalization of the grid. (page
23 1)

24
25 Subsequently, Entergy began evaluating a binary RTO model and after
26 discussions with its retail regulators and other stakeholders, made a
27 presentation at the Kansas City and Atlanta FERC Collaborative meetings that
28 outlined how such a model could be implemented in our region within the
29 context of an SPP RTO. We refer to this model as the SPP Partnership RTO.

1 Following the FERC collaboratives, Entergy presented an RTO Partnership
2 proposal to the SPP Board of Directors on May 11, 2000 that would allow a
3 Transco to operate within and under the oversight of the proposed SPP RTO.

4 The SPP Board of Directors expressed interest in the proposal. An
5 agreement was reached to form a Partnership Working Group to evaluate the
6 proposal and to make a subsequent recommendation to the SPP Board.

7
8 Q. WHY DID ENTERGY APPROACH THE SPP WITH THE PARTNERSHIP
9 PROPOSAL?

10 A. Entergy has transmission interconnections with many of the SPP member
11 companies and had discussed the Transco proposal with all of its
12 interconnected companies. Additionally, Entergy had engaged other
13 neighboring companies in discussions regarding their plans to implement the
14 requirements of FERC Order No. 2000. Based on our discussions, it
15 appeared to Entergy that the SPP organization represented the best
16 opportunity to develop a binary RTO within this region.

17
18 Q. DOES ENTERGY BELIEVE THAT THE SPP PARTNERSHIP RTO IS
19 THE ONLY MEANS FOR DEVELOPING A REGIONALLY EFFICIENT
20 RTO?

21 A. No. While we do believe that the proposed SPP Partnership RTO does meet
22 the configuration and scope requirements of FERC Order No. 2000, we also

1 believe that these requirements could be met with various other configurations
2 of transmission-owning entities in our region.

3

4 Q. HOW DID SPP EVALUATE THE RTO PARTNERSHIP MODEL?

5 A. Following the FERC's order on the proposed SPP ISO, the SPP formed an
6 RTO Working Group. The RTO Working Group reported to the SPP Board
7 of Directors and was comprised of sixteen members, eight transmission
8 owners and eight transmission users, and was co-chaired by representatives
9 from a municipal utility and an investor owned utility. The RTO Working
10 Group's charge was to form sub-working groups to evaluate the deficiencies
11 found by FERC in the SPP's 1999 ISO/RTO filing and recommend courses of
12 action that could be taken in the SPP's subsequent RTO filing to resolve these
13 deficiencies. The RTO Working Group was responsible for evaluating the
14 proposals made by these sub-working groups and approving the proposals for
15 recommendation to the SPP Board of Directors for approval. The SPP Board
16 of Directors approved the formation of a Partnership Working Group,
17 reporting to the RTO Working Group, to evaluate the RTO Partnership
18 proposal.

19

20 Q. DESCRIBE THE DEVELOPMENT OF THE PARTNERSHIP WORKING
21 GROUP AND THE COMPOSITION OF ITS MEMBERS.

1 A. Using standard SPP practice, the Partnership Working Group included
2 representatives from a cross-section of SPP members, including
3 representatives from cooperatives, power marketers, investor owned utilities,
4 Federal Agencies, State Agencies and municipals. It was chaired by a
5 representative from the Oklahoma Municipal Power Authority (“OMPA”).
6

7 Q. DESCRIBE THE MEETING PROCESS AND ATTENDANCE.

8 A. The meeting schedules were published on the SPP WEB exploder list, which
9 was accessible to all interested parties. Attendance was open to anyone
10 interested in participating in the discussions. On average approximately
11 twenty to twenty-five individuals were in attendance at each meeting, which
12 included SPP members as well as representatives from state and local
13 regulatory agencies and the FERC Staff.
14

15 Q. DESCRIBE THE PROCESS USED BY THE WORKING GROUP TO
16 EVALUATE THE RTO PARTNERSHIP PROPOSAL.

17 A. The initial RTO Partnership proposal included twenty-three specific terms. At
18 its May 11 meeting to consider the proposal, the SPP Board of Directors had
19 raised concerns about three of the twenty-three items. However, the
20 Partnership Working Group decided that it would be appropriate to review
21 fully and understand each of the proposed terms and conditions, not just those
22 items that had been identified by the board as areas of concern. Many issues

1 were raised during the evaluation process, ranging from which entity would
2 calculate Available Transfer Capability/Total Transfer Capability
3 (“ATC/TTC”) to how Transco would share in the RTO operational costs.
4 The discussions represented a true stakeholder process. The Partnership
5 Working Group was able to reach agreement on all issues, although the
6 agreement on certain terms was conditional. It was agreed that, conditioned
7 upon reaching agreement on a single congestion management regime for the
8 entire RTO, the RTO would use a single tariff, with Transco rate schedules,
9 and that the RTO would calculate ATC/TTC. The Partnership Working
10 Group then conducted a vote, which resulted in recommending the SPP
11 Partnership RTO Proposal to the RTO Working Group for approval.

12

13 Q. WAS THE SPP PARTNERSHIP RTO PROPOSAL REVIEWED AND
14 APPROVED BY THE RTO WORKING GROUP?

15 A. Yes. The SPP Partnership RTO Proposal was thoroughly reviewed by the
16 RTO Working Group and it was approved by a vote of ten to one for
17 recommendation to the SPP Board of Directors for its consideration and
18 approval.

19

20 Q. HAS THE SPP PARTNERSHIP RTO PROPOSAL BEEN APPROVED BY
21 THE SPP BOARD OF DIRECTORS?

1 A. Yes. The SPP Board of Directors approved the SPP Partnership RTO
2 Proposal at its July 20, 2000 meeting in which a resolution was adopted by a
3 vote of twenty to one. The Memorandum of Understanding (“MOU”)
4 outlining the terms and conditions of the SPP Partnership RTO approved by
5 the SPP Board of Directors is attached to this Application as Attachment G
6 and the minutes of the SPP Board of Directors meeting where this resolution
7 was adopted is attached to the Application as Attachment H.

8

9 Q. WAS A TRUE STAKEHOLDER PROCESS USED IN EVALUATING
10 AND DEVELOPING THE SPP PARTNERSHIP RTO PROPOSAL?

11 A. Yes. First, the process employed by SPP in forming the RTO Working Group
12 ensured that all segments of the industry were represented. Second, the
13 formation of the RTO Partnership Working Group was open to the
14 participation of all interested parties -- there was no limit placed on which
15 entities were represented or on how many representatives could participate.
16 Third, the meeting dates and locations of the working groups were posted on
17 the SPP WEB and were open to all parties.

18

19 **IV. OVERVIEW OF THE SPP PARTNERSHIP RTO**

20

21 Q. WHAT IS THE SPP PARTNERSHIP RTO MODEL?

1 A. The SPP Partnership RTO model is described in the MOU that outlines the
2 functional responsibilities of an RTO and a Transco and, in general terms, how
3 the Transco would operate within the RTO structure and under the oversight
4 of the RTO. The proposal also outlines how the RTO and Transco would
5 share in the responsibility for carrying out the functions outlined in FERC
6 Order No. 2000.

7

8 Q. DOES THE SPP PARTNERSHIP RTO PROPOSAL APPROVED BY THE
9 SPP BOARD OF DIRECTORS CONTAIN ANY CONDITIONS THAT
10 MUST BE MET?

11 A. Yes. The SPP Partnership RTO Proposal is conditioned on SPP and Transco
12 agreeing on a single congestion management regime.

13

14 Q. WHY IS ADOPTING A SINGLE CONGESTION MANAGEMENT
15 REGIME IMPORTANT?

16 A. FERC Order No. 2000 requires the RTO to employ a transmission pricing
17 system that will promote efficient use and expansion of transmission and
18 generation facilities and will create market mechanisms to manage
19 transmission congestion. Company Witnesses Mr. George Bartlett and Mr.
20 Michael Schnitzer discuss in their testimony why it is critical for this region,
21 including the proposed Transco, to implement an efficient congestion
22 management system.

1

2 Q. WHAT IS THE STATUS OF REACHING AGREEMENT ON A SINGLE
3 CONGESTION MANAGEMENT REGIME WITHIN THE SPP RTO?

4 A. The SPP conducted a two-day collaborative workshop on July 31 and August
5 1, 2000 that was attended by approximately one hundred participants. At this
6 workshop two proposals for congestion management were presented. The
7 first proposal recommended a physical rights model. The second proposal,
8 sponsored by Entergy, recommended the use of a locational marginal pricing
9 and financial transmission rights congestion management model similar (but
10 not identical) to the congestion management regimes implemented in other
11 ISOs.

12

13 Q. WAS ANY AGREEMENT REACHED AS A RESULT OF THIS
14 COLLABORATIVE WORKSHOP?

15 A. Yes. An agreement in principle was reached among all attending parties on a
16 compromise or “hybrid” market model that would: (1) utilize locational
17 marginal pricing with financial rights for the real-time balancing energy market
18 that would provide nodal pricing (generator bus) for generators and zonal
19 pricing for loads (although loads would have the option of a nodal price if so
20 desired), and (2) the development of a forward market utilizing aspects of the
21 physical rights (“flow-gate rights”) and/or financial rights model. The minutes
22 of the August 30 SPP Board of Directors meeting in which this agreement

1 was adopted is attached to the Application as Attachment H.

2

3 Q. YOU STATED THAT AN AGREEMENT IN PRINCIPLE WAS
4 REACHED. WHAT IS THE PLAN TO DEVELOP THE SPECIFIC
5 MODEL FOR IMPLEMENTATION?

6 A. The SPP formed a Congestion Management Systems Working Group
7 (“CMSWG”) to flesh out the details of this compromise model. That group
8 had its first discussion on August 25, 2000. The task before the CMSWG is
9 to develop the specific rules for implementing the agreed upon market
10 structure outlined above.

11

12 Q. ARE YOU OPTIMISTIC THAT A SINGLE CONGESTION
13 MANAGEMENT REGIME THAT IS CONSISTENT WITH THE
14 AGREEMENT IN PRINCIPLE WILL BE DEVELOPED BY THE
15 CMSWG?

16 A. Yes.

17

18 **V. DETAILS OF THE SPP PARTNERSHIP RTO**

19 Q. WHAT ARE THE BASIC GOVERNANCE AND OPERATIONAL
20 RESPONSIBILITIES OF THE SPP PARTNERSHIP RTO?

21 A. The SPP Partnership RTO will be responsible for: 1) acting as the regional
22 Security Coordinator for the SPP and Transco systems; 2) performing the

1 ATC/TTC calculations for the SPP and Transco, subject to the conditions of
2 the MOU; 3) fostering full and complete input by all market participants into
3 Transco's policies; 4) overseeing a regional transmission expansion planning
4 process; and 5) providing an appropriate forum for market monitoring and
5 dispute resolution.

6

7 Q. PLEASE DISCUSS HOW THE SPP RTO WILL PROVIDE THE
8 SECURITY COORDINATOR FUNCTION FOR BOTH THE SPP AND
9 TRANSCO SYSTEMS.

10 A. The SPP RTO will perform multiple functions under the SPP Partnership RTO
11 model. It was agreed that the staff structure and organization will be reviewed
12 and appropriately modified to ensure non-discriminatory treatment of all
13 parties with respect to SPP Partnership RTO functions. The SPP Partnership
14 RTO organizational structure will be designed to provide independence
15 between (1) the SPP Partnership RTO functions: oversight, planning, security
16 coordination, dispute resolution and market monitoring, all of which will be
17 performed by SPP; and (2) the transmission provider and tariff administrator
18 functions which will be performed by SPP, by SPP non-transco members and
19 by Transco. At a minimum, the Security Coordinator function will be
20 separated from the SPP RTO tariff administrator function by a code of
21 conduct specifying the policies and procedures that must be followed in all
22 business transactions.

1

2 Q. YOU STATED EARLIER THAT THE SPP PARTNERSHIP RTO
3 PROPOSAL SUPPORTED THE USE OF A SINGLE TARIFF. PLEASE
4 ELABORATE.

5 A. Assuming the conditions of the SPP Partnership RTO MOU discussed earlier
6 are met, the SPP Partnership would administer a single tariff that will apply to
7 transmission service for both the SPP and Transco.

8

9 Q. WILL TRANSCO RETAIN THE RIGHT TO FILE CERTAIN TARIFF
10 CHANGES WITH THE FERC WITHOUT RECEIVING SPP OR THE SPP
11 PARTNERSHIP RTO APPROVAL?

12 A. Yes. Transco will have control over those portions of the tariff that affect the
13 commercial terms and conditions of transmission service over Transco's
14 facilities. Transco will be able to make filings directly with FERC proposing
15 rate or rate structure changes (including incentive structures) involving
16 transmission charges for service to load within the Transco area or involving
17 transmission service that does not cross any of the other SPP transmission
18 operator facilities. Transco will also retain the right to make filings at FERC
19 for the purposes of implementing new transmission services that are not
20 contained in the RTO Transmission Tariff, provided that such filings do not
21 alter the terms and conditions of service across the SPP systems other than the
22 Transco. In all cases, Transco will provide the SPP with a copy of any such

1 filing thirty days prior to the filing with the FERC and will make reasonable
2 efforts to resolve any issues regarding the new service prior to such filing
3 with. A detailed list of the pro forma tariff provisions that Transco will have
4 the right to change through FERC filings is in development. The list of these
5 provision will be ratified by the SPP Board of Directors and will be submitted
6 to FERC for approval as part of the December Transco filing discussed in Mr.
7 Gallaher's testimony.

8

9 Q. WHY IS IT IMPORTANT THAT TRANSCO HAVE CONTROL OVER
10 THE COMMERCIAL TERMS OF THE TARIFF THAT AFFECT
11 SERVICE WITHIN THE TRANSCO SERVICE AREA?

12 A. Upon startup, Transco's function will be as an independent transmission
13 company. Its success will be driven by the ability to manage the transmission
14 assets, maximize the utilization of the grid and commercial operations of the
15 company. Transco must be customer-focused and have the ability to quickly
16 respond to the changing needs of the market place and its customers. The
17 ability to quickly develop and implement new products and services in
18 response to its customers, or to modify its rates, rate structures, incentive
19 measures or other commercial terms will, to a large extent, determine the
20 ability of a stand-alone transmission company to succeed.

21

1 Q. IS IT APPROPRIATE FOR TRANSCO TO HAVE CONTROL OVER
2 THESE RATE FUNCTIONS?

3 A. Yes. By corporately separating the transmission assets from the Entergy
4 Operating Companies, Transco will provide a greater degree of structural
5 separation than found in ISO's. In fact, as discussed in the testimony of
6 Company Witness Mr. Frank Gallaher, the Transco itself meets the
7 independence requirements of FERC Order No. 2000. Additionally the
8 Commission stated in the Commonwealth Edison Order (Docket EL00-25-
9 000, Page 16), "We conclude that it may be appropriate for an RTO to assign
10 tariff administration responsibility."
11

12 Q. YOU STATED EARLIER THAT THE SPP RTO WOULD CALCULATE
13 THE ATC/TTC VALUES FOR BOTH THE SPP AND TRANSCO.
14 PLEASE ELABORATE.

15 A. As I stated previously, Transco's success will be driven by maximizing the
16 utilization of the transmission grid. Maximizing the transfer capabilities of
17 Transco's facilities is critical to this end. Transco's initial SPP Partnership
18 RTO Proposal retained the calculation of ATC/TTC with Transco for this
19 reason. During the SPP Partnership Working Group discussions, concern was
20 raised by several parties regarding Transco independently calculating the
21 ATC/TTC values for its system. After analyzing the ATC/TTC calculation
22 process, it was agreed that the SPP Partnership RTO would perform all

1 ATC/TTC calculations utilizing a methodology that is mutually agreed upon
2 by Transco and SPP and is outlined in the SPP Partnership RTO Proposal.

3 While I believe the calculation of ATC/TTC is critical to the Transco success,
4 I believe that reaching agreement on a single methodology for the entire RTO
5 is a positive step in reducing RTO seams issues¹ and lays the foundation for
6 better coordination and resolution of seams issues over a broader region.

7 Under the SPP Partnership RTO MOU, Transco retains control for setting the
8 ratings of the specific elements of the Transco grid that will be used in
9 calculating ATC/TTC and will provide this data to the RTO.

10

11 Q. ONE STOP SHOPPING FOR SERVICE IS ONE OF THE OBJECTIVES
12 OFTEN DISCUSSED BY TRANSMISSION CUSTOMERS. HOW DOES
13 THE SPP PARTNERSHIP RTO PROPOSAL ADDRESS THIS ISSUE?

14 A. The SPP Partnership RTO MOU establishes an agreement to develop and
15 administer a unified OASIS site to ensure that market participants have the
16 ability to obtain transmission service across the transmission facilities of the
17 SPP Partnership RTO through the use of one OASIS site.

18

19 Q. DOES THE SPP PARTNERSHIP RTO PROPOSAL ADDRESS
20 REGIONAL EXPANSION PLANNING?

¹ The RTO Seams referenced here refers to issues such as differences in the methodology used to calculate ATC/TTC, loop flow, regional planning, rate pancaking and congestion management issues

1 A. Yes. The testimony of Company Witness Mr. George Bartlett discusses how
2 the Transco will participate in the overall regional planning process.

3

4 **VI. ALLOCATION OF RESPONSIBILITY OF RTO MINIMUM**

5 **FUNCTIONS**

6

7 Q. WHAT ARE THE EIGHT MINIMUM FUNCTIONS THAT FERC ORDER
8 NO. 2000 DESCRIBED FOR AN RTO?

9 A. The minimum functions listed in FERC Order No. 2000², are as follows:

- 10 1. Administer its own tariff and employ a transmission pricing system that
11 will promote efficient use and expansion of transmission and generation
12 facilities;
- 13 2. Create market mechanisms to manage transmission congestion;
- 14 3. Develop and implement procedures to address parallel path flow issues;
- 15 4. Serve as a supplier of last resort for all ancillary services required in Order
16 No. 888 and subsequent orders;
- 17 5. Operate a single OASIS site for all transmission facilities under its control
18 with responsibility for independently calculating TTC and ATC;
- 19 6. Monitor markets to identify design flaws and market power;
- 20 7. Plan and coordinate necessary transmission additions and upgrades; and

within the proposed SPP RTO and with neighboring reliability regions/RTOs.

² FERC Docket RM99-2-000, Page 275

1 8. Inter-regional coordination.

2

3 Q. HOW WILL THE SPP PARTNERSHIP RTO MEET THE MINIMUM
4 FUNCTIONS OUTLINED IN FERC ORDER NO. 2000?

5 A. The functions outlined above will be allocated between the SPP RTO and
6 Transco.

7

8 Q. DID ORDER 2000 SPECIFICALLY STATE THAT THE RTO MUST
9 PERFORM ALL OF THE OUTLINED FUNCTIONS?

10 A. No, FERC Order No. 2000 states,

11 With respect to the second question of how an RTO will
12 perform its functions, the Commission proposed that an
13 RTO be given considerable flexibility in determining
14 whether it will control facilities directly, delegate functions,
15 or use a combination of these methods. (page 275)

16

17 The testimony of Company Witness Frank Gallaher explains how the
18 proposed Transco structure meets the minimum characteristics as outlined in
19 FERC Order No. 2000. The proposed Transco structure is different in many
20 aspects from the current operational ISOs in that not only are the transmission
21 assets put under the operational control of an independent board of directors,
22 but the assets themselves are structurally separated from the integrated utility
23 and are also managed by this independent board of directors. This provides
24 the basis for Transco sharing in the performance of the functions as outlined in
25 FERC Order No. 2000.

1

2 Q. HOW DOES THE PROPOSED SPP PARTNERSHIP RTO COMPLY
3 WITH THE FIRST RTO FUNCTION?

4 A. Regarding the RTO administering its own tariff, the SPP Partnership RTO
5 MOU, Attachment G to the Application, states in article 4,

6 In the event that SPP and Transco agree to implement the
7 same congestion management regime, the Partnership RTO
8 shall administer a single tariff that will apply to
9 transmission service within the SPP and Transco.
10

11 Regarding the requirement to employ a transmission pricing system that
12 promotes efficient use and expansion of transmission and generation facilities,
13 it is proposed that a license plate rate regime be implemented in the SPP
14 Partnership RTO that will eliminate pancaking. Additionally, Transco plans to
15 propose an incentive rate design that will promote efficient and reliable
16 operation and expansion of the grid. The incentive measures will be focused
17 on reliability, maximizing the utilization of the grid, minimizing congestion and
18 efficiently expanding the grid where it is in the economic interest of the
19 market. The need for incentives is discussed in the testimony of Mr. Michael
20 Schnitzer. Transco intends to file the incentives with the FERC in its
21 December filing.
22

23 Q. HOW DOES THE PROPOSED SPP PARTNERSHIP RTO COMPLY
24 WITH THE SECOND RTO FUNCTION?

1 A. As discussed earlier, agreement in principle has been reached among the SPP
2 members, Transco and other parties participating in the SPP collaborative
3 process to develop and implement an RTO wide congestion management
4 regime based on locational marginal pricing (“LMP”) for the real-time
5 balancing energy market--nodal for generators and nodal or zonal for loads at
6 their option -- similar to the congestion management regimes implemented in
7 other ISOs, and tradable transmission rights for the forward markets. The
8 locational differences in prices between the network nodes will be used as the
9 basis for pricing all congestion that occurs on the grid.

10

11 Q. HOW DOES THE PROPOSED SPP PARTNERSHIP RTO COMPLY
12 WITH THE THIRD RTO FUNCTION?

13 A. The SPP has formed a Seams Issues Working Group that is studying various
14 methods to deal with loop flows with neighboring reliability regions and
15 Transco will be an active participant in this process. Additionally, Transco
16 intends to remain a member in the SERC and continue to actively work with
17 the SERC member companies in concert with SPP to address loop flow issues
18 as well as other regional planning issues.

19

20 Q. HOW DOES THE PROPOSED SPP PARTNERSHIP RTO COMPLY
21 WITH THE FOURTH RTO FUNCTION?

22 A. As stated in Article 2 of the MOU, the Transco will be a Transmission

1 Provider as will the SPP and will be the provider of last resort for ancillary
2 services in accordance with FERC Order Nos. 888 and 2000. Transco will
3 coordinate with the SPP Partnership RTO in the provision of ancillary services
4 to ensure that location-specific ancillary services, such as voltage support, are
5 adequately provided. The development of the regional market structure has
6 just begun, but it is anticipated that Transco will procure some ancillary
7 services from the SPP Partnership RTO market operator. There may be
8 circumstances in which either Transco or the SPP Partnership RTO may have
9 to enter into bilateral arrangements for ancillary services to ensure the
10 reliability of the grid.

11

12 Q. HOW DOES THE PROPOSED SPP PARTNERSHIP RTO COMPLY
13 WITH THE FIFTH RTO FUNCTION?

14 A. The SPP Partnership RTO proposal provides that the SPP RTO and the
15 Transco shall work to jointly develop and administer a unified OASIS site for
16 transmission service under the SPP's and Transco's tariff. Transco is
17 committed to developing true one-stop shopping for its transmission
18 customers. Regarding ATC/TTC calculations, the SPP Partnership RTO
19 proposal provides that the SPP Partnership RTO and Transco agree to use a
20 single model incorporating the VST model (Vacar, Southern and TVA),
21 which is important for Transco's transactions to the east, for calculating
22 ATC/TTC. Provided that the SPP and Transco agree to utilize a common

1 congestion management regime, the SPP RTO will perform all ATC/TTC
2 calculations utilizing a methodology that is mutually agreed to between
3 Transco and the SPP.

4

5 Q. HOW DOES THE PROPOSED SPP PARTNERSHIP RTO COMPLY
6 WITH THE SIXTH RTO FUNCTION?

7 A. The SPP Partnership RTO proposal states that the RTO shall be responsible
8 for all market monitoring activities required of the SPP Partnership RTO. The
9 monitoring function will also extend to SPP's security coordination function.
10 In its role as market monitor, the SPP Partnership RTO shall have the
11 authority to collect information and issue reports to appropriate regulatory
12 agencies, but it shall not have the authority to impose penalties. The SPP
13 Application, requesting recognition as an RTO, provides the details of how
14 the market monitor function is proposed to be implemented within the SPP
15 Partnership RTO.

16

17 Q. HOW DOES THE PROPOSED SPP PARTNERSHIP RTO COMPLY
18 WITH THE SEVENTH RTO FUNCTION?

19 A. The SPP Partnership RTO MOU provides that Transco will develop its own
20 transmission plan for its region that includes both market-funded and rate-
21 funded projects. This is discussed in the testimony of Company Witness Mr.
22 George Bartlett.

1

2 Q. HOW DOES THE PROPOSED SPP PARTNERSHIP RTO COMPLY
3 WITH THE EIGHTH RTO FUNCTION?

4 A. As discussed earlier, SPP has already formed a Seams Issues Working Group
5 that is focused on promoting the development of interregional solutions to
6 such issues as loop flows, efficient rate design as well as others. The Transco
7 will be a full participant in this process but will also continue to actively work
8 with the SERC members on similar issues in concert with the SPP RTO.
9 Additionally, the SPP Partnership RTO MOU provides that Transco shall be
10 structured to reasonably accommodate other SPP members and non-members
11 who elect to join. I believe this provides the unique opportunity for the
12 continued expansion of the RTO as it provides transmission owners with a
13 choice of participating in the SPP Partnership RTO as either a member of an
14 independent transmission company or simply transferring operational control
15 to the RTO. Additionally the SPP and Transco have agreed to jointly work
16 together to support any multi-state transmission planning compact that is
17 developed in their region.

18

19 **VII. SPP PARTNERSHIP RTO--REMAINING ISSUES**

20

21 Q. ARE THERE ISSUES THAT REMAIN TO BE ADDRESSED
22 BEFORE THE SPP PARTNERSHIP RTO CAN BE

1 IMPLEMENTED?

2 A. Yes. As discussed earlier, the congestion management regime that will
3 be utilized by the proposed SPP Partnership RTO is under
4 development at this time. The development of the detailed congestion
5 management rules, the real-time balancing energy market and the
6 billing and settlement for this market will have a significant impact on
7 the development of the specific operating procedures and protocols
8 that will define how Transco will operate within the SPP Partnership
9 RTO. The specific procedures and protocols outlined below will be
10 developed in parallel with this effort and filed with the FERC.

11

12 Q. PLEASE DISCUSS THE OPERATIONAL PROCEDURES AND
13 PROTOCOLS THAT MUST BE DEVELOPED.

14 A. The more significant of these include the following:

- 15 • Regional planning and expansion processes and procedures;
- 16 • Development of protocols for the SPP Partnership RTO to calculate
17 Transco ATC/TTC;
- 18 • Development of a single joint rate for transmission service on both the
19 SPP and Transco systems to load outside the RTO system, including
20 through and out service, and a rate formula for sharing of revenues from
21 these transactions;

- 1 • Protocol for provision of ancillary services within the SPP Partnership
2 RTO and Transco;
- 3 • Development of a scheduling protocol to coordinate schedules on SPP's
4 and Transco's systems; and
- 5 • Finalization of the commercial terms for which Transco retains rights to
6 file directly with the FERC.

7

8 Q. HOW WILL THE SPECIFIC PROCEDURES AND PROTOCOLS LISTED
9 ABOVE BE DEVELOPED AND WHAT IS THE TIMELINE FOR
10 DEVELOPMENT?

11 A. The Transco participants will initially develop draft procedures and protocols
12 based on the terms and conditions contained in the SPP Partnership RTO
13 MOU, attached hereto as Attachment G, and work with the SPP staff to reach
14 final agreement to ensure the procedures and protocols integrate fully and are
15 complimentary of the RTO procedures and protocols. The work to develop
16 these procedures and protocols is ongoing and is targeted to be completed in
17 the first quarter of 2001.

18

19 Q. PLEASE DISCUSS THE DEVELOPMENT OF THE TRANSCO RATE
20 SCHEDULES.

21 A. Currently the SPP plans to file an amended RTO tariff in early 2001. At this
22 time many elements of the tariff are under review within the SPP and are

1 subject to change prior to the filing in 2001. These include the details of how
2 congestion management will be implemented within the RTO. We will
3 continue to work with the SPP on the development of the specific RTO tariff
4 and currently plan to file the specific rate schedules for Transco in December,
5 2000 for inclusion in the RTO tariff which is anticipated to be filed by SPP in
6 early 2001.

7

8 **VIII. IMPLEMENTATION TIMELINE**

9

10 Q. WHAT IS THE TIMELINE FOR IMPLEMENTATION OF THE
11 PROPOSED SPP PARTNERSHIP RTO?

12 A. The major milestones for implementation of the Proposed SPP
13 Partnership RTO are outlined below.

- 14 • October 16, 2000—Transco and SPP Partnership RTO filing
15 • December 2000--Transco rate schedules and commercial terms filed
16 • February 2001--Procedures and protocols integrating Transco operation
17 within SPP Partnership RTO finalized
18 • February 2001--RTO market rules finalized
19 • Late first quarter/early second quarter 2001—SPP revised RTO
20 Transmission Tariff filed and any necessary changes to the Transco rate
21 schedules

- 1 • Second quarter 2001-- Managing Member Board of Director selection
2 process initiated
- 3 • Third quarter 2001—Manager Member Board of Directors selected
- 4 • Late second quarter 2001/early third quarter 2001--FERC approval of
5 Transco
- 6 • Fourth quarter 2001--Assets or operational control transferred to Transco
7 by Transco participants effective December 15, 2001
- 8 • December 15, 2001-- Transco becomes full member of SPP Partnership
9 RTO
- 10 • December 15, 2001--Transco independent operation begins

11

12 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

13 A. Yes it does.

14

AFFIDAVIT

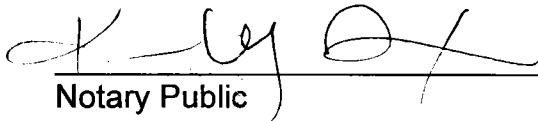
STATE OF LOUISIANA)
)
PARISH OF ORLEANS)

STEVE OWENS, being duly sworn, deposes and states: that the attached are his sworn direct testimony and exhibits and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Steve Owens

SWORN AND SUBSCRIBED BEFORE ME,
this 13th day of October, 2000.



Notary Public

My Commission Expires: upon my death