Senate Energy & Telecommunications
Exhibit No. 2
Date 1/9/13
Bill No. N/A

PUBLIC SERVICE COMMISSION

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Travis Kavulla, Chairman
District 1

August 16, 2012

Joint Outreach Team
Western Area Power Administration
Hand-Delivered, Listening Session, Billings

Comments of Travis Kavulla, Montana Public Service Commissioner

To Whom It May Concern:

I appreciate the opportunity to comment in this matter, and I thank you for visiting Montana last month. Our state is an important and sometimes-overlooked base of WAPA's operations.

Primarily, my comments address and respond to the issues presented in Secretary of Energy Steven Chu's March 16, 2012 memo to federal power marketing administrators, or PMAs.

The memo correctly observes that "the PMAs' equipment is integrally intertwined with the underlying system." That much is true. The power marketing administrations do not exist in a vacuum. They are physically interconnected to the wider grid, and the ability of both private and public owners to offer a full range of transmission and ancillary services is essential for a wide range of parties: load-serving entities, the transmission operators themselves, and generators.

The actions of a PMA can write the fate of an investor-owned transmission utility that neighbors it, and *vice versa*. While not regulated in the model of investor-owned utilities that are subject to the jurisdiction of the Federal Energy Regulatory Commission and state commissions, the PMAs' interrelation to those regulated entities is the kernel of interest that state public service commissioners, including myself, represent in these discussions.[1]

There are dozens of Balancing Area Authorities (BAAs) operating separately in the West today, with each providing roughly similar transmission offerings through separate tariffs. There are many examples where a particular BAA has felt forced to overbuild its system to provide reliable service, even while, if it cooperated with a neighboring BAA, they both could offer reliable service using common equipment. Clearly, efficiencies can be gained by establishing mechanisms which allow BAAs to better integrate their operations on a *voluntary* basis, so that

[1] Although I trust other regulators in Montana are interested in the same topics, the Montana Public Service Commission has not deliberated on the topic of submitting comments to WAPA in this matter, and these comments should be read as my own, as an individual commissioner.

bilateral transactions could more easily consummated, be more transparent, and be offered on intervals that are of a shorter duration than the current practice of hourly scheduling. Ultimately, more predictable and integrated markets will prevent duplicative spending on the part of publicly owned and investor owned utilities in the long term.

Accordingly, I appreciate the Secretary's recognition of the Energy Imbalance Market Working Group convened by public utility commissioners representing states in the Western Interconnection. However, it must be stressed that there is nothing pre-ordained about the work of the PUC EIM Working Group. There are serious questions about the costs associated with implementing a market design to support enhanced bilateral trading. The PUC EIM group has commissioned a NREL-PLEXOS study that, together with market design cost estimates from experienced operators, suggests that benefits outweigh the costs on an interconnection-wide basis, as less expensive resources displace more expensive resources in the provision of ancillary services including energy imbalance and a portion of regulation service. However, any real effort to implement an EIM would have to overcome the reality that there are real costs associated with its implementation which, because of the uneven spread of benefits in which it results, it would be unfair to levy evenly across the board. Moreover, there is still in general a lack of understanding of how the EIM would operate among many stakeholders (myself included), as well as criticism of findings of the NREL-PLEXOS study. Stakeholders have been cautiously and patiently wading through the details in recent months.[2]

On a more regional level, I also appreciate WAPA's participation in discussions of the Northwest Power Pool. Montana's largest regulated utility, NorthWestern Energy Corporation, has also been a participant alongside WAPA. Together, a diverse set of parties have convened a market committee and a governance committee to examine other initiatives that could bring efficiencies to the grid. Current efforts of the Joint Initiative of regional transmission planning bodies have enjoyed mixed success. A re-evaluation of those efforts is overdue, and with Bonneville Power Administration one of the leaders of the effort, PMAs and publics are well-represented. In addition to a consideration of a regional EIM, the Power Pool is investigating webExchange, formerly known as the Intra-Hour Transaction Accelerator Platform, which is an online facility that assists parties interested in making bilateral intra-hour transactions. Similarly, examinations of dynamic scheduling, diversity interchange capabilities for regulation service and energy from variable energy resources, and intra-hourly scheduling are all on the table in the work of the Power Pool's market committee.

These regional initiatives do raise questions about how such a market design or enhanced initiatives would impact individual utilities and regions. Montana exists behind a wall of transmission congestion. Will innovative market devices, if adopted, be stillborn because more efficient dispatch is prevented by this congestion? Similarly, it is an open question how transmission "hurdle" or "pancake" rates will be treated in such initiatives. The Secretary's memorandum promises future memoranda to deal with this subject, which would hopefully illuminate his office's views on this subject. A fundamental tenet of ratemaking that I hope the Secretary will keep in mind is that those who necessitate or are the beneficiaries of changes to grid operations which do impose costs should be the ones who pay for those costs. Those parties

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[2] All of the work of the PUC EIM group can be found online: http://www.westgov.org/PUCeim/index.htm

who have sufficed to provide reliable electric supply and transmission service under the status quo should not have to foot the bill on adventurism that they could live without.

In all these discussions, I hope that WAPA's Upper Great Plains division and its off-takers can liaise with NorthWestern Energy, as well as Bonneville Power Administration and its western Montana customers, to better understand the regional peculiarities that color these issues.

Again, thank you for visiting Montana to hear comments on these matters, and I wish you well in your work.

Sincerely,

Travis Kavulla