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Tom Vinson
Legislative Director
Representative Peter DeFazio's Office
Fourth Congressional District
2134 Rayburn HOB
Washington DC 20515

Re *RTO West – Independent Power Producer Comments*

Dear Mr. Vinson:

Thank you for the opportunity to present our concerns regarding the formation of RTO West. It is understood that your office is collecting and distributing stakeholder comments to other members of the delegation. We have been actively involved in the development of a cooperative, regional transmission organization since the Northwest's first proposal to create IndeGO, many years ago. We believe that RTO West, as generally envisioned by FERC in its Orders and as modified below, can become that cooperative agency to the benefit of all transmission users.

We are writing today on behalf of independent generators of electricity, referred to as retail customer owned generation, cogenerators or Independent Power Producers (IPPs). In large part, retail customer owned generation developed because private business and industrial concerns invested capital to secure reliable, low-cost power to run manufacturing plants, or refineries or other energy-intensive processes. In the case of cogeneration, a company uses a single fuel to produce both process heat or steam required for its industrial process and to produce electricity, some of which might be sold back to the local utility if it is not needed on-site. This dual use is efficient, environmentally beneficial and has been very cost-effective. Cogeneration has been actively supported and sustained by Congress and FERC since the passage of the Public Utilities Regulatory Policies Act of 1978.

Other IPPs include companies that have taken the business risk and made a financial commitment to build a power plant and sell the entire output at wholesale, most likely to a local utility. These IPPs are not guaranteed a return on their investment, as utilities are. These IPPs must internalize the market fluctuations in the price of power and fuel, as well as fluctuations in demand for electricity.

By encouraging companies to supply their own electricity needs and encouraging the development of independent power producers, transmission constraints are mitigated. The public policy to encourage the development of these resources is well established in existing law because of the interest in a diversified source of generation and to promote consumer independence in generation supply. If electricity demand can be met locally through cogeneration or independent power production, the need for larger regional power plants is minimized. The delegation's involvement in the RTO West process should be used to help create the proper market structure that does not take away the benefits of retail customer owned generation or unreasonably make such generation a more costly alternative to utility service. To achieve these desired results, four specific concerns must be addressed.

Issue #1 - All Facilities Providing Wholesale Service Should Operate Under RTO Control

To date, each utility has had the discretion to determine which transmission lines to turn over to the RTO. This has resulted in a significant difference in the types of lines being turned over by the utilities. In many cases, the utility lines to which generators or small publicly-owned utilities are connected are not being turned over to the RTO, but "kept" by the utility. The future result is that when the generator attempts to sell power at wholesale, it must schedule that transaction through the utility and pay a separate rate for the use of that utility's line. The generator must also schedule and pay the charges of the RTO as well, resulting in a "pancaking" of multiple rates that could make the transaction cost-prohibitive.

Many parties, including generators, are concerned that the utility may use its control of the interconnected line to discriminate against the independent generator in favor of its own generation. Such discrimination could be exercised by making scheduling for an independent generator difficult, or by imposing additional fees for the use of these lines. These so-called barriers to entry can and should be eliminated.

The solution is to vest the RTO with authority over all transmission facilities to the extent they are used to provide the types of service regulated by FERC, such as wholesale sales. The solution recognizes FERC's existing authority over wholesale transactions, and would not force the utility or the state regulators to surrender any existing control over the facilities. Clarifying that certain lines are under RTO control because they provide FERC-jurisdictional services could avoid ambiguity that might arise with respect to the overlapping jurisdictions.

Issue #2 - Generation Interconnection Should Be Under the Control of the RTO, Not Individual Utilities

FERC made it clear in Order 2000 that the interconnection of new generators to the transmission system should be under the authority of an RTO. RTO West has not complied with this directive and has provided the transmission owners with much more authority over the standards and the *pro forma* agreement for generation interconnection. In contrast, TransConnect has proposed that it will completely control the interconnection process for its facilities.

Some of the benefits of creating an RTO have been listed as uniformity, clarity, and transparency. By allowing each utility to control the interconnection, the benefits listed above are negated. Each interconnection could become a protracted negotiation process. In the case of disputes, it is likely that the utility would win in all situations. Granting instead, the control of interconnections to an RTO would bring an independent third party into the interconnections process. Standard interconnection procedures, with room for flexibility, should be uniform throughout the RTO's control area.

Issue #3 - Pricing Must Not Discriminate Against New Entrants and Should Not Disadvantage Imports from Other RTOs or Regions

The pricing model currently proposed by the filing utilities for RTO West would discriminate in favor of existing loads and existing contracts by requiring new loads and new contracts to pay a greater access fee. This will hamper the development of new generation – certainly an unintended consequence in light of growing electricity demands throughout the West.

In addition, the three RTOs in the West seem to be making little progress toward price reciprocity for transactions that cross RTO borders. If these "seams" issues are not resolved, a transaction from a California generator to a load in Oregon would pay both a California ISO transmission fee and an RTO West transmission fee. If the transfer of energy across RTO borders is assessed two charges, it would be higher priced than energy produced and delivered within the RTO.

This type of "pancaking" would have a disastrous affect on the current flows of energy across the West. The Western interconnection has generally been very efficient because it takes advantage of seasonal diversity as well as different types of generation (hydropower, natural gas-fired turbines, geothermal, solar, wind, etc.). Without reciprocity between RTOs, it would become less economical to make these energy transfers; reliability throughout the West could be in jeopardy. Seams issues must be addressed early, to prevent the creation of financial barriers that would serve only to increase costs to end-users.

Issue #4 - Pricing Must Be Assessed on a Customer's Actual Use of the RTO System, Not on the Customer's Gross Load Satisfied by its Own Generation

As described earlier, retail customer owned generation is located on a privately-owned site, with the bulk of the electricity used in a manufacturing or industrial process. Some excess electricity may be sold to the local utility and the company may buy services, such as standby, from the local utility. The utility pays the company for the power it buys and meters the company's usage in order to bill the company for electricity supplied by the utility. Whatever electricity that is generated and used on-site is not considered part of the transmission system.

The California ISO has attempted to require companies to schedule all of their generation and all of their load, as if the company was selling all of the electricity to some third party over the transmission system, and then buying all of its electricity back from the utility. In this fashion, the ISO can justify the assessment of transmission access charges on both the "gross" generation and the "gross" load. This is a ludicrous result and does not reflect the reality that a company is not using the transmission system for its entire load. Indeed, the company made a private capital investment with the intention of minimizing its reliance and use of the transmission and distribution and utility generation systems. The only costs that should be imposed would relate to the transmission of excess electricity generated by the company, or the purchase of services from the utility. A company should not be charged based on its "gross" load, only on its "net" use of the system.

Although this issue has been raised repeatedly, the filing utilities have failed to include any provision in their filing documents to resolve this issue. The RTO should provide its services and should assess charges based only on a retail customer's actual use of the system, disregarding any customer load served by its own generation behind the utility meter.

To conclude, retail customer owned generation should be encouraged for a number of well established public policy reasons. Such generation is often tied to the company's industrial process and makes more efficient use of energy. In addition, on-site generation reduces the infrastructure requirements on the local utility to bring energy to the customer.

Imposing irrational requirements on these types of generators will only discourage the development of alternatives. Your help would be beneficial in addressing the concerns outlined above.

Sincerely,

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