

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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Avista Corporation, et al.

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Docket No. RT01-35-000

COMMENTS  
CLARIFYING CONDITIONS OF  
SIERRA PACIFIC POWER COMPANY  
AND NEVADA POWER COMPANY

Pursuant to Order No. 2000<sup>1</sup> and the Notice of Filing issued in this proceeding, Sierra Pacific Power Company (“Sierra”) and Nevada Power Company (“Nevada Power”) hereby file these Comments clarifying the conditions that they placed on their participation in RTO West. As explained in more detail below, Sierra and Nevada Power support the RTO West proposal and intend to participate in RTO West. However, certain modifications of the RTO West pricing provisions are required in order to prevent significant cost shifts that would unfairly burden Sierra and Nevada Power with unrecoverable costs.

I. INTRODUCTION

Sierra and Nevada Power generally support the RTO West filing. Sierra and Nevada Power strongly support the creation of an RTO in their region, and they intend to participate in such an RTO. However, in the October 23 Supplemental Compliance Filing and

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<sup>1</sup> Regional Transmission Organizations, III FERC Stats. & Regs. ¶ 31,089 (1999).

Request for Declaratory Order for RTO West (“Supplemental Filing”), Sierra and Nevada Power included two conditions on their participation in RTO West. First:

[T]here are difficult hurdles associated with issues relating to import and export charges that must be cleared before they proceed to implementation of the proposal. These utilities believe that the resolution of these issues should mitigate future cost shifts or allow for lost revenue recovery and may be satisfied with appropriate agreements with other regions or through other means.

Supplemental Filing at 15-16.

Second:

Sierra and Nevada Power believe that if Sierra and Nevada Power elect to participate in an RTO other than RTO West, transfer charges for Sierra and Nevada Power should be eliminated.

Id. at 16.

The purpose of these comments is to explain in more detail why Sierra and Nevada Power raised these conditions and to describe how the conditions could be satisfied. Sierra and Nevada Power believe that their proposed modifications to the RTO West filing will help ensure that RTO West will be implemented in a fashion that is just and reasonable and fair to all participants.

## **II. CONDITION NUMBER ONE**

### **A. RTO WEST PRICING PROPOSAL**

The current RTO West pricing proposal provides for the recovery of all costs of ownership and operation of transmission facilities through load-based access charges collected from load located in the RTO West region. Each Filing Utility will file a separate access charge (the “Company Rates”) applicable to the load served by its transmission facilities. The Company Rates are based on the Filing Utilities’ transmission costs. In addition, there are transfer

payments among the various Filing Utilities to mitigate cost shifts that otherwise would apply as a consequence of the pricing proposal based on historic uses of the transmission system.

The RTO West pricing proposal does not contemplate imposing charges for exports out of the RTO West region. Nor is there any transfer payment contemplated among the Filing Utilities to make up for the lost revenue that will occur from the elimination of charges for exports. Instead, most of the vertically-integrated Filing Utilities expect to recover the lost revenues through reduced transmission costs to their merchant functions that will be exporting power from the RTO West region.

**B. THE RTO WEST PRICING PROPOSAL WILL RESULT IN COSTS BEING SHIFTED TO SIERRA AND NEVADA POWER**

One of the guiding principles of the development of RTO West has been the mitigation of cost shifts that would result from the RTO. During the course of the RTO West collaborative process, the transmission owners and transmission customers emphasized the importance of avoiding cost shifts and lost revenue. Many of the Filing Utilities, including Sierra and Nevada Power, believe that cost shifts and lost revenues will be of critical concern for their state regulatory commissions. Indeed, it was these concerns about cost shifting that led to the demise of previous RTO proposals in the region, including the IndeGO proposal.

The condition that Sierra and Nevada Power wish to place on the RTO West pricing proposal is based on this exact concern about cost shifts. Sierra and Nevada Power will be faced with a significant cost shift and loss of revenues as a result of the elimination of export fees. Sierra and Nevada Power have agreed to make transfer payments to the other Filing

Utilities in order to mitigate their cost shifts. Sierra and Nevada Power believe that the cost shifts that will be imposed on themselves similarly should be mitigated.

The opportunity for the merchant functions of the Filing Utilities to save on the costs of exporting power would have offered Sierra and Nevada Power little cost shift mitigation under current circumstances, given that Sierra's and Nevada Power's merchant functions sell little power outside of the RTO West regions. Even that small amount of mitigation will evaporate, however, after Sierra and Nevada Power complete their current restructuring.

Unlike most other states in the RTO West region, the State of Nevada is moving to retail competition. In preparation for retail competition, Sierra and Nevada Power have agreed with the Public Utilities Commission of Nevada to divest all of their generation. They also have committed to this Commission to divest their generation as a condition to the merger of Sierra and Nevada Power and to the pending merger with Portland General Electric Company. Sierra and Nevada Power currently are in the process of divesting their units, and have either executed or are negotiating asset sales agreements for all of their generation.

The generation divestiture is expected to be completed well before RTO West goes into operation. As a result, Sierra and Nevada Power will not be able to make sales outside of the RTO West region and will not be able to rely on cost savings accruing to their merchant functions to make up for the lost revenues resulting the elimination of export charges. As a result, the proposed mitigation of the cost shifts resulting from the elimination of the export charges, i.e. increased merchant function revenues, will not mitigate the cost shifts that Sierra and Nevada Power will bear.

Sierra and Nevada Power have invested in their existing transmission systems based on the assumption that all users of the systems would pay for their uses of that system and that the native load which will become the "Company Rate" payers would only be required to pay a proportionate share of transmission system costs based on their usage of the system. Under the current RTO West pricing proposal, transmission customers exporting power from the system would pay nothing for their use of the existing Sierra and Nevada Power transmission systems. Therefore, the "Company Load" ratepayers of Sierra and Nevada would be responsible for the entire transmission system revenue requirement even though others are receiving many of the benefits.

The cost shift problem is significantly exacerbated by the fact that Sierra and Nevada Power currently have outstanding requests for 12,000 MW of long-term firm point-to-point service from Nevada to California to serve proposed new generation projects that wish to sell into the California market. While it is unlikely that all 12,000 MW of projects mentioned above will go forward, Sierra and Nevada Power also will have to incur significant transmission system upgrade costs if even a small fraction of the proposed projects do materialize.

While the RTO West pricing proposal does allow a Filing Utility to directly bill generators the costs of direct assignment facilities, Sierra and Nevada Power believe that they will be required to construct significant facilities that will not be eligible for direct assignment treatment. If Sierra and Nevada Power are unable to impose an export charge on these new generation facilities selling into California, then they will be forced to add to their Company Rates the costs of the new facilities constructed for exports that cannot be directly assigned to a generator. The entities that will obtain the benefit of the export transmission facilities that are

not directly assigned will get to use them for free while they are paid for by consumers located in Nevada who will not receive any benefit as a result of the upgrades.

It is possible that the costs imposed on Sierra and Nevada Power by the construction of these new facilities would be offset to some extent by revenues from the sale of FTRs that these new transmission customers would be required to purchase in order to acquire scheduling rights when Sierra's and Nevada's . However, as currently proposed in the RTO West draft TOA (Attachment S to the October 23 filing) Exhibit G, the revenues received from the FTR auctions will only be credited to the Sierra and Nevada Power after FTR revenues are allocated: (1) first, to RTO West to offset any allocation made to the RTO West uplift charge pursuant to Section 14.3 (the Lost Revenue Account, which does not provide for the recovery of any lost export revenues) to compensate the Receiving Transmission Owner for its Lost Revenue Recovery Amount; and (2) next, pro rata to: (a) return or offset of the amounts paid to the Receiving Transmission Owner by other Participating Transmission Owners as Transfer Charges for historical short-term and non-firm wheeling revenues, and (b) compensation to the Receiving Transmission Owner for any loss of Transfer Charge revenues based on historical long-term wheeling. Thus, there are likely to be only minimal FTR revenues available to Sierra and Nevada Power to offset the costs of constructing new export facilities.

### **C. ALTERNATIVES FOR ADDRESSING COST SHIFT**

As noted above, Sierra and Nevada Power support the RTO West proposal, and they also are amenable to making transfer payments to help mitigate cost shifts faced by the other Filing Utilities. Sierra and Nevada Power believe, however, that similar measures should be

implemented to mitigate the cost shifts that they face. There are several alternatives for such mitigation.

1. First, the RTO West pricing proposal could be amended to permit export charges or a “wheeling rate”. This could be imposed by each Filing Utility based on the costs of its system. Alternatively, each Filing Utility could have the option of imposing or not imposing export charges, which would allow those utilities that believe that such a fee is not appropriate to not impose the charge. Providing for export charges would not represent a deviation from current Commission policy. Most, if not all, transmission providers and RTOs do impose transmission charges for exports.

2. Revenues lost by the elimination of the charges for exports could be tracked each year and recovered under the RTO West Lost Revenue Account.

3. A reserve price equal to Sierra’s and Nevada Power’s average embedded transmission cost could be placed on the auction of transmission rights for export paths from the Sierra and Nevada Power transmission systems. Similar reserve prices could be established for other Filing Utilities. Any entity wishing to purchase these transmission rights would be obligated to pay at least the reserve price, and the amount collected could then be paid to the owner of the transmission system.

4. Consistent with Order No. 2000, agreements could be reached with neighboring RTOs to provide for the elimination of pancaking of rates between the RTOs, subject to transfer payments that keep the various transmission owners whole. See III FERC Stats. & Regs. ¶ 31,080 at 31,175-76. These payments from other RTOs for exports from RTO West would be used to mitigate the cost shifting resulting from the elimination of export charges.

As the above list shows, there are a wealth of alternatives for addressing the cost shift problem. Sierra and Nevada Power do not necessarily advocate any one of the above options, and are open to other proposals to achieve the same end result. What must be required, however, is that some method for mitigating the cost shift be implemented. Otherwise, the consumers served by Sierra's and Nevada Power's transmission systems will be charged for service they do not take and for facilities that they do not use, while those entities who do take the service and use the facilities pay nothing.

### **III. CONDITION NUMBER TWO**

The second condition is much easier to understand. The RTO West proposal includes a provision that is designed to prevent Filing Utilities who have participated in RTO West discussions from ultimately deciding to join a different RTO. These provisions require a Filing Utility that withdraws from RTO West to continue making transfer payments. The provisions also allow for export and import charges to be assessed for transmission to Filing Utilities that join another RTO.

These provisions clearly are inappropriate. Order No. 2000 does allow an RTO to deny rate benefits to regional transmission owners that decline to join the RTO. III FERC Stats. & Regs. ¶ 31,089 at 31,180. However, Order No. 2000 does not allow an RTO to apply such penalties selectively only to those transmission owners that at one time contemplated joining the RTO, as RTO West does. Furthermore, Order No. 2000 does not permit an RTO to impose such charges on a transmission owner that joins a different RTO.

Sierra and Nevada Power intend to join RTO West, particularly if the cost shift problem described above can be resolved. If, however, Sierra and Nevada Power ultimately

decide to join a different RTO, such as Desert Star, they should be permitted to do so. Provisions of the RTO West filing that would permit RTO West to impose different charges on Sierra and Nevada Power than the other members of RTO West are unduly discriminatory and should be eliminated.

### CONCLUSION

Sierra and Nevada Power believe that the Commission should approve the RTO West proposal. However, the aspects of that proposal described above need to be addressed and modified.

Respectfully submitted,



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November 20, 2000

**CERTIFICATE OF SERVICE**

Pursuant to Rule 2010 of the Commission's Rules of Practice and Procedure, I hereby certify that I have this day served the foregoing document upon each person designated on the service list compiled by the Secretary in this proceeding.

Dated November 20, 2000, at Washington, D.C.



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