

Comments submitted to Northwest Energy Caucus on Behalf of the Coalition for a Competitive Transmission System (C-FACTS).

The Coalition for a Competitive Transmission System (C-FACTS) appreciates having this opportunity to express concern about the apparent attempts to dissuade the Bonneville Power Administration (BPA) from participating in the development of RTO West. We believe that an effective RTO (one that includes BPA) is in the best interest of the Northwest and commend BPA for its participation and support in the formation of RTO West.

C-FACTS is a coalition of independent power producers and merchant generators that has been active in the development of RTO West. C-FACTS supports the development of an RTO in the Northwest because a properly designed RTO offers a level playing field and non-discriminatory access to transmission for consumers and suppliers.

The expectation of reasonable transmission access has driven interest in developing merchant generation in the Northwest. According to the WSCC proposed generation database¹, Roughly 25,000 MW of generation capacity is proposed for the RTO West area (excluding British Columbia and Alberta). Of this total, over 20,000 MW has been proposed by merchant generators rather than vertically integrated utilities. This means that about 80% of the future generation in the Northwest could be built by merchants rather than utilities. The primary significance of merchant generation is the assumption of risk. Utility generators assign risk to their customers by rate-basing assets, so that customers pay no matter how well (or, lest we forget WPPSS, how poorly) the asset performs. Merchant generators, on the other hand, assume the risk of the success or failure of their plants; the costs of poor planning or inefficient operation are borne by shareholders, not the public. Merchant generators therefore have every incentive to minimize costs, producing a savings that is reflected in lower prices to the consumer. However, a properly designed and effective RTO is the key to attracting new merchant generation and maximizing this benefit². Without fair, nondiscriminatory transmission system access in the Northwest, merchant generators are less likely to follow through and build proposed plants. Instead, they will invest in other markets that provide such access. The resulting generation deficit can only lead to reduced reliability and increased costs, severely dampening economic growth in the Northwest.

¹ Reference: http://www.energy.ca.gov/electricity/wscs_proposed_generation.html for database

² The 2000-2001 California market meltdown is an excellent example of what can happen if the market is not well designed. Almost universal reliance on the spot market, lack of price hedging by utilities, and failure to elicit demand response by providing price signals resulted in a situation in which there was no protection against price spikes and no mechanism for a demand response. Whether or not there was an exercise of market power, absent the misguided regulatory restrictions, a properly structured market would have responded quickly and efficiently; resulting in a short price blip rather than the explosion that was experienced.

BPA is Important to RTO West

BPA participation in RTO West is clearly a make or break issue. Bonneville controls over 15,000 miles of transmission lines throughout the Northwest, making it by far the largest single transmission owner in the region. Implementing an RTO in the Northwest without BPA would be like developing a regional transportation plan without including interstate highways. Many of the benefits of a **Regional** Transmission Organization result from the regional scope of the organization. Excluding the primary transmission backbone of the region from the RTO would result in a sub-optimal solution and higher costs for everyone using the transmission system. BPA's interest in supporting and participating in RTO West reinforces this conclusion. As a non-profit entity responsible for cost-effective and reliable service to its customers, BPA clearly understands the benefits of regional coordination and transmission operation.

BPA Participation Benefits all Northwest Consumers

Some public power organizations in the Northwest are opposed to BPA participation in RTO West because of concerns that it will result in a degradation of existing transmission rights. Using a system that currently appears to work well for their needs, they see no need to change anything; preferring a known quantity over an unknown. While this perspective is understandable, it limits the potential to which all consumers in the Northwest can benefit. The Northwest has been able to reap the benefits of the extensive hydroelectric system in the region in the form of low electric rates. Unfortunately, this beneficial resource is limited and future growth in the region will need to be met with other generation sources both within the Northwest and through the interconnected western states. A well designed and functioning RTO is the best guarantee that the most efficient and lowest cost resources will be available to meet the needs of the region. With the cooperation of all market participants – public power, investor-owned utilities, independent power producers and consumers – we should be able to develop such an organization.