

TO: Committee on Regional Electric Power Cooperation

FROM: CREPC Regional Decision-Making Work Group

DATE: March 19, 2004

SUBJECT: **Proposed Finding and Recommendations**

At our October meeting, CREPC launched a bottom-up evaluation of the value of a regional body that would be more formal than CREPC. This evaluation was done in response to a request by the Western Governors. The five work groups formed and the leader of each are:

- a. Reliability – Bill Chamberlain
- b. Market Monitoring – Lou Ann Westerfield
- c. Resource Assessment/Adequacy – Grace Anderson
- d. Transmission Planning and Expansion – Steve Ellenbecker
- e. Transmission Permitting – John Savage

The reports developed by the work groups are merged into an attached separate file. The Regional Decision-Making Work Group has been charged with synthesizing the information from the reports of the five other work groups and proposing recommendations for CREPC to consider making to Western Governors. The following sections contain highlights of the findings of the work groups and proposed recommendations of the Decision-Making Work Group.

Findings

Reliability. The existing state and provincial participation on the Board of Directors of the Western Electricity Coordinating Council provides a valuable avenue for representing the public interest in decisions of that voluntary organization. (Four of the 27 members of the WECC Board represent states and provinces.) However, if federal reliability legislation is enacted and compliance with reliability standards becomes mandatory and enforceable in the U.S. by FERC, then there will be need for a body with representation from all states and provinces in the Western Interconnection to participate in the process of setting and enforcing standards. The pending federal reliability legislation includes provisions for governors to establish regional reliability advisory bodies to advise WECC, a North American reliability organization, and FERC on reliability issues. Where such a body covers an entire interconnection, FERC may defer to the advice of such body. The legislation also provides the same vehicle for funding regional advisory bodies as would be used to fund WECC and a North American reliability body. This, presumably, would be through fees collected by control area operators.

Market Monitoring. Western Governors and state commissions have a compelling need to ensure that market abuses are detected and mitigated. There is a need to expand and better coordinate state and provincial participation in market monitoring activities by

FERC's Office of Market Oversight and Investigations (OMOI) and a West-wide market monitor, if one is established. This increased participation would include collective regional interaction with market monitors on an ongoing, routine basis and could extend to participation in decisions on the hiring of a West-wide market monitor.

Fulfilling these needs will require the increased capability of states/provinces to meet in a timely manner, including in emergency meetings. The degree of required coordination does not rise to the level of an interstate compact, but is more than presently provided by CREPC.

Resource Assessment/Adequacy and Transmission Planning/Expansion. The most pressing need is to improve or develop capabilities that will ensure that needed analysis and communication occurs among states/provinces and with Western grid organizations (e.g., WECC, SSG-WI). Among the specific improvements urgently needed are:

- An energy (kWh) assessment for the region, because of the importance of hydro resources, natural gas supply limits, and energy limited sub-regions.
- Including in regional assessments the probability of severe but likely weather.
- Improving information on the adequacy of resources for specific load-serving entities (LSEs), (including municipal utilities and retail access providers) and sub-regions of the Western Interconnection.
- Identifying where responsibility for meeting load growth resides or should be strengthened.
- Linkage of regional electricity system adequacy analysis with natural gas availability, infrastructure and price, as called for in a September, 2003, Western Governors' resolution.¹
- Developing and agreeing to assessment metrics and adequacy targets/standards.
- Understanding the importance of price signals (for example for transmission access and congestion) and how they could be improved.
- Exploring actions which could prevent a potential return to unacceptable conditions and repercussions of 2000-01.
- Understanding the transmission planning processes at various levels: interconnection-wide, in sub-regions/states/provinces, and at RTOs/transmission-owning companies.

¹ North American gas production is declining. SSG-WI estimates indicate that in a likely future, gas-fired generation will be at least 40 percent of WI capacity (nominal MW) and 27 percent of generation (MWh) for 2008. Gas shortages, particularly in a cold dry winter, could cause problems for reliability and wholesale prices.

- Integration of transmission and generation planning.

While the states/provinces should not be obligated to address these shortcomings by themselves, it is imperative that they play a major role in the assessments and have the capacity to evaluate and convey the implications of such assessments to governors, premiers and regulatory bodies. The most pressing need to improve resource assessment/adequacy is to identify consistent funding sources to support conceptual development and integration of analyses that will enable states/provinces to better execute their electricity policy and regulatory functions.

Transmission Permitting. Under the current legal structure, which does not preempt state transmission permitting authority, we find that the Transmission Permitting Protocol of the Western Governors' Association is likely to provide an adequate level of interstate coordination. However, we recognize that the Protocol has yet to be tested and experience may indicate changes are needed.

If Congress enacts legislation that provides for DOE designation of "national interest transmission corridors," FERC preemption of state siting and permitting authority in such corridors, and authority to the Western Area Power Administration to build "national interest" transmission lines, then a more formal regional body of states/provinces will be needed. This could be in the form of an expanded WGA Protocol or, in the extreme, an interstate compact.

At this time, there is not a compelling demonstrated need to establish an interstate compact that would exercise electricity decision-making authority currently residing in the states. However, improvements are needed now to address the regional issues outlined above, and the scope and nature of the improvements should be revisited in the event federal energy legislation is enacted.

Recommendations

1. The analysis and communication capabilities of CREPC/WIEB/WGA should be significantly expanded in the area of resource assessment/adequacy. Immediately needed work products include:
 - (a) development, public review, and critique of a west-wide and sub-regional energy (kWh) assessment;
 - (b) integration of natural gas availability and price assessment into electricity assessments; and,
 - (c) review and critique of data and metrics, applied at appropriate sub-regional levels (such as the transmission constraint zones), that can provide meaningful assessments of adequacy.

The capability to produce, or evaluate such work products developed by others, would be achieved through a combination of contracting, additional staff support, continued technical and coordination support from state/provincial staffs and WECC/SSG-WI members.

2. The analysis and communication capabilities of CREPC should be expanded in the area of transmission planning and expansion. States/provinces need to effectively participate in interconnection-wide and sub-regional transmission planning efforts on a sustained basis. They need to evaluate and integrate the results of these planning efforts in order to: (a) advise governors/premiers of the implications of ongoing transmission planning, (b) advise transmission planning processes of the recommendations of governors/premiers, and (c) improve reviews of the resource plans by their jurisdictional load serving entities.
3. If federal reliability legislation is enacted, Western Governors should establish a Western Regional Advisory Body to advise WECC, NERC and FERC on reliability-related issues.
4. A state/provincial market monitoring group should be established, initially within CREPC, and charged with the task of collaborating with OMOI, and any West-wide market monitor that is created, in the sharing of information on market performance. The state/provincial market monitoring group would act as an intermediary between FERC and Governors' offices and state commissions. Each state/province would be invited to appoint a lead market monitoring representative to the group. Other state/provincial agency personnel could also participate. The group would be charged with maintaining regular interaction with OMOI and any West-wide market monitor, and reporting to CREPC. The group needs to have the resources to hold meetings more frequently than CREPC and to meet on an emergency basis.
5. The resource analysis/adequacy, market monitoring, and transmission planning and expansion activities outlined above need to be conducted with the imprimatur of Western governors (and premiers). This could be achieved in several ways. In the absence of federal legislation, we recommend that Western governors direct that the activities outlined above be undertaken and that there be periodic reports on these topics to the governors. If reliability legislation is enacted, we recommend that a Western Regional Advisory Body appointed by Governors be the point of accountability to Governors (and Premiers) for these functions. (Note that transmission permitting activities under the WGA Transmission Permitting Protocol already includes a reporting requirement to Western Governors.)
6. If federal legislation is enacted authorizing the preemption of state transmission permitting function, there should be an immediate reexamination of the need for a formal body to participate in DOE designations of "national interest" corridors, FERC's granting of eminent domain, and WAPA's exercise of transmission construction.

7. CREPC should be retained as a forum for sharing information among states and provinces in the Western Interconnection and engaging in discussions with the Western industry and FERC. However, as legislative and other changes occur and the above recommendations are implemented, the value of CREPC needs to be reassessed.
8. Western Governors should establish a working group to craft a system to provide sustainable funding for an enhanced regional electricity function in the Western Interconnection. The most pressing immediate needs are in the areas of resource assessment, transmission planning and market monitoring.