

FRANK L. CASSIDY JR.
"Larry"
CHAIR
Washington

Tom Karier
Washington

Eric J. Bloch
Oregon

John Brogoitti
Oregon

NORTHWEST POWER PLANNING COUNCIL

851 S.W. SIXTH AVENUE, SUITE 1100
PORTLAND, OREGON 97204-1348

JUDI DANIELSON
VICE CHAIR
Idaho

Jim Kempton
Idaho

Ed Bartlett
Montana

John Hines
Montana

Fax:
503-820-2370

Phone:
503-222-5161
1-800-452-5161

Internet:
www.nwcouncil.org

November 6, 2002

MEMORANDUM

TO: Council Members

FROM: Dick Watson

SUBJECT: Comments on the Federal Energy Regulatory Commissions Proposed Rulemaking on Standard Market Design

A few months ago, the Federal Energy Regulatory Commission (FERC) issued a notice of proposed rulemaking on a Standard Market Design (SMD). It borders on understatement to say that the SMD proposal has been extremely controversial. FERC has delayed comment on the bulk of the proposed rulemaking until January. However, FERC is seeking comment on two aspects of the SMD proposal, market monitoring and price mitigation, by November 15. Attached is a letter of comment developed by the Power Committee.

Remedying Undue Discrimination)
through Open Access Transmission Service) Docket No. RM01-12-000
and Standard Electricity Market Design)

INTRODUCTION

2 - The Council is a four-state interstate compact agency, authorized by Congress to provide oversight over the resource planning of the Bonneville Power Administration (Bonneville) and to design a regional fish and wildlife program to help restore fish and wildlife affected by the region's hydroelectric system. The governors of Idaho, Montana, Oregon and Washington appoint their respective Council members.

Page 1

4 - Our staff has actively participated in the discussions leading up to the proposal for RTO West, both through several work groups and through the Regional Representatives Group (RRG) to which the Council was one of the representatives of the Committee on Regional Electric Power Cooperation (CREPC), a group of Western state and provincial regulatory commissions and energy offices. In addition, our staff is active in the Market Interface Committee, a standing committee of the Western Electricity Coordinating Council.

5 - The Council has invested a great deal of effort in understanding the issues confronting transmission systems in the West and how those issues might be addressed while accommodating the important physical, institutional and legal differences that make the Northwest unique. We believe that resolving these issues successfully is essential to satisfying the Council's responsibility to assure the Pacific Northwest of an adequate, efficient, economic and reliable power supply.

6 - The Council understands that transmission in the West and the Northwest are being increasingly stressed by the demands placed on it by the competitive wholesale power market. The volume of transactions and shifting patterns of generation and load are putting increasing strain on a system originally designed for transfers within and between vertically integrated utilities. The resulting problems include: the adverse economic and reliability effects of unscheduled flows; high transaction costs engendered by multiple control areas; economic inefficiencies brought about by rate pancaking; and apparent significant discrepancies between declared Available Transmission Capacity (ATC) and actual use, resulting in inefficient utilization of the system. As the region faces the need for reinforcement of the transmission system, the reality of multiple decision makers and a lack of transparent price signals increases the difficulty of making

appropriate trade-offs between investments in generation, transmission and demand-side management.

COMMENT

7 - After reviewing the proposal we have reached the conclusion that these policies are unlikely to improve the electric power system in the Northwest and in fact may present serious risk to our historically low cost and reliable power. We encourage FERC to reject this policy and make more of an effort to work with the Northwest and other regions of the country to develop approaches that are more compatible with unique regional characteristics. Furthermore, when a complete proposal is developed it should be tested in a region of the country where the problems FERC intends to address are present.

8 - The Northwest is still recovering from the 2001 energy crisis on the West coast and will continue to pay the cost of this unfortunate event for many years to come. Even without assigning blame to the failed California deregulation or FERC oversight of these markets, the fact is there is no margin for error left in the Northwest. Because we simply cannot endure another round of rate increases, we need to be especially cautious when considering the adoption of sweeping new experiments like the Standard Market Design.

9 - There are already many reasons to expect that the Standard Market Design will not work in the Northwest. The method devised to resolve congested transmission paths appears to be based on the presumption of many distinct thermal plants rather than a tightly integrated hydropower system like ours in the Columbia Basin. The market rules devised to complement this approach are also incompatible with our hydropower system.

These shortcomings illustrate the danger of trying to develop a standard set of rules for each region of the country, which in fact are very much different.

10 - FERC's proposal raises concerns about the transfer of oversight authority from the states in the Northwest to Washington D.C. It raises concerns about the potential loss of transmission rights by native Northwest loads. It raises concerns about the security of existing contract rights. In short, FERC's proposal adds an additional layer of concern and uncertainty to a market that is greatly in need of stability and predictability.

11 - The region remains united on one particular solution to transmission congestion which is the expansion of BPA's transmission grid in the Northwest. This action will allow us to avoid disruptions in delivering power in the short term. We would like to see FERC support our request that Congress increase Bonneville's borrowing authority in order to facilitate the financing of these essential investments.

12 - In the longer term, FERC should take the time to explore our regional situation, where both the problems and the solutions are different from other parts of the country. There is a general understanding in the Northwest that the Standard Market Design is intended to address problems that are either less evident or nonexistent in the Northwest. Consequently FERC should proceed slowly and collaboratively, and try to avoid the mistakes that have plagued the deregulation of energy markets to date.

13 - The Council will have further comments on the Western market issues set for comment on January 10, 2003. At this time the Council has a specific comment on the SMD proposal for market monitoring and price mitigation.

14 - The NOPR proposes three mandatory components for a market power mitigation plan, must-offer requirements and bid caps for local market power, a safety-

net bid cap till demand response is developed and a resource adequacy requirement. It also suggests a fourth voluntary mechanism, bid caps in response to unusual market conditions that would potentially be applied automatically and across the region covered by the Independent Transmission Provider (ITP).

15 - The Council is concerned that the last proposal leaves open the possibility of gaming markets between ITPs, particularly in the West, where the power market is westwide. Several of the mechanisms described in the Enron memos depended on the existence of differential price caps in California and outside of California. If the Commission goes forward with this part of the SMD proposal, it is important that all ITPs in the West be governed by the same mechanism and trigger levels. The Commission should ensure coordination of price mitigation measures across the entire relevant market, in this case the entire West.

16 - Should the three RTO proposals in the West go forward, the Commission should defer to the recommendations of the westwide Market Monitoring entity being discussed by the three RTOs, under the umbrella of the Seams Steering Group – Western Interconnection.

CONTACT INFORMATION

Wallace Gibson

Manager, System Analysis

Northwest Power Planning Council

851 Southwest Sixth Avenue - Suite 1100

Portland, OR 97204-1348

503-222-5161