



**Remarks of
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FEDERAL ENERGY REGULATORY COMMISSION
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Mr. Chairman and Members of the Commission, thank you for the opportunity to address you today. I am here representing independent generators who own and operate 3600 MW of power generation and who also have made commitments to an equal amount of proposed capacity – all of which lies within BPA's control area. I am here on behalf of the Northwest & Intermountain Power Producers Coalition (NIPPC) to convey how seams management looks from our vantage point inside BPA's control area.

The first seams issue I wish to mention is that the interface between the Northwest and California systems is clouded by the reliance on two radically different transmission management models. To dispatch energy, CAISO, like virtually all RTOs/ISOs, uses a flow-based model of its transmission operations. BPA, by contrast, remains committed to the outdated contract path model. Even as it seeks to improve the functionality of its operations, BPA faces the challenge of reconciling a self-contained, generally opaque, vertically integrated system with the requirements of open access to its transmission system and transparent transactions in the wholesale market. Foremost among these challenges is the resistance, of BPA's public power clients, to the reality that BPA has broader

obligations than providing subsidized Federal power to historically dependant customers.¹

One example of this state of denial and resistance to necessary change is Bonneville's recent failure to implement its Constraint Schedule Management (CSM) proposal. CSM would have overlaid the tracking characteristics of flow-based modeling atop BPA's contract path model by requiring all customers to designate sources and sinks for their transactions. BPA, as if by reflex, withdrew its proposal after a firestorm of public power opposition ensued.

Bonneville followed its failure to promulgate CSM by instituting an even more granular e-tagging policy affecting IPPs and IPPs alone. While BPA and NIPPC are now attempting to resolve this glaring and costly disparity, it is nevertheless telling that nearly a decade since the promulgation of Order 888 and the Federal standard of non discriminatory open access to the transmission system, that BPA would promulgate a policy of "*IPP Only E-Tagging.*"²

What has this to do with the Northwest seams with CAISO?

For the IPPs who are subject to BPA's E-Tagging requirements, hourly E-Tags are the tickets to cross seams between transmission providers with the commensurate commercial and physical flow dislocations. If the process of authoring, submitting and gaining Tag Approval becomes disproportionately onerous for a class of

¹ BPA's implementation of its safe harbor Open Access Transmission Tariff ("OATT") has resulted in BPA offering services to its transmission users that are not on par with the transmission services offered by jurisdictional transmission providers. BPA's continuing practice of offering reciprocal open access in name only, coupled with the fact that none of the other major non-jurisdictional Northwest transmission providers has filed a safe harbor OATT, the vast majority of transmission in the Northwest is controlled by transmission providers that do not provide open access transmission service consistent with Order No. 888 requirements.

² This is a clear example of BPA selectively creating seams in the PNW – a criticism that BPA has itself made of several CAISO initiatives. While BPA's federal power system continues to be dispatched on a system-wide basis, others in BPA's control area are required to identify specific generating sources.

customers that exports to CAISO markets, the barrier is increased, and the market becomes unreachable.³

The seam between BPA and CAISO is the Pacific or Southern Intertie. It is critically important, as BPA has observed, that both the CAISO and BPA have accurate assessments of how internal schedules affect flows. BPA is not, as demonstrated by its IPP only E-Tagging policy, treating internal schedules in the same manner for all. In contrast, BPA dispatches its federal generation as a system -- not as individual resources while for its pre-OATT contracts, it continues to allow for after-the-fact determinations of system use.⁴

Another seams issue is the insurmountable obstacles IPPs face in offering ancillary services. Since we are all but unable to offer ancillary services within BPA's control area, we can scarcely provide such services to the CAISO. We believe that BPA has a duty to not only procure ancillary services competitively for itself and its customers, but that, consistent with Federal policy, it should actively seek to establish a competitive market for ancillary services throughout the region, including through seams agreements with the CAISO.

Bonneville has campaigned in recent years to stifle development of even the most modest ancillary services market. The contrast in seams here is stark.

- While CAISO offers IPPs revolving opportunities to self-supply or sell operating reserves, Bonneville recently reduced its window to opt out of BPA-supplied operating reserves from once a year to once every two years, thereby effectively killing a nascent market.

³ NIPPC estimates that the cost impact to IPPs ranges between \$10,000 to \$100,000 an hour for a 400 MW plant.

⁴ The Department of Energy Office of the Inspector General criticized this practice in a January 2005 audit report entitled "Management Controls over Transmission Scheduling and Usage for Memo Schedule Customers of the Bonneville Power Administration," OAS-M-05-01.

- While CAISO invites IPPs to competitively supply frequency responsive reserves to promote grid stabilization, BPA has made it clear that it alone will supply that critical service.
- And, within months after accepting a cost of service generator supplied reactive power tariff approved by FERC, BPA began a concerted effort to, in a colorful choice of verb, “extinguish” the tariff.

The virtual absence of opportunity to offer ancillary services reduces the ability of IPPs to conduct business with BPA and with utilities in BPA's control area. In other businesses this would be considered a restraint of trade, a protectionist measure that undermines the foundation of a competitive wholesale market.

Such conservatism on BPA's part may have its roots in its inability to manage flows in a contract-path world that consists of over a dozen other autonomous, adjacent control areas that each operate with their own competitive objectives. The summer of 2005 demonstrated just how close to its operational limits BPA pushed the performance of its transmission system.⁵

BPA reported that the Northwest transmission grid violated operating criteria for more than 5 minutes on 29 occasions. There were more than 174 occasions when flows exceeded the Operational Transmission Capability (OTC) of posted flow gates. On its Network segment, BPA frequently resorted to curtailments cutting as much as 1,500 MW of Northwest to California intertie schedules in order to gain 100 MW of congestion relief. IPPs along the I-5 corridor were frequently called to ramp down within the hour.⁶ Since 2005, Bonneville has endeavored to avoid a

⁵ “Challenge for the Northwest: Protecting and Managing an Increasingly Congested Transmission System,” Bonneville Power Administration, April 2006.

⁶ BPA faces serious problems determining Total Transfer Capability, Available Transfer Capability (ATC), implementing redispatch and curtailment in a non-discriminatory manner. While BPA recommends that CAISO “should create priorities for curtailment of schedules that are consistent

repetition of the events of that summer. The most promising of its initiatives is the within hour reliability redispatch pilot that BPA is planning, with NIPPC's active participation, for the upcoming summer of 2007.⁷

Notwithstanding BPA's response to the lessons it has learned there are limits on Bonneville's operational flexibility that are imposed by its public customers. BPA has never complied with the OATT by enforcing NT customers' redispatch obligation. The result (or the cause depending on how one looks at it) is too incestuous a relationship between BPA's power and transmission "businesses." There are inadequate checks and balances on the provision of service either through the implementation of a redispatch market as required by the OATT or through a requirement to transparently reported transactions between the two BPA "business lines."

The consequences for California, and the rest of the region are clear. If BPA cannot operate under open access, flow-based operational rules, its neighbors will feel the consequences. Approaching the ragged edge of OTC courts serious transmission reliability risk. Seams that are not properly managed through compatible operational regimes are an impediment to competitive wholesale transactions. The bright yellow line that is the seam between BPA and the CAISO is a warning light to both reliability and commerce in the western interconnection.⁸

As you can see, our view from within BPA's control area is at odds that of the Public Power Council and most of its membership. While we recognize that the

with the priorities of other control areas in the WECC area, particularly curtailment of firm exports," it has so been unable to do so for its own operations.

⁷ Several "dry run" tests of the pilot last week convincingly demonstrated the workability of redispatch on BPA's transmission system.

⁸ At an absolute minimum, BPA needs to commit to coordinate with its neighbors on Available Transmission Capacity (ATC) calculations, outage schedules, and curtailments. Progress on other seams issues such those mentioned here could be tackled next. Many of these objectives were identified and studied and a conceptual plan developed to resolve them by Grid West, the independent transmission provider that BPA and its public power community rejected.

Northwest's hydro-based system is different, we've seen too often where that simple fact is employed as an excuse for protection of an untenable status quo.

IPPs believe Security Constrained Economic Dispatch is in the best interests of consumers. The CAISO is light years ahead of the Northwest in advancing Economic Dispatch. Regrettably, adjacent control areas, especially those dominated by public power, create obstacles to it. While California pushes forward with transparent re-dispatch protocols, the Northwest lags far behind with painful and costly consequences. And finally, increasing total transmission capacity (TTC) in the Northwest is severely compromised by everything from high-level Northwest transmission policy making down to deceptively mundane BPA transmission business practices.

In our comments in the OATT NOPR⁹ NIPPC requested that FERC exercise the authority granted to it in EAct 2005 Section 211A and use its expanded statutory authority to oversee BPA's transmission policies with respect to the OATT and Bonneville's business practices.¹⁰

Many current and potential participants in the WECC market believe that FERC's engagement in resolving seams problems at the BPA/CAISO border is needed. Here, in fact, we agree with BPA – we too are encouraged by FERC's proactive approach with the Market Redesign and Technology Upgrade (MRTU) proposal to anticipate seams issues rather than address them after the fact. Moreover, this

⁹ Comments of the Northwest Independent Power Producers Coalition submitted in Docket No. RM 05-25-000, 11/25/05.

¹⁰ The Commission should not be fooled by BPA's usual argument that "BPA must always be cognizant of its obligations under the Northwest Power Act and its other organic statutes." Nowhere in its organic statutes is BPA authorized to discriminate among potential users of its transmission service. Although certain governmental utilities and cooperatives in the Northwest may be entitled to "preference" in the purchase of electric power from BPA, nothing in BPA's organic statutes extends this notion of preference to federal transmission. In short, there is simply no conflict between BPA's organic statutes and the prohibitions against undue discrimination or preference found in Section 211A. The Commission should make every effort to use its authority to harmonize BPA's OATT with the CAISO's Market Redesign and Technology Upgrade (MRTU).

means that direct and consistent involvement by FERC will better ensure solutions to identified seams problems.

One way the Commission could participate proactively at a respectful distance is to host quarterly “seams resolution” meetings. Participants in these FERC-sponsored sessions would include BPA and CAISO and the other largest control areas, organizations or consortia such as Transelect and the newly convened Northern Tier Transmission Group (NTTG). While these meetings would be open and accommodate stakeholder and customer input, the focus should remain technical with an undiluted focus on problem resolution.

The Commission’s willingness to encourage CAISO to proceed with the MRTU is commendable. NIPPC urges you not to be distracted by appeals to erode California’s initiative and hope that you willingly pursue lasting solutions to serious seams problems that stand in the way of competitive and transparent electricity markets that are the law of the land.

Thank you.

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