

Achieving a Unified Energy Policy

RTO'S LEAD THE WAY

BY KARL ZOBRIST

ELECTRICITY HAS BEEN CO-REGU-lated by state and federal governments for more than 70 years. Although wholesale and resale distinctions are usually easy to define, the manner in which electricity flows throughout the inter-connected grid makes intra-state versus interstate distinctions almost meaningless.

Because a national fix for problems that are often regional, if not local, in character is not practical, both industry and consumer interests require a more suitable mechanism to resolve differences. Regional transmission organizations (RTOs) may be the best available platform to avoid jurisdictional disputes and provide stakeholders with solutions that are both technology and market driven.

States have zealously guarded their authority to oversee the electrical infrastructure serving their citizens and the structures by which utilities recover their costs. As the nation's population grew and the demand for electricity increased, a national policy recognizing regional differences

came to pass with the passage of the Federal Power Act in 1935. The comprehensive energy act of 2005 recognized that federal authority is limited when it established an Electric Reliability Organization (ERO) to set national reliability standards. Neither the ERO nor the Federal Energy Regulatory Commission is authorized to order the construction of additional generation or transmission capacity. They also cannot set and enforce compliance with standards for the adequacy or safety of electric facilities. The 2005 Act specifically states that it does not preempt the jurisdiction of states in this regard.

This division of authority is an issue that must be confronted today as demand continues to increase and capacity

declines. Customers are insisting that their needs be met with new solutions that are more efficient, more environmentally sensitive, and more respectful of their particular circumstances. Strictly federal or state-specific prescriptions by themselves are unlikely to meet these needs.

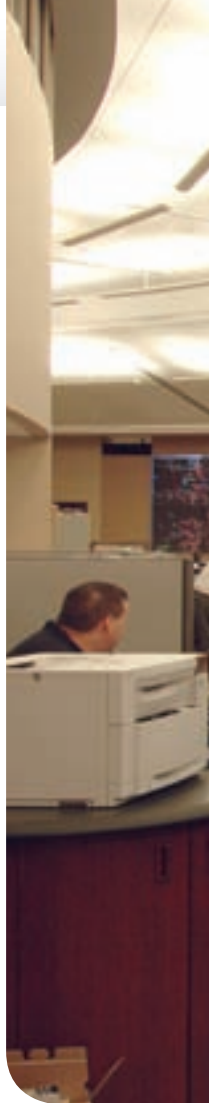
RTOs may be the best platform to bring together federal policymakers with broad national goals and state officials who see problems that require narrowly tailored solutions. RTOs and their counterpart independent system operators (ISOs) were established to administer open-access transmission tariffs, to improve security coordination and to enhance the process of building transmission infrastructure. Today they facilitate a vibrant stakeholder process that engages all elements of the electricity industry, from vertically integrated transmission owners to power marketers and developers of renewable energy. State utility regulators are part of this process, and as RTOs work through grid reliability and market operation issues, the continued involvement of the states is critical.

In order to give voice to their particular concerns, state regulators have formed regional state committees that serve as the third leg of RTO governance, complementing the stakeholder advisory committee and the RTO's own board and management. The first such entity was the Organization of MISO States, Inc. which was founded in 2003 to provide a means for all state regulators in the Midwest ISO footprint to express their views. Similar state organizations have been established at Southwest Power Pool and PJM Interconnection.

They have supported the effort of RTOs to be at the forefront of grid-management technology to enhance reliability. In the Midwest ISO these have included highly sophisticated state estimator and real-time contingency analysis tools that measure 34,000 network buses and more than 240,000 supervisory control and data acquisition points throughout the system. Every 90 seconds these systems solve more than 7,700 contingencies and provide solutions that can be implemented when needed. During the national heat wave of early August 2006,



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The Midwest ISO's control room in Carmel, Ind.
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these mechanisms and the diligent work of RTO operators were credited with preserving reliability and avoiding significant curtailments.

On a more local level, the need for transmission infrastructure to reduce congestion and improve local reliability has often resulted in disputes among local interests. With their sophisticated transmission planning capabilities, RTOs analyze proposed projects as honest brokers and work to solve local problems with regional and national goals in mind.

As the states grapple with issues of resource adequacy and demand response, RTOs offer the best platform to devise solutions. With the backdrop of their transparent energy markets, RTOs can provide data to

demonstrate the effectiveness and efficiency of solutions that can be endorsed by states, either individually as they review company-specific programs, or through a regional tariff approved by FERC.

None of this will be easy. However, RTOs doing business in places like Indiana, Arkansas, and Massachusetts – not Washington, D.C. – will provide a better forum for arriving at answers to reliability and resource questions that span the gray areas between federal and state jurisdiction.

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