



NW Energy Coalition
for a clean and affordable energy future



Renewable Northwest Project



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

Dear Vickie,

The Northwest Independent Power Producers Coalition, Renewable Northwest Project, the NW Energy Coalition, and West Wind Wires appreciate the opportunity to provide feedback on Bonneville Power Administration's (BPA) Transmission Business Line (TBL) Programs in Review (PIR). The Northwest Independent Power Producers Coalition (NIPPC) represents the interests of non-utility generators in Oregon and Washington. 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 (NVEC) represents over one hundred consumer, environmental, low-income, faith-based groups, unions and utilities working for a clean and affordable energy future. West Wind Wires (WWW) is a project of Western Resource Advocates (WRA) and represents wind development interests in transmission tariff and planning proceedings throughout the Western Interconnection. Together, NIPPC, RNP, NVEC, and WWW speak for nearly all the operating and proposed IPP capacity in the Northwest, as well as numerous advocates for the public interest.

Along with representatives of some of our member organizations, we participated in the "Programs in Review" (PIR) meetings held at BPA and around the region. We were pleased to receive the information provided about the status of current programs and the efforts the TBL is making to improve electric transmission service.

We write to outline the transmission challenges facing resource development (including those that uniquely face wind power) and highlight several priorities we have for the PIR and the Rate Case. There are several pressing issues that TBL needs to address in an expeditious manner in order to support the development of new generation

including the renewable resources that BPA is statutorily mandated to encourage. We look forward to working with TBL to address these issues in order to encourage resource development in the region.

Renewable Resources in the Northwest

The Northwest is positioned to develop significantly more clean and affordable renewable resources that benefit both our environment and economy. The currently available transmission capacity in the region is not adequate to support a growing percentage of renewable resources in our electricity mix. All the region's investor owned utilities are actively engaged in processes to acquire new renewable resources. In addition, several public utilities in Oregon and Washington are looking to acquire wind power. The region is at a critical juncture where transmission infrastructure and products to serve these new resources are necessary in order for contracts to be finalized between utilities and developers.

Conditional Firm Transmission Product and Non-Wires Solutions

NIPPC, RNP, NVEC, and WWW support cost-effective expansion of the transmission system provided that this is the least cost solution to transmission problems. And we support TBL's continued efforts to quantify available transmission capability (ATC) for point-to-point service (PtP) and to implement non-wires alternatives that will allow for more efficient use of the current system. Non-wires solutions are especially important in the short-term, since construction of additional lines is a multi-year process. Meanwhile, more efficient use of the existing system will bring more revenue to BPA.

Generators planning new resources need a transmission product that goes beyond the "Partial/Seasonal Service" that TBL currently offers, but unlike Firm service, is not required to be available all hours of the year. Such a product, called "conditional-firm" below, would have curtailment priority above non-firm service for months that BPA is not able to offer 100% firm service. We understand that, based on TBL's ATC methodology and historic usage of the system, a significant amount of additional firm transmission capacity is forecast to be available over 90% of the time. The conditional-firm product would replace short-term sales with long-term sales and enhance the revenue stream to TBL. Customers, for their part, would have cost and availability information to provide to their investors.

We have been told that there are operational issues that make it challenging for TBL to implement the curtailment priority inherent in this a conditional-firm product. And we appreciate that TBL is setting up a "New Product Team" to work with customers to define the aspects of such a product and work through its implementation. However, we are extremely concerned with TBL's proposed timeline. We believe it is critical that these products emerge from the 2006-2007-rate case. Funding for system development and staff necessary to implement these products needs to be treated – and funded – as a priority effort. In addition, pricing should be set during this rate case so that once the

necessary protocols are in place, customers do not have to wait for yet another rate case before the new products can actually be offered.

Renewable developers are also concerned about how the timing of the Production Tax Credit (PTC) extension may interact with available transmission options. If the PTC is extended until 2006, but there is no short-term relief in the form of this product, the region's utilities may walk away from renewables, and we risk developers leaving the region.

Appendix A includes a detailed description of the attributes we would like to see in a conditional-firm product. NIPPC, RNP, NWEA and WWW are willing to work with TBL to do what it takes to make this product a reality. In our view, not only would a "conditional-firm" product create opportunity where there currently is none, it would provide the important benefit of bringing more revenue to BPA at a time when significant rate increases are expected.

In addition, the Non-Wires Round Table has been doing groundbreaking work to incorporate evaluation of non-wires solutions into transmission planning. Our organizations are encouraged by the progress the BPA is making in this area. The alternatives emerging from the process point to additional opportunities to make greater use of the current system without constructing new high voltage lines before they prove to be absolutely necessary. We hope that BPA will enter the Rate Case with plans to continue to adequately fund this work, and to at least conduct select pilot projects that demonstrate the efficacy of these alternatives.

McNary – John Day Upgrade Open Season Process

NIPPC, RNP, NWEA and WWW support TBL's efforts to secure commitments to help fund the construction of the McNary-John Day 500 kV line. This transmission line, in addition to enhancing reliability, is critically needed to enable further development of wind power and thermal resources located East of the McNary dam. While we appreciate BPA's intentions, our members have found the Open Season process to be so problematic that we believe it will effectively render the opportunity meaningless.

There are many aspects of the TBL's Open Season process that we see as problematic. In order to generate the greatest amount of support for the construction of this line, participants need flexibility. We do not feel that the TBL's current criteria for participation in the Open Season offer that flexibility. The proposed formula for financial commitments may make it challenging for generators to participate. In addition, the free rider policy must be clarified and must include a method for reimbursing the initial participants as other generators avail themselves of this costly stretch of the upgraded system. Repayment through transmission credits alone is not adequate.¹

¹ These issues are detailed in the August 6, 2004 letter to Robert Barnes that RNP signed with Portland General Electric, the Northwest Energy Coalition, and Eugene Water and Electric Board.

The success of this process is critical to opening access to East-side resources of all kinds. The procedural and structural impediments to a management solution need to be included in the TBL's PIR. In addition, it is our position that the demonstrable reliability benefits of the planned upgrade justify a significant contribution to the project by TBL that along with a resolution of the "free rider" issue will improve the prospects of the line being built. If the John Day – McNary line is a test of the Northwest's ability to successfully build new transmission lines with generator funding, we are still a long way from a passing grade.

Order 2003-A Pricing Policy for Network Upgrades

NIPPC, RNP, and WWW have actively participated in BPA's review of its implementation of FERC's Order 2003-A. We have previously expressed our concern regarding BPA's posture and we remain unsatisfied with TBL's failure to align itself with FERC policy for new generator interconnections². With respect to the rate case, it is our position that a reimbursement is not a rate and therefore not subject to a 7(i) process. TBL's responsiveness to several of our stated concerns was encouraging and we remain hopeful for other positive outcomes but, unfortunately, the unintended consequence of BPA's stated "deviations" is to delay construction of new generation. From our perspective, the exercise of BPA's discretion in this matter will remove a most troubling impediment to new infrastructure investment.

Queue Clearing

The length of the TBL "queue" for transmission requests is impractical. The process of addressing each request for service, especially when studies are required, is very time consuming. Many resource developers are so far down in the queue that it will likely take 12 to 18 months before TBL can even begin to address their requests. Not knowing whether there is transmission capacity available compromises generators' ability to participate credibly in utility RFPs. We have members who have held queue positions for point-to-point transmission and interconnection for more than two years and still do not have clarity or resolution from TBL as to the amount of ATC available for their service. This is an unacceptable situation.

TBL should make it a priority to increase the speed at which staff addresses transmission requests in the queue. This could include adding staff or consultants to work on studies, as well as investigating creative ways to establish the seriousness of those remaining in line for service.

² RNP and NIPPC May 25, 2004 letter to Steve Wright.

Reactive Power

The provision of reactive power is an area worthy of close examination in the PIR process and rate case.³ The fact that reactive power is a factor in assuring reliability is now recognized, however, its role in expanding ATC is less appreciated. We note that the TBL Capital - Project Detail presented at the PIR Technical Workshop August 25, 2004 includes \$5 million/year for System Reactive Facilities as a Main Grid Project, \$483,600 to add a capacitor bank at Madison and \$376,100 to split the Bridge capacitor bank (presumably to provide smoother voltage control) as Area and Customer Service projects. At the same time, the BPA tariff offers no compensation to generators, other than PBL, for providing reactive power support.

This current practice results in the over reliance on hardware installations and may overly limit TBL's procurement of VAR support in corridors distant from load. Thermal power plants East of the Cascades can provide reactive power service and should be contacted to compare their costs against the current practice. Meanwhile, nearer to population centers, TBL should acknowledge the VAR support currently contributed by operating Westside power plants and reimburse these facilities, at cost for operating power factor capability implicit in Bonneville's interconnection agreement authorized voltage schedules. In addition, Bonneville should procure additional cost effective reactive power from generators. In doing, BPA will expand the transmission delivery capability of the grid.

In short, the PIR process should evaluate methods to cost-effectively procure VAR support and the rate case should consider mechanisms for recognizing and reimbursing generators for the provision of reactive power services. This is no different than considering the value of reactive power support which is charged to generators for consuming reactive power. If BPA continues to charge for reactive power, generators should be for the same ancillary services.

Redirect Policy and Need for Flow Based Rights

BPA's current policy for redirecting transmission rights does not help to facilitate a bilateral transmission market for highly constrained paths on the system. Though TBL has moved toward a flow-based analysis of its system for offering new service, it does not offer flow-based transmission rights. A shift to flow based rights, something that Grid West plans to help accomplish in the region, would facilitate a more fluid secondary transmission market. This would also help make more efficient use of the current system

³ We consider reactive power as an ancillary service in its own right. When transmission-owning utilities (including BPA) integrate a generator they "see" more than electrons. They benefit from the IPP power plant's hardware investment that produces or absorbs reactive power. This value should be reflected in a cost based rate that recognizes the amount of voltage support a generator provides with a specified band. A market-based rate should be provided to reimburse the plant in the event the utility, in order to maintain reliability, dispatches the plant to manage VARs outside the contracted power factor bandwidth.

and allow for the creation of a market for transmission rights along congested paths, which would help to better allocate scarce transmission resources.

We see considerable merit in TBL moving forward with considering a shift to flow-based rights in its analysis of ATC particularly on congested paths. TBL should allocate resources to deepen its evaluation of actual use of the transmission system since it is entirely plausible that “phantom congestion” could be obfuscating sensible investment of scarce public and private capital resources.

Grid West

We strongly encourage BPA to continue its participation in Grid West. And we support continued funding of BPA’s efforts to work with the Grid West development process. We will each submit detailed comments on this subject under separate cover, however some general points deserve mentioning in the context of the issues we are addressing in this letter. We believe that there are significant benefits to having an independent entity manage the region’s transmission assets and coordinate plans for new investment. From the perspective of our members, the implementation of a regionally-accountable, independent system operator, will deliver functional and financial transparency, improve reliability, eliminate rate pancaking, enable an ancillary services market and, in due course, more liquid and efficient transmission markets. These benefits will result in more efficient dispatch, siting of generation and the use of demand-side technologies. It will also bring about regional planning that identifies regional benefits, garners stakeholder credibility and actually results in new transmission construction. While existing transmission rights will be honored, the result will be more efficient use of the current system and an expansion of total transmission capability (TTC) that the region so sorely needs.

Conclusions

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

- the development on a conditional firm product including any computer system changes necessary for implementation, as well as tariff changes;
- more efficiencies in the queue clearing process;
- recognition and competitive procurement of reactive power services;
- a shift to flow based rights and a consequent creation of secondary transmission markets; and
- continued staff and funding for participation in Grid West development.

Without the staff support to address these issues in the near future, TBL will not be able to offer generators and utilities short-term solutions to the current crippling transmission problems.

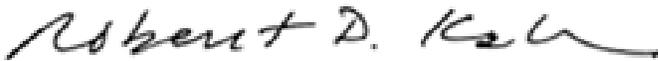
NIPPC, RNP, NVEC and WWW, in representing the independent power industry and the public interest community, have a tremendous stake in the TBL's policies, products and rates. It is no exaggeration that the ability of the region to meet future load hinges on the decisions BPA makes on the transmission side of its house. Current TBL policy now contributes to the uncertainties that renewable and thermal power project developers, and utilities face. 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,



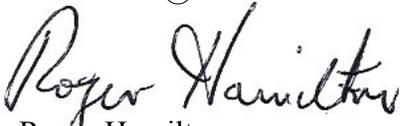
Rachel Shimshak
Director, Renewable Northwest Project
rachel@RNP.org



Robert Kahn
Executive Director, Northwest Independent Power Producers Coalition
rkahn@nippc.org



Steven Weiss
Senior Policy Associate, Northwest Energy Coalition
weiss.steve@comcast.net



Roger Hamilton
West Wind Wires
hamilton.roger@comcast.net

cc: Chuck Meyer
Brian Silverstein

Appendix A

Proposal for Conditional-Firm Transmission Service

BPA's transmission system is almost sold out. BPA staff has indicated that on many paths there is close to no long-term firm Available Transmission Capacity (ATC) left on the system. However, operations data often show that congested paths are at peak capacity for only a limited number of hours each year. We propose that the TBL offer a conditional-firm transmission product that will make more use of the existing transmission system and bring more revenue to BPA.

TBL has previously said that it is not likely that they could develop and implement any new products for inclusion in the 2006-2007 rate period. As mentioned in the body of our PIR comments, this timeline is unacceptable. We believe it is critical that a conditional-firm transmission product emerges from the 2006-2007 rate case. We understand that there may be several ways to implement the important conceptual details of this product and we are willing to work with the TBL and other stakeholders to define a product that works well for all parties.

Rationale

There is a need for more ATC in order for generators and utilities to be able to engage in long term contracts to serve growing Northwest loads. Conditional-firm service offers a transmission service that has more certainty than non-firm service, but is not required to be available 8760 hours of the year. Many generators and utilities feel they can work with a transmission product with limited curtailment risk during a few months of the year. Intermittent generators like wind, do not use the full transmission capacity of their contracts, and will be less impacted by a small curtailment risk, which may not coincide with their generation patterns. Generators and utilities are not comfortable signing twenty-year contracts for new resources with the risks inherent in transmitting that power strictly via non-firm transmission service. Since new transmission lines to serve generators have not been built in recent years, we request that BPA offer innovative products like this that make more efficient use of their transmission system over constrained paths and allow new generators to get their power to utilities.

It may take years before new transmission line construction is possible to create additional firm ATC on the BPA system. Utilities and generators need to be able to finalize their contracts in the near future. For renewable generators this is especially true since their costs depend on the Federal Production Tax Credit (PTC) which has been cyclical at best. The PTC will likely be extended through 2005, but its future and timing of further extensions beyond 2005 are unclear. Therefore, the PTC makes these resources even more cost effective for Northwest customers if generators begin producing power by the end of 2005. Conditional-firm transmission can provide a bridge until such time as more ATC is created via new line construction.

Lastly, TBL is proposing significant rate increases on the order of 14-20%. Offering, conditional-firm service would bring new revenue to TBL without the cost of constructing new lines. New revenue could help to offset some of the need for rate increases.

Conditional-Firm Product

The conditional-firm transmission product we are requesting would be a step beyond the “Seasonal Firm” product currently offered by TBL, but would have a higher curtailment risk than TBL’s firm service. If the full amount of capacity requested is available for at least nine months of the year, but not for the full year, TBL currently offers firm capacity for those months available. The requestor at that point must go to the non-firm or short-term firm market for the remaining months each year. This is more risk than generators and utilities are willing to take to move forward on a twenty-year project or power purchase agreement.

Instead, we propose that TBL combine a seasonal firm product, with several months of conditional-firm for the balance of the year. Conditional-firm would be curtailed prior to firm transmission service, but after non-firm and short-term firm service. This priority of curtailment combined with a clear understanding of the curtailment risk during “conditional” months will give generators and utilities more confidence in their ability to move power to loads.

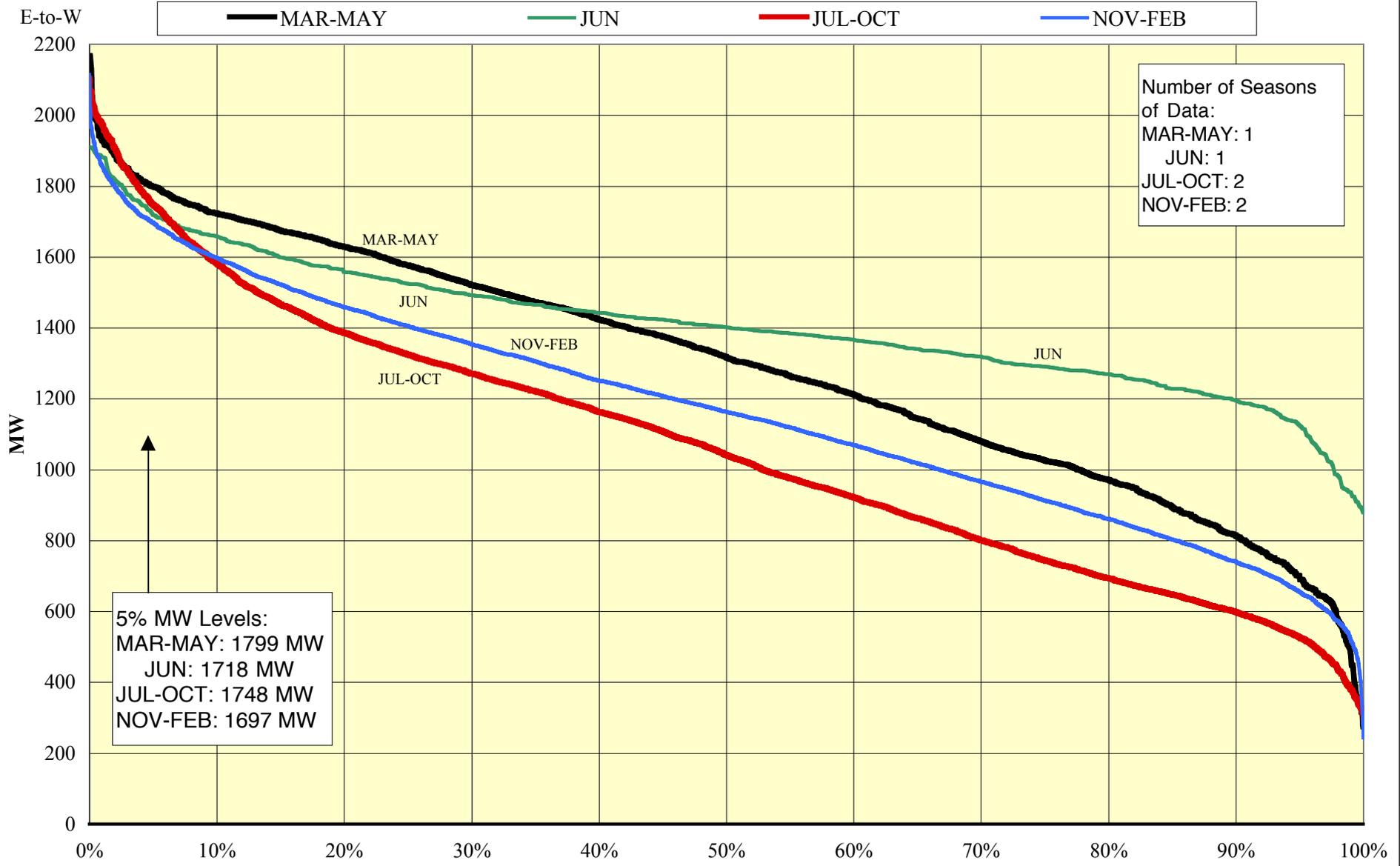
Below is a list of the characteristics of this combined product we are calling conditional-firm transmission service:

- Conditional-firm service would be offered to customers when ATC to meet a long-term firm request is not available for the full amount of the request for twelve months of the year.
- Conditional-firm service would be offered for the same duration as long-term firm.
- Conditional-firm service would be a combination of firm service for a set number of months of the year with service with curtailment priority for the remaining months of the year.
- This curtailment priority would mean that the transmission service would be curtailed after non-firm and short-term firm service but prior to firm service.
- Customers purchasing conditional-firm service would be given detailed information about the curtailment risk during conditional months of the year in advance of their commitment .
- Customers purchasing conditional-firm service would be first in the queue to have their service upgraded to firm service when ATC to match their request becomes available for the full year.
- This service would be priced below long-term firm service, reflecting its higher potential for curtailment.

Attached in support of this proposal is a sample line loading curve which shows the actual transmission usage on the West of McNary path, a currently constrained path, relative to the total amount of operational transfer capacity over this path. This graph shows that line loading reaches peak capacity only a limited number of hours during the year, and that most of the year there is a significant amount of unused capacity.

WEST-OF-McNARY CUTPLANE LOADINGS

Cumulative Frequency Distributions, By Season (JUL01 - FEB03)



PERCENT OF TIME LOADINGS AT OR "ABOVE" PLOTTED VALUE

Source: Hourly SCADA data via: _IPS WEST OF McNARY CALC 59503 MW