UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Transmission Planning Processes Under Order No. 890	))	Docket No. AD09-8-000

POST-CONFERENCE COMMENTS OF
INDEPENDENT POWER PRODUCERS COALITION – WEST (IPPC-W)

The Independent Power Producers Coalition-West (IPPC-W) submits these comments in response to the Commission's September 8, 2009 notice seeking comments relating the conferences on the Order 890 transmission planning process.[1] IPPC-W participated on the transmission cost allocation panel at the September 3, 2009, conference held in Phoenix, Arizona.[2] IPPC-W member companies build and operate generation facilities throughout the West. Several of these companies are looking to access and/or build new transmission infrastructure that would be classified as economic and/or reliability projects. Much of this transmission infrastructure would serve to support the growing demand for and delivery of renewable energy throughout the west.

IPPC-W supports the core Order 890 principles of coordination, openness and transparency. In addition, IPPC-W supports exploring new federal mechanisms that would lead to the timely and cost-effective expansion of transmission infrastructure in the west. We urge that transmission planning be a truly

[1] The IPPC-W is a coalition of trade groups representing independent power producers, including the Independent Energy Producers Association ("IEP") located in Sacramento, CA; the Northwest & Intermountain Power Producers ("NIPPC") located in Seattle, WA; the Arizona Competitive Power Alliance ("AzCPA") located in Phoenix, AZ; the Colorado Independent Energy Association ("CIEA") located in Denver, CO; the New Mexico Independent Power Producers ("NMIPP") c/o CIEA; the Wyoming Power Producers Coalition ("WPPC") located in Casper, WY; and the Utah Association of Energy Users ("UAE") located in Salt Lake City, UT.

[2] Testimony of Jan Smutny-Jones, Executive Director, Independent Energy Producers, FERC Technical Conference, Phoenix Arizona, September 3, 2009

open, transparent, and non-discriminatory, from the initial stages of planning by engineers to the final approval by policymakers.

Finally, we urge the Commission to initiate a formal proceeding to develop generic rules for governing how the costs of investment in high-voltage transmission can be fairly allocated thereby encouraging much needed investment in transmission infrastructure by transmission providers, independent power producers and Transcos.

I. COMMUNICATION

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II. COMMENTS

A. Facilitate Timely and Cost-Effective Investment in Western Multi-State Transmission.

In the west, commercially available renewable resources are often located at some distance from load centers. Nothing can be done to bring the resources themselves any closer to load; nature has determined the windy, sunny and hot spots for us. While it is true that the costs of building

long-distance transmission line segments needed to access renewable resource zones often are significant, this is not a new issue; in the last century, thousands of miles of transmission lines were built to access hydropower resources equally distant from load centers. The underlying rationale for building transmission historically, still true today, is that the direct benefits (e.g. energy and capacity) and the indirect "externality" benefits (e.g. air quality benefits) warrant the investment. In short, we have done it before and can do it again.

A critical barrier to timely and efficient development of new transmission facilities is related to the mater of cost recovery, particularly the allocation of transmission costs between generation developers and transmission providers. As noted above, most new transmission is constructed to help achieve various public policy purposes, including maintaining grid reliability and/or achieving various RPS/GHG policy objectives. IPPC-W recommends that the Commission consider innovative approaches that meld the key policy objectives of sending appropriate price signals to market participants while still ensuring achieving of broad, public policy objectives (e.g. RPS and GHG emission reduction). IPPs are prepared to contribute a fair share of the costs of new investment beyond true direct interconnection costs. The challenge is to create an approach that equitably allocates costs and find a mechanism to implement it.

Much of the new transmission being planned today is designed to move power generated from renewable resources across broad distances to serve load. Typically, the need for the new transmission infrastructure is driven by public policy (e.g. a state renewable portfolio standard or a GHG emission reduction goal). In most respects this new transmission infrastructure serves a broad, public purpose and could rightfully be considered a "public good." Traditionally,

transmission investment, cost recovery, and access to transmission has, in many respects, been treated as if transmission were a "private good" much like a toll road. While open to all, the key barrier to infrastructure development and use was the cost to cross the toll road. It's now timely to reconsider this model. In consideration of the broader public purpose and the inherent nature of this investment as a public good, the IPPC-W recommends that the Commission treat such important issues as funding, cost allocation, and final approval of transmission needed to serve a public purpose in the context of broader national objective(s) akin to the approach to the federal highway system in which costs are shared more broadly in recognition of the potential that all consumers, either now or in the future, will benefit.

Similarly, the IPPC-W notes that the Bonneville Power Administration's "network open season" (NOS) approach warrants review and consideration as an innovative means to attract private capital yet ensure development of transmission facilities needed to attain various public policy goals. BPA took the time and exercised the imagination to recognize its share of the costs in building the new high voltage John Day – Big Eddy transmission line, both for reliability purposes and as a necessary infrastructure investment to delivery renewable resources (e.g. wind power) to consumers. The NOS approach solicited developers to make significant deposits based on a year's expected transmission service – a not inconsiderable cost that separated the serious and well-funded developers from the want-to-be developers. Developer funding was supplemented by BPA's borrowing authority – recently tripled as part of the stimulus package – to enable its first NOS to succeed. This approach of melding private financing with public financing may provide the means to send the proper market price signals to developers, while facilitating private sector investment (rather than creating financial hurdles) by partnering with

public sector funding the costs of which are broadly allocated and borne by consumers who are the ultimate beneficiaries of the policies promulgated (e.g. RPS and GHG) the success of which is dependent on new transmission infrastructure development.

Accordingly, the IPPC-W recommends that the Commission consider melding public and private sector funding through innovative mechanisms such as providing for revolving federal loans, similar to BPA's, to finance transmission construction. IPP generators could contribute their fair share by advancing transmission service payments just as they did – to the tune of tens of millions of dollars – in BPA's process. Federal participation would, by its very nature, subsume the provincialism that threatens to erode interstate investment and the standard monopolistic convention that has to date mostly kept transmission investment to within balancing authority boundaries.

III. Transmission Planning Needs to be Inclusive

The fundamental principles contained in Order 890 include coordination, openness and transparency. The Order 890 principles require that all relevant stakeholders be provided an opportunity to participate in the transmission planning process. This access must include, at a minimum, a reasonable opportunity for third-party transmission providers and developers of new generation to have an opportunity to review and comment on transmission plans as they are developed and approved for implementation. Electricity cannot be delivered without transmission. The control of transmission and the planning for future transmission facilities goes to the heart of wholesale competitive markets.

In the West, there are a wide variety of transmission participants and market structures that have adopted various transmission planning processes. As evidenced at the Commission-sponsored Phoenix Technical Conference, there is no shortage of planning groups or meetings. The real question is whether the abundance of meetings leads to inclusive transmission planning supporting a robust wholesale market or, alternatively, whether it creates a façade of openness while in reality creating a planning/approval environment in which actions are (or can be) taken that would otherwise be considered discriminatory.

Removing barriers to timely development of needed transmission infrastructure is an essential role of the Commission. IPPC-W believes that critical barriers to the timely development of needed transmission infrastructure exist today and we urge Commission's attention to their remedy. Existing barriers includes the following: (a) lack of open, transparent, and non-discriminatory transmission planning processes, and (b) barriers to third-party development of transmission facilities needed to meet public policy objectives.

In terms of facilitating timely transmission investment in an open and non-discriminatory manner, what is missing today is a commitment to planning and transmission approval processes that enable *all* Transmission Providers, including Third-Party Providers, to build the necessary transmission infrastructure in a timely and cost-effective manner. In this respect, coordinated transmission planning conducted in an open, transparent, non-discriminatory manner is essential as the results of these planning processes will significantly determine the extent to which individual states, regions (e.g. Western Climate Initiative), and/or the federal government are

able to attain their respective renewable portfolio standard (RPS) and greenhouse gas emission (GHG) reduction policy objectives.

Some specific examples of transmission planning activities may be illuminating and are worth noting. The FERC will need to track these types of activities over time to determine whether they are ultimately consistent with FERC Policy. In California, for example, a stakeholder process, sponsored by the State called the Renewable Energy Transmission Initiative (RETI), has been engaged in a multi-year planning process to identify preferred renewable resource zones (based on environmental and economic criteria) and the transmission corridors/projects considered critical to accessing the preferred renewable resource zones. Essentially, the RETI process is designed to result in a "general plan" type of report as to where transmission corridors are needed to serve likely areas of future renewable generation. While this report is not a detailed transmission plan, it does serve an important role in identifying where renewable resources are located, what environmental or land use constraints exist, and where transmission planning and siting should be prioritized. Recently, the CAISO formed a California Transmission Planning Group (CTPG), which is comprised solely of transmission owners (i.e. investor-owned utilities and publicly-owned utilities). To date, it is known that the CTPG is modifying many of the RETI assumptions. While this may be appropriate given that the stakeholder-drive RETI process may have slightly different objectives than the CTPG, the lack of transparency, openness, and participation in the CTPG process by non-utility interests raises concerns. Currently, there are no IPPs or third-party transmission owners at the table in the CTPG planning process. In addition to transmission, most of the CTPG member entities are planning the development of their own generation. Consequently there exists a concern that the

planning process gets weighted with projects that are commercially significant to the entities at the table to the detriment of the parties not at the table.

Not to prejudge the outcome of the CTPG process, its success will be determined by how it interacts with the wholesale competitors not at the table. Will planning assumptions be subject to challenge? Will alternate routes be considered? Will generation alternative to transmission projects be considered? It is the hope of the IPPC-W that the answers to these questions are "yes," and that the engineering work of the CTPG does not pre-determine commercial outcomes.

Transmission planning and siting over multi-state political boundaries involves complex relationships between the states in a region and the federal government (a point we in the West make often). In addition, there are tensions between regions that play themselves out in land-use conflicts that have real impacts on wholesale electricity markets. The full development of indigenous resources, in particular our renewable resources, require a planning and siting process that ensures that adequate multi-state transmission gets built.

IV. Commission Should Initiate A Rulemaking to Establish Cost Allocation Guidelines

There is no aspect of transmission planning more complex than how to fairly allocate the costs of infrastructure investment. This is particularly true in the western interconnection outside of California.

While IPPC-W recognizes difficulties that the Commission would face in developing uniform standards that would apply across the country, the Commission is uniquely qualified and should

move forward soon to develop generic rules for treatment of cost allocation consistent with the Commission's long-standing principles.

IPPC-W recommends that FERC institute a formal rulemaking to provide all participants in the power industry with an opportunity to comment on how best to allocate the costs of new transmission infrastructure investment in high voltage transmission. IPPC-W would expect to see the rules that emerge from such a proceeding to apply to all those entities that are FERC jurisdictional. We would encourage other, non-jurisdictional entities to participate in such a Commission rulemaking in the hope that they will choose to apply the underlying principles that FERC eventually promulgates in guiding their transmission investment particularly when collaborating with FERC jurisdictional entities.

VI. CONCLUSION

In conclusion, IPPC-W respectfully urges the Commission to initiate a rulemaking that will lead to its adoption of generic rules that would govern how the costs of investment in high-voltage transmission are allocated.

The formal consideration of policies and eventual adoption of such rules by the Commission will do much to untangle confusion over recovery of costs by participants and thereby encourage much needed investment in transmission infrastructure by transmission providers, independent power producers and Transcos.