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Renewable Northwest Project

February 6, 2004

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**Subject: Initial Comments on BPA/TBL implementation of FERC Order
2003: Large Generator Interconnection**

Renewable Northwest Project and West Wind Wires appreciate the opportunity to comment on BPA/TBL's implementation of FERC's Order 2003. Renewable Northwest Project is a non-profit renewable energy advocacy organization whose members include environmental and consumer groups, and energy companies. RNP works to increase the development of clean renewable energy resources in the Northwest. West Wind Wires is a wind industry advocacy program under the auspices of Western Resource Advocates that represents wind in transmission planning and operational forums throughout the WECC region. Our focus in this memo will focus on wind energy.

We want to thank BPA/TBL for its previous response to wind industry requests. Changes to imbalance charge tariffs have eased the burden of these onerous charges for intermittent resources and helped bring new wind development onto the grid. New products for wind integration and storage and shaping will make it easier for Northwest utilities to acquire wind resources. And BPA's new ATC methodology will free up some available transmission capacity on the system that may allow some wind projects to go forward. We encourage TBL to continue to look at policies that can encourage the development of renewable resources in the NW, resources that will bring environmental and economic benefits to the region.

In general we are interested in all aspects of Order 2003, and specifically how TBL will choose to implement the Order. The American Wind Energy Association (AWEA) is working with FERC to draft a "Wind Annex" to Order 2003 that will address some of the deficiencies and inconsistencies in the current order with respect to wind. We hope BPA will be open to addressing and adopting those changes when they are available. The Wind Annex should accommodate the unique differences between intermittent, renewable resources and fossil-fired resources.

There are two major features of wind development that make it different than the gas turbine generator contemplated in the Order. One is the high cost of capital for relatively small scale developers, and the second is high up-front costs of wind compared to their zero fuel costs. The cost of upgrades for transmission system improvements, even with the five-year refund feature of Order 2003, is burdensome to the small wind developer. Add to this a flat cost for interconnection studies and the small developer is strapped from the very beginning.

In addition to these issues, wind advocates will be focused on how TBL interprets the Network Resources Interconnection Services (NRIS) provisions of Order 2003. We will be offering comments to TBL as it works through the issues related to NRIS.

We appreciate your understanding of these issues as described by your briefing at the December 11, 2003 public meeting. We support your Order 2003 pricing policy proposing that interconnection costs that TBL has directly assigned to developers in the past would now be designated as network upgrades rolled into network rates. We agree that incremental transmission revenues from new generation will probably exceed incremental costs of network upgrades, and we support a requirement that transmission credits repay the generator in less than five years. Lastly, we encourage BPA to implement a tiered fee structure for interconnection studies based on the size of the generation project.

Why give wind special consideration?

There is a tension between policies that encourage efficient transmission expansion, grid management, and generation siting and policies that encourage resource diversification. An economist can, in most cases, make a strong argument for participant funding of incremental transmission investments. These policies rightly allocate costs to those who cause them, and they are generally fairer and more economically efficient. The general effect of these policies is to encourage the siting of generation closer to load. "Rolled-In" or socialized transmission diminishes the incentives for efficient resource selection and siting.

The problem is that wind resources are rarely found near loads and so policies that look efficient at first blush create significant barriers for this clean, renewable resource. Policies that are very appropriate for a gas-fired turbine are not appropriate for wind, or geothermal, or hydro for that matter. Participant funding and its supply-side analogue (the generator pays) can increase the cost of the resource enough to render it un-economic. Wind benefits from rolled-in costs and postage stamp rates, as do other remote resources like mine-mouth coal.

This calls for a policy approach that recognizes the other values of wind: reduced environmental impacts, risk mitigation, portfolio diversity, fulfillment of public policies like renewable portfolio standards and system benefit charges, and the language in the Northwest Power and Conservation Act that requires BPA to encourage the development of renewable resources in the Pacific Northwest. This approach treats these values as offsets to the remote incremental transmission costs that the remote resource imposes.

Because all users of the system benefit from the values of clean air and resource diversity, the socialization of these costs is justified.

We look forward to working with you further on these issues.

Sincerely,

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