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February 11, 2003

MEMORANDUM

TO: Council

FROM: Wally Gibson

SUBJECT: Potential Comment on Resource Adequacy in FERC's SMD NOPR

INTRODUCTION

Although it also said it would like the comments by January 10, FERC has said that it will accept comments on certain Standard Market Design (SMD) issues up until February 28 for those who need more time,. These issues include the proposed resource adequacy standard in the SMD Notice of Proposed Rulemaking (NOPR). The Council, as a planning agency, has a particular interest in resource adequacy in the Northwest, and has highlighted the issue in its discussion of key topics for the upcoming power plan. Given this interest, and the extra time available, the Council may wish to comment to FERC on this issue. This issue has been discussed with the Power Committee.

The other issues identified for late comment are 1) market design for the Western Interconnection, 2) transmission planning and pricing, including participant funding, 3) Regional State Advisory Committees and state participation and 4) Congestion Revenue Rights and transition issues. The staff suggests a short comment recommending FERC accept regionally determined solutions to these issues, rather than imposing national solutions.

SUMMARY OF FERC ADEQUACY PROPOSAL

FERC proposed in the NOPR that an independent transmission provider (usually understood to be an RTO, like RTO West for the Northwest) be required to forecast loads for the mid-term (for example, 3 years out), assign adequacy reserves based on at least a 12 percent margin over peak load to load serving entities (LSEs) and review the reports of the LSEs on how they are providing their reserves. In the event of a resource shortage, the independent transmission provider would be empowered to charge those LSEs that do not meet their adequacy targets a

penalty on their spot market purchases and to differentially curtail them before other LSEs, if curtailment is required.

The proposal raises two general issues: should there be a central entity empowered to enforce adequacy on LSEs (beyond any high spot market prices that would likely exist during periods of resource tightness) and what should the criteria for adequacy be?

STAFF SUGGESTED COMMENT

Attached to this memo is a staff suggested draft of a comment to FERC. It recommends that FERC allow regional deference, both in determining the adequacy criteria and in the mechanics of applying them to load serving entities (LSEs). It points out that the large hydro base in the Northwest makes the adequacy calculation much more complicated than elsewhere in the country and that the hydro system also means that some reliance on spot and short-term markets (largely precluded by the SMD proposal) can lead to lower costs to serve loads. It then suggests that this determination is best made by LSEs and their regulators (state or local, as the case may be) and that a central entity need not be empowered to enforce adequacy. Finally, it notes that the Council, in conjunction with others, has initiated a regional forum to address these issues, and that the best response will come from such a forum.

ALTERNATIVES

One alternative to this draft is not to comment to FERC. Since other entities, including Bonneville, have already noted to FERC that the Council has a statutory planning responsibility in the Northwest, it might be best to address the issue.

Another alternative is to agree with the NOPR that some central institution does need to be empowered to ensure adequacy (the NOPR suggests an independent transmission provider, like RTO West). In this case, the Council would need to clarify who that entity might be if it is to be different from an independent transmission provider as FERC proposed. Neither an independent transmission provider with the requisite authority nor any other such entity currently exists in the Northwest. In this alternative, we would argue, however, for regional determination of the adequacy criteria themselves, rather than accepting the margin-over-peak-load calculation proposed in the NOPR.

STAFF DRAFT ADEQUACY COMMENT

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

ADDITIONAL COMMENTS OF THE NORTHWEST POWER PLANNING COUNCIL

INTRODUCTION [Same language as last comment, except for first paragraph.]

1 - The Commission, in its Notice of December 10, 2002, permitted comments on specific issues¹ to be filed by February 28, 2003 if additional time were needed. The Northwest Power Planning Council (Council) needed additional time and thanks the Commission for permitting the filing of late comments. The Council recommends that the Commission recognize that regional efforts are underway, under the auspices of the Western Governors' Association, RTO West, the Western RTOs working together and the individual states to address the issues with an extended comment period. The Council generally recommends deference to Northwest and Western proposals on these issues, as appropriate. In addition to that general recommendation, the Council has more detailed comments on the proposed resource adequacy standard.

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.

3 - The Council has an ongoing interest in the development of an efficient and effective wholesale power market and the development of a transmission system that will best support that market. The Council is a member of the Western Electricity Coordinating Council (WECC).

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 voluntary organization of the state and provincial regulatory commissions and energy offices in the Western

¹ These issues are 1) market design for the Western Interconnection; 2) transmission and planning and pricing, including participant funding; 3) Regional State Advisory Committees and state participation; 4) resource adequacy; and 5) Congestion Revenue Rights and transition issues.

Interconnection. 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.

PREVIOUS COUNCIL COMMENTS ON STANDARD MARKET DESIGN *[Same language as last comment except for first paragraph.]*

6 - Before the Council comments on the proposed standard for resource adequacy, we would like to reiterate our general comment on the scope and direction of the overall proposed rule.

7 - After reviewing the proposal we have reached the conclusion that the proposed SMD rule in its current form is seriously flawed and not an appropriate policy for the Northwest. 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. It raises concerns in its incompatibility with the characteristics and requirements of a system that relies heavily on a coordinated hydroelectric system. 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. We urge FERC to reject this policy as presented and work with the Northwest and other regions of the country to develop approaches that are more compatible with unique regional characteristics.

COMMENT ON PROPOSED RESOURCE ADEQUACY STANDARD *[New material]*

8 - The Council acknowledges the Commission's interest, as the entity charged under the Federal Power Act with ensuring just and reasonable wholesale power rates of jurisdictional power sellers, in the provision of adequate resources.

9 - However, the Council believes that resource adequacy is more appropriately dealt with on a regional basis by the states and local authorities, rather than through the mechanism of a transmission provider implementing national guidelines or requirements. The Council recommends that the Commission defer to regional determinations, both of the criteria for adequacy, and whether individual load serving entities (LSEs) have acted appropriately in meeting their load service obligations.

10 - Both of these recommendations reflect a fundamental aspect of the Northwest power system, its predominant hydro base. The predominance of hydro has two implications. The first is that a requirement based on a simple capacity calculation, as the

Commission proposes in the NOPR, is unlikely to capture all of the reliability concerns the Commission raises. Because of the effects of cold weather on unregulated inflows and the interrelationship of hydro storage and usable generating capacity, a simple tally of expected peak load against machine capacity will not necessarily indicate whether all loads over the course of a winter cold spell can be met or not. The reliability calculation in the Northwest involves a complex combination of energy supply (water supply and deliverability) as much as instantaneous machine capability.

11 - The second implication of the large hydro base in the Northwest is that a centrally imposed and enforced adequacy requirement of the form proposed will not necessarily lead to the reasonably priced wholesale power that the Commission seeks. In an environment in which energy availability can swing dramatically and randomly from year to year due to rain and snowfall variations, the ability of an LSE to manage its price risk will be heavily influenced by its (and its regulators') choices among investment, long and short-term contracting, spot markets and demand response. The NOPR's proposal would limit short-term contracting and would likely eliminate reliance on spot markets as tools to meet loads. These can be legitimate tools for portfolio management, especially with a hydro system set in the context of a Western market characterized by substantial seasonal and weather diversity. The decision regarding the extent these tools are used should be made by the LSE and its regulator (state or local as the case may be).

12 - Moreover, the region is taking active steps to ensure that it is appropriately addressing the adequacy issue. The Council, which has planning responsibilities under the Pacific Northwest Electric Power and Conservation Planning Act, has joined with the Northwest Power Pool and others in the Northwest to initiate a regional discussion of resource adequacy. A regional forum has been established, and policy-level representatives from the Council, the Power Pool, Bonneville Power Administration, publicly owned utilities in the Northwest, investor-owned utilities, and state and provincial regulatory commissions and energy offices have participated in an initial meeting. The geographical area encompassed by the participants closely approximates that of the Northwest Power Pool and RTO West.

13 - The intent of this forum is to establish whether there are problems with how we assess, report on, plan for and implement resource adequacy that need to be addressed collectively and, if so, determine how to best address them. The initial meeting focused on inconsistencies in the reporting and planning approaches used by various regional entities. These inconsistencies include different views of peak load probability or different approaches to dealing with the variations in water availability in the hydro system. The initial action items coming out of this meeting include the initiation of process to establish common definitions and assumptions for the reporting of data for the assessment of resource adequacy with the utilities that report this information and other interested stakeholders and establishment of a forum involving utilities, regulators, planning agencies to focus on the question of best practices in integrated resource planning for adequacy in light of the experience of 2000-2001. In addition, a second meeting is planned to address the question of what would constitute reasonable adequacy criteria for the region, what steps participants think might need to be taken by regional

entities to ensure adequate resources to meet regional loads in an economical manner, and what the roles of the various responsible entities should be.

14 - The Council believes that this process will lead to an appropriate approach to resource adequacy for the Northwest and will clarify responsibilities for resource portfolios that are both adequate to meet loads and address price risk consistently with any individual LSE's (and its regulator's or local governing board's) risk preferences. This outcome might include a regional consensus on regional enforcement of an adequacy standard through some independent entity, such as an RTO, or the regional consensus might be that individual LSEs should be the responsible entities.

15 - In addition, the Council is participating in staff-level efforts by a working group from CREPC to examine resource adequacy assessment in the West generally. These efforts are aimed initially at providing a more realistic and transparent west-wide resource assessment.