

Public Generating Pool¹
Response to the RTO West RRG Vision of June 25, 2003

July 14, 2003

This is a restatement of the questions posed in the summary of the June 25 RRG meeting, followed by the responses of the Public Generating Pool (PGP).

1. Develop draft, high-level statements of the region's most pressing problems from a transmission perspective
 - The Transmission Issues Group (TIG) has already prepared both a draft vision statement and a draft list of basic transmission issues facing the region (see attached). These documents have had input from both publicly-owned and privately-owned utilities in the region. The first task for the future should be to sort these issues into categories such as "immediate" or "continuing", set priorities among the issues, get some sense of the potential benefits associated with resolution of these issues, and then determine which existing institutions are prepared to address the issues. Only if existing institutions are unable to address an issue should institutional change be considered, and even in that case, the preference should be for incremental reform of existing institutions, tariffs, and business practices, rather than the creation of new institutions.
2. Provide detailed lists of the specific technical and structural challenges faced by the region's transmission system
 - In addition to the attached list, under transmission planning, the region faces questions regarding the calculation of long-term Available Transmission Capacity (ATC), and assuring that the region has made maximum use of existing capacity before expansion is undertaken. Under transmission operations, the region faces questions regarding the calculation of short-term ATC, and the assessment of system security (e.g., compliance with NERC Policy 9).
3. Provide comments on the draft vision presented at the June 25 RRG meeting
 - The original motivation for RTO West was an agenda set by FERC, not by the needs of the Northwest. With the SMD White Paper, the DOE study on the costs and benefits of SMD, and recent court decisions, circumstances have now changed, and it is time to step back and reassess the situation. We should not be driven by agendas set outside the Northwest, but by real problems faced by the Northwest. Neither should we be driven by the sunk costs of work to date on RTO West. To some extent, the process imposed on the region by FERC has itself led to a lack of progress on real problems.
 - The June 25 draft vision statement provided too few details for a specific response. It is not clear what is being proposed, or how the proposal differs from

¹ Cowlitz County PUD, Douglas County PUD, Grant County PUD, Pend Oreille County PUD, and Seattle City Light.

- the previous efforts of RTO West and the RRG. A more useful “vision” would be a statement that the Filing Utilities intend to work with interested parties in the Northwest to (a) identify issues that need to be resolved, (b) set priorities among such issues, (c) identify potential solutions to such issues, (d) conduct a “first cut” cost/benefit analysis of the solutions, and (e) select solutions that appear to be both feasible and cost-effective compared with other solutions.
- Most of the alleged problems of “fragmented management” (slide 6 of the June 25 presentation) have not been demonstrated to be real problems at all or are the result, at least in part, of causes other than fragmented management.
 - First, the current regulatory uncertainty created by FERC is at least partially responsible for a lack of infrastructure investment; in addition, at least in the Northwest, BPA is moving ahead with some investments, which demonstrates that fragmented management may be overemphasized as a source of problems. We should examine all the causes for insufficient investment in infrastructure, such as regulatory uncertainty and the possibility of more cost-effective solutions than “unified transmission management”.
 - Second, for the vast majority of transmission users in the Northwest, pancaked transmission rates are not a problem. Elimination of pancaked rates would clearly result in unacceptable cost shifts.
 - Third, multiple control areas with reliability coordination provide security and reliability, and form the basis for markets in ancillary services. These values must be compared with the alleged inefficiencies in generation and transmission that result from such multiple operations.
 - Finally, the PGP agrees that there are opportunities in the existing system to reduce complexity and transactions costs. However, unified management under a new entity is almost certainly not the most cost-effective approach to this issue, compared with improvements to existing institutions. Forms of “unified transmission management” that do not require a large new entity should be investigated, including multi-party contracts (e.g., for a common OASIS) that rely on existing institutions to the greatest extent possible.
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 June 25 meeting was a good start towards initiating a process for identifying and prioritizing transmission issues, and determining the appropriate groups to handle them, including the Transmission Issues Group, the Northwest Power Pool, BPA’s business practice forums, and the Northwest Regional Transmission Association.
 - It is critical to achieve consensus within the RRG on the exact nature of the problems facing the Northwest transmission system, and how we should go about solving those problems. Then we can make sure that appropriate coordination with other groups in the WECC takes place.

- The responses received by RTO West staff should be collated so that parties can identify coalitions with common interests on certain issues. An initial prioritization will be apparent from the number of parties that share common interests. However, we should also attempt to determine the significance of all such issues in terms of economic impacts and consequences for reliability.
 - Where parties disagree on issues (e.g., some parties will argue that RTO West is not the forum for resolution), the RRG should determine a process for reconciliation or disposition of the issue, including transfer of the issue to another forum.
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
- Until the fundamental issues of (a) avoiding cost shifts, (b) determining net benefits to transmission owners and regional consumers, and (c) demonstrating that BPA can meet its statutory obligations are resolved, RTO West should not return to the efforts of the more detailed work groups. Meanwhile, work on pressing transmission issues will take place in the appropriate arenas (see above).

Northwest Energy Industry Structure and Issues

Statement of Purpose: The purposes of this paper are to (1) describe the Northwest Electric Energy Industry as it exists today and as it is likely to exist for the foreseeable future, and (2) identify the key transmission issues for which the Northwest seeks regional solutions.

I. The central electricity services model for the Northwest will be a cost-of-service, obligation-to-serve model, grounded in public service principles.

- Most retail customers will purchase electricity services from one utility, which must serve all customers eligible to request service.
- The utility’s customers, and its governing board or regulator, will expect the utility to manage to reasonable levels both the rates and bills for electricity service. Long-term investment horizons will accomplish stability and predictability in rates, but may not achieve the lowest possible rate level at any point in time.
- States and individual utilities, public and private, will accommodate the desires of some consumers who want more direction over the short- and long-term supplies used to serve them. This may or may not take the form of “direct access.”

II. The defining characteristics of the Northwest for purposes of generation and transmission will be the long distance between generation and load, the dominance of hydro-electric generation, and the high percentage of customers served by publicly-owned utilities.

III. Public and private utilities will primarily meet their obligation to serve (beyond that need that can be met with cost-effective energy efficiency) with long-term power supply arrangements, whether owned-generation or long-term purchases.

- Utilities will continue to engage in resource planning, with long-term planning horizons and full consideration of generation, transmission, and demand-side resources as well as end effects.
- The Northwest’s history of cooperative generation and transmission planning, ownership, and operation will continue, with multiple ownership of some resources and various aggregation arrangements.
- Distributed generation will emerge as a commercially-viable generating technology during the life of the next round of generating plants but will not begin to offset the need for baseload resources until the following round (20-30 years) of generating plants.
- The role of independent power producers (IPP) will primarily be an alternative to self-build and will permit a different sharing of the risks and rewards of generation ownership and operation among a utility, its customers, and the IPP.

IV. Need for supply will be an important consideration in the siting of new generation or transmission facilities.

- The public generally will support the siting only of generation or transmission proven to be needed for local service.
- Siting requirements and processes will become more stringent as the Northwest begins adding more resources over the next decade.
- Northwest transmission capacity is currently constrained.

V. As a complement to long term planning and resource development, the role of the wholesale market for the Northwest will be to facilitate economic dispatch and match supply to load.

- The Northwest, and even the WECC to some extent, has a long history of secondary transactions to improve overall economic dispatch. These transactions will play an important role in allowing utilities to provide retail customers safe and adequate service at reasonable rates.
- Speculative generation not supported by unit-specific, long-term contracts is unlikely in any significant volume in the Pacific Northwest.

VI. The role of transmission in the Northwest will be, first and foremost, to ensure the delivery of utilities' power supplies to their loads. Second, transmission will continue to enable secondary transactions within the region and between areas. Transmission will enable other secondary transactions as capacity exists.

- The Bonneville Power Administration will be the primary owner and operator of transmission in the Northwest, with the remaining transmission owned by public and private utilities.
- Transmission rights will primarily be long-term, physical, and contractual. Those who own or control transmission will be obligated to provide non-discriminatory access to unused capacity.
- Utilities will develop means to provide transmission services to those of their retail customers who make alternative long-term supply arrangements.
- Interconnection requirements for all new generation, whether utility- or IPP-owned, will be clear and non-discriminatory.

VII. The Northwest will rely on long-term planning and commitments to determine the need for transmission investment, rather than market-based mechanisms such as locational marginal cost pricing.

VIII. The biggest transmission issues facing the region will be the planning, construction, operation and cost allocation of new transmission facilities and the independence from power sales activities of the operation of all transmission facilities, new or existing.

- Transmission owners investing in upgrades or new facilities will recover the cost of that investment, and related O&M, from the utilities benefiting from the investment under cost of service principles, with the allocation between system benefit and direct benefit determined through a fair process.
- Most issues related to planning, construction, operation and cost allocation of new transmission capacity will be resolved by current and/or new processes that will involve all regional parties, and will accommodate new types of transmission owners and new sources of capital.
- The mixed ownership of the transmission system and the likelihood that most improvements benefit more than the owner cause decision-making to be extremely difficult.
- FERC requirements that do not apply evenly to all transmission owners complicate and frustrates the ability to develop an acceptable regional solution.

Draft List of Basic Transmission Issues for the Northwest

1. Planning/Expansion

- How do we get needed transmission capacity built? Is there a way to implement an "open season" as in the gas pipeline industry?
- How do we share the costs of new transmission capacity?
- How do we meet the needs of IPPs who want access to the grid?
- How do we get DSM engaged in congestion management?
- How do we improve the regional transmission planning process?
- Should the Northwest adopt a reserve adequacy standard?

2. Operations

- How do we establish standardized scheduling protocols across the West?
- How do we resolve conflicts about existing curtailment procedures?
- How do we improve operations and commercial transactions at "seams" in the West (e.g., phase shifters)?
- Can we design more flexible products and services that will help make better use of the existing transmission system?
- How do we ensure that changes in WECC rules yield demonstrated increases in reliability?

3. Governance

- How should the transmission system be governed?
- What should BPA's role be in the regional transmission system?
- How do we resolve concerns about potentially discriminatory conduct by TBL regarding federal and non-federal resources?
- What kind of market monitoring is required in the Northwest?
- How do we meet the interests of those (probably larger industrial) customers who are interested in direct retail access?

4. Rates

- How can any inefficiency associated with pancaked transmission rates be addressed?
- Do we need to address the equity issues associated with pancaked rates?