

Transition Advisory Committee Transmission Subcommittee Draft Work Plan 2001-2002

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INTRODUCTION

At the November 16, 2001, meeting, the Transition Advisory Committee discussed the proposed work plan for the interim. An element of the work plan included an evaluation of the transmission system in Montana and the Pacific Northwest. The work plan noted that "[a] (competitive) electrical energy industry requires an efficient delivery system to function effectively." The plan suggested that the Committee examine the additional transmission capacity that may be needed in Montana and the region, the cost of financing new capacity, and the siting of new transmission facilities. The following items were presented for consideration:

1. assessment of transmission infrastructure needs, including natural gas pipelines;
2. proposals for a national energy grid and the effect on the Western region with respect to price, reliability, and safety;
3. rationale for regional transmission system operators and discussion of how RTO-West will operate;
4. role of Bonneville Power Administration and other entities (e.g., private entities, Western System Coordinating Council, and Western Area Power Administration) in developing transmission infrastructure;
5. Miles City intertie;
6. transmission of electricity from Alberta and British Columbia.

Because the transmission system is such an important component to the development of competitive wholesale and retail energy markets, the Committee established a Transmission Subcommittee. The purpose of the Subcommittee is to conduct an assessment of transmission issues and to consider what role the state may play in the development of a reliable and efficient transmission system.

The Transmission Subcommittee met on January 24, 2002. Representatives from the Northwest Power Planning Council, the Montana Power Company, and the Bonneville Power Administration presented reports on the status of the state's transmission system as well as the regional system.

John Hines, Northwest Power Planning Council, discussed the importance of the transmission system to Montana. He noted, among other things, that:

- an effective retail energy market requires a competitive wholesale market, which in turn requires an efficient transmission system;
- reliability of electrical service requires an adequate transmission system;
 - ? the regional transmission system is operating near capacity;
 - ? transmission congestion problems may affect delivery and lead to system failure;
- Montana needs access to "load" centers if it is to develop new generation; and
- federal open-access transmission policies are not fully implemented and generators may not be able to obtain reliable and firm transmission.¹

Mr. Hines also discussed the role of the Federal Energy Regulatory Commission in the development of transmission policy. He noted that FERC Order 888 requires open and equal access to the transmission system. In addition, FERC Order 2000 requires that transmission owners consolidate into regional transmission organizations (RTOs).

Mark Donaldson, Montana Power Company, described the difference between point-to-point transmission and tariffs and network transmission and tariffs. Under point-to-point transmission, a customer chooses a point of entry on the system and a point of delivery to an end-user. Firm and nonfirm transmission is available for point-to-point transmission on a first-come, first-served basis. Preference is given to longer-term commitments, and payment has to be made in order to reserve access to the transmission system. Users of point-to-point transmission pay a specified rate for use of the system. Network transmission typically serves the native load of a generator. A customer pays for its share of the cost of the system instead of a specified rate. Under FERC Order 888, transmission service providers are required to electronically post information about the transmission system, rates, available capacity, and the ability to reserve access to transmission.²

Vickie VanZandt, Bonneville Power Administration, described the current situation in the Bonneville service territory. She said that load growth is increasing by 1.8% a year. However, little transmission has been added since 1987. Annual peak winter load is expected to increase by about 1% a year, or by 12% overall, between 1998 and 2008, while transmission circuit miles are expected to increase by just over one-tenth of 1%, or by 2% overall, during the same time period. The Bonneville Power Administration has developed a proposal to enhance the transmission infrastructure and to increase the capacity of the transmission grid. The purpose of the proposal is to integrate additional generation facilities, reduce congestion on the transmission lines, and increase the reliability of the system.

¹John Hines, "Overview on Transmission for TAC Subcommittee", In Minutes, Transmission Subcommittee, January 24, 2002, Attachment 3.

²The electronic system is referred to as Open Access, Same-time Information System, or OASIS.

Improvements to the transmission system would reduce the chances for cascading blackouts, facilitate the development of wholesale energy markets, and increase the flexibility of the system.³

A common question raised at the January 24 meeting was what is the role of the state in improving the transmission system? In particular, what influence can the state exert, either alone or in cooperation with surrounding states, in the development of the regional transmission organization, the development of reliability standards, and the enhancement of transmission infrastructure both in Montana and in surrounding states?

PROPOSED ISSUES FOR CONSIDERATION

In reviewing and analyzing the transmission system (state and regional), the Subcommittee should consider the following questions:

1. What are the transmission needs in Montana, and how do proposed generation projects in Montana affect those needs?
2. What are transmission needs of surrounding states, and what is the interrelationship between the Montana transmission system and the regional transmission system?
3. How does transmission affect the market structure of electrical energy?
4. What are the planning and development functions of the Bonneville Power Administration, the Western Area Power Administration, state agencies, transmission owners, generators, the proposed regional transmission organization, rural electric cooperatives, and others related to the enhancement of transmission capabilities?
5. What are the costs of new transmission, and what types of financing arrangements may be used to pay for new transmission? Who benefits, and who pays?
6. Are state-sponsored incentives appropriate, and what form should those incentives take?
7. What impediments are there to siting and constructing new transmission, and who will be responsible for new transmission and upgrades to the system?

³Vickie VanZandt, "Montana Transition Advisory Committee Transmission Subcommittee", In Minutes, Transmission Subcommittee, January 24, 2002, Attachment 4.

8. How may nontransmission alternatives, such as demand-side management, pricing, reliability standards, and location of electrical generation facilities be used to relieve transmission problems?
9. What about regional transmission organizations?
 - a. What is their geographic scope?
 - b. What is their purpose, function, and authority?
 - c. How will transmission rates be designed and administered?
 - d. Who should represent Montana?
10. How does federal legislation and federal regulatory authority affect the transmission system in Montana and the region?
11. What influence may the state exert in the formulation of policy related to the development of transmission, and who are the stakeholders in Montana and the region?

PROPOSED WORK PLAN AND MEETING DATES

In order to answer the questions posed above, staff recommends the following meeting schedule and agenda topics:

Thursday, February 14, 2002

1. Overview of right-of-way issues
2. Panel discussion on the role and function of regional transmission organizations
3. Overview of WAPA transmission study
4. Review federal legislation affecting transmission
5. Review and adoption of work plan

Thursday, April ??, 2002

1. Summary of the provisions and implications of FERC Order 2000
2. Overview of Western Governors' transmission study

3. Panel discussion of the state's role in the enhancement of transmission systems, including nontransmission alternatives
 - a. Governor's Office
 - b. Public Service Commission
 - c. Northwest Power Planning Council
 - d. Electrical Generators
 - e. Montana Power Company
 - f. Others
4. Bonneville Power Administration's response to the information request regarding transmission needs for proposed generation facilities in Montana
5. Discussion of transmission and the development of competitive markets

Thursday, June 20, 2002

1. Financial considerations of new transmission
2. Incentives for encouraging development of transmission
 - a. bonding
 - b. tax incentives
 - c. other
3. Other information
4. Subcommittee proposed recommendations

Wednesday, September 18, 2002

1. Other information
2. Subcommittee proposed recommendations continued
3. Final recommendations to be presented to the Transition Advisory Committee on Thursday, September 19, 2002

The draft work plan is designed to assist the Transmission Subcommittee in determining the scope of its activities for the remainder of the interim. The information gathering and analyses should help the Subcommittee determine whether the state can formulate realistic policy options. For example the Subcommittee, in conjunction with the full Transmission Advisory Committee, may want to consider

proposals to coordinate energy planning efforts within the state. In particular, the Subcommittee may focus on how to overcome transmission constraints by:

1. soliciting the assistance of the Bonneville Power Administration in enhancing transmission capabilities;
2. enhancing Montana's role in the development of the regional transmission organization;
3. involving Montana's congressional delegation in addressing transmission constraints;
4. looking at incentives that effectively promote new transmission;
5. examining market opportunities in the region as well as in Canada;
6. working with existing owners of electrical generation facilities, entities proposing new generation, and state agencies to enhance transmission capabilities.

Subcommittee members are encouraged to offer their ideas on expanding or limiting the scope of the draft work plan. The Subcommittee should discuss how it may serve as a forum for coordinating efforts to enhance transmission and how and whether it can propose policy options to address the need for transmission services.

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