



**Northwest Energy Caucus Hearing
on
RTO West**

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**Testimony of Aleka Scott
for
PNGC Power**

Good afternoon. My name is Aleka Scott. I am the manager of Transmission and Contracts for PNGC Power. For the past 21 years I have worked in the electric utility industry on both power and transmission issues. PNGC Power is a generation and transmission cooperative with 15 rural electric distribution cooperative members serving customers in seven states (OR, WA, ID, MT, UT, NV, and WY.) PNGC Power holds the network transmission agreement between our member systems and the Bonneville Power Administration. PNGC Power takes responsibility for the delivery of all of our members' power, including the accurate scheduling and billing of members' power resources.

Since passage of the National Energy Policy Act in 1992, PNGC Power has been heavily involved in all of the Pacific Northwest transmission restructuring efforts up to and including on-going discussions of the RTO West. Today, we are at a significant crossroads in our industry. We stand on the brink of great change. Many, including FERC, believe that there are billions of dollars to be saved in our industry from further reliance on market mechanisms. We are here today to discuss the form of that reliance on the market in the transmission segment of our industry.

Let us be clear – we have grave doubts as to whether the market will work in the transmission arena. Whether it will provide for timely and adequate expansion of our already constrained system, whether it will result in fair and socially acceptable allocation of resources, and whether our electric customers can withstand the volatility that is inherent in a market are all at issue.

For the past several decades, electricity has been provided at its “cost-of-service”. Because of its monopoly nature, and the tendency of investors to maximize returns and charge monopoly rents whenever possible, utilities were charged with an obligation to serve in return for a guaranteed rate of return on required investments. This system failed in some parts of the country where investment was too costly for too little return – thus the Rural Electrification Administration or REA was born. In either case, the perceived right to electric service at cost became generally expected and continues to this day. When the residents in San Diego were subject to the volatility of the market in 2000 and 2001, the public outcry was enormous. Measures to limit the pain of customers were eventually taken by FERC in the form of refunds and wholesale price caps. Deregulation and reliance on market prices is only popular when it delivers lower prices. The transmission market is likely to be just as volatile as the energy market. But the high price of transmission congestion could be even more persistent since transmission additions take longer to build than new generation. The public has no stomach for the volatility and high prices that a market invariably relies on to send signals.

In the Northwest, we have been working to craft a regional transmission organization (an RTO) that fits the physical, economic, and institutional realities of our region. Because of the way our system grew up, and the stunning geography of our region including the vast Columbia River and its power system, the mountains, and the distant-from-load coalfields of Montana and Wyoming, what works in other parts of the country does not work here. We have a unique blend of federal, public, cooperative, and investor owned utility systems. The unmatched levels of cooperation in hydro coordination, reserve sharing, transmission planning, and other regional organizations have helped our region attain optimization of our power and transmission

resources. As a region, we are little understood and fiercely protective of the benefits we have created for ourselves through this cooperation.

Now we are being forced down a path where the transmission system, inherently monopolistic, is being re-regulated with instruction to rely as much as possible on market mechanisms. FERC is considering nationally standardized market designs for the electric utility industry. It is with all this in mind that the RTO West effort must be considered. RTO West is the result of a collaborative process. Because of the number and activism of the transmission dependent customers in the RTO West area, our process has been lengthier and more difficult than if the transmission owners had simply locked themselves in a room and come up with the answer. For this effort, the Filing Utilities are to be commended. We have before us a proposal that no one likes in its entirety. However, it does protect the benefits that we have as a region.

PNGC Power has actively participated in an attempt to craft a workable RTO West proposal. We believe that in general, a proposal crafted here in the Northwest will work better for our region than a system imposed on us from afar. However, as cooperatives, there are a handful of essential items which we “must have” to support the proposal.

PNGC Power’s “Must Haves”

1. Facilities Inclusion – The vision of a regional transmission system where wholesale buyers can access wholesale sellers of bulk power by “one-stop shopping” at unpancaked rates is the vision that has kept us on this path. The inclusion of the facilities needed for wholesale utilities to receive bulk power is fundamental to our interest in and support of any RTO. Without the inclusion of all the facilities needed to reach PNGC Power member utilities, RTO West is a broken promise. It will fall short in access, service, pricing, planning, dispute resolution, and in easing the regulatory and transactions burden as promised by RTOs.

We have been willing to concede that different parts of a transmission owner’s system may fall under its own standards (rather than RTO wide standards) for purposes of operations and planning. We have been willing to concede that the primary operation of some of these facilities could stay with the transmission owner. But we cannot agree to have these facilities left out of RTO West. The filing utilities must be convinced to include in their filing all facilities needed for wholesale service to wholesale utilities.

2. Preservation of Existing Contract Rights – Any market needs liquidity. However this liquidity cannot come at the expense of existing contract rights. As existing users of the system, we have paid for the system, and based our resource decisions on our ability to deliver those resources through our transmission contracts. The economic disruption from not preserving these rights would be immense and unfair. The filing utilities have many of their rights memorialized in the Transmission Operating Agreement (TOA). Customers at the moment have no document in the RTO West arena where their rights are preserved. Both transmission providers and RTO West must accommodate this need before full support can be given to the RTO West concept. In order to fully secure these rights, some bi-lateral contracts will need to be entered into as well as full development of the tariff and load integration agreement.

3. 10-year Company Rate Period – The Company Rate concept was developed to mitigate cost shifting among transmission owners. The ten-year company rate period was thought to be the minimum that transmission customers needed but the maximum that might be saleable to FERC. It is notable that the 10-year period was decided on in 2000. We recently learned that the Implementation Report prepared for RTO West indicated that it would be the end of 2006 before RTO West was fully functional. Our ten-year company rate period in that case would really be a five-year period. Our consumers need the protection of a full ten-year period. Given the long-term nature of transmission expansion, ten years will be needed to expand the grid into a more robust, fully useable RTO West grid. Having that kind of a robust grid makes paying a postage stamp rate more palatable (postage stamp is presumed by many to be the likely default after the company rate period).

4. Planning and Expansion – This issue is linked to the Facilities Inclusion issue. The RTO West proposal has come a long way in addressing the need for a strong planning and expansion authority. It proposes a robust planning process and a backstop mechanism for “transmission adequacy” and for relief of chronic, significant commercial congestion in the event that the market fails. These are significant improvements. The problem comes in the depth of the planning. The planning and expansion authority apply only to the “Class A” facilities, or those facilities that impact transfer capability associated with paths listed in the WSCC Path Rating catalogue.

Many, many of the facilities needed to evaluate transmission adequacy and to reach wholesale utility customers are simply not within the scope of the planning process. We fought long and hard for the backstop authority. It will be difficult, if not impossible to support RTO West if we as utility managers (PNGC Power’s Board) cannot tell our customers that RTO West will ensure transmission adequacy to our wholesale Points of Delivery. Without the inclusion of the facilities we need in RTO West and in the RTO West Planning process and expansion authority, our regulatory and planning burden could double or triple as we would have more places (state PUCs, one or more transmission owners, and RTO West) to go to get the system improvements we need for reliable service. This is a problem that the transmission owners can and should fix now by including the facilities needed for wholesale deliveries to wholesale utilities and ensuring that the planning and expansion process of RTO West include such facilities.

5. Positive Benefits to Consumers – Even if all our other “must haves” are achieved, the RTO West proposal must demonstrate positive net benefits to consumers in the RTO West area. Because of the separation of production profits from the consumer, simply showing a regional benefit is not enough. The benefit may be to producers but this does not translate into benefits to electric consumers. Calculation of this benefit must also take into account the full costs of the RTO including the cost to utilities of additional operational staff, credit resources, and hedge products. So far, the analysis is inconclusive in our mind, with questionable, aggregate benefits, and a less than full accounting of the costs.

Further, the RTO must recognize the differing corporate and financial structures of the existing users of the system. We continue to work with the RTO West Credit Group to find credit provisions that work for cooperatives. A market in which cooperatives’ unique financial and

structural arrangements are not recognized, and therefore are deemed not to be credit-worthy, is unacceptable to PNGC.

Summary

We believe that it is critical to get an RTO West stake in the ground to preserve the benefits we have in our region. That said, as transmission customers, we must have resolution of the issues listed above. We must also be convinced that there are benefits for our consumers; i.e. we need a cost/benefit study that shows in a sufficient level of disaggregation what the impacts on our consumers in the region will be.

We must also see a full package before we can declare ourselves for or against RTO West. The materials proposed for filing do not address how we as transmission customers will use the system. Lacking from this proposed filing are the tariff, the load integration agreement, and the generation integration agreement. Further, we believe that the TOA will have to continue to be a changing document until all the pieces come together and that the Filing Utilities should seek only a conditional approval of the document.

Lacking a comprehensive package, we can say that we are committed to continuing to work with the filing utilities on RTO West, and that we are encouraged by their willingness to date. Positive benefits, successful resolution of the “must haves”, and a satisfactorily complete package will all be necessary for our full support of the RTO proposal.

Again, thank you for inviting me to provide our views today. I am happy to try to answer any questions you may have on transmission issues in the Pacific Northwest.