

**Comments of Northwest Generators
RRG/RTO West Meeting
July 21, 2003**

The Northwest Independent Power Producers Coalition (“NIPPC”) members are non-utility developers and owners of generation in the Northwest. NIPPC members believe changes in the Pacific Northwest’s transmission system are necessary and that RTO West presents the Pacific Northwest with the best opportunity to make these needed changes in a systematic, logical and incremental way. RTO West will allow the Northwest to develop a proposal that makes sense for the region, builds on what already works well in the region and makes changes that improve the efficiency, reliability and operation of the Northwest electrical grid that will benefit consumers. NIPPC offers the following responses to the questions posed by Bud Krogh on behalf of the filing utilities.

(1) Develop draft, high-level statements of what they view as the region’s most pressing problems from a transmission perspective.

(2) Provide detailed lists of the specific technical and structural challenges faced by the region’s transmission system.

NIPPC believes the most significant problem with the regional transmission system today is the lack of an independent, region-wide entity that is solely responsible for optimizing energy flows on the grid. We believe that this creates the following problems.

Underutilization of Capacity

Each transmission providers’ determination of available transmission capacity (“ATC”) and total transfer capability on its system and on neighboring systems is driven by agreements among transmission providers for allocation of capacity rights on parallel paths and by actual power flows on the Pacific Northwest’s grid. Each providers’ OASIS posting of ATC is often less, and sometimes substantially less, than revealed by after-the-fact analysis. This could be explained by non-uniform ATC calculation methodologies, by varying reliability margins that are built into a system, or by flaws in the system. Nevertheless, this multiple operator system is not efficient. Having a single, independent operator would result in elimination of fragmented flows analyses and better capacity allocations.

Inefficient Management of Transmission Congestion

The region doesn’t really know how much congestion there is on the system or how much it is costing consumers to manage it. Congestion on the system is now managed by denying new requests for transmission service, or by curtailing schedules on over-committed paths, even when capacity is

actually available. More financially driven means of managing congestion, such as hourly markets or congestion rights, will allow the existing system to be used with greater economic efficiency.

Multiple Planning Processes, But Limited Construction Progress

Planning decisions regarding the need for new facilities are dispersed among multiple institutions in the region, most of which cannot implement what they propose. Financing and construction of transmission has been difficult to carry out because of disagreements among owners and policy makers, and because of regulatory uncertainty. This leads to sub-optimal decisions and creates inherent inefficiencies in the development and operation of the transmission system. It also threatens system reliability. Transmission planning, done from a regional perspective by an independent party, would more effectively accommodate generation infrastructure, both current and new, and provide a better match of generation and load.

Inefficiencies on the Grid as a Result of Fragmented Operation Caused by Multiple Control Areas

Although the Pacific Northwest Security Coordinator provides a limited overview of real-time system operation of the integrated transmission system, a better, more integrated view and systemic control of the system would better serve the region, reduce congestion, and enhance reliability.

In addition to the planning and capacity problems enumerated above, multiple providers with multiple rules of reserving and scheduling transmission add cost to every transaction. These added costs are currently invisible, but they are paid by consumers in virtually all transactions that must cross multiple control areas.

Investment in New Transmission Infrastructure in the Northwest Is Needed To Support Load Growth and New Generation Sited To Serve Load Growth.

There is a clearly documented significant need for transmission infrastructure investment in the Northwest. Construction of transmission infrastructure has not kept pace with new generation additions, changes in load patterns, and load growth. What remains a question is who benefits from these additions and, consequently, who should pay for the necessary improvements. Without resolution to this issue, market participants will be unable to finance the necessary transmission investments, transmission providers will be forced to make sub-optimal decisions regarding upgrades and extensions, and generation will be sited where it might be sub-optimally utilized. An independent RTO would provide a structure for regional parties to reach consensus on investment priorities and on system optimization.

Uncertainty

Political and regulatory uncertainty is serving to postpone decisions on grid expansion and enhancement, retard market formation, and reduce the generation options that would otherwise be available to meet growth in demand.

Disparate Treatment of Independent Generators

There is differential treatment of different users of the system in spite of Order Nos. 888 and 889 because there exists an institutional bias inherent in combined ownership of generation and transmission. Such differential, sometimes discriminatory, treatment will continue until transmission functions are completely divorced from the ownership of generation. Examples of problematic treatment include the following.

- ?? Independent generation must pay generation imbalance rates and penalties, while control areas exchange inadvertent energy.
- ?? Not all generators can participate in a market for ancillary services.
- ?? Transmission providers have required generators to install generator-drop RAS paid for by generators to preserve the transfer capacity of the transmission system. Yet, generators are not given credit on transmission charges or transmission rights associated with this value added to the system. In addition, transmission owners that also own generation dictate when RAS is implemented, with no input for independent generators that are affected.
- ?? Not all generators obtain transmission service on the same terms and conditions.

(3) Provide comments on the draft vision Ted Williams presented at the June 25 RRG meeting.

NIPPC supports the draft vision statement and objectives to achieve it presented at the June 25th RRG meeting. Generators also agree with the problems of fragmented transmission management identified in that presentation. We add these comments in not in support of the problems, but for the purpose of addressing these problems.

RTO West presents the Northwest with the best opportunity to improve the region's transmission system and to create and expand opportunities for both suppliers and customers. NIPPC believes RTO West should complete its work, fully develop its proposal, obtain necessary regulatory approvals, and seek authority to commence operations as soon as feasible.

(4) Share views about how work on regional transmission issues should be prioritized and made as efficient as possible, and how RTO West efforts should coordinate with related work in other Arenas, such as the Northwest Power Planning Council, the Western Governor's Association, the Seams Steering Group - Western Interconnection, the Western Electricity Coordinating Council, etc.

The highest priority should be to complete work on RTO West, and to file the remaining tariff and other information ordered by the Commission. This gives the region the greatest ability to develop an RTO that best meets regional needs and gives the Northwest the greatest ability to shape its own future. RTO West filing utilities and others should continue to work with the SSG and other entities trying to eliminate seams in the West.

(5) Suggest what types of work groups or other work efforts will be needed to develop regionally supported solutions to the region's high-priority transmission problems and opportunities.

The highest priority work efforts for RTO West and filing utilities and other parties working to establish RTO West should be to:

- ?? Complete and file the market design structure and congestion management system;
- ?? Complete and file the TOA;
- ?? Complete and file the tariff;
- ?? Complete the necessary regulatory processes; and
- ?? Select and seat the independent Board.