

NOTES FROM NW ENERGY CAUCUS HEARING ON OCTOBER 3

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Members present: Representatives Hastings, DeFazio, Walden, Dunn, Nethercutt, Baird, Dicks, Inslee, Larsen

Follow-up

(1) Written response to Congressman Hastings re: bidding process and load service protection

(2) Confirm circumstances under which RTO West has authority to allocate costs of construction. Cite to TOA.

Opening Statements¹

Gary Zarker (Seattle City Light)

Three points 1) demonstrate that there are net economic benefits for region; 2) no mandatory and standardized provisions; need flexibility for good regional planning; 3) cost shifts – caution is warranted. Need to demonstrate benefits exceed costs.

- RTO West-Desert STAR-Cal ISO marriage a non-starter.
- System provides low cost power now. Need common ground about objectives.
- Region working hard on development of RTO West. Far from agreement - details critical.
- Is now really the time to move w/an experiment that will destabilize?
- Need help to resist FERC juggernaut

Jim Sanders (Benton PUD)

- Slice purchaser. Interested in competitive, viable market. Have that right now w/BPA as-is. Some few problems, but working well w/BPA.
- Goals of RTO have merit. Nationally, may be good but doesn't add up for NW.
- In PNW some public power doesn't support RTO West
- If non-discriminatory open access is the goal of an RTO, we have that right now.
- Go slow on RTO. FERC being aggressive, and we are running hard to keep up. Benefits need to be there. Problems need to be fixed before RTO is formed.
- Not opposed to RTO, but want consumers better off under an RTO.
- If no benefits, then no RTO.

Don Schoenbeck (DSIs)

- Working on problems now, diligently.

¹ To the reader: the notes in most cases summarize a speaker's message. The notes are not a word-for-word transcript.

- Concerned about the FERC process derailing the RTO West process – sucking out resources. Specifically, FERC workshop may draft people away from RTO West process
- RTO would help avoid cost shifts. Potential benefits through coordinated planning, etc.
- Congestion management needs to be resolved. Want to maintain existing quality of service and current ease of scheduling. Worried about burdens associated w/RTO scheduling.
- Cost/benefits: qualitative ok; quantitative may be difficult to ascertain.
- From the delegation we need notice to FERC to let RTO West complete the process we're on.

Mark Maher (BPA)

- Largest owner of transmission. Federal agency; while not jurisdictional, it is essential for us to participate in the development of RTO west.
- Centrally located; interconnecting public customers.
- Want to ensure it meets the needs of NW, especially our public customers. Need to take the long view. Would not start until 2004-5. Implementation on a long horizon.
- Sticking to our principles which have been shared with the delegation in the past – can make them available again if needed. Want to resolve issues that can be addressed by a good RTO.
- Cost/benefit and seams as well as other content aspects – we're active in development.
- Three RTOs w/common practices. We want to stay on that track and seek your support.
- With regard to the Desert STAR “marrying up” proposal, we don't want a “shotgun” wedding, we'd prefer a common law marriage. Want to stay on the path with RTO West and work out the seams issues with the other two RTO efforts in the West.

Alan Richardson (PacifiCorp)

- PacifiCorp has 1.5 million customers in six states.
- RTO West improves prospects for reliability; more economic deal for customers.
- Need to move soon for investments in and planning of infrastructure.
- Currently, there are significant weaknesses in transmission investments. Transmission takes a long time to build and pay off. Construction of transmission has been overlooked in the generation markets focus.
- RTO presents best opportunity to resolve the problems. Single operator. Cuts costs. Improves planning and encourages investment. Reduces opportunities for power suppliers to game the system.
- Working hard in the region now to solve unique issues in NW, but if we delay FERC will impose its structure and delay progress. Working through very tough issues. And we need time to discuss w/all parties.
- West-wide RTO is a non-starter. RTO West as proposed is deliverable and advisable; the size is right. Anything else makes it too difficult to achieve and stalls

investments. If we don't meet FERC's timetable, we lose control, and then we all lose in their region.

Wally Gibson (NWPPC)

- Chair of RTO seams task force.
- Council's comments; not the states individually.
- Collaborative process has been workable.
- Problems w/status quo: (1) no investment – need to make sure economic decisions are made; potential liquidity in physical rights model, but good alternatives are being considered; (2) ensuring comparable transmission access and wide supply choices – had to rely on generators to meet new load; need to get away from uncertainty w/supply. Wind generation cannot be excluded. Existing system does not manage congestion well – RTO can do that because of its size. Moving toward the current BPA management system. Benefits will be long term and diffuse – will not be easy to quantify them because the costs are upfront and benefits are long term. But, better than status quo.
- Continue developing RTO West as currently proposed. West-wide market is here - Western Vision needs a chance to mature.
- There are two benchmarks: (1) how well is reliability maintained and improved; (2) how well does it support competitive generation siting.

Aleka Scott (PNGC)

- Want to serve load economically and reliably.
- There are some significant transmission problems.
 - Pancaked rates;
 - Congestion.
- BPA needs borrowing now.
- RTO West is good for NW. Need an RTO that can deal with the problems, including congestion. Too many zones – 17. That system will not result in lower costs. Will be too complicated to operate.
- RTO needs to be able to fix the transmission system when reliability is a problem. It also needs to be able to fix congestion.
- No export charges is a problem. Need “through and out” charges.
- Worried about TransConnect. They want to file quickly, before RTO West. Need to see how they can fill a role in planning, not drive the planning process. RTO West needs to control planning.
- This is the most important thing that will affect the system in the NW. Need formal hearings and communication to FERC that we need something that's good for consumers in the NW, not just good for profit-making entities.

Paul Mohler (TransConnect)

- TransConnect is an RTO West filing utility and joined in the RTO West responses to the written questions from the caucus

- TransConnect is a single purpose company to plan for and expand the transmission system in the NW. Can provide creative solutions to addressing transmission shortage and will be subject to the least cost planning process. TransConnect will have the ability to attract investments.
- Received many comments on the planning protocol; delayed its filing for some period to address the concerns.
- For-profit will work within RTO West or as central part of larger RTO. Have discussed w/others in the west and stand ready to adapt to regulatory requirements.

Question/Answer Session

DeFazio

- No mandate from FERC to do a cost/benefit analysis. Asked whether to undertake RTO West only if net benefit demonstrated?
Panel: some affirmative nods; some stares.
- No cost shifts?
Panel: affirmative nods
- Zones on top of 43 congestion points; how does that lower costs or reduce congestion?
(Mark) The congestion problem you see is today. We are beyond 17 zones. We're looking to the economic rights model w/physical rights model to get to a simplified, workable model.
- Export fees – “through and out” charges – do you need that? Cited the Minnesota issue.
(Wally) Disagree that it's needed. RTO cost recovery is based on access fee. Can maintain the benefits of cheaper generation within the northwest without having export fees. We have a west-wide market now, so it could be done.

Hastings

- Whole lot of stakeholder interests in his district.
- Why do publics in the NW have a problem w/RTOs?
(Sanders) Other regions don't have a BPA, which ensures open access and a competitive market, and cost-based rates.
- Do you see anything disagreeable w/Sanders' statement?
(Mark) No, but we need to take a longer view. Problems are there. Need to ask “what's the best way to resolve?”
(Richardson) Agreed.
- Congestion and load service: what would happen if you were outbid?
(Sanders) Not clear how he would serve his customers under the RTO. Currently, they'd work it out w/BPA.
(Mark) The bidding process is in play right now. Looking at a system where existing contracts will be served as they are today. Bidding comes in with non-

firm transmission and other areas. Still working on it, but definitely wanting to nail down the load serving obligations. Content group working on it now – about 2 weeks out.

- **Consider that a question to be asked and want a written response.**

Baird

- What is there to prevent manipulation?
(Mark) Take our time to develop congestion management right, get planning down, market monitoring function strong. Still developing these now. Will give you progress reports.
- I will stop FERC from moving out ahead of the NW. Intends to push that, and hopes that the caucus will too.
(Richardson) Market monitoring will become visible under RTO West.
- Generation not being done because of uncertainty. Are there other ways to create supply w/o merchant power?
(Zarker) CT's, wind. Generation is being built. Would be a lot better if deregulation was more certain. Transmission is not getting built.
- Environmental consequences. RTO should look at how to reduce environmental consequences from transmission construction by evaluating cogeneration, demand side management, conservation, and renewables?
(Richardson) RTO will drive least-cost planning much more aggressively and better than the status quo. There is a balance that RTO will support.

Nethercutt

- How are we going to get the borrowing amount that BPA needs for infrastructure improvements? We're working on it for BPA. Anything more needed?
(Richardson) BPA definitely needs borrowing. PacifiCorp working w/WGA. Need to have transmission to decrease costs. Economics an issue because there is currently uncertainty. Siting is an issue now also. RTO West will cause development of the infrastructure.
(Aleka) RTO will reduce much uncertainty w/least-cost planning. Goes a long way to reducing regulatory problems. RTO needs extensive planning authority.
- How do you get to a vehicle addressing the tension regarding economic benefits and relieving congestion?
(Aleka) If we come up with 17 zones, congestion that increases the value of your transmission right will not be reduced.

Dicks

- Will RTO be able to borrow to build?
(Mark) RTO will not be an owner of transmission. Utilities will do the actual planning and construction.
- If RTO does not have authority to go out and get funding to build transmission, what value does it have?

(Aleka) What we want is for RTO West to have authority to allocate costs after deciding a fix must be made. That is not in the draft now.

(Paul) TransConnect would do the building and put the allocation into the rates.

Would stand ready to go to the capital markets to build transmission.

- How long is it going to take to get RTO West developed?
(Richardson) March 1 is the comprehensive filing date. Work in progress. Good discussions. RTO West would authorize the lines to be built; an independent planning entity for the NW.
- Should we give authority to FERC to get this thing moving?
(Richardson) States are not a problem in getting transmission built.
(Wally) States do not want federal eminent domain authority given to FERC.

Dunn through Inslee

- What will happen with private residential rates?
 - o (Zarker) Costs are going up and way up. That's why there needs to be a cost benefit study. It's in the works; it's hard to do; doesn't get down to the weeds on detail – what does it do to the ratepayer? It's too global.

Inslee

- Are pancakes being replaced by crepes?
(Schoenbeck) Plan has just shifted costs from one entity to another. Elimination of pancakes not necessarily the best thing for the market. Pushing the company rate to recognize the revenue credit for a 10-year period.
(Mark) Pricing model takes the pancaked rates and instead applies a company transmission rate. No charge for wheeling through another system. Making those systems whole through transfer charges – have reached agreement on that. Export charges – looking at transfer charges with other regions at the seams.
(Aleka) If we secure firm rights, and have a company rate, then that's progress. If congestion charges and flow based system, that's not workable.
(Gibson) Pancakes not fair. Average recovery of a fixed cost - not transaction-based. Existing contract holders will be protected from congestion charges – trying to work that intent through now.

DeFazio

- Least cost-transmission. How do you integrate a for-profit into that?
(Paul) Primary criticism of planning protocol was that the assertion that TransConnect couldn't do least-cost planning. Transconnect committed to that - FERC wants that.
- Can RTO West make TransConnect do it? Can RTO West step in and make it happen?
(Richardson) Yes, that's what we anticipate. Another party can step in and construct.

(Aleka) RTO West should be able to allocate the costs of building to all users. Not clear if that's the plan for RTO West. They have a limited planning role – for reliability.

(Mark) Still under discussion. We have to ask if construction's for a reliability issue or commercial congestion. Can you even make a line between those? RTO West ought to have a forward looking planning horizon, and be able to address congestion as it arises. Very hard to determine what's real in "phantom" congestion. Have the lights gone out? Somebody's probably had to curtail somebody, and it cost a lot of money, so it's real.

- Is the inevitable result higher cost?

(Zarker) Yes, systems that need to be put in place are expensive. \$100's of millions. Will create new sources of costs. Costs have to be offset by certainty of benefits. Have to show it's better than status quo.

(Richardson) Don't want you to walk away thinking that consumers will pay more because of RTO West. There are benefits through transmission planning, congestion relief, integrating generation. Bottom line is that transmission investment is necessary, and we need to do it the best way.

Hastings

- You get credit for working on these difficult issues. We're trying to stay unified to protect the Northwest.

- When does the non-profit status expire?

(Mark) The 2011 date deals w/the pricing proposal, not the non-profit status of RTO West.

- If FERC had not made this ruling for RTOs, would the NW pursue this?

(Mark) Probably not exactly the same way. There are benefits to the systems coming together – economies of scale for planning for NW.

(Richardson) As the Northwest is blessed with good transmission leadership, transmission solutions similar to what we are doing now would have occurred without FERC's initiative. Good people would come together anyway given the market.

(Wally) There had been a proposal even before 888 on coordinating transmission in the west. Would have gotten to something, but maybe not exactly the FERC model.

- Are publics involved in development?

(Aleka) Publics are at the table and represented, and actively involved.

- Wish you the best. Decision has to be made. Would rather have a regional decision vs. a political one.

DeFazio

- Desert Star "join-up" a bad idea. FERC will hear that from the Delegation.