Comments of Northwest Aluminum Companies on RTO West

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Before the Northwest Energy Caucus Oversight Hearing on RTO West

March 13, 2002

The Companies appreciate this opportunity to submit a written response to the question posed by the Northwest Energy Caucus: "What do you view as the 'make or break' issues in the development of RTO West, and how would you like to see them resolved?"

The Companies support the following points in the testimony submitted by Lon Peters on behalf of a broad group of public utilities:

(1) Great uncertainty remains concerning how RTO West will be structured and how it will impact Northwest power markets;

(2) The RTO West Benefit and Cost Study does not properly state the benefits because:

(a) it counts as benefits current costs that will be shifted to others in the RTO,

(b) it counts as benefits costs that are currently not borne by any party but are presumed eliminated by the RTO model, and

(c) costs that are currently recovered in energy prices are not separately recovered under the RTO model;

(3) The costs of RTO West will most likely exceed the benefits of RTO West (when properly measured); and

(4) Even if there are small net benefits, there is no demonstration that all customers will benefit, instead, cost-shifts may result in some customers paying more due to RTO West.

The Companies support the goals of the national energy policy for eliminating transmission barriers to a more open power market. RTO West, as currently proposed, falls short of these national goals and fails to sufficiently accommodate Northwest interests in equity and cost-shifts. For these reasons, the NW Energy Caucus should urge FERC, BPA, and regional IOUs to take a measured, cautious, and incremental approach to transmission restructuring that meets national goals without sacrificing Northwest interests.

The Northwest Is Different – a Northwest RTO Must Be Different

It has been said many times but is important to reiterate – Northwest power markets do not face the same issues pushing RTO formation as other regions do across the United States. Northwest transmission owners have historically provided third-party transmission service for wholesale transactions on a non-discriminatory basis. Northwest hydro-generation has supported for many years an active market among wholesale purchasers. This distinguishes the Northwest from most of the country in at least two important ways: (1) wholesale transmission access is readily available at most times and in most places, and (2) the amount of unrealized energy savings is small because generation dispatch within the region is not impaired by transmission access or costs in

any way that the RTO would affect. In this context, the added costs or cost-shifts resulting from an RTO could overwhelm any benefits for many customers.

As you know, the Northwest economy is suffering, and due to power supply events and decisions in 2001, will continue to suffer for several years. The Northwest economy, and the Companies in particular, cannot afford another unintended shock to electric supply costs. Because the full amount of benefits attributed to RTO West are so small relative to the overall size of Northwest power markets, RTO West must perform exactly as forecasted if these assumed benefits are to offset costs and cost-shifts. Extreme care must be taken to assure that all of RTO West's operating rules and charges work as intended. Any material differences will quickly consume the stated benefits. At this time, "getting it right" is more important than "getting it done."

Lack of Full Support of RTO West

Support for RTO West among BPA's customers is lukewarm at best. Some customer are demanding "carve-outs" that they hope will insulate them from RTO West, such as: signing long-term 30-year transmission contracts with BPA, demanding a full ten-year Company Rate period, and a commitment that BPA will not change its underlying tariff and business practices for the next ten years. Even the Filing Utilities are proposing to lock many protections for themselves into the Transmission Operating Agreement (TOA) in order to insulate themselves from RTO West. For example, the Filing Utilities reserve the right to choose among their transmission contracts and decide which are converted to RTO service and which are not.

The Companies believe that such provisions, even if accepted by RTO West and FERC, will not provide much protection either from mistakes in creating the RTO or from mistakes that the RTO itself may make at some point in the future. Rather than focusing on RTO exceptions to preserve the status quo for certain parties, the Northwest should take a more fundamental approach and devise a Northwest transmission restructuring proposal that is incremental and appropriate to Northwest needs, including customers as well as utilities.

RTO West Will Preserve Pancaked Transmission Rates

One of the most touted features of current national energy policies is to eliminate pancaked transmission charges (i.e., a customer pays a transmission charge to its local transmission provider plus another charge based on any intervening transmission costs between the generator and the local provider) in order to secure an optimal dispatch of generation. Indeed, this is one of FERC's primary goals, and is the assumed source of most of the benefits measured in both the RTO West Benefit and Cost Study and FERC's Economic Assessment of RTO Policy. However, the current RTO West pricing proposal would require loads with existing transmission agreements to pay pancaked rates to purchase energy from a supplier which is not within the "footprint" (determined by the customer's contractual transmission rights) of its local transmission provider. This proposal, unless changed, could have a significant impact on the economic viability of some of the Companies.

It is important to note that the RTO West Benefit and Cost Study did not recognize this impact when assessing the costs and benefits of RTO West for two

reasons. First, the Study commenced prior to the development of this pricing proposal. Second, there was no way to determine within the model which transactions would face this pancaked charge and which would not. This inappropriately enhances the quantification of benefits accruing to RTO West.

The Transmission Operating Agreement Overreaches.

The TOA is the means by which cost-shifts of embedded transmission costs are mitigated, at least during the Company Rate period. However, the Participating Transmission Owners (PTO) are using the TOA to overreach and are attempting to decide certain issues that should not be decided at this time nor decided by the PTOs. As examples:

- §16.4 would define which customers pay for any PTO's stranded power costs and would exclude customers who may be subject to these charges if the PTO sought to impose these charges today.
- §17.3 would fix the rate design that RTO West must use to recover its new costs.
- §26 would limit those entities to which RTO West could offer transmission services.

While the TOA properly puts some issues beyond the RTO's reach, the PTOs have overreached and the issues identified above should not be decided in the TOA.

The RTO West Proposal Fails To Satisfy the National Energy Policy Goals

The FERC has stated several primary goals for RTOs in its Order 2000, including:

(1) improving grid reliability;

(2) removing opportunities for discriminatory transmission practices; and

(3) facilitating lighter handed regulation.

The current proposal for RTO West fails to meet these objectives. Instead of improving grid reliability, RTO West will create more uncertainty and less reliability. (See Lon Peters' discussion of BPA's reliability consultant). Instead of removing discriminatory transmission practices, the RTO would create and perpetuate discriminatory practices (e.g., generators charged a different rate from loads and similarly situated loads charged different rates based on historic contracts). Thus, instead of lighter-handed regulation, the RTO West will require almost constant FERC intervention.

Again, the Companies support more market access and free trade. However, RTO West, as currently proposed, does not yet ensure that the benefits of market access and free trade will not be accompanied by overriding costs. As such, the Northwest Energy Caucus should urge FERC, BPA and the regional IOUs to take a measured, cautious and incremental approach to transmission restructuring.

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