

Draft Unquantified Risks

Comment [P1]: Need to compare to existing risks.

Cost Overruns and Management Errors

While most RTOs throughout the country appear to have costs in the range of \$200 million a year—with California being higher—estimates for Grid West likely will be substantially lower than that.

The chief problem is accountability for cost overruns and management errors. With an investor-owned utilities, regulation can force those costs back on the shareholder. With a public agency, rate payer will bear those costs, but the commissioners or directors can be voted out by those who pay the bills. With Grid West, the board is not elected by the rate payers but by five customer and interest groups, some of whom may benefit from the overruns and management errors.

Comment [P2]: Quantify, how much did the investment in the existing 10 control areas and how much was disallowed?

Thus, cost overruns or management errors become a risk factor of concern.

However, as is the case with individual utilities, ISOs/RTOs operate on the basis of a tariff approved by a jurisdictional regulatory authority. Any and all elements of an ISO/RTO tariff can be challenged via proceedings at the FERC, and so the alleged risk factor for ISOs/RTOs cannot be said to be greater than the risk factor for individual utilities.

Comment [P3]: Weren't we supposed to be looking at a societal benefit? The societal cost of these risks does not change, just who pays.

Costs of dealing with new organization

If the California experience is any guide, the cost of dealing with the new organization is considerable, except that the experience of California is neither guide nor precedent to either the Grid West operational structure or the

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

contemplated market structure. The California ISO represents the initial, albeit flawed experiment in grid management, which has not been replicated anywhere else in the United States or the world. There may be some offsetting savings from not having to deal with existing institutions, and these should be measured by those looking into the financial records of existing utilities. However, Grid West is a new organization being inserted into the mix of existing organizations. As such, it contrasts with PJM, the poster child of RTOs, that has existed as an integral part of the power business in that area of the country. On the other hand, the New York and ERCOT and SPP RTOs have not pre-existed, and can provide a frame of reference more useful to the evolution of Grid West than either the CAISO or the PJM experience.

Uncertainty of the Efficacy of the Planning Process

There are three risks with regard to planning: transmission centricism, allocation of the costs of facilities planned and overbuilding. Transmission “centrism” is a fabricated term and, as such meaningless. It is more correct to say that transmission planning processes are either utility-specific or able to comprise multiple systems or control areas. The latter process takes advantage of scope and scale in the same manner that baseload central plans do. A regional planning process rises above the narrow system view embodied in utility-specific planning and provides the means to optimize system expansion to take advantage of the maximum feasible value of dispatch efficiency. First, planning is likely to be transmission-centric, because transmission planning decisions normally must be

Deleted: .

Comment [P4]: There will be significant costs without GridWest as BPAs brings its scheduling practices into compliance with industry rules (e.g. tracking firm vs non-firm schedules). Shouldn't these base costs be addressed. In addition, although BPA is moving to a flow scheduling system, other NWPP companies are not, so there will be added costs of dealing with two different systems.

Comment [P5]: How can the ONLY planning risks involve something getting built???

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

made long before substitute generation or load-interruption decisions are made. The regional transmission processes that are currently in place provide no evidence of being transmission-centric. Reasonably objective planning processes, which can only be undertaken by non-interested third parties, consider generation as well as transmission solutions to observable constraints or congestion or system expansion requirements. Substitutes for transmission may emerge from the market place, but market participants would plan their own substitutes for transmission on a different schedule from the transmission planners. The uncertainty of market responses tends to force planners into dealing with what they can influence directly—namely, transmission. Be that as it may, there is no verifiable case of transmission overbuilding or overcapacity within the three U.S. interconnections, and markets’ alternative solutions can be factored into transmission planning processes without negatively affecting the results of either. Virtually any transmission plan can be mooted by assumptions about new generation location—distributed or otherwise—responding to market conditions—or not, if the conditions that might have cause transmission or generation needs do not arise. There is little basis in fact for this thesis. While it may be true that some alternative solution to transmission may be possible in some cases, the substitution is seldom one a one to one basis. Each proposed solution requires a cost/benefit assessment for appropriate decision-making. It is in any case clear that the Pacific Northwest “market,” which exists only as a bilateral exchange without direct price discovery, has provided neither signals nor solutions to the extreme congestion that is part of the BPA

Deleted:

Comment [P6]: Given that tariff prices set for retail services, seldom reflect changing market conditions, how can the market respond?

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

system. Nor can it be said that any single or set generation alternatives will necessarily relieve BPA congestion at lower cost than increased transmission capacity.

Furthermore, planning for transmission is not comprehensive, because it ignores what is happening to natural-gas pipeline decisions, which can affect generation location and therefore transmission needs. Grid West only can control transmission; it does not control generation, pipeline or demand-side decisions, so it is likely to emphasize transmission solutions at the expense of better region wide solutions. (“When you have a hammer, every solution involves a nail.”) The planning process that Grid West might adopt need not be a narrow one. The process can be as comprehensive or as limited as the market participants desire. Nor will the Grid West planning process represent anything resembling a “hammer,” since for the foreseeable future, the implementation of whatever Grid West would plan, will remain the responsibility of the participating transmission owners.

Comment [P7]: These problems all exist today. Transmission has a longer lead time than generation, so generation supply options requiring transmission are always further out (hence face far more uncertainties) than local gas fired options. Today's risk is that facing uncertainty, people wait until something must be done in two years, forcing a local gas plant. Transmission and remote generation may have been more economic, but cannot come on line in two years.

Second, as envisioned in RTO West and Grid West documents, Grid West will have the ability to allocate costs to transmission users. A big uncertainty exists as to whether or not the transmission-centric nature of Grid West will lead to overbuilding of transmission or gold plating of its system. There is not a single documented case of transmission “overbuilding” or “gold plating” either among individual utilities nor among ISOs/RTOs. Decisions on transmission enhancement and expansion, because they are difficult to carry out, are seldom if ever arbitrary

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

or unnecessary, and therefore the fears of overbuilding or gold plating have consistently proved to be misplaced, exaggerated, inaccurate, unprovable and generally without merit.

Comment [P8]: Today we have free riders which would lead to transmission underinvestment. One party builds and pays for a line, but the reliability that the line adds is a public good shared by all.

With the lumpy nature of transmission, we may also have commercial free riders. Parties gain access to many commercial options with the new line, but do not contribute anything near their value to the line owner.

Potential for Unaccounted for Costs.

Already, in the planning phases, when there is no obvious place to assign costs, the solution is to “uplift” them—that is, socialize them. The socialization of transmission costs are not typically due to a failure of “placement” but rather due to the assignment of benefits to users of the entire system. If some aspect of the Grid West setup is missing or unworkable or has unintended consequences, the solution is likely to “uplift” those costs. In California, charges for “unaccounted for energy (UAE)” have exceeded the cost of the organization itself. While Grid West does not have unaccounted for energy in its Stage 1 design, it does have potential loss reallocations —only theoretically.

Comment [P9]: As GridWest basically keeps the current contracts in place, seems like the “UAE” would be similar to what exists today.

FERC Engagement or Non-engagement.

There is no assurance that FERC will be engaged when it should be or stay out when it shouldn't. An example of the form is the past agendas that FERC has strongly pushed—SMD, for example—and it may have such agendas in the future and force them on Grid West directly, if it can, or indirectly by exerting influence over Grid West ability to perform desired functions, set rates or recover costs.

Comment [P10]: How does establishing GW change the way FERC does or does not act???

Examples of the latter a FERC reluctance to correct for market imperfections. FERC seems reluctant to take a traditional regulatory role over the various RTOs that have been set up. Not true: There are open dockets at the FERC for virtually

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

every aspect of RTO system and market operation. Market monitors provide recurrent reports to both Federal and State regulators, of the extent to which prices in organized markets reflect, or not, competitive conditions. It assumes that market competition will police market power issues, and it appears to be deferring to the various RTOs to make major decisions for their service territories. The FERC does not defer to anyone, as a matter of statutory responsibility. In fact, it is even willing to allow higher-than-market rates of return simply as a reward for joining an RTO, as it did in the restructuring of the interstate natural gas pipeline restructuring, to encourage desirable policy objectives.

Deleted: s

Deleted: o

On a more practical level, there is a strong possibility that FERC may become totally overwhelmed with the level of litigation and oversight it needs, but be unwilling to take the helm. There is no historical basis for this assertion.

BPA and public agencies do not come under FERC jurisdiction (and some may consider that absence a bad thing), but, from my experience, FERC oversight of its public utilities has been particularly lax both before and after the general trend toward RTOs. Some hesitation on this issue may be allayed by the declaratory order requested by the filing utilities.

All in all, though, it does not look like FERC should be considered some sort of panacea for an RTO's or BPA's problems.

Governance and Lack of True Independence.

Grid West is being proposed with a thick book of bylaws considering appointment of "independent directors," membership types, membership

Comment [P11]: The status quo of 10 separate transmission systems with affiliated load and generation is hardly independent. Clearly Grid West and improvement for independence.

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

relationships and rules for making major changes in the scope of the organization. These rules are important, but I come from a school of economics that believes that, in the regulatory process, those with focused economic interests will dominate against those with a diffuse but larger interest. It took the railroads about two years after the formation of the ICC to learn this lesson and to “capture” and dominate that regulatory commission for nearly 100 years. Or, as Woody Allen says, “85% of success is simply showing up” and the focused economic interests will show up. As a consequence, loads with a very diffuse interest (but who pay all the fixed costs)—that is, us, rate payer groups and the like—will always face an uphill battle against the strong parties trying to influence Grid West actions.

Comment [P12]: I believe that there are several schools of economic thought on regulation. Some argue that since the mid 1970's electric utility regulation has been captured by the consumers. Need to keep statements balanced.

Comment [P13]: Why would the interests that have continually intervened in IndeGO, RTO West, and GridWest formation (and many other forums) suddenly go away when GridWest starts up?

Clearly, this is a major issue for industry in the Midwest, the Northeast and the PJM service areas, with a major complaint to FERC that transmission users are receiving the higher of embedded cost or market for certain charges.

Ultimately, end users will have to accept whatever costs are passed to them by Grid West; it is a monopoly, after all. End users will have to accept no more and no less from Grid West than they do from existing monopoly utilities. Both RTOs and utilities are comprehensively regulated at both State and Federal level, and for distinct purposes. Grid West will require Federal regulation principally because it will engage in interstate commerce. The regulation of Grid West's interstate commerce will be no greater and no lesser than the regulation of the similar commerce carried out currently, without Grid West, by the jurisdictional monopolies, and by BPA under a FERC-approved AOTT.

Deleted: q

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

Prospects for Cost Shifts.

There are a number of decisions in the evolution of Grid West that can cause severe cost shifts among and between Northwest parties and California. Among them are the elimination of transmission segments from rates, the elimination of certain charges, the impact of the expiration of existing contracts, subsidies to generators—particularly distant ones—and transfer of responsibility for losses as discussed below.

Cost shifts should be a large concern of BPA customers. Cost shifts can also be managed, as they have been in each case where they have occurred. In any case, cost shifts are factors, and not separate and incremental factors, in the total assessment of the cost and benefits of creating a structure like Grid West.

Comment [P14]: Cost shifts are a concern to ALL customers and are addressed in Pricing (the number one issue). By and large, contracts expiring, potential to eliminate segments from rates (not exactly an 888/889 tariff feature), mismatch of tariff rates and losses with actual costs are risks today and will be in the future, with or without GW.

Uneconomic Real Power Loss Provisions.

Power losses are a normal part of operations of any transmission system, and transmission providers always are working on ways to reduce losses. However, losses always exist on any power system. The cost of power losses is the cost of the power itself, so issues of power losses can exceed in value the elements of transmission costs, particularly in times of power-price runups. If power is \$250 a MWh, a 1% shift in losses would approximately equal the BPA network rate.

Losses are difficult to measure, and there is a tendency to “average them.” This averaging process, particularly between utility systems—BPA at 1.9% versus PacifiCorp at 4.6%—can have significant power-cost impacts on BPA customers.

Losses are system specific and not at all difficult to measure. If they were difficult

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

to measure, then one would assume that the charges imposed for the losses would be equally difficult to calculate. n

Loss shifts can occur 1) at the end of the company rate period; 2) at the expiration or termination of any contract; and 3) at the sale of rights in the Grid West RCS markets. | Short-term time horizon.

Comment [P15]: Tariffs can change, contracts can expire and new contracts can be granted today and tomorrow. How is this a GridWest issue?

Grid West is still in its formative stage, but one lesson emerging from the RTO experience around the country is that the markets being set up foster short-term power-cost and transmission thinking. Actually, Grid West does not yet exist, and the experience with the time horizons of other RTOs are mixed. The “market” time frame of RTOs is indeed short term because the market functions assigned to an RTO are in real time. The market’s time frame can be expanded through bi-lateral contract of longer term, which is likely to be the case in the highly bilateral Pacific Northwest market. Other time horizons, for planning, for example are no different than similar frame of references for individual utilities. The theory has been that financial instruments would allow users to hedge the short-term, but the reality has been a failure of adequate hedges to emerge. The result is a growing exposure to short-term power costs, and therefore more volatility in rates. Because participation in real time markets is voluntary, it is up to individual market participants to determine the level of volatility they are willing to accept. Short term volatility should not, however, be confused with rate “stability,” which is an

Deleted: c

Deleted: n

Deleted: u

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

entirely different thing. To its credit, Grid West seems not to be following some of the causes of short-term thinking: in particular, LMP pricing.

Comment [P16]: Why put this in?

LMPs are simply the result of the lowest cost dispatch of a constrained system. Linc, what is the objection to minimum cost?

Conservatism in operation -- throughput versus security.

Today, with transmission costs embedded within many power rates, utilities and other entities have an incentive to ensure that power is delivered. There is a risk that Grid West's incentives will be only to see that the transmission system is reliable, and one way to ensure reliability is to allow less power to flow, not to take the system closer to its estimated limits. Just the opposite of this thesis has happened in regions that have moved from individual to multi-system operations. Flows have generally increased in the regional structures and reliability has not been sacrificed. In the South of the United States, the monopoly utilities that currently operate outside any regional organization use their ownership of transmission to reduce access to other market participants and as a means to foreclose generation resources that may be cheaper than their own. To the extent that Grid West lowers throughput in order to foster security, it may accomplish its goals, but power deliveries may suffer, causing either unnecessary higher prices or curtailments. A thesis without a basis in fact.

Comment [P17]: Sounds like a free rider problem and a Grid West benefit. Today's companies take reliability risks to keep costs down to their customers. Their customers gets virtually all the gain if successful. If an outage occurs, there is a huge loss but the cost is spread over many parties.

Again the free rider issue causes underinvestment in transmission products (including chips to control fridges).

Market power.

BPA is the dominant power provider on both sides of many transmission constraints in the Northwest, and BC Hydro is a dominant player, usually on one side. It will be difficult at best to obtain fair market prices with the same entity on both sides of a transaction. Thus, there is a potential for abuse that may harm

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

some customers in the Grid West footprint. Alternatively, restricting utilities to tariff rates for the sale of power at certain constraints simply re-introduces regulated power markets, contrary to one of the purposes of establishing a transmission organization in the first place. This is a major open issue with Grid

West. If there is a potential for power market abuse in the Pacific Northwest, it exists currently, in the absence of Grid West. PacifiCorp is indeed under investigation by the FERC for potential market power abuse. The involvement of Grid West in the market equation would tend, rather to create conditions for the mitigation of market power both because of the availability of instantaneous price discovery that is the characteristic of all real time markets operated by RTOs, and because there will be an institutionalized market monitor in place.

Deleted: s

Comment [P18]: Another Grid West benefit. BPA is the generation AND transmission provider today. How could an independent Transmission operator and Market monitor hurt? This concern amounts to BPA channeling funds to its customers by means that, I suspect, would be illegal for a non-government entity.

Erosion or extension of rights under existing contracts.

The current Grid West configuration recognizes the importance of existing contracts. In California, there is a major dispute on how to interpret existing contracts. For existing contract owners, these differing views represent a risk to

their contracts. There is no risk to existing rights holders because there is no documented case of rights not being fully protected in transition to RTO tariffs.

This is the oldest red herring in the Pacific Northwest debate on Grid West.

“Loads pay.”

The theory is that loads will pay for all costs eventually, so why not charge loads directly at the outset. The problem is that regional loads become the dumping ground for costs that could be assigned to other transmission users—generators,

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around

those moving power through the region. The separation of responsibility between those who cause costs and those who pay has been a severe problem for the Northwest: Witness BPA's problems with WPPSS, the Corps and Bureau, the fish and wildlife programs, to cite a few examples. Moreover, in Grid West, loads can easily be outvoted, because they have only one-fifth of the voting rights.

Comment [P19]: Another Grid West benefit. All these bad examples seem to be all government agencies or programs. Moving functions out of a government agency could help.

In general administrative allocation is quite difficult. Market prices solve these allocation problem quite elegantly. Grid West will still have some administrative arguments.

Market Mismanagement.

The current California dispute on how the perfect hedge for existing contracts is treated shows how a transmission-service provider can cause misallocations of society resources. [The costs of providing the perfect hedge are uplifted to all customers, providing an incentive to overschedule on paths that have heavy existing-contract usage.] PJM's and Ercot's zonal pricing problems are further examples of market interference and mismanagement. Generalized, there is a risk of Grid West taking actions that actually interfere with the operation of the market place.

Comment [P20]: This criticism has nothing to do with how Grid West is talking about operating, at least day one. Eventually, IF THE CUSTOMERS WANT to move to a different market structure, we may get one, but not initially.

Formatted: Position: Horizontal: Center, Relative to: Margin, Vertical: 0", Relative to: Paragraph, Wrap Around