

**Statement of the NW Energy Coalition**  
**TIG vs. Grid West**  
*September 9, 2005*

*The NW Energy Coalition (Coalition) has been unable to develop consensus responses to the questions asked by Bonneville—nor, as yet, on the underlying decision of which path, TIG or Grid West, the region should take. However, we have been able to reach agreement on many aspects of the issue, The Coalition’s executive board will meet on or after September 14, 2005 to decide the official NWECA position on decision point 2.*

**Status Quo Is Not a Viable Option: Transmission Solutions Require Regional Coordination**

The Northwest transmission grid no longer functions as a number of separate control areas as it might have 10 or 15 years ago. The grid functions as one big machine. In order to operate and plan for the future of that machine in the most effective and efficient way possible, we must have regional coordination. The Coalition therefore agrees that the option “Transmission owners continue separate operations” presented in BPA’s public letter of August 5, 2005 is not acceptable. BPA states in their letter that they too do not feel this is viable:

“Because the problems facing the transmission grid today go beyond the borders of any one utility, the “Continue Separate Operations” alternative is not compelling and could result in the region becoming more fragmented and more out of step with national trends toward better coordination of grid operation.”

The Coalition believes there are a number of reasons that continuing to address transmission problems without some form of regional coordination is not in the best interest of consumers and businesses in the Northwest.

Non-wires solutions

Non-wires solutions to transmission problems such as Demand Side Management, scheduling based on physical flows, voluntary load curtailment, and bilateral redispatch agreements can be implemented by individual utilities, but are more effective at avoiding the need to construct new transmission lines when coordinated among many parties and often over larger areas.

Transmission Expansion

Expansion of the transmission system through line construction and smaller system upgrades is costly and requires long lead times. With an interconnected transmission grid like we have, those projects usually have multiple beneficiaries, and therefore require coordinated funding agreements if they are to be implemented. Also, the most cost effective projects for the region can be identified when the system as a whole is studied as opposed to each transmission provider looking strictly at its own needs and focusing on its own system.

## Reliability

Again, the interconnectedness of the grid means that coordination among the transmission providers is critical to avoid serious cascading outages like those experienced in the Northeast in 2003 and here in the Northwest in 1996. Transmission providers will continue to do everything they can to keep the lights on and the system up. But without regional coordination they may need to continue to use the blunt instrument of schedule curtailment to avoid overloading lines. And still problems between systems may occur.

## **General Observations**

*New Federal Energy Legislation.* With the passage of federal electricity legislation – including FERC-lite and mandatory reliability standards applicable to all control area operators – plus the imminent re-opening of Order 888, the status quo has changed. By re-opening Order 888, FERC may provide both an opportunity and a mandate for the region to take steps to improve transmission access. In the near term, this should include creation of a common OASIS, common methodology for calculating available transmission capacity, and commitment to transition to flow-based methods. Both the TIG and Grid West proposals contemplate this approach. A case can be made that both public and private transmission providers will make those commitments in revised Open Access Transmission Tariffs. While perhaps driven by the re-opening of Order 888, this approach may go a long way toward addressing many of the transmission problems highlighted in the Council's Fifth Power Plan, including:

- Difficulty in managing unscheduled electricity flows, leading to decreased system reliability;
- Inability to monitor the market, identify market power abuse or provide mitigation and accountability;
- Reliance on contract path rather than actual physical flows, resulting in inefficient utilization of existing transmission capacity and inefficient generation dispatch, and possible unnecessary transmission construction;
- Transaction and rate pancaking resulting in inefficient utilization of existing generation and inefficient planning for and locating new generation.
- Competitive advantage of control area operators over competitors causing inefficient utilization of generation and potentially a proliferation of control areas with greater operational complexity.

Similarly, the reliability title of the federal energy bill will also drive changes in the status quo, and press reports indicate that the Notice of Proposed Rulemaking may be expansive. It is certainly possible that the NOPR will address coordinated planning and explicit consideration of non-wires alternatives. Both are also cited as regional problems in the Council's Fifth plan:

- Lack of clear responsibility and incentives for planning and implementing transmission expansion resulting in inadequate transmission capacity;

- Inadequate consideration of non-wires alternatives

In essence, both Grid West and TIG were developed without explicit consideration of either the scope or schedule for changes required in pending federal energy legislation. Both proposals probably require changes as a consequence.

### **Concerns with both TIG and Grid West Proposals**

*Governance and Jurisdiction.* Our membership is divided on the threshold question of whether the Northwest should turn over control of public and private transmission to a FERC-jurisdictional entity. Many of our renewable energy partners see that as a desirable alternative to getting transmission access through negotiation (and associated administrative procedures) with transmitting utilities. Many of our utility members are intractably opposed to this outcome, and emphasize that the rules governing transmission determine how and whether the benefits of the federal system flow to the region.

There is an inherent conflict between independence and regional accountability. In our opinion, neither Grid West nor TIG strikes the correct balance. Grid West offers a FERC-jurisdictional regional board that is elected by regional stakeholders, but is independent and not subject to local regulation. TIG's governance relies almost exclusively on transmission providers, leaving other interested parties to deal with its decisions in rate cases at BPA, state commissions, or FERC proceedings. Neither outcome is satisfactory. The TIG proposal must be amended to give other interested parties a role in key decisions—most importantly, in planning, expansion, and analysis of non-wires solutions.

*Environmental Consequences.* Both Grid West and TIG have potentially significant environmental consequences. One need only read the Grid West risk-rewards study to see that hundreds of millions to billions of dollars are involved annually. Those economic changes are not possible without huge changes in the dispatch patterns of western fossil generation, particularly coal. Both proposals may require a full Environmental Impact Statement at some point, especially given BPA's participation.

*Transmission-centered planning and expansion.* The Northwest Energy Coalition participated in the development of the planning framework of Grid West, which is quite similar to the TIG proposal. However, we remain troubled that both will tend to be very transmission-centric. Rate cases and transmission siting cases are not the best places to bring forward non-transmission solutions. While we take some comfort in knowing that new transmission is hard to build, this is not sufficient without a clear commitment in either model that they will seriously consider other options. We are concerned that the backstop provisions in both proposals apply only to wires construction.

*Implementation.* Neither Grid West nor TIG is assured implementation; both could fall apart or suffer significant delay for any number of reasons. Implementation of Grid West is at least two years away, just to get started—even longer until it offer the full line of services proposed. As a new FERC-jurisdictional entity it faces multiple regulatory challenges and political obstacles. For example, if calculated benefits are large, environmental challenges could be significant. If

benefits are small, state regulatory commissions may not permit transfer of operational control by regulated utilities. Many public utilities (and at least one state government) are bitterly opposed to Grid West.

As for TIG, PacifiCorp and Idaho Power appear unalterably opposed, and much depends on whether they would participate. Ultimately TIG depends upon transmission owners to sign the coordination agreements envisioned. However, if BPA went forward they (and their regulators) might decide there was no other choice, especially given imminent FERC proceedings to address Order 888 and the new federal energy bill. Under past law, BPA could use reciprocal tariff requirements to compel participation, with some degree of awkwardness. Under the federal energy bill, FERC-lite and imminent reliability standards provide much stronger assurance of common implementation.

Parts of TIG are more certain to go forward than others. There is widespread agreement on the value of a common OASIS, common approach to calculating available transmission capacity, and transition to flow-based methods. With the imminent re-opening of Order 888, utilities with open access transmission tariffs can commit to a common OASIS, common method for calculating ATC, and eventual transition to a flow-based system. Public owners of transmission would be foolish not to file on the same schedule, given passage of FERC-lite. Imminent reliability standards force the same outcome – all on a much faster, and incremental, schedule than the Grid West proposal.

A final problem is that whichever path BPA chooses, supporters of the other alternative will likely mount an effort to mold that model more to their liking. This might delay implementation of either proposal for quite a while, if not lead to its demise. A viable hybrid should be developed, if possible.

### **The Transmission Act Provides a Solution**

The Transmission Act (P.L. 93-454, codified as 16 USC 838) provides BPA with all of the authority necessary to perform many of the functions that are ascribed by Grid West and TIG advocates to their respective entities. The Transmission Act was intended to create a “common carrier” for electricity in the region, with a region-wide network funded and managed by BPA. The Transmission Act authorizes BPA to invest unlimited amounts in transmission facilities to serve all users in the region.

The benefits of having BPA, rather than TIG or Grid West involved in regional transmission development and management include:

- 1) Lower costs for consumers: BPA has a much lower cost of capital than investor-owned utilities can achieve. When the federal subsidy associated with tax-exempt municipal debt is factored into the cost of municipal borrowing, it too is more expensive than BPA borrowing.
- 2) Regional control: BPA’s ratemaking process is a formal administrative process, with participation from regional stakeholders. It is reviewed by FERC only for adequacy.

- 3) Integration with the Regional Planning Process: BPA is subject to the priorities of the Conservation Act (Conservation first, renewable resources second), while a TIG or Grid West would not have that statutory limitation.
- 4) Consideration of non-wires solutions: BPA has proven it's willingness and ability to consider non-wires solutions beginning with the Puget Sound Voltage Collapse study of the 1980's.

The principal obstacle to BPA fulfilling its expected role under the Transmission Act is BPA's lack of ability to borrow as needed under the terms of the Act. BPA borrowing is "on-budget" under federal accounting. By contrast, other self-financing government corporations are allowed to borrow "off-budget." Because of concern about the magnitude of federal debt, on-budget borrowing is difficult for BPA to achieve, and BPA has reverted to creative financing in recent years, involving "prepayment" of transmission charges (for example, Puget's transmission prepayment for the Hopkins Ridge wind project).

The solution to this problem is relatively simple: enable BPA to borrow as required to fulfill it's responsibilities under the Transmission Act. Moving BPA borrowing "off-budget" would be one solution. This could be done, as it has been for other federal corporations, by legislative action. There is a limit on federal borrowing in the Transmission Act, and that may require amendment, which could be done concurrently with moving BPA borrowing off-budget.

*Pancaking* An issue of concern to some in the region is transmission "pancaking" of rates. This is really not an issue for consumers, since all revenue received for transmission services offsets rates paid by ultimate consumers, however it may affect individual project economics (particular for wind generation) and dispatch decisions. Pancaking could be addressed by either of two methods:

Having all regional entities sell their transmission facilities to BPA, and then BPA would establish a single set of rates for all intra-regional transmission. BPA does not have the right to acquire transmission from other owners by condemnation, but can do so by negotiation. A sale of these facilities at cost would provide compensation to the owners, and reduced costs to consumers (because of BPA's lower cost of capital). This option would also allow BPA to run the system as one consolidated control area, and employ flow-based management for determining ATC. b) Pursuing distance-based transmission rates so that multiple short-haul transmission arrangements would have the same cumulative cost as a single long-haul transmission contract would. This would mean elimination of BPA "postage-stamp" ratemaking, and involvement in FERC proceedings of non-BPA transmission owners.

The Coalition is mindful of the fact that the solution we discuss above is not really on the table at this time, however. Instead BPA and the region have narrowed the debate to two options: TIG or Grid West.

### **Recommendation**

The NW Energy Coalition is comprised of a very diverse membership, and is unable to come to a consensus on the choice in front of us. That being said, we are committed to participating fully

in further development and refinement of whichever model Bonneville and the region choose. We make the following recommendations to improve the two proposals being considered.

Encourage all Transmission owners to contract for a common OASIS.

Build on BPA's efforts to develop a flow-based ATC methodology, and include other transmission owners and customers; post ATC on common OASIS. Move quickly to sell long-term transmission rights based on this common methodology.

Establish a market monitoring function through multilateral contracts.

Identify areas where pancaked rates create obstacles for renewable resource development, and work to resolve non-cost-based rate conditions.

--Proceed with the TIG transmission planning and expansion proposal to gain experience on regional transmission planning. However, **Modify** the composition of the TERC committee to reflect increased independence and to include end-users, IPPs and public interest groups as voting members.

--**Postpone** new proposals for reliability and security until FERC issues its order on reliability in 180 days, and continue to rely on the existing Pacific NW Security Coordinator function for the near term.

--**Consider a modification of Grid West's governance structure:** expand the Operational Board to a total of eleven, with each Northwest Governor appointing one of the additional four members.. This would provide a stronger regional influence and accountability to the Board.

## **Conclusion**

NWEC is committed to the regional effort to solve real transmission problems and will continue to be fully engaged in whatever direction BPA and the region commit to following at Decision Point #2. We offer these recommendations for improving the proposals. Unfortunately however, we are as yet unable to come to a consensus when limited to the choices of TIG and Grid West.