

August 31, 2006

Vickie VanZandt
Senior VP
Transmission Business Line
Bonneville Power Administration
T-Ditt-2
Via email: Vrvanzandt@bpa.gov

Dear Vickie,

The Renewable Northwest Project, the NW Energy Coalition, and West Wind Wires appreciate the opportunity to provide input on Bonneville Power Administration's (BPA) Transmission Business Line (TBL) Programs in Review (PIR) for 2006.

The Renewable Northwest Project (RNP) is a non-profit renewable energy advocacy organization whose members include environmental and consumer groups, and energy companies. The NW Energy Coalition (NWEC) represents over one hundred consumer, environmental, low-income, faith-based groups, unions and utilities working for a clean and affordable energy future. And West Wind Wires (WWW) is a project of Interwest Energy Alliance (IWEA) and represents wind development interests in transmission tariff and planning proceedings throughout the Western Interconnection. We value the role that BPA plays in the region with regards to promoting clean, renewable, low cost electricity for Northwest consumers. We hope that these comments are helpful as BPA continues to craft its plan for the next several years.

We write to outline the transmission challenges facing renewable resource development and highlight several priorities we have for the PIR and the Rate Case. TBL has done a superb job over the last couple of years with the necessary facility construction and upgrades necessary to bring a number of new wind projects on line to serve Northwest customers. We appreciate the staff focus on this, and the extra effort made by TBL to meet tight timelines. However, there are several other issues that TBL needs to address in an expeditious manner in order to support the development of additional new renewable resources being acquired by Northwest utilities, development that BPA is statutorily mandated to encourage. We look forward to working with TBL to address these issues in order to help the region meet its growing demand for renewable resources.

Renewable Resources in the Northwest

Over the past few years, the amount of renewable resources on line in the Northwest has steadily increased, and construction of a number of new large wind projects is currently underway. The Northwest is positioned to develop even more clean and affordable renewable resources that will benefit our environment, bring economic development to the region, and act as a hedge against future increases in fossil fuel prices. We see many of the region's utilities actively looking to acquire additional renewable resources to meet projected load growth. And potential Renewable Portfolio Standards in Oregon and Washington may encourage even greater development of many renewables. BPA's TBL must be poised to assist.

Existing operational strategies do not include markets to encourage efficient use of the system. Partly as a result of this void, currently available transmission capacity in the region is not adequate to support a growing percentage of renewable resources in our electricity mix. The region is at a critical juncture where additional transmission infrastructure and new transmission products and services to serve these new resources are necessary in order for long-term contracts to be finalized between utilities and developers. Below we describe what we believe TBL should do in order to plan for and meet these needs.

Wind Integration

The Northwest Power and Conservation Council and Bonneville have begun a process of developing a Northwest Wind Integration Action Plan to help the region understand what infrastructure and operational changes can best meet the needs of Northwest utility resource portfolios that include a growing amount of non-dispatchable resources. We applaud BPA for recognizing the need for this effort and for making it a staff priority. RNP is represented on the Steering Committee and technical workgroups for this important action plan and supports the goal of finding low-cost solutions to these issues.

We believe that Area Control Error (ACE) diversity offers a great opportunity to assist control areas in managing the variability of wind resources across the Northwest, and we specifically ask TBL to support the investigation of this solution within the Action Plan effort.

We understand BPA is considering implementing a regulation rate for intermittent generators on their system, but has no formal proposal at this time. We have also been told TBL is considering addressing this topic at its October 3, 2006 rate case workshop. We want to urge caution at this point. Though there may ultimately be a need for such a charge, we believe it is premature to include this in the 2006 rate case. Many studies have been conducted across the country to assess the cost of integrating wind, and they include estimates of the cost of additional regulation required for these intermittent generators. A summary of study results included in the Western Governor Association's Clean and Diversified Energy Advisory Committee (CDEAC) Wind Report shows that this cost is in the range of \$0-\$1.12/MWh.¹ For TBL to impose a cost based rate for this charge, a detailed study should be undertaken. Such a study may in fact be part of the on-going work of the Wind Integration Action Plan. RNP, NWEC, and WWW suggest that further consideration of implementation of a regulation rate for intermittent generators should follow the work of the Wind Integration Action Plan.

We urge BPA to use the information gathered through the Action Plan process to make appropriate changes in the planning and operation of the Northwest transmission grid that will support the region's growing loads and resources.

ATC and Conditional Firm Transmission Product

RNP, NWEC, and WWW support cost-effective expansion of the transmission system provided that this is the least-cost solution to transmission problems. We appreciate the work that TBL has done to evaluate its available transmission capability (ATC) in an open manner and to make

¹ This report can be found at <http://www.westgov.org/wga/initiatives/cdeac/Wind-full.pdf>.

sure that the assumptions in the ATC methodology best represent the usage of the Northwest Grid. The additional capacity identified last year has allowed for more efficient use of the existing grid and for new generators to come on-line. Non-wires solutions are also important in the short-term, since construction of additional lines is a multi-year process. We also believe BPA can optimize the use of the existing system by working to complete the development of a Conditional Firm product, and by exploring ways to offer additional transmission service through redispatch of generators.

RNP was pleased to work with TBL staff on the development of a proposal for a Conditional Firm Transmission product that would be a long-term transmission service providing for as many months of firm service as possible during the year, combined with a specified number of hours over a set number of “conditional” months when firm transmission service may not be provided. Our organizations also appreciate the positive comments BPA submitted on Conditional Firm to FERC on its NOPR on 888 tariff reform.

In 2005, development of this product was put on hold until computer systems were put in place that could implement curtailment of transmission contracts in a priority order on constrained flow gates. TBL at that point was developing such a system through a process it called Constraint Schedule Management. Concerns from Northwest utilities about the requirements of this new system ultimately stopped further development of this system. RNP has been actively involved in the process that followed: the development of short-term solutions to manage congestion on BPA’s transmission system. We support the work of the Congestion Management work groups and the short-term solutions they have recommended. However, we do believe that TBL must continue to work to develop systems that can manage curtailment in priority order so that TBL will have the information it needs to be proactive in managing congestion, and so that TBL will be tariff compliant. These systems will also allow TBL to move forward with its Conditional Firm product, and thus offer more transmission service and increase the revenue from the existing system.

Congestion Management/Redispatch

We are pleased to see that BPA is preparing for a pilot project in the summer of 2007 to use redispatch of generators and/or non-wires options to clear congestion. This pilot should clearly show that redispatch is a more economically efficient approach to clearing congestion than the Curtailment Calculator or the method of strictly cutting the Interties. These are brute force approaches to clearing congestion that don’t consider the value of curtailment to the affected entities.

The current pilot envisions using telephone connections just prior to real time to enlist, from a group of previously recruited generators, a voluntary group of inc-ers and dec-ers that together may be able to eliminate congestion across a flow gate. At this time, BPA is unsure of whether it pays a “market price” to the generators, whether it should dictate a price it would be willing to pay, or use some other methodology. The foundation of the uncertainty is a recognition that entities want to see the Curtailment Calculator eliminated, but at the same time are concerned about relying on markets. Strong leadership from TBL is needed to arrive at a workable solution to an efficient redispatch of generators to limit congestion.

We find the approaches that have been discussed to date to be potentially clumsy in that there will be limited time over which to work out the arrangements. We would like to see consideration of markets that set a clearing price for those willing to *inc* and those willing to *dec*.

In lieu of markets, a system similar to what has been used in PBL to elicit Demand Exchange could be used. TBL would broadcast via computer a price it would be willing to pay for *inc-ing* and *dec-ing* across flow gates. Generators could instantaneously accept the price, and TBL could select from them the generators necessary to balance. If TBL, in the first instance, gets the price wrong and no one responds it could revert to the Curtailment Calculator. During the next occurrence of congestion TBL would have better information and a better estimate of what prices would bring action. Over time, the Curtailment Calculator would be used seldom, if ever.

Non-Wires Options

Non-wires options can be used to limit congestion as indicated above, and they should be an integral part of transmission planning and operation. Non-wires options can be used as a way to free up transmission, to defer large investments in transmission and distribution lines, and as PacifiCorp has shown with its air conditioning load control program, as an ancillary service. Many of these uses will help to limit market power held by generators located in critical areas throughout the grid.

Bonneville has made major progress as a leader in evaluating non-wires solutions, and in implementing pilot projects to verify the efficacy of non-wires options. We applaud this effort, and urge TBL to soon make non-wires a permanent and normal part of its planning for, and operation of, the grid. We would also hope that TBL and PBL take an aggressive approach to transferring their collective understanding of the potential for non-wires solutions to other utilities in the Northwest and beyond. It will be necessary for parties with knowledge of potential non-wires strategies to become more active in transmission planning forums for these solutions to be adequately included in the planning process.

Netting of Imbalances

We note that BPA did not support netting of imbalances in their comments on the FERC NOPR, claiming that it would not give transmission customers the right incentives to meet their scheduled energy delivery. RNP, NWECA, and WWW support netting of imbalances. When a customer's transactions create offsetting imbalances, the transmission provider is relieved of the responsibility, and therefore relieved of the cost, of providing imbalance energy. In keeping with FERC's desire to adopt cost-based imbalance pricing, it is essential that the customer be charged only for its net imbalances. We do not agree that the netting of imbalances contradicts the principle of encouraging good scheduling practices. If anything, netting of imbalances would encourage customers to limit their net deviations, and therefore limit their impact on the control area. Also, the customer's exposure to additional costs under the tiered pricing structure will encourage good scheduling even in those circumstances where some portion of the imbalance can be avoided by netting. Wind generators in particular, are weather dependent and have virtually no ability to control their output. Netting of imbalances can help wind become more

cost effective for Northwest utility customers, while not increasing the impact on control areas. We ask that TBL revisit its position on netting of imbalances in light of these comments.

Unauthorized Use Penalties

We also ask that BPA revisit its position on Unauthorized Use Penalties, as stated in their recent comments to FERC. RNP, NWECC, and WWW believe that applying penalties based on the reservation period rather than the period of unauthorized use has resulted in charges that are not just and reasonable.

For example, if a customer taking monthly service takes unauthorized service during one hour, the Commission's current policy permits a penalty charge based on twice the monthly rate. Thus, assuming a \$1.216/kW/month rate for 1 MW monthly reservation (i.e., a monthly charge of \$1,216), if the customer schedules an additional MW during one hour of the month, the customer will pay \$2,432. However, the charge that the transmission provider would have assessed for a one-hour service contract would only be the hourly rate of \$3.50 mills/kWh. Assessing a penalty charge of \$2,432 for a transgression that, had it been reserved as a separate service, would have cost only \$3.50 is clearly exorbitant and unreasonable. It is also discriminatory because if the customer causing the unauthorized use had made a shorter reservation, its penalty would be much lower. E.g., if the customer in this example had reserved hourly service, the penalty would have been \$7.00 (twice \$3.50). The customer's impact on the transmission provider is the same, yet one customer pays a penalty that is 347 times higher than the other.

BPA should modify its policies on penalties to make them more reasonably reflect the violation and to eliminate their discriminatory impact. This can be accomplished by tying the penalty to the violation, i.e., if the violation occurs over one hour, the penalty should be twice the hourly rate; if the violation occurs over an entire day (or over the 16 peak hours of the day, the penalty should be twice the daily rate; if the violation occurs over a week (or the five weekdays of the week), the penalty should be twice the weekly rate; and if the violation occurs over a month, the penalty should be twice the monthly rate.

Finally, to the extent that the BPA is concerned that some customers may intentionally reserve less capacity than required with the expectation that they will intentionally make use of unauthorized transmission service, they could propose additional penalties in these circumstances. Again, as discussed above with respect to intentional energy imbalance deviations, these harsher penalties should be limited to situations where it can be demonstrated that the customer willfully engaged in unauthorized transmission use.

Columbia Grid

In our 2004 PIR comments to BPA we strongly encouraged BPA to continue its participation in Grid West. BPA chose not to follow our recommendation. We are concerned with the rate of progress of Columbia Grid. The Columbia Grid plan proposes none of the signals to elicit efficient behavior that were contained in Grid West's plan. Having said this, we realize that Columbia Grid is "the only game in town" and therefore we have been working to make it as good as it can be.

We would note that in both the Wind Integration Action Plan and in the Congestion Management/Redispatch work groups there has been recognition that market signals would be a purer solution to achieving the goals of those two efforts. As soon as possible, BPA ought to use its influence in Columbia Grid talks to expand the group's efforts and lead the region toward developing price incentives that will improve the efficiency of the transmission and distribution systems in the Northwest. We also encourage BPA and Columbia Grid to work with the East-side utilities that have recently signed an MOU to work together on ACE diversity, when those utilities have a system up and running.

Conclusions

Many of the issues we have raised require strong staff support and financial commitment from TBL in order for positive changes to be implemented. These items include:

- the development of a conditional firm product including any computer system development necessary for implementation;
- the efficient integration of wind power;
- systematic inclusion of non-wire solutions in planning for and operating the grid;
- using redispatch with good price signals to manage congestion;
- improving the design and speeding up the progress of Columbia Grid;
- revisiting BPA's position on netting of imbalances, and
- changing BPA's position on unauthorized use penalties.

RNP, NWECA and WWW, in representing the renewable power industry and the public interest community, have a tremendous stake in the TBL's policies, products and rates. It is no exaggeration that the ability of the region to meet future load, especially with renewable resources, hinges on the decisions BPA makes on the transmission side of its house. The PIR and TBL rate case offer the opportunity to correct course and facilitate the development of resources that the region will need as PBL customers assume responsibility for meeting future load requirements and the economic recovery continues.

Our organizations remain committed to working with TBL management and staff in identifying and implementing innovative, workable and affordable solutions to the region's transmission needs.

Sincerely,

Natalie McIntire
Renewable Northwest Project

Steve Weiss
Northwest Energy Coalition

Roger Hamilton
West Wind Wires