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**Panel Two of the FERC Staff Technical Conference on
Designated Network Resource Issues (RM05-17-002)**

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Good afternoon Commissioners and members of the Commission Staff. Thank you again for this opportunity to participate in this important technical discussion concerning Order 890 implementation.

While I represent Avista Corporation here today, I also speak for the interests of the investor-owned utilities (IOU's) from the Pacific Northwest in expressing support for flexibility in the minimum lead-time for undesignation of Network Resources for the purpose of preserving the real-time firm balancing markets.

Utilities in the Pacific Northwest are concerned that the Order 890 OATT requirements regarding the deadline for undesignating a Designated Network Resource (DNR) will have the unintended consequence affecting the viability of real-time balancing markets and creating serious reliability and liquidity problems.

Background:

Real-time markets play a critical role in ensuring reliable service in the Pacific Northwest. Over 80% of the region's electricity comes from hydro power, and wind power is the fastest growing new source of supply. Both of these sources of supply are subject to substantial, and often unpredictable, variation due to weather conditions. Northwest utilities manage this variability through reliance on a robust and liquid real-time market for firm power.

Buying or selling firm power on an hourly basis for system balancing purposes, while meeting reserve obligations and maintaining system reliability, is necessary in order to efficiently handle the often wide swings in expected generation output. The interconnected system in the Pacific Northwest has evolved to support those goals.

Flexibility with regard to the minimum lead-time for undesignation of resources is important for preserving the firm real-time balancing markets. I would also like to report that there is a consensus among investor-owned utilities represented by the Edison Electric Institute (EEI) supporting flexibility when implementing minimum lead-times for undesignation in order to preserve the robust operation of power markets and to reflect the physical differences between power systems across the nation.

Potential Risks to the Western Interconnection:

Under the *pro forma* OATT, utilities in the Western Interconnection face a number of potential risks when utilities are forced to make a final decision on

undesignation no later than the firm scheduling deadline of 10 am day-ahead (pre-schedule day-ahead).

Capacity Risk: Utilities that are uncertain as to their actual energy needs may be reluctant to undesignate DNRs by the deadline set forth in the *pro forma* OATT. For a utility whose neighbors take a conservative approach to undesignating resources day-ahead, that utility may have difficulty maintaining minimum operating reserve levels when it is short. Firm energy may not be available to purchase in real-time, and Non-firm energy purchases under the Commission's definition in Order 890 will not reduce -- but will actually increase -- the utility's operating reserve obligation

For a utility in need of balancing energy because it is short, Non-firm energy does not provide the necessary relief due to reserve obligation. Non-firm energy, under the OATT definition, is interruptible and in the Western Electricity Coordinating Council (WECC) region requires the buyer to have available 100% reserves when making such a purchase. A buyer in a short position will not have the reserves necessary to support such a purchase under the rules. Non-firm power is only useful, if at all, as economy energy when the purchasing utility is in a position where it would not also have to buy additional reserves. If Non-firm is the only energy product available due to application of the *pro forma* OATT undesignation rules, the short utility is faced with the Hobson's choice of shedding load or violating WECC reliability rules.

Transmission Delivery Risk to Native Load: A change in real-time conditions (e.g., reduced water flows, unexpected wind changes, increased load) after the firm scheduling deadline may result in increased demand for energy to serve load. DNRs that were undesignated day-ahead are unavailable to serve load using primary network transmission, requiring secondary service to be used. This secondary service is less secure, subjecting the utility to possible curtailment. This possibility may discourage utilities from undesignating surplus resources day ahead unless they are already committed for sale. The result is reduced firm resources available to the real-time balancing market.

Financial Risk: A change in real-time conditions (e.g., surplus water, surplus wind, reduced load) after the firm scheduling deadline may result in a surplus of generation available from a DNR. If a utility is unable to undesignate the surplus network resource, the utility will be unable to sell the energy firm on the day of delivery. Non-firm sales are less desirable and may force the utility to reduce generation in order to balance the system, rather than sell surplus power in the market.

Potential Consequences:

The consequence of a generator choosing not to undesignate available resources at the close of day-ahead preschedule will result in DNRs that are available to generate but which are not available in the real-time firm market resulting in less firm balancing energy available to meet load and reliability needs. Increasing reliance on wind, as

presently required by renewable resource programs, can only be accommodated if a robust balancing market in firm energy can be maintained.

Benefits of Flexibility in the Minimum Lead-Time for Undesignation of Network

Resources:

The Pacific Northwest investor-owned utilities acknowledge that FERC is legitimately interested in making ATC (Available Transmission Capacity) available in order to facilitate firm real-time power sales. It was these concerns that helped to shape the language in the *pro forma* OATT 30.3. In the Pacific Northwest, however, Non-firm transmission is used to facilitate firm power transactions due to certain power scheduling conventions in the western markets. As I will discuss further, due to accepted regional practices, energy is treated as firm at the time when it is scheduled for the hour.

In the Pacific Northwest, the real-time balancing market addresses the volatility in the region by allowing utilities to rely on the availability of firm power from neighboring utilities, even when that power moves on “non-firm” transmission. Standard power scheduling practices within the WECC and WECC reserve requirements operate in conjunction with the accepted regional convention that hourly firm power transactions are often supported using non-firm transmission. WECC scheduling procedures require that:

“Changes to schedules shall be arranged prior to the start of the ramp and shall be implemented using the standard 20-minute ramp duration, unless otherwise agreed.”

Therefore, a firm energy schedule, which includes any associated transmission whether firm or non-firm, are put in place prior to the ramp period and cannot be revised thereafter (subject only to within-the-hour contingencies that affect reliability). This “firm for the hour” scheduling convention is also reflected in the background policies of the NWPP Reserve Sharing Program:

“Beginning 10 minutes before the start of the generation ramp for a specified hour, energy schedules between Participating Control Areas will be treated as ‘firm for the hour’ except for any energy schedule that has been explicitly identified as an interruptible schedule.”

Accordingly, all firm energy schedules, whether on non-firm or firm transmission, are “firm for the hour,” *i.e.*, firm energy schedules on non-firm transmission are treated the same as they would be if delivered on firm transmission within every hour. Likewise, WECC reserve requirements treat firm power purchases moving on non-firm transmission as including reserves, whereas an interruptible power purchase must be separately backed by 100% reserves.

Permitting the undesignation of resources in real-time will not adversely affect the release of ATC needed to support firm power sales in the Pacific Northwest region. In fact, at the close of day ahead pre-schedule, any transmission related to an unscheduled resource (including all designated network resources) as well as any unscheduled firm point-to-point transmission is released as non-firm ATC. Thus, whether a designated network resource is actually undesignated, or is simply unscheduled at the relevant day ahead pre-scheduling deadline, the result is the same: any related transmission is released to non-firm ATC. Therefore, the full amount of available unscheduled ATC is made available at the close of day ahead preschedule which can support firm power sales during the operating day.

Therefore, even though investor-owned utilities in the Pacific Northwest do not at this time offer an hourly firm transmission service, the availability of non-firm transmission facilitates the firm real-time balancing market that is important to the operation of the power systems in the WECC region. Flexibility to permit a shorter minimum lead-time for undesignation of resources in the Pacific Northwest would support a continuation of a robust real-time balancing market, support system reliability, and promote efficient power markets.

Summary:

- Real-time markets will be adversely affected, reliability will be placed at risk, and the real-time markets will not work efficiently if utilities are required to make decisions regarding undesignation of resources on a day-ahead basis.

- These problems are especially problematic over weekends and holidays where the firm scheduling deadline is more than a day ahead.
- Flexibility is needed with regard to the minimum lead-time for undesignation of resources and is important for preserving the firm real-time balancing markets.