

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

Information Requirements for Available)	Docket No. RM05-17-000
Transfer Capability)	

COMMENTS OF INTERNATIONAL TRANSMISSION COMPANY

In response to the Notice of Inquiry (“NOI”) issued by the Federal Energy Regulatory Commission (“FERC” or “Commission”) on May 27, 2005, (111 FERC ¶ 61,274), International Transmission Company (“International Transmission”) hereby submits these comments regarding available transfer capability (“ATC”) issues.

Citing complaints from market participants that variations in the way that ATC is calculated provide opportunities for undue discrimination and create obstacles to doing business, the Commission seeks comment on: (1) the North American Electric Reliability Council’s recent Long-Term AFC/ATC Task Force Report; (2) the advisability of revising and standardizing available transfer capacity calculations; and (3) the most expeditious way to obtain an industry-wide standard for available transfer capability calculations.

I. INTERNATIONAL TRANSMISSION’S INTEREST IN THIS PROCEEDING

International Transmission, a public utility under § 201(e) of the Federal Power Act, is engaged exclusively in the electric transmission business. International Transmission owns and maintains, but does not functionally control, approximately 2,700 circuit miles of transmission facilities in Michigan used for the transmission of electric

energy in interstate commerce. International Transmission serves a population of approximately 4.9 million in the State of Michigan.

International Transmission's facilities are under the operational control of the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO"). Given International Transmission's business as an owner of transmission facilities, International Transmission has a vital interest in matters concerning ATC and transmission capacity. As an independent transmission company, a core component of International Transmission's business model is to avoid undue discrimination and any obstacles to providing transmission service that the calculation of ATC may create.

II. COMMUNICATIONS AND SERVICE

All communications and correspondence with respect to this filing and proceeding should be directed to:

Daniel J. Oginsky, Esquire
Vice President and General Counsel
International Transmission Company
39500 Orchard Hill Place
Novi, MI 48375
248-374-7045
doginisky@itctransco.com

Linda G. Stuntz, Esquire
Amy Blauman, Esquire
Stuntz, Davis & Staffier, P.C
555 Eleventh Street, N.W.
Suite 550
Washington, DC 20004
202-638-6588
lstuntz@sdsatty.com

Gregory Ioanidis
Director of Regulatory Strategy
International Transmission Company
39500 Orchard Hill Place, Suite 200
Novi, MI 48375
248-374-7251
gioanidis@itctransco.com

III. COMMENTS

A. General Comments

International Transmission supports the Commission's efforts to promote more standardization and transparency with respect to the calculation of ATC. The ongoing North American Electric Reliability Council ("NERC") processes can serve this purpose, but only if FERC provides firm guidance as to what the Commission expects. Otherwise, existing industry practices and investments in existing software are likely to inhibit real progress toward standardization. Specifically, International Transmission recommends that the Commission call upon NERC and the North American Energy Standards Board ("NAESB") to promulgate interconnection-wide standards for ATC calculations in the Eastern Interconnection and the Western Electricity Coordinating Council ("WECC"). At a minimum, regional trading areas should standardize the calculation of ATC as an interim step toward standardization across the entire interconnection.

Standardization of ATC calculations is necessary to increase transparency and reduce both undue discrimination in the provision of transmission service and obstacles to doing business. Such standardization will aid in the elimination of seams, facilitate transactions by providing more uniform market rules, and improve coordination with neighboring trading areas, which will improve the modeling of systems. Overall, transparency and reliability will be enhanced.

In order to achieve greater uniformity in ATC calculations, standards must be more prescriptive. In addition, while standardizing the ATC calculations is a critical step, standardizing the assumptions and inputs underlying the calculations themselves is also very important. Although some variations may be required due to regional or local

differences, the assumptions that are made when studies are performed to evaluate load reliability should also be subject to standards.

As discussed in the NERC *Long-Term AFC/ATC Task Force Final Report* (2005) (“LTATF Report”) and below, assumptions that can greatly influence the resulting Available Flow Gate Capability (“AFC”)/ATC values include: 1) base system conditions and models; 2) dispatch effects on limiting transmission of generators used to serve network load; 3) treatment of existing point-to-point reservations; 4) Source/Sink assumed for transmission reservation (discussed at length in Appendix B of LTATF Report); and 5) varying assumptions for short-term versus long-term AFC/ATC.

In addition, International Transmission’s experience is that standardizing AFC/ATC calculations should focus on AFC. It is very easy to obtain ATC from AFC, and AFC is easier to coordinate and share between entities with large data requirements, including entities that offer a large number of potential source and sink points for transmission service.

B. The NERC LTATF Report

The Commission seeks comments on the LTATF Report, which addresses the calculation and coordination of long-term AFC and ATC to increase market liquidity and enhance reliability. International Transmission agrees with FERC that the NERC LTATF Report provides useful guidance on achieving an industry-wide methodology for calculating ATC. However, the report does not go far enough to promote standardization and transparency. Specific comments on the report follow.

1. Data Input and Utilization – Calculation Process for AFC/ATC

The Appendices of the LTATF Report discuss specific items that could be used as guidelines for standardization. These recommendations are significant and should be made requirements rather than simple suggestions. For example, page 3 of Appendix A under modeling requirements states, “If an area is too small it should delegate its calculations to an entity that has the capability to perform the calculations with appropriate modeling capabilities.” If real modeling standards are developed, this would ensure that modeling is done by those entities capable of doing the appropriate system analysis.

2. Transmission Reserve Margin (“TRM”)/Capacity Benefit Margin (“CBM”) – Calculation process for AFC/ATC

Recommendation IV states, “The task force recommends that NERC revise its standard on the calculation of CBM/TRM” and then recommends that NAESB establish a standard on the use of CBM. Recommendation V states the “....standards should require transparency, *but not be a prescriptive methodology....*” One of the problems with current CBM/TRM calculations, however, is that current descriptions are too vague, and as a result, there is a wide variety of interpretations. Without more prescriptive calculation standards, these problems will not be solved.

The LTATF Report notes that some entities use CBM while others do not, and that the scope of CBM varies by footprint. Regardless of the term used, load reliability standards must exist to insure that load can be served under adverse generation resource conditions. Even those entities that do not use CBM *per se* have similar standards and requirements aimed at insuring that load is served under severe system conditions.

For example, “load deliverability” as used by PJM, describes studies done to insure that generation within PJM can serve a specific PJM sub-area during generation deficiencies such that the loss of load expectation (“LOLE”) is only 1 day in 25 years in that sub-area.¹ PJM has established a CBM standard for serving load from generators outside PJM. The value is maintained at 3500MW and is based on PJM’s original import capacity.²

Midwest ISO’s CBM calculation is somewhat similar in that it calculates the amount of transmission capacity (the CBM margin itself) needed to supply a sub area such that the LOLE is only 1 day in 10 years.³ However, the load served under a CBM calculation can be served from within or outside Midwest ISO. In order to enhance reliability of service, International Transmission recommends that the LOLE assumption be standardized at 1 day in 25 years, for purposes of CBM calculation.

Even with such standardization, however, there will remain issues of implementation on which Commission guidance could be helpful. For example, Midwest ISO’s calculation of CBM contains the following attributes:

- Some smaller areas are grouped into larger ones to reflect traditional load serving areas (e.g., Michigan) or because an area is too small to do a 1 day in 10 year calculation.
- If an area has less than 15% reserves, Midwest ISO reduces the CBM margin as a “penalty” for lower reserve margins. That is, Midwest ISO does not “reward” an area with a large CBM just because its reserves are low. This then raises the question of what should be the “standard” or requirement for reserve level and should that requirement affect CBM? Midwest ISO has picked 15 percent. Midwest ISO also reduces CBM by any reserve sharing margin used as part of

¹ “All generator interconnections, Long-Term Firm Point-to-Point and Network Transmission Service in PJM will be subjected to the same [load] deliverability tests.” *See PJM Manual 2: Transmission Service Request* at p. 30 (effective April, 2005).

² *See PJM Generation Adequacy Analysis: Technical Methods* (October 2003).

³ *See Midwest ISO CBM Calculation Methodology* (June 2004).

TRM. This avoids double counting which makes it a good candidate for standardization.

- Midwest ISO does not hold back a CBM margin on internal circuits, only on interconnections. This practice can adversely affect reliability and could result in the unintended consequence of having to shed firm load. Using a CBM margin on internal circuits would highlight needed grid reinforcements (sooner rather than later) under adverse generation conditions.

In the Mid-Continent Area Power Pool (“MAPP”) region, CBM is not used.

Instead, MAPP requires areas with low reserve levels to buy sufficient transmission capacity to access contracted outside power sources.⁴ This requirement essentially replaces the CBM requirement. It is International Transmission’s understanding that the most recent MAPP reserve capacity obligation study indicated that at least a 15% planning reserve margin could be maintained with a 1 day in 10 year LOLE. The MAPP Accreditation Working Group assures that firm contracts and firm transmission have been secured to achieve this margin and there is an after-the-fact audit to identify capacity shortfalls (MAPP Schedule B tariff rates apply). International Transmission believes this approach is an appropriate one to best assure reliability and should be considered in the standardization of ATC/AFC calculations. CBM is needed to insure a load-serving entity’s (“LSE’s”) ability to serve load under some criteria such as LOLE. To prevent underutilization of the transmission system, the transmission capacity set aside as CBM can be sold as non-firm transmission service. Future business practices related to CBM should maintain the ability to sell the capacity on a non-firm basis when it is not needed for load emergencies.

CBM deficiencies can be met by one of two methods: building additional transmission capacity to provide access to external resources; or, adding internal

⁴ See *MAPP Generation Reserve Sharing Pool Handbook* (Rev. October 2004, Approved March 2005).

generation. Transmission capacity does not suffer from reductions due to random outage rates employed in probability programs that calculate CBM unlike new generation

Most importantly, CBM cannot be eliminated unless it is replaced by another margin or equivalent capacity reservation to *insure that load is served under severe system conditions*.⁵

3. Curtailment Threshold Consistency – Calculation Process for AFC/ATC

The LTATF Report discusses but fails to solve the problem regarding threshold consistency in calculating AFC/ATC. Consistency is needed to ensure that transmission service requests (“TSR”) approved by one transmission service provider (“TSP”) would not be denied by another because the TSPs have different cutoff criteria. Many TSPs use the same cutoff ratio to evaluate TSRs as the NERC curtailment standard of 5% used when implementing transmission loading relief (“TLR”). While TLR has a “standard” cutoff ratio, TSR evaluations do not and vary by TSP at their discretion. For example, Midwest ISO is required to call TLRs using the NERC standard of 5%, but evaluates TSRs based on a 3% cutoff for flowgates involving outages. Standardization of curtailment threshold criteria would ensure consistency among TSPs with respect to TSR evaluation. International Transmission recommends that this issue be addressed affirmatively by NERC in developing standards.

International Transmission notes that TLRs can be difficult for lower voltage flowgates because the number of transactions above the 5% cutoff may not be sufficient

⁵ For example, MAPP’s requirement that LSE’s purchase transmission service to the degree necessary to serve load is an equivalent replacement of CBM. PJM uses both a CBM with outside entities and internal load deliverability as measures.

to provide relief during curtailment. Therefore, in order to strike the correct balance between insuring reliability of the grid as well as maximizing the use of the system, International Transmission suggests using 3% for flowgates with monitored elements less than 230kV and 5% for flowgates with monitored elements 230kV or greater.

C. Definitions of AFC, ATC, CBM and TRM

International Transmission agrees with the definitions of AFC, ATC, CBM and TRM used in the LTATF Report and the NOI. In particular, International Transmission agrees that the suggested revised CBM definition is appropriate because of industry changes over the last few years.

D. Advisability of Developing Interconnection-wide Standards

International Transmission recommends the development of interconnection-wide standards for the Eastern Interconnection and the WECC. As noted above, this standardization will provide a multitude of benefits such as increased transparency, reduced opportunity for undue discrimination in the provision of transmission service, and lower barriers to conducting business. However, in the absence of clear direction from the Commission to the organizations developing standards, such standardization will be much more difficult to achieve. Without clear direction, resistance to change, promotion of individual interests, and a tendency to create overly broad standards could thwart standardization. The LTATF's failure to suggest a curtailment recommendation (last recommendation on page 5 of LTATF Report) is an example of this difficulty with obtaining consensus.

Therefore, it is necessary that FERC provide clear direction regarding standardization in lieu of simply recognizing that standardization is an important goal.

The larger RTOs have already had to reach internal consensus on many of these matters. This was accomplished through stakeholder input and experience with the process. With Commission direction, this consensus can and must be broadened. For example, the proposed Large Regional Coordinating Council (formerly MAAC, ECAR and MAIN) will establish regional standards. Midwest ISO and PJM, which differ somewhat in the manner in which CBM is calculated, could then use these standards to insure compliance and greater uniformity as a step toward Eastern Interconnection-wide standards.

Cost likely is another obstacle to achieving standardization. Some entities have invested significantly in Energy Management System (“EMS”) based AFC/ATC calculators. However, International Transmission views the use of an EMS based system as unnecessary, since other “off-line” programs are available that are less expensive and easier to maintain as necessary. In any event, because reliability will be enhanced by improved calculation of AFC/ATC, any costs necessary to accommodate more uniform calculation standards here should be recovered in accordance with FERC’s policy to allow recovery of necessary reliability expenses.⁶

E. The Most Expeditious Way to Obtain an Industry-Wide Standard for ATC

As noted by the Commission in the NOI, the LTATF Report proposed a Standard Authorization Request (“SAR”) that contains recommendations to achieve more consistency among AFC/ATC calculations. The SAR would change the existing

⁶ In its “Policy Statement on Matters Related to Bulk Power System Reliability” in Docket No. PL04-5-000, FERC assured public utilities that it would approve recovery of prudently incurred costs “necessary to ensure bulk electric system reliability, including prudent expenditures for vegetation management, improved grid management and monitoring equipment, operator training, and compliance with NERC reliability standards and Good Utility Practices.” See 107 FERC ¶ 61,052 at 61,169 (2004).

modeling standard(s) by adding a requirement for transmission providers to coordinate the calculation of ATC and incorporate specific reliability practices into the ATC calculation and coordination methodologies.

International Transmission recommends that the Commission instruct the NERC SAR drafting team to strive for standards with greater specificity and more uniformity. The NERC SAR drafting team would seem to be the most expeditious way to obtain industry-wide standards for ATC calculations. Aided by direction and guidance from the Commission, the SAR drafting team should make standardization of the treatment of ATC and AFC calculations a priority.

IV. CONCLUSION

International Transmission believes that standardization of ATC calculations will provide many benefits to consumers and the electric utility industry, and is one important way to reduce undue discrimination and eliminate barriers to transacting business. Accordingly, the Commission should provide clear guidance to NERC, NAESB and the industry that more specific standards should be developed to provide for the transparent and more uniform calculation of AFC/ATC.

/s/ Amy L. Blauman
Linda G. Stuntz
Amy L. Blauman
Stuntz, Davis & Staffier, P.C.
555 Eleventh Street, N.W.
Suite 550
Washington, D.C. 20004

Attorneys for International
Transmission Company

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