Transmission Adequacy: a state perspective

Four funerals and a wedding?

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Why are we discussing this?

- Increasing independent generators
  - No obligation to serve
  - May or may not adequately address system needs such as reactive power
- Increasing number and volume of transactions, even on vertically integrated system
- Fragmentation, uncertainty, competition, decreased cooperation between companies
- Apparent mismatch between generation and transmission system
  - Cap Ex for generation outstrips transmission (but note bulky investment in '70s)
  - Possible underinvestment in transmission alternatives as well
  - Need affected by future supply scenario – gas, central station, renewable, efficiency and demand response
- Need to account for transmission externalities and alternatives
- Because our families and friends find it such fascinating dinner conversation
- Q: Which are *western* and *northwestern* issues?

Possible regional issues

- Transmission
  - Planning
  - Siting
  - Operation
  - Costing
  - Pricing
- Resource adequacy
- Reliability oversight
- Market monitoring
- Congestion monitoring
- Load management/Demand response coordination
- Interconnection
- Regional environmental issues (air, water)
- Tracking emission or energy credits, implementing “green” programs
- Coordination with natural gas system
- Again: Which are *western* and *northwestern* issues?

Traditional State Role in ensuring transmission adequacy

- *Traditionally* under the legal obligation to serve standard, the retail/load serving utility has the duty to ensure resources, including transmission, are adequate with respect to reasonable expected demand.
- *Traditional* (and continuing) role of the state commissions to ensure the retail utility addresses resource adequacy, including transmission adequacy, in a cost-effective manner.
- Tools available to state commissions include cost of service reviews, operational audits, integrated resource plan requirements, reliability requirements, default supply plans, and others.
- *Tevya had a point.*

Evolution

- PURPA
- Energy Policy Act of 1992
- FERC orders – 888/889, 2000, 2003(a) & (b)
- Court decisions – NSP vs. FERC (8th Circuit) , Supreme Court decision on New York vs. FERC
- SMD NOPR & WMP White Paper
- August 14, 2003 Blackout
- New federal energy legislation? DOE Designation of National Interest Electric Transmission Bottlenecks?
- *Generally* – greater federal policy direction, increased opportunity for federal-state tension, with some extreme uncertainty right now
- *Generally* – greater attention to transmission and wholesale issues, even for vertically-integrated systems
- *Generally* – greater concern about cross-border "spillovers" (CA to NW: "Oops, sorry about that!")

Battle of the headlines: Four funerals and a wedding?

- "*SMD DOA! FERC in Retreat!" [so last year]*
- *"Federal Boot Still On State Throats!"*
  - *WMD = "weapon of mass preemption"*
  - Mandatory RTO participation
  - Still too prescriptive, intrusive and presumptive,

    e.g. FERC hires electrical engineers for new reliability unit (without new legislative authority for reliability)
- "*Give 'Em Enough Rope!"*
  - If states don't act, will FERC have justification to re-impose SMD, new reliability/adequacy standards, or something similar?
- *"Assume Away The FERC!"*
  - What do we consider our problems to be?
  - How can we best handle them?
  - Better, if it works, but still areas where states look to feds for action
- *"Arranged Marriage Works Better Than Couple Expected"*
  - We have to live together; let's figure out how to make it work

Reasons for cooperative federalism

- Sharing resources.
- Taking advantage of particular competencies in each partner.
- Tailoring policy to specific circumstances.
- Diversity benefit of experimentation (“States as laboratories”).
- Competition among states or regions - promote economic development by creating certain policy mixes.
- Reducing risk of error, especially in the early stages of policy implementation.
- Civic participation, with decision making as close to citizens (and customers) as possible.

Cooperative federalism – precedent

- Public Utility Regulatory Policy Act, amended by ’92 Energy Policy Act.
  - Congress sets standards that state PUCs must consider in a hearing-type format within a certain time.
  - PUC may reject, modify, or accept, as long as they consider.
- *“The states did the work and the federal government received the benefits of a relatively seamless set of coherent and consistent energy policies covering all states.”*

  - Dr. Ray Lawton (NRRI)

Cooperative federalism – an energy example

- Reasons for success (Lawton)
  - Standards – no need to "reinvent the wheel."
  - Process – parties' confidence in data and fair consideration.
  - State flexibility – Feds may participate in state proceedings, but may not preempt or review.
  - Participation – public participation widely encouraged.
  - Produced a coherent set of state energy policies.
  - Little enduring federal-state disagreement.
- Can we achieve these in current environment?

Stalemate, preemption, or another way?

Options for Cooperative decision-making?

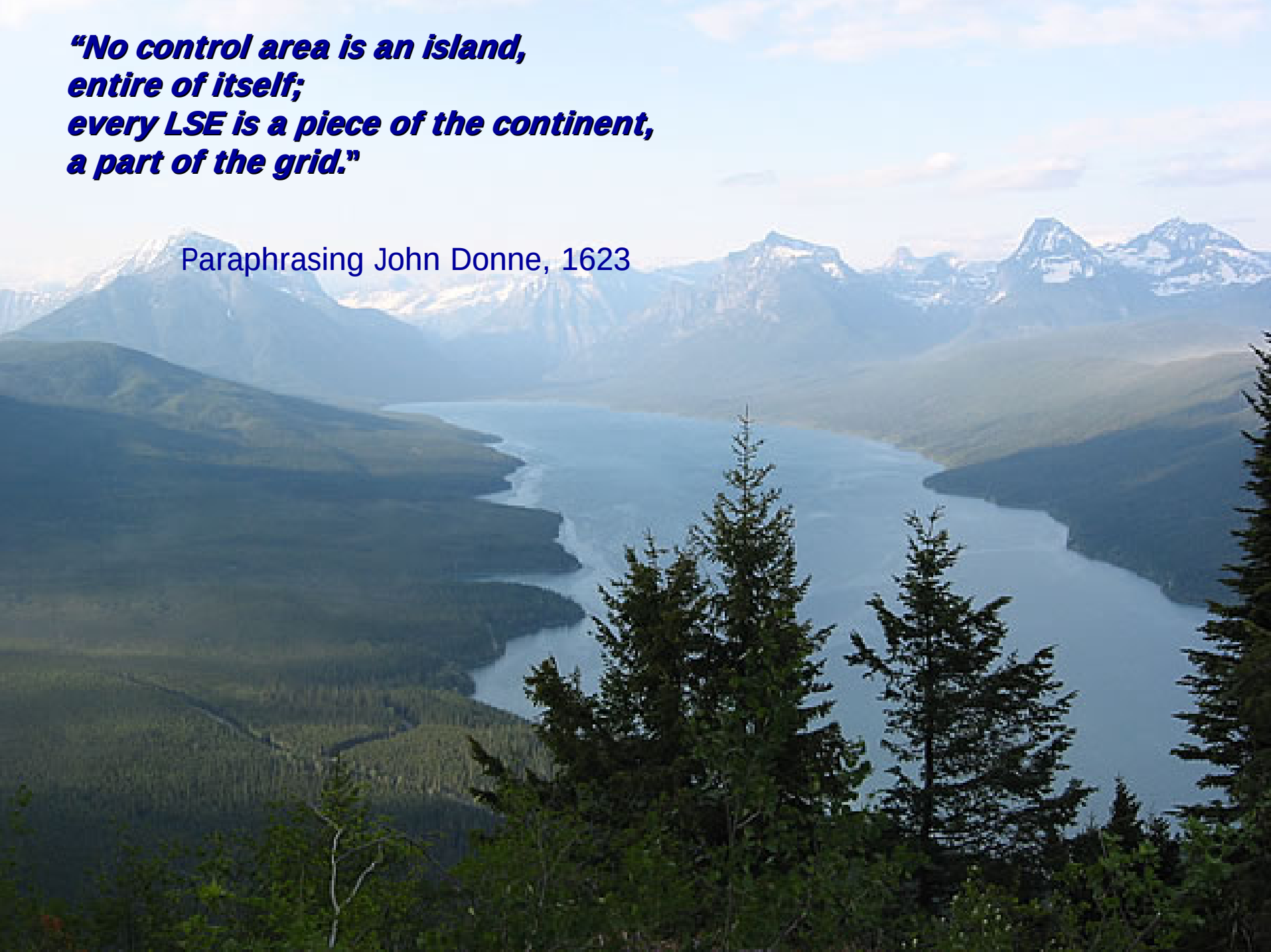
- States implement Federal standards; PURPA model; possible for interconnection policy.

- States supplement “baseline” Federal standards; possible for consumer protection policy.

- States authorized to form regional institutions to implement collective oversight; possible for transmission related issues.

- Strategy for recognizing/protecting non-jurisdictional entities?

- Consider bottoms-up approaches, driven from within the region.
  - Basis in Regional reliability councils, CREPC, WGA
  - RTO West/Grid West two step
  - Sub-regional planning efforts (Rocky Mountain Transmission Study Group, etc.)
  - SSG-WI
  - Lessons from MISO/OMS
- Start with regional structure
  - Who participates?
  - Decision-making rule?
  - Regional accountability
    - No one in the NW voted for the Governor or Legislature of California
  - What legal form?
- Identify regional issues – not necessarily FERC's list
- Identify regional strategies – not necessarily FERC's list
- Identify where states have sufficient authority, and where Congressional or FERC action is required
  - State authority to approve utility actions?
  - State authority to participate in regional bodies, express or implied?
- Ways appropriately to incorporate non-jurisdictional entities?
  - Preserving regional benefits for the region



"No control area is an island,
entire of itself;
every LSE is a piece of the continent,
a part of the grid."

Paraphrasing John Donne, 1623