

Renewable Northwest Project

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November 17, 2004

Brian Silverstein
Vice President, Operations and Planning
Bonneville Power Administration
Transmission Business Line
P.O. Box 61409
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VIA EMAIL

Dear Mr. Silverstein

The Renewable Northwest Project (RNP), the Northwest Energy Coalition (NVEC), and Tom Foley are pleased to submit some initial comments in BPA's discussion of transmission adequacy standards. RNP is a non-profit renewable energy advocacy organization whose members include environmental and consumer groups, and energy companies. The NVEC represents over one hundred consumer, environmental, low-income, faith-based groups, unions and utilities working for a clean and affordable energy future. Tom Foley is a consultant who has been working with RNP to further the development of cost-effective renewable resources in the Northwest and is also an active participant in BPA's Non-wires Round Table. Transmission adequacy is a topic of great importance to the region. We appreciate that BPA has opened up a regional process to address issues related to transmission adequacy, and that BPA will be working to develop transmission adequacy standards with input from the region's stakeholders. We offer the following comments on this topic.

Non-Wires Solutions

BPA should be commended for its creation of the Non-Wires Round Table, a wide-ranging group of participants looking at cost-effective ways to make more use of the current transmission system. Alternatives to building new transmission lines including but not limited to conservation, load shedding, distributed generation, redispatch, and new transmission products can allow additional generation on-line to serve load. Such alternatives should be included as ways to meet standards of transmission adequacy. Existing transmission assets should be fully utilized before ratepayers and regulators are asked to support investments in new transmission capacity. As we discuss "transmission adequacy" and use the term "transmission" throughout these comments, we intend for these terms to include non-wires alternatives.

What is transmission adequacy? Physical and/or Economic

The Northwest transmission grid has not seen much new construction since the late 1980's and as a result is very constrained on a contractual basis. These contractual constraints are obvious when you look at the length of the BPA transmission queue and understand that many parties with transmission requests have been "waiting in line" for years. The physical aspect of transmission adequacy should go beyond the system's ability to keep lines in service when utilized to their rated capacity, taking into account certain limitations. The physical system must also be robust enough to support the level of generation resources necessary to actually "keep the lights on."

A transmission adequacy standard ideally would also address the needs for transmission expansion and upgrades on an economic basis. An adequate transmission system must have enough available transmission capacity to allow utilities access to low cost generating resources and to meet other public purpose objectives.

Without enough transmission capacity available to bring low-cost resources to load centers, utilities may be negatively impacted by the price volatility inherent in market purchases, high prices resulting from a situation of limited resources, and exposure to possible market manipulation. It is not enough to guarantee that the lights will stay on. Transmission limitations should not force customers to pay unreasonably high electricity prices.

Beyond a utility's obligation to acquire the least cost resources for its customers, the utility may have other public policies with which it must comply, for example a Renewable Portfolio Standard. Beyond these policies there are also regional or state government renewable energy purchasing goals. Examples of such goals include the recent Western Governors' Association goal of 30,000 MW of new clean energy resources developed by 2015, the Climate Change Initiatives being developed by the governors of Washington, California, and Oregon, and both the Renewable Energy Action Plan and the Strategy for Green House Gas Reduction in development in Oregon. Without adequate transmission resources these requirements and goals cannot be met.

Transmission and Resource Adequacy

Transmission adequacy and resource adequacy cannot be divorced from each other. Least cost resource adequacy plans will not be implemented unless they also have the transmission resources available to bring those resources to load. The two must be evaluated and planned in concert. Transmission expansion and upgrades or their alternatives can require years of lead-time and must be planned in advance in order to be executed in time for utilities acquiring resources.

Transmission expansion and upgrades will mean added costs to the transmission system, but can be justified by achieving lower costs of delivered power for consumers, which is an important measure of efficiency. When generation and transmission are considered together both in terms of adequacy and integrated resource planning, the full costs of resources can be evaluated and least cost combinations of generation, DSM, transmission and other non-wires alternatives can be chosen and planned for.

Finally, adequacy must be measured on a flow-basis, not contract paths. Electricity obeys the laws of physics, not contract law.

Geographic Scope

Transmission and resource adequacy should be required of all utilities and will be most efficiently achieved if evaluated on a region-wide basis. Efficiencies of scale are possible when transmission is planned and managed region-wide as opposed to control area by control area. This will bring the most cost-effective transmission solutions to all utility customers.

Many of the most cost effective wind resources are located remotely from load. Coordination among multiple control areas may be required in order to create sufficient ATC to make those resources available to utilities. This also points to the need for region-wide coordination and transmission planning.

Funding

Transmission capacity adequate to serve resource adequacy requires that transmission expansion lead resource expansion, and anticipate where resources will be sited. Expansion of transmission capacity is often made in larger increments than the incremental resource additions needed in particular locations to serve load growth on a year-by-year basis. If we wait until enough resource additions are built to create sufficient ATC, those resources will have inadequate transmission for a period of time. Extra ATC may be less costly in the long run than having lower-cost resources constrained from meeting a wide selection of loads. Non-wires alternatives can help to bridge this gap between the addition of new resources and the addition of new transmission capacity.

If transmission owners and FERC are going to require participant funding of new lines that are not justified on a reliability basis alone, we must come up with a rational way to subscribe the construction of new transmission lines and/or reasonable alternatives which can cost-effectively create ATC. We believe that model can work, but only if participants receive fair value for their investments. If too much of a participant-funded upgrade simply creates the opportunity for free riders or general socialized benefit, investments will not be forthcoming. The Northwest has yet to define a workable model for encouraging participant funding of new transmission lines, yet we will still need additional transmission capacity available to bring on new resources.

Queue Delays

While the delays inherent in a long queue may not obviously be related to transmission adequacy, we feel it is an indicator of an inadequate system. The existence of numerous requests for transmission service that cannot be filled because of limited capacity indicates that to some degree the transmission system is not economically optimized or efficiently expanded. This ultimately results in higher costs for electricity customers. A transmission adequacy standard might contain metrics that value the impact of long and delayed transmission request queues.

Need for Adequacy Standards in the Context of the Regional Review

BPA's proposal in the Regional Dialogue is to shift the responsibility for load growth to its customer utilities. This change from the historic "one-utility model" increases the risk of costly boom and bust cycles and lowered reliability, if meaningful adequacy standards are not part of

the new paradigm. We do not believe that Bonneville should make this change without such standards being put into place through its contracts with its customers.

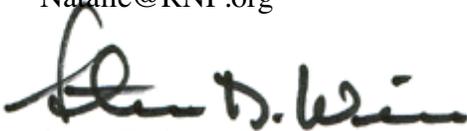
Conclusions

We appreciate that BPA has started this regional discussion of transmission adequacy. We believe a good transmission adequacy standard must be region-wide, consider economic adequacy, be integrated with resource adequacy, and include non-wires solutions. It is our hope that these standards working together may help point to a more effective method for generator funded transmission expansion. We look forward to continuing to participate in this discussion with BPA and other stakeholders.

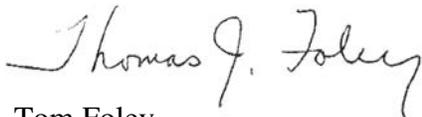
Sincerely,



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