

Situation Analysis

Since the 2000-2001 Western electricity crisis, the Board's work has been focused primarily on implementing Western Governors' policies relating to regional electric power issues. Financing of this work has primarily come from the Department of Energy. Staff has not been expanded to accommodate this work load. Instead, WIEB work priorities have shifted away from other activities to regional electricity work.

The grants that WIEB has received from DOE to support regional electricity work are now ending. As a result, in the coming year the Board needs to carefully consider its priorities.

Regional Electricity Work

In the past 18 months, extensive work has been done to demonstrate the type of products that might be produced under a sustained effort on regional electric power issues. This effort, particularly in the areas of resource adequacy and transmission planning, has helped to set the course for future work that would be continued under a sustained regional effort. The Board's regional electricity work has been primarily financed with two grants from DOE and an estimated \$250,000 per year of in-kind support from Lawrence Berkeley Laboratory (LBL). One of the grants to WIEB has ended and the other will expire in December. These DOE resources have significantly expanded the capacity of CREPC beyond what has historically been supported by WIEB dues. Support for CREPC's work from the Western Conference of Public Service Commissioners, which has always been minimal (a maximum of \$12,000/year), declined to zero last year and now stands at \$6,000. No special assessments have been made on PUCs to support CREPC's work. (This was done many years ago with limited success, since only some PUCs paid and the amount of the contribution, \$4,400, was minimal.)

The following bullets illustrate the regional electricity activities that have been undertaken in the past 18 months.

- CREPC developed three reports for the Governors. The June 2004 report concluded that there is not a need at this time for a new interstate compact to address regional electric power issues, but there is an urgent need to build the capacity of states/provinces to address regional power issues.¹ The December 2004 report evaluated alternative approaches to financing an enhanced regional electricity function. The February 2005 report examined the status of industry institutions to address interconnection-wide reliability and commercial issues.
- Extensive WIEB staff (and state) effort has been expended to foster pro-active regional transmission planning. This effort has been focused on interconnection-wide planning by the Seams Steering Group-Western Interconnection (SSG-WI) and the Rocky Mountain Area Transmission Study (RMATS). The Board's

¹ The regional power issues CREPC examined fell into five categories: reliability; resource adequacy; market monitoring; transmission planning and expansion; and transmission permitting.

effort was a significant factor in the development of a public database for transmission planning, as well as the October 2003 SSG-WI transmission report, the September 2004 RMATS report, and a forthcoming SSG-WI plan this year. Additionally, states are active in, and staff is monitoring, planning by the Northwest Transmission Assessment Committee (NTAC), the Southwest Area Transmission study (SWAT), and the Southwest Transmission Expansion Plan (STEP). The Board's objective has been to demonstrate how an on-going proactive regional transmission planning process should operate if sustained funding for regional transmission planning and state/provincial participation was available.

- Extensive work has been done and continues on electric resource adequacy. CREPC's West-wide Resource Assessment Team (WRAT), with the support of LBL, has done a remarkable job in helping define regional approaches to assessing resource adequacy. The WRAT is working within the Western Electricity Coordinating Council's (WECC) committee structure to advance these concepts so that WECC's work on resource adequacy is useful to states and provinces. Pursuant to the Governors' directions to include natural gas infrastructure and supplies as part of any regional electricity resource adequacy assessment, the California Energy Commission and WIEB have been engaged in a year-long effort to model the natural gas market and assess the adequacy of natural gas resources for electricity. The WRAT effort and the CEC/WIEB effort are intended to help answer the Governors' request for an assessment of electric resource adequacy, but also to establish a roadmap of how assessments should be done on an on-going basis.
- Pursuant to the Governors' policies, for the past several years the Board has worked to shape the electric reliability provisions of pending federal energy legislation, including delegation of authority to the Western Interconnection, deference to decisions made in the Western Interconnection, and authorizing governors to create Regional Advisory Bodies that would guide WECC, the North American Electric Reliability Council and the Federal Energy Regulatory Commission (FERC) on reliability-related decisions to ensure they embody the public interest. This work has not borne fruit because Congress has failed to enact the legislation.
- Over the past year, a lesser level of staff effort has gone into fostering the development of a west-wide market monitor. Progress has been made in implementing a procedure under which FERC shares information with states on market conditions.
- WIEB has been active in a variety of forums to expand wind generation, including integration of large amounts of wind resources in transmission modeling by SSG-WI and RMATS, testimony to FERC on wind and transmission issues, comments on the BLM wind programmatic EIS, and scoping

a potential FERC study evaluating actual flows over transmission paths and Available Transmission Capacity.

- Staff has participated in think tank dialogues, presentations to industry groups, and FERC meetings to convey the Western state/provincial efforts to address regional power issues. In the past year, staff efforts related to the formation of regional transmission organizations have largely ended.

The Governors have before them a proposed resolution that would endorse sustained funding for state/provincial work on regional electric power issues. The revenues would be derived primarily through a voluntary fee on control areas transactions (the same mechanism used to fund WECC). Even if the resolution is adopted, there are many uncertain links in the chain of events that could result in funds to WIEB to sustain and expand regional electric cooperation. For example: WECC control area operators would have to volunteer to pay the fee; Governors would have to decide if WIEB was the appropriate entity to conduct the work; and Governors would have to approve proposed work to be conducted.

Other Areas of Activity

The Board's work to fulfill the governors' resolution on *transportation of spent nuclear fuel and high-level radioactive waste* was being conducted at a very low level of activity until the re-establishment of a cooperative agreement with DOE's Office of Civilian Radioactive Waste Management 21 months ago. Work in this area has not yet reached the level of funding DOE has provided.

In the past nine months, the Board has contributed significant staff effort to help launch the *WGA clean and diversified energy initiative* by:

- Providing information for Staff Council efforts to define the parameters of the effort;
- Recommending members to the Clean and Diversified Energy Advisory Committee (CDEAC), eight task forces and the quantitative work group;
- Helping organize the first meeting of the CDEAC;
- Proposing an organizational structure for the CDEAC's work;
- Helping WGA secure in-kind resources from DOE and EPA;
- Developing a proposed analytic framework for evaluating recommendations;
- Organizing and staffing the first meeting of the Wind Task Force; and
- Encouraging the new SSG-WI transmission modeling effort to include a scenario that would reflect achievement of the Western Interconnection's share of the Governors' 30,000 MW goal.

WIEB has committed to staffing the work of the Wind Task Force and has resources to do that from a wind grant that expires in March 2006. WIEB has indicated that if resources become available it would be interested in supporting the work of the CDEAC's Transmission Task Force and Clean Coal Task Force. (WGA has since

indicated it will staff the Clean Coal Task Force). From the existing DOE grant on regional electric power that expires in September, WIEB can provide some assistance to the Transmission Task Force. WIEB has not committed to work with the CDEAC in the integration of work from the task forces, which will be a major task.

In addition, WIEB staff continues to respond to WGA and state requests for short-term analysis.

Areas of Minimal Board Activity

As a result of the focus on regional electricity issues, the *Board's past efforts* in other areas have diminished or been eliminated. For example:

- The Board no longer is working on linkages between energy policy and air quality.
- The Board has not pursued energy discussions with Mexico.
- The Board no longer conducts work on transportation-related issues, such as alternative transportation fuels, demand reduction, etc.
- The Board has eliminated its newsletter. (This decision was also driven by the increase in availability of information on the Internet.)
- The Board devotes minimal attention to the non-electricity provisions of federal energy legislation.
- With the exception of some work with the Western regional carbon sequestration partnerships, the Board has suspended its early work on climate change-related issues.

The Board has not devoted significant effort to *other Governors' directives* such as:

- Pipeline and refinery safety and adequacy; and
- Implementing the WGA Transmission Permitting Protocol. (Although no new interstate transmission lines were proposed that triggered the Protocol, that may change in the coming year.)

Outside Resources in FY 05-06

In FY 05-06, it is expected that the Board will receive:

- \$250,000 for work with DOE on shipments of spent fuel and high-level waste;
- The residual funds (approximately \$91,000²) from a grant that will expire on September 15 on regional electric power issues;
- The residual funds (approximately \$57,000) from the last year of a three-year grant from DOE on wind development in the West; and

² Of the \$91,000, \$50,000 will be spent on a contractor on resource adequacy.

- The residual funds (approximately \$29,000) from the DOE Carbon Sequestration Regional Partnerships grant.

Strategic Decisions

With commitments under existing grants coming to an end and with fewer resources available, the Board needs to revisit its priorities. There are many potential paths for the Board to follow. Below are two alternative ideas:

- 1. Seek more DOE support and spend more Board dues money to continue to demonstrate products that would be delivered with an on-going, sustained regional electricity function.**
 - *Pros:* This would build on the primary effort of the Board over the past four years. The Board and CREPC have significant credibility on regional power issues with the Western industry and FERC which would continue. These efforts could continue to address several Governors' requests (e.g., implementation of reliability legislation, pro-active transmission planning, resource adequacy assessment, implement the WGA Transmission Permitting Protocol) and potential new requests (e.g., develop a multi-state approach to allocating the cost of interstate transmission). This path may also appeal to PUCs, some of whom pay all or part of the WIEB dues (e.g., Idaho, Colorado, Nevada, Washington).
 - *Cons:* Absent a plausible path to sustain regional electricity work, this could diminish Board resources and have little to show for the effort at the end of FY 2005-2006. It may be difficult to secure additional funds from DOE without a demonstration that these efforts are sustainable in the long-run. The Board would be raising expectations about the role of the states/provinces in resolving regional power issues beyond their capabilities. Putting the bulk of the Board's effort into regional electricity issues would preclude the Board from addressing other energy issues facing the West.
- 2. Reorient the Board's efforts to other priorities.**
 - *Pros:* This would free up the limited dues resources and staff time to address many past Board priorities that have been neglected in recent years. It would allow the Board to more thoroughly respond to Governors' requests outside electricity, expand information sharing among states/provinces on innovations, or take on new issues (e.g., energy emergencies, Department of Defense synthetic fuels initiative).
 - *Cons:* The state/provincial presence in addressing regional power issues will largely disappear. If federal energy legislation is enacted, the Board's efforts on some regional power issues may need to be reactivated but without the benefit of an up-to-date understanding of the status of issues.

Wild Cards

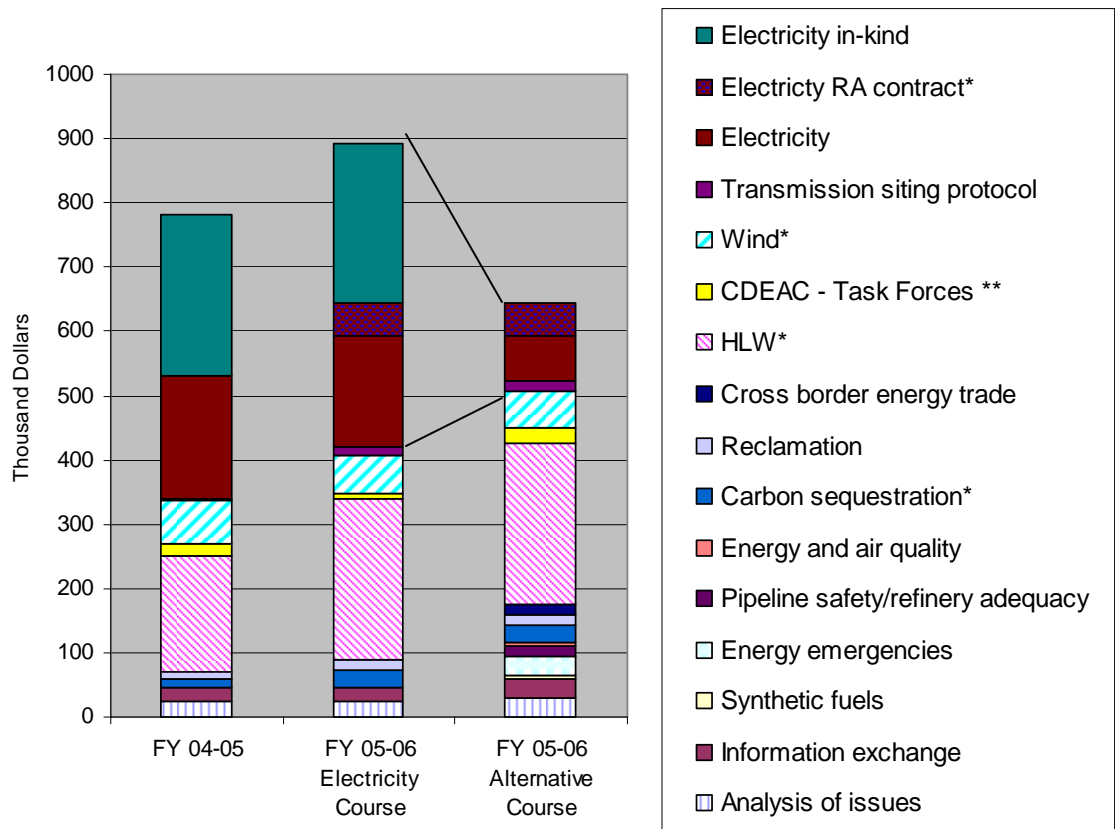
Whatever decision the Board makes on its priorities could be affected by external events. For example:

- If DOE support for the Board's work on transportation of spent fuel and high-level waste ends, some fixed costs of the Board which are covered by overhead from the HLW grant will need to be absorbed. Given recent revelations about the falsification of scientific data at Yucca Mountain and DOE's delay in submitting a license application to the Nuclear Regulatory Commission, it is not inconceivable that DOE's Office of Civilian Radioactive Waste Management would end its transportation program and funding of regional activities, such as that conducted by WIEB.
- If federal energy legislation is enacted, there may be a host of new opportunities and demands on the Board.
- Petroleum supply disruptions.
- New requests from Governors.

Comparison of Resource Allocations Under Different Paths

The following graph and table illustrates alternative priorities for FY 05-06.

Example Alternative Priorities



* Existing grant

** Support of CDEAC Wind Task Force shown under wind grant

	FY 04-05	FY 05-06 Electricity Course	FY 05-06 Alternative Course
Electricity RA contract*	0	50	50
Electricity	192	172	71
Transmission siting protocol	2	15	15
Wind*	67	57	57
CDEAC - Task Forces **	20	9	25
HLW*	180	250	250
Cross border energy trade	0	0	15
Reclamation	13	16	16
Carbon sequestration*	13	29	29
Energy and air quality	0	0	5
Pipeline safety/refinery adequacy	2	0	15
Energy emergencies	0	0	30
Synthetic fuels	0	0	5
Information exchange	22	22	30
Analysis of issues	23	23	30
TOTAL	534	643	643
Electricity in-kind	250	250	0

Staff Recommendation

Staff recommends that the Board stay-the-course by focusing on regional electric power issues at least until the fall Board meeting. At that time, the Board should reevaluate its priorities. Between now and the fall Board meeting the prospects for sustainable funding for regional electricity work should become clearer. For example, Governors will decide in June whether to endorse a proposed fee on control area transactions to finance state/provincial regional electricity work. Congress may have enacted or killed federal electric reliability legislation by October. By then, there may be a good indicator of the willingness of Western control areas to pay a voluntary fee to support state/provincial work on regional power issues. (Joe Desmond, representing the Governor of California, will be proposing the idea to the WECC membership at its annual meeting in early April.)

If there are good prospects for sustained funding for state/provincial regional electricity work in 2006, WIEB would solicit funds from DOE and use dues revenues to continue work at its current level until the revenues from the fee on control areas begin to flow. Depending on the decisions of Governors about the institutional home for sustained electricity functions, the Board would hand-off regional electricity work to a new institution or be the home for such work.

If the prospects for sustained funding on regional electric work are poor, the Board would decide at its October meeting to significantly reduce its efforts in this area and redirect resources to other priorities. This would generally coincide with the

termination of the existing grant from DOE to consider the creation of a multi-state entity in the West to address regional power issues. The grant will end in December. Thus, in October, the Board would need to reassess its work plan and budget for the remainder of FY 2005-2006.

The draft work plan and budget assumes a continuation of current priorities, with new funds from DOE for regional electric power work that allows a full transition to funding from fees from control area transactions by June 2006.