

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Potential New Wholesale
Transmission Services

Docket No. RM05-7-000

Assessing the State of Wind Energy
In Wholesale Electricity Markets

Docket No. AD04-13-000

COMMENTS OF THE AMERICAN WIND ENERGY ASSOCIATION, THE
RENEWABLE ENERGY NORTHWEST PROJECT AND WEST WIND WIRES
IN RESPONSE TO THE TECHNICAL WORKSHOP HELD MARCH 16-17, 2004
IN PORTLAND, OREGON

The American Wind Energy Association (“AWEA”)¹, the Renewable Northwest Project (“RNP”)², and West Wind Wires (“WWW”)³ appreciate the opportunity to file written comments on the issues addressed in the Portland Technical Workshop on March 16 and 17, 2005. We also value the willingness of FERC and its Staff to consider service innovations that can make more efficient use of transmission infrastructure and that will allow new generation to reach markets.

Introduction

The comments from stakeholders at the Technical Conference confirm that the Conditional Firm (“CF”) transmission service can lead to more efficient use of the existing system; aid in meeting local, state, regional and federal goals of bringing on new diverse, renewable sources of generation; bring new revenue to transmission providers and thereby stabilize rates for existing customers; and help to justify the need for transmission system expansion.

Conditional Firm service is not an answer to all transmission problems. Many of the questions asked at the Technical Conference and the responses provided there were interesting but answers to all of them are not necessary to begin offering this new service. We believe that Conditional Firm tariffs should ultimately be required for all FERC jurisdictional utilities that rely upon Order 888 tariffs with physical transmission rights through a FERC rulemaking, subject to an appropriate waiver or exception process. However, transmission providers (such as BPA) who are interested in offering this type

¹ AWEA is a national trade association representing a broad range of entities with a common interest in encouraging the expansion and facilitation of wind energy resources in the United States. AWEA members include wind turbine manufacturers, component suppliers, project developers, project owners and operators, financiers, researchers, renewable energy supporters, utilities, marketers, customers and their advocates.

² RNP is a non-profit renewable energy advocacy organization whose members include environmental and consumer groups, and energy companies. RNP works in Oregon, Washington, Idaho and Montana to increase the development of clean renewable energy resources.

³ WWW is a wind industry advocacy program under the auspices of Western Resource Advocates that represents wind in transmission planning and operational forums throughout the WECC region.

of product in the near future should be allowed to move forward. A final FERC ruling should allow for some differences in implementation of this type of product and should be based on experience gained by the systems that are willing to move forward expeditiously. We believe that FERC should allow those systems to start simply, treating CF customers in broadly similar circumstances with a single, simple approach. As experience develops, we believe that transmission providers will be able to handle many of the more advanced issues based on their early experience, and we expect that further innovation and additional new services will be developed and offered as confidence develops in the new approaches.

When transmission owners offer new products and services, it is very important to limit adverse impacts on existing firm customers. We think the proposals for new services discussed at the Technical Workshop achieve the continuation of reliable firm service to existing customers with no greater risk than they already face. At the same time, to achieve goals of using existing transmission more efficiently and bringing new generation resources on line to serve growing markets, we believe that the proposals discussed at the workshop should appropriately bound risk for Conditional Firm service customers. The risk must be bounded and quantified in advance in order for projects to be financed.

The balance of our comments will address specific questions posed in the agenda document for the Technical Workshop on Additional Wholesale Electric Transmission Services held in Portland, Oregon.

Grid Capacity is Being Wasted Under the Status Quo

At the Technical Workshop, panelists discussed needs for transmission service options under the Order No. 888 pro forma open access transmission tariff (“OATT”). It was clear that provisions of the current pro forma OATT are inadequate in terms of service and rate flexibility. Several studies referenced at the workshop (SSG-WI, RMATS) show that large amounts of transmission capability are physically available for most hours of the year, but Available Transmission Capacity (“ATC”) posted on transmission service OASIS sites offer no firm access to service. These studies also show that the congested periods are often found during peak summer months, when power from wind generators is at its lowest monthly totals, while periods of maximum wind generation potential are found in periods when transmission is not physically congested.

Impact of Current Tariffs on Business Models

Current tariff provisions that define only firm and non-firm services limit access to the physical capacity that has been revealed through studies to be potentially available. To this point, very few transmission providers have considered offering anything other than these two services as defined in the pro forma OATT. Non-firm services are available under the tariffs for periods of less than one year. These tariffs by definition eliminate non-firm service as a viable form of transmission for wind projects in particular, which require financing for the term of their power purchase agreements, typically ten, fifteen, or twenty years. If a wind developer cannot show its financier access to transmission

service for the life of the financing, the financing will not be forthcoming. Moreover, non-firm service is subject to curtailment for a variety of economic as well as reliability reasons at all times, including those times when there is ample firm capacity available. For these reasons, non-firm service is not a practical option to support project financing.

Impact of New Services on Existing Customers

New tariff services can balance the needs and rights of existing and new customers, without introducing cross subsidies or degrading service quality or reliability, by carefully allowing access to physically available transmission service that is not now being used by existing firm service customers. This will also create new transmission service revenues that can help to stabilize the transmission rates of existing customers and the support the transmission revenues of the transmission service provider. Non-firm service customers would have continued access to non-firm service whenever it was available, depending on the system and conditions at the time they required non-firm service.

Conditional Firm Service Can Facilitate Financing

Conditional firm transmission service can facilitate financing of new generation by allowing access to transmission services where currently there is none. Project developers who have no access to transmission service are foreclosed from access to markets or financing for their product. Conditional firm service gives them the opportunity to access markets, thereby facilitating their financing of new generation projects. The elements of a new transmission service option that would be critical to facilitating reasonable debt or project financing are reasonable terms and conditions of service, cost based service rates, and definitions of conditions on firm service that are fair, uniform, and consistent. By defining curtailment priorities that developers and financiers can calculate into their project financial pro forma statements, curtailments can be assessed for financial risk and financial counter parties can enter into risk sharing and risk mitigation agreements to handle them.

New Service Elements

Panelists at the Technical Workshop described transmission services they propose to offer and addressed conceptual aspects of the services. Three services were described, those described in the Rocky Mountain Area Transmission Study (RMATS), those developed by BPA and a new transmission product designed specifically for renewable resources by British Columbia Transmission Corporation (“BCTC”).

The RMATS report characterized discussions of meetings in Denver and Portland, held to discuss innovative tariffs. These meetings indicated interest among utilities and wind developers in working with transmission products with limited curtailment risk during a few months of the year, as a bridge until more transmission can be added to the system. The report then characterized the features of a conditional firm service tariff product as

well as a priority non-firm product.⁴ While we prefer a firm service product in concept, we support continued development all proposals that may achieve our key objectives of maximizing the efficient use of the grid and enabling project financing.

The BPA/RNP proposed Conditional Firm⁵ product has a greater level of detail than the products described by the RMATS report, and we feel it is the closest product to implementation. BPA is continuing its process to review stakeholder input about the proposed product, as well as to determine how to best implement and offer this type of product. Our organizations support this proposal and the BPA effort to define and implement this product expeditiously. The clarity around customer curtailment risk is one of the aspects of the BPA proposal that differentiates it from those in RMATS, and has the most potential to support new project development.

The BCTC product takes a different approach than the conditional firm products described by RMATS and BPA, but it is designed to specifically address the needs of intermittent renewable resources like wind. We encourage all transmission owners to consider the development of products like this that attempt to meet the unique transmission needs of wind generators.

Arranging for Service

As suggested in the BPA proposal, Conditional Firm service should be as close to firm service as possible. Therefore, we suggest that CF service be offered similarly to firm service as well. The process by which customers will arrange for service should include:

- A transmission customer would arrange and schedule for this service through OASIS similar to other firm service requests.
- Conditional Firm service should only be offered when a customer's request for long-term firm point-to-point service cannot be met.
- The minimum term of the service should be one year, similar to long-term point-to-point.
- Customers will designate receipt and delivery points and "reserve" capacity over specified periods.
- A transmission owner should be obligated to determine how much conditional firm service they can offer on their system and over which paths. Conditional Firm customers should be obligated to the same studies as other customers requesting firm service.
- A Conditional Firm customer must either take firm service if it becomes available after it has arranged for Conditional Firm service or give up their Conditional Firm service.

⁴ The descriptions of these products can be found at the RMATS web site at <http://psc.state.wy.us/htdocs/subregional/FinalReport/rmatsfinalreport.htm>.

⁵ The original and final version of this product proposal can be found on the Bonneville Power Administration web site at http://www.transmission.bpa.gov/Business/Customer_Forum_and_Feedback/Business_Practices_Technical_Forum/NewProducts.cfm.

- If transmission upgrades are installed as part of new firm service requests, Conditional Firm customers should not be required to participate in funding those upgrades unless this requirement was included in their original transmission contract and the amount of funding was known by the customer at the outset. However, if a CF customer chose not to participate in funding an upgrade they may lose their roll over rights. As this product may be used to develop new generation projects, transmission costs must be included in the cost/benefit analysis used to determine if the project should move forward. Additional transmission costs of millions of dollars could ruin a project's balance sheet if not considered up front.

Conditional Firm service should be required to be offered as a standard service under the OATT, but transmission service providers who wish to offer the service should be able to do so prior to the FERC defining the requirements for standard service under the OATT. Waivers might be considered if transmission providers can show facts that prove Conditional Service would not be appropriate in their circumstances. One should keep in mind that Conditional Firm service is only necessary if a transmission owner's system is close to capacity and firm service cannot be offered over one or more paths. It is also only applicable to systems relying upon physical transmission rights.

Discussions so far have included the suggestion that Conditional Firm service should be offered in queue order. While we do agree that CF service should be offered on a non-discriminatory basis, we feel that current queuing policies are very problematic. We encourage FERC to consider changes to these policies, especially as they relate to transmission providers in non-RTO areas of the country. Without changes to queuing policies, transmission providers will have limited ability to make use of new transmission services like Conditional Firm to enable new generation to get to market.

Service Availability and Curtailment Levels

Implementation of Conditional Firm service will require transmission providers to determine amounts of capacity available for Conditional Firm service in an open and transparent manner. System studies using careful analysis must be performed to determine how much Conditional Firm service can be offered at particular levels of curtailment. The level of expected curtailment for CF customers should be set based on the transmission owner's assessment of what additional capacity may be available over most of the year balanced against an understanding of the level of curtailment customers can bear when developing new projects. This assessment should be done in a manner that is consistent with the provider's assumptions and methods for determining ATC in the first instance.

The need for studies to determine available capacity raises important data issues. The industry needs to do a better job keeping the transmission usage data that will help to clarify risks and availability of this product as well as other products in the future. We encourage FERC to continue their work to audit OATT compliance in the West.

Through audit and other means, we urge FERC to engage in efforts that lead to more consistency and uniformity of ATC calculations.

Curtailement details:

- The level of expected curtailment should be fixed for the life of the transmission contract. This is both for simplicity in offering new contracts and managing service availability, but also because the risk of schedule reductions must be known for a developer to assess risk on a new project.
- Conditional Firm service makes the most sense where it can be limited to a low level of curtailment, such as 5 or 10 percent. Offering conditional firm service at significantly greater levels of curtailment risk will likely not occur until such time as transmission providers have more experience with this new type of service. However, we do not support placing arbitrary limitations on this service. FERC should be willing to entertain greater levels of curtailment if providers and their customers determine such products to be useful, provided the service meets the key objectives and principles described in these comments.
- We suggest initially Conditional Firm customers along a specific path should all be subject to the same curtailment exposure. As transmission owners and their customers gain experience with these new products, they may be able to offer multiple levels of Conditional Firm service with different curtailment risk.
- Transmission planners should consider Conditional Firm obligations as firm when modeling of their systems.

Curtailement Timing

Curtailement should be limited to specified months in order to facilitate quantification of risks and therefore facilitate financing. For an intermittent resource, the win-win opportunity with Conditional Firm happens when curtailment risk is matched to periods of low output. The better that match, the more flexibility generators have to accept financially viable curtailment. If caps are set without considering seasonal output patterns, the number of hours of curtailment will likely have to be smaller than otherwise. Any project can accept curtailment of 100 hours per year. But if the cap is 500 hours per year, then it will have to be carefully correlated to forecasted monthly output.

Alternative curtailment approaches that apply a cap on hours of curtailment that apply to all months of the year probably will not support project financing unless the number of hours is low. For a wind developer, if all the annual curtailment could occur in a month or months having high wind output it would significantly affect the cost/risk analysis of the project.

Approaches that do not limit the number of curtailment hours during specified "conditional" months may support project financing but only if the (one or two) "conditional" months correspond to low wind output. Conditional months with no cap on

curtailment will likely be treated as non-firm by financiers. In the absence of methods to mitigate this risk, projects are not likely to be developed with several months of non-firm transmission.

The BPA approach which places a cap on the number of hours the conditional customer is at risk of schedule reductions prior to firm customers during a few “conditional” months, brings the greatest clarity for the customer, allowing them to fully assess the risk.

Curtailment Priority

Presently, under the OATT, all firm service is curtailed on a pro rata basis. During conditional month (or periods) of the year Conditional Firm service should be curtailed after non-firm point-to-point but before long-term firm point-to-point for the number of hours allowed in the contract (the cap). If curtailment is required after the transmission owner has reached this cap, CF customers should be treated as firm and curtailed pro-rata with all other firm customers. For periods when short-term firm service is offered along the same paths as conditional firm service, CF customers along that path should be treated as firm. All CF customers should have the same curtailment treatment.

Impact on Existing Customers and Reliability

This product should not degrade the rights of firm customers if the methodology is done well. (Indeed, revenue from CF can have a positive impact on existing customer by helping to mitigate future transmission rate increases.) This methodology is yet to be worked out by transmission providers but should be done in an open process including input from other transmission providers and industry participants. The methodology developed should be consistent with the method for determining ATC but should also be conservative enough that the probability that CF customers schedule reductions would occur pro-rata with other firm customers would be very minimal. And of course this methodology should be set such that there is not a negative impact to system reliability.

Customer Payment Levels

We propose that FERC consider billing determined on actual schedules during “conditional” months. This approach to billing levels more accurately values a scarce resource and provides incentives to customers not to over schedule. Moreover, this approach accurately reflects cost of service principles, since no new facilities are being built to provide the service and the provider incurs essentially no costs until deliveries are scheduled and flow on the grid under the service. Certainly a customer should not be charged for service that is, in fact, curtailed. However, once service is scheduled and delivery in fact occurs, then we believe a relatively high per kwh charge is appropriate during “conditional” months to reflect the scarcity of the resource and the increased congestion caused by actual deliveries using the service.

Apart from these principles, pricing should also reflect two other important considerations. First, there should be no charge for upgrades unless the dollar amount for upgrades is included in original contract. Second, revenue from Conditional Firm

service should be credited against the transmission revenue requirement, in that way helping to limit the need for future rate increases and bringing a positive benefit to existing customers.

Needed Tariff Revisions

All of the panelists speaking to this issue at the Technical Conference agreed that the CF service should not require extensive tariff revisions. Moreover, it appeared that the panelists generally agreed as to the necessary revisions. Thus, once the appropriate policy choices are made regarding the nature of the service, it appears that drafting the appropriate tariff language should be a relatively straightforward task.

Conclusions

We look forward to participating in further consideration of new transmission products like Conditional Firm, both in local venues and at the national level with FERC. New products have the potential to make greater use of scarce transmission resources to serve the common good. New products will not solve all transmission problems at once, but they have the potential to provide some critical solutions until such time as more transmission lines can be built. Many criteria should be considered for new transmission products, but transmission providers must make sure that new products are designed to meet customer needs so that they will be able to serve the market. We believe that Conditional Firm type products have the potential to increase use of the existing system, and when designed to provide customers risk clarity, they can enable new generation to be built to serve growing loads.

Dated: April 13, 2005

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each party designated on the official service list in this proceeding.

Dated at Sacramento, California, this 13th day of April, 2005.

Ron O'Connor