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Northwest RTO Costs Would Outweigh Benefits—Study

Formation of a regional transmission organization in the Northwest would cost the region an estimated \$122 million more each year than it would stand to gain from an RTO, according to a new cost-benefit analysis done for a major public power utility in Washington.

The study, released last week, was prepared for Snohomish County Public Utility District No. 1 by Henwood Energy Services Inc., a consulting firm that is part of a company backed by the private investment firm Quadrangle Group LLC. Participating in the study were the Benton County, Clallam County, Douglas County, Lewis

BY TINADAVIS

County and Grant County public utility districts, as well as Peninsula Light Co.

Noting that the federal Bonneville Power Administration owns 75 percent of the region's transmission lines, Henwood finds that "[l]argely as a result of this singular situation...the costs of forming and operating an RTO in the Northwest will likely exceed the benefits.

"Moreover, there appears to be significant risk and unquantifiable costs associated with RTOs that the region should consider prior to moving for-

ward with any proposed RTO structure. There are good reasons to address current transmission problems today, but this report suggests that focus should be in those areas rather than in an effort to form an RTO. Resolution of these immediate problems today will provide more benefits to residents of the Northwest than will an effort to form an RTO."

The report states that \$1.04 billion will be spent this year funding six RTOs—the California Independent System Operator, New York ISO, PJM Interconnection LLC, Midwest Independent Transmission System Operator, ISO-New England and the Electric Reliability Council of Texas.

Citing a recent report by Margot Lutzenkiser of the Public Power Council—which represents 114 consumer-

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Northwest RTO Costs... (Continued from page one)

owned utilities in the Pacific Northwest—the Henwood study states: "Since 2000, total U.S. RTO operating expenses have increased by 143 percent, and are growing at an annualized rate of 20 percent per year, largely due to increases in operational size and scope."

Most of the transmission-owning utilities in the Northwest are taking part in Grid West, an organization that proposes to coordinate operation of the transmission system in the region. Among the participants are Bonneville Power Administration, PacifiCorp, Idaho Power, BC Hydro, Portland General Electric, Avista Corp., NorthWestern Energy and Sierra Pacific Resources Corp.

Grid West's risk/reward group is still in the process of determining its own cost-benefit analysis for the region. The utilities taking part in Grid West are expecting to vote on development bylaws in November, and BPA has asked its customers to provide comments by October 4 on whether or not the agency should support the new organization.

"In the absence of any current or complete analysis of the costs and benefits of the Grid West proposal, and in light of the recent RTO operational cost data gathered at PPC, Snohomish engaged Henwood to fill this gap and to study the costs and benefits of an RTO in the Northwest," the report states.

"The study shows that benefits are far less than expected when realistic data is used," said Steve Marshall, assistant general manager of Snohomish.

"... This report's findings show why Bonneville Power Administration needs to take the time needed to look at other RTOs, and their dismal record regarding controlling costs, before BPA rules to approve bylaws for a new transmission agency...."

"This study shows that Bonneville is moving way too fast on forming a new agency."

The findings of the new study differ from earlier studies that found cost benefits for the Northwest from an RTA.

For example, in February 2002 Tabors Caramanis & Associates issued its cost-benefit analysis of the RTO West organization—a predecessor of Grid West consisting of most of the same utilities—and found preliminary net benefits of \$358 million for the region.

The Federal Energy Regulatory Commission released its own national study of the cost-benefits of RTO formation, and found that for utilities in the Northwest, participation in an RTO would result in power prices that were 4 to 6 percent lower by 2010, when compared to costs if no RTO were formed.

As explanation for the significant differences from the Tabors study, Henwood said it "sees the [region's] system operation as being much less inefficient than does Tabors Caramanis...."

Specifically, Henwood found that it was

"simply not true" that power being sent from plants in the eastern part of the Northwest region to demand centers in western sectors experience pancaked rates. "Only in certain conditions (when non-BPA facilities must be used) does the Henwood analysis reflect pancaked transmission rates. This does not happen very often today."

In addition, the new report claims that the previous cost-benefit study did not take into account reserve capacity from hydropower facilities, and that it "erroneously counted the reduction in some costs assigned to load-based transmission rates as true gains in economic welfare rather than transfer payments."

The Henwood study found only \$78 million in annual benefits from an RTO in the region—far less than the \$410 million Tabors found. Of that savings, \$73 million results from "assumed efficiencies gained by sharing operating reserves," Henwood said. Even that number is suspect, the report opines, noting that it believes control areas are making short-term bilateral contracts to supply economic sources of power reserves, although it did not factor any contracting into its equations.

Henwood said it found \$184 million in costs for Grid West in 2004, using the weighted average of carrying costs of the other RTOs, and that number could increase to \$221 million by 2006. The study assumed an average annual cost of \$200 million—far more than the \$135 million in costs estimated by the Tabors study.

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 Henwood Grid West Executive Report (PDF)



New Study Shows Proposed Transmission Agency Would Cost Region \$122 Million A Year

Thursday, September 23, 2004

Additional costs would inevitably lead to higher power rates

Everett, WA – Snohomish County PUD today released results of a study on the costs and benefits of forming a new regional transmission organization (RTO) in the Northwest, which shows the new agency would cost the region over \$122 million each year and increase electricity costs to consumers.

The study, conducted by Henwood Energy Services and in conjunction with six other public utilities in Washington state, reviewed the cost experiences of existing RTOs around the country and modeled a Benefit/Cost study of forming an RTO in the Northwest. The Henwood report shows benefits of a new RTO would be no more than \$78 million while costs would run around \$200 million each year. "The costs for existing RTOs have exceeded projections and have risen each year," said Steve Marshall, PUD Assistant General Manager, Power and Transmission Services. "The study shows that benefits are far less than expected when realistic data is used. The unfortunate result of all this would be higher power rates for homes and businesses.

"This report's findings show why BPA (Bonneville Power Administration) needs to take the time needed to look at other RTOs, and their dismal record regarding controlling costs, before BPA rules to approve bylaws for a new transmission agency."

Currently, BPA intends to vote on the bylaws in early November. Because BPA owns 75% of the high voltage transmission lines in the Northwest, it can make changes that would make a costly new agency unnecessary. "This study shows that Bonneville is moving way too fast on forming a new agency," added Marshall.

An executive summary of the "Henwood Grid West" report can be found on the Snohomish PUD website at www.snopud.com (follow the links: About the PUD/Customer News/Special Reports).