

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Avista Corporation,	)	
Bonneville Power Administration,	)	
Idaho Power Company,	)	
The Montana Power Company,	)	
Nevada Power Company,	)	Docket No. RT01 -35-005
PacifiCorp,	)	
Portland General Electric Company,	)	
Puget Sound Energy, Inc.,	)	
Sierra Pacific Power Company.	)	

COMMENTS OF THE  
NORTHWEST POWER PLANNING COUNCIL

INTRODUCTION

1- The Northwest Power Planning Council (Council) appreciates this opportunity to comment to the Commission on the RT0 West Stage 2 compliance filing by Avista Corporation, Bonneville Power Administration, Idaho Power Company, North Western Energy LLC (formerly the Montana Power Company), Nevada Power Company, PacifiCorp, Portland General Electric Company, Puget Sound Energy, Inc., and Sierra Pacific Power Company, joined by British Columbia Hydro and Power Authority, a non-jurisdictional Canadian utility (Filing Utilities), pursuant to Order No. 2000. The Council commends the Filing Utilities for the open public process that they developed and supported and Commission for the attention and help from the Commission staff during discussions leading up to the filing.

2- The Council is a four-state interstate compact agency, authorized by Congress to provide oversight over the resource planning of the Bonneville Power Administration (Bonneville) and to design a regional fish and wildlife program to help restore fish and wildlife affected by the region's hydroelectric system. The governors of Idaho, Montana, Oregon and Washington appoint their respective Council members.

3- The Council has an ongoing interest in the development of an efficient and effective wholesale power market and the development of a transmission system that will best support that market. The Council is a member of the Western Electricity Coordinating Council (WECC).

4- Our staff has actively participated in the discussions leading up to the proposal for RTOWest, both through several work groups and through the Regional Representatives Group (RRG) to which the Council was an alternate representing the Committee on Regional Electric Power Cooperation (CREPC), a group of Western state and provincial regulatory commissions and energy offices. In addition, our staff is active in the Market Interface Committee, a standing committee of the Western Electricity Coordinating Council.

5- The Council has invested a great deal of effort in understanding the issues confronting transmission systems in the West and how those issues might be addressed while accommodating the important physical, institutional and legal differences that make the Northwest unique. We believe that resolving these issues successfully is essential to satisfying the Council's responsibility to assure the Pacific Northwest of an adequate, efficient, economic and reliable power supply.

6- The Council understands that transmission in the West and the Northwest are being increasingly stressed by the demands placed on it by the competitive wholesale power market. The volume of transactions and shifting patterns of generation and load are putting increasing strain on a system originally designed for transfers within and between vertically integrated utilities. The resulting problems include: the adverse economic and reliability effects of unscheduled flows; high transaction costs engendered by multiple control areas; economic

inefficiencies brought about by rate pancaking; and apparent significant discrepancies between declared Available Transmission Capacity (ATC) and actual use, resulting in inefficient utilization of the system. As the region faces the need for reinforcement of the transmission system, the reality of multiple decision makers and a lack of transparent price signals increases the difficulty of making appropriate trade-offs between investments in generation, transmission and demand-side management.

7- The Council believes that a properly structured regional transmission organization (RTO) may be one way to address the issues identified. The following utilities are to be commended for their efforts to develop a proposal for the Northwest that satisfies the Commission's requirements. However, while the transmission system in the West is showing strain, the problems are not yet so overwhelming that there is no time to improve RTOWest or consider alternatives to an RTO. The cost-benefit analysis carried out for RTOWest so far shows only small quantified economic benefits when corrected for apparent errors. For at least one state, Montana, the results are negative.

8- The Council is concerned that the very significant institutional and policy changes necessary for the formation and operation of an RTO may carry with them costs and risks that we do not yet fully comprehend. Some members believe that because of the magnitude of the changes involved, there is a strong likelihood that adverse unintended consequences will occur as a result of implementing RTOWest. At the same time, they believe that because of the Commission's push for the formation of RTOs, more incremental approaches to solving the problems facing the region's transmission system have not received adequate attention. Other members believe that the problems with the existing system will not be solved in a timely or adequate fashion for the long term without resort to a regional transmission organization along the lines of RTOWest.

9- In light of these concerns, the Council has not yet reached consensus on overall support for RTOWest. However, the Council does have specific commitments on the Stage 2 RTO

Westfiling. These comments are intended to point out areas of the filing that raises specific problems or that needs specific support from the Commission if the Commission is to approve the filing. They are not intended to convey either overall support or lack of support for the filing. Any overall support for RTOWest by the Council will be dependent on the Council's being convinced that RTOWest will provide net benefits to all the consumers of the Northwest. The Council's comments are focused on the RTOWest Stage 2 filing and do not address any changes that might be imposed by the Commission's future rulemaking on a Standard Market Design.

## COMMENTS

10- The Council has comments on several areas:

- The Commission needs to accommodate legitimate Northwest differences addressed in the filing.
- It is appropriate to protect existing rights holders for an extended period of time.
- Any RTOWest planning backstop authorities should include the authority to cause any least-cost action identified by the planning process, not just transmission expansion, as is proposed for three of the four potential backstop areas.
- Recent revelations of manipulation of the California market underscore the importance of an independent market monitoring function with timely access to all relevant information as well as the importance of a rapid response by the Commission and other appropriate agencies to evidence of market failure or abuse brought to their attention by the market monitoring unit. The proposal is overly restrictive regarding access to data by agencies responsible for responding to allegations of market abuse.

### The Commission needs to accommodate legitimate Northwest differences

11 - The Northwest is unique in the country in the amount of reliance it places on hydrologically interconnected hydroplants. Dispatch of one plant over the course of a day in this

kind of system is interdependent with the dispatch of a number of other plants, both upstream and downstream. Limits on plant dispatch can be both physical and environmental. In addition, there is a certain amount of variability in the uncontrolled inflows into downstream projects that partially constrains the ability to commit individual hydro plants day-ahead. On the other side, the ramping flexibility of hydro units precludes the need for day-ahead unit commitment of the sort typically needed for large thermal plants that are operated to meet substantially varying daily loads. These conditions place certain limits on what an RTO can require of the connected generators but also reduce the need for such requirements.

12 - In addition, as the Commission has recognized in other forums, such as the California price mitigation orders, there is little meaning to the notion of short-run marginal cost, as conventionally understood for a thermal system, in a hydro system with substantial seasonal storage. The value of stored water is an opportunity cost that is a function not only of this hour's market but of all future markets up to the time of the expected refill of the system. Thus, hydro operators need considerable discretion in their marketing decisions and must not be forced to offer redispatch at any particular time or at any particular price.

13 - The effect of these conditions is to emphasize the importance to RTOWest of a voluntary, bid-based congestion management system rather than a mandatory one, and a voluntary unit commitment process rather than a mandatory one. Each of these is provided for in the filing and the Commission should support them.

**It is appropriate to protect existing rightsholders for an extended period of time.**

14 - The current RTOWest proposal makes a significant effort to allow existing contract holders and other rightsholders (those with non-contract right to load service) to maintain their current legal and contract rights, without diminution or expansion, in the RTO environment. In addition, they will continue paying the same total costs as they pay now for an extended period of time. Especially given the large number of non-jurisdictional utilities in the Northwest, and in the

case of Bonneville, the importance of its transmission to the success of RTOWest, this is necessary for a realistic transition into an RTO in the Northwest and the Commission should support it.

**The backstop planning authorities should in all cases include the authority to implement the least -cost solution to the problem where a solution other than remedying market design or rules is determined to be appropriate. This provision is currently only incorporated in the backstop for adequacy.**

15 - The current RTOWest proposal provides for a forward -looking, inclusive, least -cost planning process aimed at developing and providing information about: first, potential problems, including both adequacy (its primary focus) and congestion problems<sup>1</sup>; and, second, potential solutions, both wires and non -wires. It also provides for facilitating independent project implementation, if desired by project participants.

16 - The RTOWest planning and expansion proposal relies primarily on market participant action in response to incentives built into the congestion management scheme. The RTOWest proposal backs up this primary reliance on market participant action with RTO action to cause system expansion and to allocate costs for four specific kinds of problems:

- When a Participating Transmission Owner (PTO) has failed to provide sufficient Congestion Management Assets (the transmission capacity and dispatch actions that allow RTOWest to manage the PTO's unconverted contract obligations),
- When a PTO has not maintained the original transmission capacity of its system,
- In specific demonstrated instances of market failure precluding cost -effective mitigation of chronic, significant, commercial congestion, by market participants and

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<sup>1</sup>The planning document defines adequacy as "the capability of RTOWest Controlled Transmission Facilities to deliver required power without regard to the cost of the power being delivered or the congestion costs incurred." Congestion problems are the rest, where the problem is the expense of alternative supplies, rather than sheer physical constraint. "Chronic significant congestion" is called out as a separate category for potential RTO action.

- When a PTO has not met the transmission adequacy standards by providing enough capacity to meet load.

17- Of the four problems, all have provision for transmission solutions to be imposed by the RTO. However, only the fourth one, the backstop for adequacy, also gives the RTO authority to implement and allocate costs for non-transmission solutions, if they are the least cost solutions. It also requires either a review by the PTO's least-cost planning process or the RTO's least-cost planning process.

18- The Council believes that the model for the adequacy backstop is the appropriate one for all RTO remedial action. If the RTO has the authority to cause actions and allocate the resulting costs, it should have a full array of actions available to it, including any non-transmission solutions that may be less costly than transmission alternatives. If RTO West does not have this ability, the outcomes will be skewed toward transmission construction, even when it is more costly than other alternatives.

### **Market Monitoring and Enforcement**

19 - The Market Monitoring Plan contains what is characterized as a placeholder section on protection of confidential data, i.e., that beyond routine, non-sensitive information. First, data and information generated by the Market Monitoring Unit (MMU) will be released to an Interested Government Agency (defined as the Commission, the U.S. Department of Justice, and state and provincial regulatory bodies and enforcement agencies, such as State Attorneys General) only to the extent that it has entered into a confidentiality agreement satisfactory to the MMU.

20 - A second category of data, which Commission policy and standards characterize as confidential, and a third category of data, which the MMU obtained under a confidentiality agreement, have additional restrictions. Each of these second and third categories will only be released by the MMU to Interested Government Agencies to the extent that such agency has the

independent legal authority to compel its production and to the extent the agency signs a confidentiality agreement equally as strong as the agreements signed by the RTO under which the data was acquired.

21 - These constraints seem overly restrictive, especially in binding information release to the Commission and others with direct regulatory responsibility. However, these actions will be effective only to the extent that the Commission and the other responsible agencies are prepared and willing to act promptly when presented with evidence of market abuse.

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