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SPRINGFIELD UTILITY BOARD
250 A Street, PO Box 300
Springfield, OR 97477-0077
(541) 746-8451 www.subutil.com
fax (541) 746-0230 tdd (541) 744-3659

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FEDERAL ENERGY
REGULATORY COMMISSION

November 17, 2000

Mr. David Boergers, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

Re: RTO West Comments (Docket Nos. RT01-35-000 & RT01-15-000)

Dear Mr. Boergers,

Springfield Utility Board (SUB) appreciates the opportunity to comment on the proposed RTO West transmission organization. SUB is a consumer-owned electric, water, and telecommunications utility which serves the City of Springfield, Oregon and surrounding areas. Since its formation in 1950, SUB has prided itself in providing its customers low cost, reliable electricity service.

SUB applauds efforts of the region to enhance transmission reliability in a responsible, cost effective manner. While the RTO West filing appears to intend to provide efficient, reliable service, unfortunately the formation of large-scale transmission organizations in general, and the proposed RTO West structure specifically, fall short of intended goals. The following comments address specific concerns regarding the proposed RTO West.

Recent History Has Shown That Large Scale Transmission Organizations Reduce Rather Than Enhance Transmission Reliability

> "...the Commission must take action at this juncture under section 206 of the Federal Power Act to remedy the problems that have been found to exist in the California market structure. This action must be taken to ensure that the high and volatile prices experienced this past summer do not recur to the detriment of consumers in California and in the West generally." FERC issued MARKET ORDER PROPOSING REMEDIES FOR CALIFORNIA WHOLESALE ELECTRICS (EL00-95-000, 11/1/00)

The large-scale transmission experiment in California and the associated restructured wholesale markets approved by the FERC is widely regarded as a failure. In the short term, prices in California markets, including prices for transmission ancillary services, have skyrocketed. In the long term the uncertain regulatory environment in California has reduced the incentive to construct new generation, further placing the likelihood of meeting the needs of consumers in the future and reducing reliability as a result. In fact,

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the FERC recently stepped in and implemented drastic, untested changes in the California experiment in an effort to fix the problems. These changes included the dissolution of the board responsible for monitoring and enforcing competitive markets.

> "...we are also seeing unprecedented consolidation. Mergers in the U.S. gas and electric sectors totaled $120 billion in 1998, double the 1996 level, and there has been a renewed surge of merger activity this year. Pipeline conglomerates are being formed, and traditional electric utilities are merging. Moreover, utilities are buying marketers and independent power producers, and marketers and IPPs are buying utilities. In 1998, $30 billion in so-called gas-electric convergence mergers took place. Several market participants, particularly gas and electric marketers such as Enron and generation companies such as PG&E Gen, are now national in scope. El Paso Energy's pipeline facilities now stretch from California to New England."
> FERC Commissioner William L. Massey in a November 4, 1999 presentation "A View from FERC: Regional Energy Issues in a Time of Market Transition" to the New England-Canada Business Council

The FERC's attempt to enhance competitive, low cost, reliable energy markets are commendable and SUB encourages the FERC's continued efforts. SUB is not placing blame on any one person or group for the failures associated with recent attempts to change transmission management. However, none of the transmission proposals to date, including the RTO West, provide for any accountability for failure in implementing changes in transmission markets. Prior to any future changes, there must be unambiguous consequences to transmission agencies and regulatory authorities should re-structured markets not perform as intended. This could and should include financial penalties or legal consequences. The citizens of the Northwest do not want to be compromised like the citizens of California – held captive in a system that the FERC admits is broken without any clear recourse for compensation. Further, the FERC should be wary of restructuring schemes which are draped in the trappings of "progressive market reform". The recent attempts to provide for "progressive" changes in transmission and energy markets have resulted in less choice and mergers that have resulted in the centralization of generation assets. Rather than move toward a diversified 21st century market structure, these changes have resulted in a structure reminiscent of the early 20th century – with an oligopoly made up of large, centralized providers, archaic, confusing bureaucracies, and little, if any, local control.

> "Regulatory agencies are entrusted by the Congress with significant authority which, if abused or otherwise used in ways that fail to reflect prevailing economic realities, could have disastrous consequences for individuals, businesses, or whole sectors of society. For that key reason, reform of government should <u>always</u> and <u>continuously</u> be on the agenda."
> FERC Chairman James J. Hoecker in an April 8, 1999 speech "FERC's Agenda For Change -- Who Gets The Last Laugh?" to the Natural Gas Roundtable

Lastly, dramatic changes in transmission systems in an effort to promote thriving competitive energy markets should be done in a period of resource abundance, not resource scarcity as currently exists today. It is widely recognized that part of the failure of market reform is the lack of a robust energy market. The FERC should bravely step back and re-assess its own agenda and it's near and long term vision of market

restructuring and should implement sweeping changes only when economic realities (such as a surplus of generation) will promote a forward evolution rather than a de-evolution of the industry. Transmission reform must have clear benefits and should not be driven by process, particularly when regulatory processes have been show to diminish rather than improve transmission reliability and increase overall costs to society. SUB does see an important role for the FERC in the effort to improve the Northwest transmission system. This role is discussed later in these comments.

RTO West: Costs Outweigh the Benefits

> "Qualitative costs include the cost of having to retain a schedule coordinator at some utilities, the cost of operating secondary markets for transmission rights over constrained paths, the risk to some loads of exposure to market-based ancillary services prices and the market imperfections that may occur should this RTO get the market rules wrong."
> RTO West study on Potential Benefits and Costs

In its October 23rd filing to the FERC, the RTO West proposal included a study on Potential Benefits and Costs. This study, while extensive, inadequately assesses the costs associated with the RTO West structure. In addition, a number of parties that worked on the study disagreed with the report filed with the FERC because it overstated the benefits.

At a November 15th RTO workshop the following issues were made public:

> BPA stated that the Aurora model used in evaluating the economic benefits was inadequate. Small changes in the assumptions resulted in large, unanticipated costs associated with the RTO economic structure.
>
> Uplift costs (implementation costs) and ongoing costs are understated. The numbers provided in the report assume minimal staffing. Recent experience with the California ISO have shown that, over time, increases in staffing have caused implementation costs to rise dramatically. Associated annual costs have risen as well.
>
> The Bonneville Power Administration (BPA), which owns roughly 50% of the transmission system in the proposed RTO West would receive $5.5 Million, or less than 20%, of the anticipated $28 Million of benefit associated with a decreased regulation reserves requirement. This points to dramatic inequities in the costs and benefits within the region that must be further explored before the northwest can endorse joining a regional transmission organization. In addition, the Benefits and Costs Study states that there would be 364 MW of reductions in regulating reserve requirements. However, page 20 of the study also states that 186 MW of these benefits would be experienced without the formation of an RTO due to the implementation of new NERC standards. These leaves only 178 MW of estimated benefit attributable to the proposed RTO West (or only $13.7 Million).

The study cites a May 25, 1999 report that states benefits associated with increasing competition would provide a wide range of innovative products and services. "Most of

these products are generation supply products attributable to deregulation, but there likely will be some transmission products from the RTO and the RTO may foster new supply". Again, recent experiments in West Coast markets have proven that the opposite is true. Lack of adequate surplus has stifled markets and market power has increased prices for bulk power products as well as prices for ancillary transmission services. A centralized transmission system has exacerbated rather than solved the problem by creating a large-scale market failure rather than a localized one.

Utilities such as SUB have paid for and nurtured the robust BPA transmission system and have worked to build one of the most reliable generation and transmission systems in the world. Joining the proposed RTO west, with its large geographical scope, would dilute the benefits that utilities such as SUB have promoted. These benefits include the fact that the BPA generation system is predominantly composed of hydroelectric resources. These generation resources have ability to efficiently provide near instantaneous voltage control, energy imbalance services, and other generation functions that provide support to the transmission system. Thermal resources are predominant in other geographic areas of the proposed RTO West and these resources, while well run, are not as efficient and are more costly compared to hydroelectric generation when providing comparable generation services. It is unclear if operation reserves of individual systems would be melded into the broader RTO. Hydroelectric resources require only a 5% reserve rather than the 7% reserve for thermal resources. A melding of these resources and associated costs into a RTO would shift benefits away from Northwest customers. The RTO West, in its current form, does not effectively prevent the hijacking of BPA resources to serve areas outside the northwest at the expense of northwest customers who have paid for the system.

Reliability benefits are overstated as well. As already stated, recent large-scale transmission experiments in the west have diminished rather than enhanced long-term reliability. The study estimates benefits based on a 78 minute outage in the next ten years. This 78-minute figure is based on average outage data for proposed RTO West members and the average is made up of instantaneous outages as we all outages of longer duration. No where in the report does the RTO West guarantee that it will reduce outage events – it is only anticipated that outages would be minimized with the formation of an RTO. There is no indication that the outage events used in the analysis would have occurred with RTO oversight.

In addition, while no outage is desirable, the impact of outages varies by consumer. While a residential customer is likely only be inconvenienced by having to re-set their digital clocks in short term outages, business that have sensitive electronic software would likely be down for a period of hours while restarting systems should a short term outage occur. It is this latter case where economic impacts are felt the hardest. However with the construction of backup power supply and other localized systems these businesses are already addressing the problem without the formation of an RTO (many have already done so). This disparity of economic impacts across different types of consumers points to another problem with the proposed benefits of the RTO. The higher transmission and power costs paid by residential customers would result in reliability benefits that flow to other customers. Residential customers trying to make ends meet

would pay thousands of dollars in electricity bills to avoid the inconvenience of re-setting their clocks (using the recent experience of San Diego as an example) for the privilege of paying for enhanced system reliability which primarily benefits businesses. High utility costs in the south and northeast, for example, have already resulted in unfortunate situations where people have to choose between putting food on the table and using energy to heat or cool their homes. These are life or death decisions that have resulted in the loss of life. It is at this point where attempts to improve people's livelihood threaten peoples lives. This type of social engineering should not be done on the large scale proposed by RTO West without clear solutions to these types of economic impacts and only in a period of generation surplus that would enable competitive (presumably lower-cost) markets.

Finally, there's the qualitative cost of the "market imperfections that may occur should this RTO get the market rules wrong." Unfortunately, to date the market rules implemented by new, large scale transmission organizations have been wrong and there is no indication that the rules in the proposed RTO West are right.

The FERC's Proper Role

The problems associated with transmission constraints in the Northwest are isolated. The Northwest is already taking steps to address these problems without the formation of a costly and risky RTO. Solutions to solve load/resource balance problems include enhanced curtailment programs, as demonstrated by BPA's recent implementation of an innovative curtailment system that can be exercised by individual customers.

Regional problems should be addressed with regional solutions with minimal if any external influence. The formation of the RTO West, with its large geographic scope, would likely disrupt the efforts made to date to solve the problems in the Northwest. It also jeopardizes obligations of BPA to meet treaty obligations, fish and wildlife mitigation, and international agreements. Higher costs, which have been the rule rather than the exception due to the formation of large-scale transmission organizations, would also result in jeopardizing BPA's ability to meet its net billing obligations (which are dependant on the balance of BPA's power and transmission costs and revenues).

Transmission constraints are typically located at places where two or more transmission systems interface. The most significant roadblock to finding and implementing the right solutions has been a resistance on one or more parties to pay to upgrade systems. One transmission owner could solve all or most of the localized problem on its own, but at a higher cost than if transmission owners worked together to correct the problem. The FERC's role proper role in these cases should be to act as a facilitator to work with the transmission owners to arrive at the most economic and fair solution to the problem. This authority could be granted to a regional transmission oversight board that would have limited, but important, authority to address these localized constraints which exist between transmission systems.

RTO West: A Final Word

With the holidays approaching, the FERC should be wary of the formation of an RTO in the West, and RTO formation in general. The proposed RTO West inadequately addresses the cost to customers and recent attempts to modify transmission systems have resulted in higher costs and fewer choices rather than lower costs and more choice for consumers. There is no indication that this pattern will not continue. Lofty visions of market transformation and well intentioned, but empty, promises pale in comparison to hard reality. Higher utility costs as a result of market experiments are threatening people's lives. The FERC should cautiously move forward with attempts to re-regulate transmission systems and any such attempts must include accountability and financial safeguards to protect consumers. Until economic realities exist, such as surplus generation, the role of any new regional transmission organization should be limited to acting as a facilitator with some final decision making authority to promote cooperative capital improvement efforts between transmission systems.

Thank you for this opportunity to provide comments on the proposed RTO West.

Sincerely,

Jeff Nelson
Resource Projects Manager
Springfield Utility Board

Cc: SUB - Steve Loveland, Bob Schmitt, Bob Linahan, Richard Jeffryes
BPA – Ruth Bennett, Tony Rodrigues