UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Removing Obstacles To Increased Electric Generation And Natural Gas Supply In the Western United States	Docket No. EL01-47-000

**MOTION TO INTERVENE AND
COMMENTS OF AVISTA CORPORATION**

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (1999), and the Commission's request for comments on its Order Addressing Western Markets[1] (hereinafter "Order") issued on March 14, 2001, Avista Corporation ("Avista") hereby moves to intervene in the above-referenced proceeding and respectfully submits the following comments.

I. CORRESPONDENCE AND COMMUNICATIONS

Correspondence and communications regarding these comments should be addressed to the following persons, both of whom should be placed on the Commission's office service list in this proceeding:

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[1] *Order Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States and Requesting Comments on Further Actions to Increase Energy Supply and Decrease Energy Consumption*, Docket No. EL01-47-000 (March 14, 2001).

II. IDENTITY OF AVISTA CORPORATION

Avista is a corporation created and organized under the laws of the State of Washington with its principal office in Spokane, Washington. Avista is an investor-owned, natural gas and electric utility engaged in, among other things, the business of generating, transmitting and distributing electric power to wholesale and retail customers and transmitting electric power on behalf of third parties. Avista is a member of the Western Systems Coordinating Council ("WSCC") and is also a transmission owner and a Filing Utility in the proposed formation of a regional transmission organization in the Pacific Northwest ("RTO West")[2] in compliance with Order No. 2000.[3]

III. COMMENTS

The stated goal of the Commission's order is "to help increase electric generation supply and delivery in the Western United States." (Order at 1). In its Order, the Commission announced several actions it believes would help achieve this goal. In these written comments, Avista comments both on specific actions suggested by the Commission in the Order as well as providing additional suggestions for actions not specifically addressed by the Commission.

A. Package of Economic Incentives

The Commission recognizes that transmission constraints are contributing to the problems and promulgated the Order, in part, to "foster[] the installation of critical transmission investment." (Order at 5). At the core of this goal is a package of economic incentives that include an equity premium and accelerated depreciation. While these incentives likely will encourage the construction of transmission facilities, Avista envisions at least two problems with these incentives.

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[2] *Avista Corporation, et al.,* Docket No. RTO1-35-000.

[3] *Regional Transmission Organizations*, Order No. 2000, FERC Stat. & Regs. ¶ 31,089 (2000), *order on reh'g*, Order No. 2000-A, FERC Stat. & Regs. ¶ 31,092 (2000), *appeal docketed sub nom. Public Util. Dist. No. 1 of Snohomish County v. FERC*, Nos. 00-1174, *et al.*, (D.C. Cir. April 24, 2000).

First, based on the short timeframe allotted to take advantage of the incentives, very few projects could actually be placed in service by the deadlines.[4] Essentially, unless the project planning was already significantly underway, a new project could never be completed in time to be in service by November 1, 2002 (a mere 19 months from the date of these comments). It is unfair and seemingly inconsistent with the goals of the Commission's Order that only projects already planned for construction would receive the benefit of the economic incentives and new, necessary projects would not.

Avista suggests that a longer eligibility period would be much more effective in "fostering the installation of critical transmission investment." A period of seven (7) years is a realistic timeframe in which transmission owners who did not already have transmission plans "on the shelf" could plan, construct, and place in service facilities that would have a significant impact on alleviating transmission constraints.

Second, it is not clear from the Order how the transmission owner will realize the economic benefit. Given the current backlog of rate case filings pending before the Commission, it does not seem efficient to encourage rate case filings when other methods are available. For example, the Commission could structure the cost recovery as a surcharge rather than equity return through rates. Such a mechanism would remove the disincentive of having to file a rate case to recover the costs while still allowing recovery in a timely manner. A surcharge would also avoid a glut of rate case filings submitted to the Commission. An additional potential problem is that the accelerated depreciation and equity premium may present rate-making difficulties in state regulatory commission proceedings that may limit the attractiveness of these economic incentives. For example, accelerated depreciation for rate-making could necessitate the recording of deferrals under generally accepted accounting principles (GAAP). Under GAAP depreciation is based on the economic life of an asset. If depreciation is accelerated for rate-making purposes, under GAAP a deferred asset may need to be recorded. It is Avista's hope that

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[4] In order to be eligible for the incentives, the project must be "in service" by July 1, 2001 to be afforded a return on equity of 14.5% and 10-year depreciation; in service by November 1, 2001 for a 13.5% return and 10-year depreciation; and by November 1, 2002 for a 12.5% return and 15-year depreciation. (Order at 6).

the Commission will work with the state commissions to ensure that these ideas actually work as incentives at both the federal and state regulatory level.

B. WSCC Standards

One potential area that the Commission did not address in its Order but may lead to significant increases in available transmission capacity is possible changes in WSCC standards. Currently, many WSCC reliability planning standards are more stringent than NERC standards.

The NERC planning standards include an N-1-1 requirement while WSCC has the more stringent N-2 criteria. An N-1-1 event is a single line outage followed by a subsequent outage (non-simultaneous events). NERC allows for planned system adjustments following successive N-1 events including load and transfer curtailments. In contrast, WSCC requires that common mode failures be treated as simultaneous events thus the N-2 nomenclature applies. For example, a 230 kV line crossing a 115 kV circuit requires analysis as an N-2 event where both lines are "faulted" simultaneously. However, simultaneous events, though far less likely to occur, have a much more severe system impact than non-simultaneous events even when separated by only fractions of a second.

Another example is the WSCC requirement for planning and operating transmission lines within a common right-of-way corridor. The WSCC requires a minimum lateral distance of one thousand feet separation between parallel lines in order for outages of both lines to be considered separate events. Such a requirement is not statistically warranted for reliability planning and significantly derates the transmission system, necessitates additional transmission construction, and increases the cost to the end user.

Changes to the WSCC standards could result in perhaps hundreds of megawatts of capacity being freed up from existing facilities. Avista suggests that the Commission request utilities in the WSCC to compile a list of suspect standards that do not significantly affect reliability. If appropriate, the suspect standards could be temporarily suspended and a process initiated to review the standard to determine if the more stringent standard is warranted and should be reimplemented. In the interim, the new capacity would be available for use to mitigate short-term transmission constraints.

C. Cost Recovery for Benefits to Third Party Systems

A second area that was not explicitly addressed by the Commission that could increase capacity and improve the transmission system involves improvements to one owner's system that increase capacity on an adjacent system. In some cases it is possible to reconfigure transmission facilities (or install remedial action schemes) that, while creating some risk to the reconfigured system, also enhances capacity on another system. The Commission should encourage parties to enter into bilateral negotiations to facilitate such transfer of system benefits by providing the proper incentives or market mechanisms.

D. Issues Related to Hydroelectric Power

Equipment improvements to increase energy and capacity output generally require long lead times. Expeditious treatment of requests for these types of improvements provide opportunity to address the conditions covered by the Order in the near future and should be considered as part of any action.

Equipment improvements require long lead times and are probably not viable options for short-term solutions as envisioned in the Order. However, modifications to operating constraints may be implemented in relatively short time frame.

Given the current forecast for electricity supplies and water conditions for hydropower operations, Avista urges the Commission to support curtailment of spill for fish or other purposes in order to conserve water for power generation. For example, Avista's license for its Monroe Street project requires spill for aesthetic purposes only. Avista believes that such requirements should be suspended or limited given current conditions. In this regard, the Northwest Power Planning Council recently issued a study recommending significant reduction in spill.[5] Avista strongly supports the Council's recommendation.

IV. MOTION TO INTERVENE

The electric systems in the Pacific Northwest and California are inextricably intertwined and dependent upon each other. Accordingly, Avista will be substantially affected by any actions taken that affect western power markets and the proposed formation of regional transmission organizations in California and the Pacific Northwest. No other party to this proceeding represents the interests of Avista. Therefore, Avista's intervention is in the public interest.

V. CONCLUSION

Avista appreciates the opportunity to submit these comments on these important issues. Avista respectfully requests that it be allowed to intervene as a party in this proceeding and that the aforementioned persons be added to the official service list.

DATED this ____ day of March, 2001.

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[5] *Northwest Electricity Markets in 2001: Status and Proposed Action*, Northwest Power Planning Council (March 26, 2001). The Council's report is available on its Web site at www.nwcouncil.org.