April 9, 2002

VIA ELECTRONIC FILING

Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

RE: FERC Docket Nos. RM01-12-000, RT01-2-000, RT01-10-000, RT01-15-000, ER02-323-000, RT01-34-000, RT01-35-000, RT01-67-000, RT01-74-000, RT01-75-000, RT01-77-000, RT01-85-000, RT01-86-000, RT01-87-000, RT01-88-000, RT01-94-000, RT01-95-000, RT01-98-000, RT01-99-000, RT01-100-000, RT01-101-000, EC01-146-000, ER01-3000-000, RT02-1-000, EL02-9-000, EC01-156-000, ER01-3154-000, and EL01-80-000

Dear Secretary:

Enclosed for filing with the Commission is an electronic original of the Idaho Public Utilities Commission's Comments in the above referenced matter.

Respectfully submitted

Donald L. Howell, II
Deputy Attorney General

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Electricity Market Design and Structure	)	**DOCKET NOS. RM01-12-000, RT01-2-**
(RTO Cost Benefit Analysis Report)	)	**000, RT01-10-000, RT01-15-000,**
	)	**ER02-323-000, RT01-34-000, RT01-35-000,**
	)	**RT01-67-000, RT01-74-000, RT01-75-000,**
	)	**RT01-77-000, RT01-85-000, RT01-86-000,**
	)	**RT01-87-000, RT01-88-000, RT01-94-000,**
	)	**RT01-95-000, RT01-98-000, RT01-99-000,**
	)	**RT01-100-000, RT01-101-000,**
	)	**EC01-146-000, ER01-3000-000,**
	)	**RT02-1-000, EL02-9-000, EC01-156-000,**
	)	**ER01-3154-000, and EL01-80-000**

COMMENTS OF THE IDAHO PUBLIC UTILITIES COMMISSION

I. INTRODUCTION

The Idaho Public Utilities Commission (IPUC) submits these comments about the RTO Cost Benefit Analysis. This study was conducted at the behest of NARUC pursuant to a resolution passed by its Board of Directors in July 2001. That resolution pointed out that it is critical to have a factual record on the benefits and costs of moving to large RTOs before the Commission formally makes those moves. The focus of the resolution at the time was perhaps on the effect of RTOs of different sizes and configurations on the costs and benefits. This study does estimate that larger RTOs provide greater benefits than smaller RTOs, but the improvement is small. Our conclusion on the issue of size is that FERC has no strong basis for insisting on fewer rather than more RTOs and should defer to the way regions work it out for themselves. It remains the case that most state commissions are required to make formal findings that it is in the public interest before allowing their regulated utilities to transfer either ownership or control of their transmission assets to an RTO.

In summary, the cost benefit study undertaken by FERC seems to provide little assistance to the Idaho Commission in its determination of whether implementation of an RTO in the West is necessary or sufficient to provide benefits in the public interest. While we expect that other states may have similar concerns, we do not wish to limit our comments to the use of this study by state commissions acting within their own jurisdictions.

II. NAME AND IDENTITY OF COMMENTER

1. The name and address of the commenter:

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   P.O. Box 83720
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2. All correspondence, communications, and pleadings in this proceeding should be sent to each of the following:

William Eastlake Electricity Policy Advisor Idaho Public Utilities Commission 472 W. Washington St. PO Box 83720 Boise, ID 83720-0074	Donald L. Howell, II Deputy Attorney General Idaho Public Utilities Commission 472 W. Washington St. PO Box 83720 Boise, ID 83720-0074

III. COMMENTS ON THE COST BENEFIT ANALYSIS REPORT

Brief Summary of Economic Assessment of RTO ppolicy

Overall, the analysis show two kinds of benefits: 1) from transmission system improvements (more inter-regional trade due to better congestion management, with better reliability and coordination); and 2) from improved performance of energy markets (from better incentives for efficient generator performance and enhanced potential for demand response). The estimates show net benefits of $1-10 billion per year. Over the 20-year planning horizon, such benefits range from .6% to 5.6%. An important point from the study is that the benefit from

transmission improvements is only the lower figure, just .6%. When transmission improvements are coupled with better generator performance, benefits rise to 3.8%. When demand response is added, benefits rise to 5.6%. Critics are already noting that the major share of benefits comes from generator performance and demand response, matters which seem to be independent from RTO formation and more the province of state commissions than the Commission. Though the Commission is not directly responsible for either, it may well be true that improvements in the transmission system do improve the potential for achieving cost savings through these two means.

The authors of the study are convinced that they have presented a conservative analysis, meaning that there would still be net benefits from pursuing RTO policy even if benefits are relatively low and costs are relatively high.

When the IPUC refocuses from the macro level to individual regions, the picture is somewhat different. Most regions see price decreases. Some regions show transient price increases that last a few years and a few regions appear likely to experience increased energy prices for a prolonged period. Parts of the interior West show the most persistent, albeit small, price increases. As transmission improves, increased inter-regional trade leads to regional variations in price impacts and also to regional variations in export revenues and producer earnings. Regions with higher prices due to increased exports also gain increased revenues from the exports.

The IPUC believes it is important to note that this report is about wholesale prices. As the last page of the Executive Summary notes, "the ultimate consumer price impacts will be mediated by regulation, contract treatment, and other institutional mechanisms." So long as Idaho remains fully regulated at the retail level, our low cost power simply cannot be exported to

higher cost regions as predicted by the model. To the extent that power exports are allowed, the greater revenue earned elsewhere should offset any tendency for this action to raise prices in Idaho. As long as Idaho utilities remain integrated and regulated, any profits from exports should flow back to retail customers to keep Idaho retail prices down.

Three pages of the study address some preliminary results of the RTO-West cost benefit study released in early February 2002. That study shows net gains for all sub-regions within the proposed RTO area, with a tendency for consumers in high-cost regions and producers in low-cost regions to benefit from broader access. Poor management of existing transmission capacity is highlighted as the principal culprit in the current system, not capacity shortage. The total cost of running the transmission system is expected to be lower with an RTO due to elimination of redundant functions among regions and consolidation into a single operating center. Interestingly, this FERC study also notes "many of the proposed benefits of RTO West may be achieved due to the natural progression of the energy system, absent an official RTO policy."

What Does the RTO Cost Benefit Study Show?

The base case represents underlying market conditions and regulatory policy under Order No. 888. The policy case is based on what would occur with full implementation of Order No. 2000. The policy case is broken into three parts.

1. For the Transmission Only Case, reduced inter-regional barriers to trade are modeled as *differences in transmission charges* that disappear within RTOs and *transmission transfer capability* within RTOs is assumed to increase by 5% at no incremental cost by 2004. *Capacity sharing* expands to equal total energy transfer capability by 2004 and *reserve requirements* decline to an average of 13% by 2020.

2. For the RTO Policy Case, the added assumption is that generators will improve *unit availability* factors and *heat rates* in response to the competitive pressures of more open markets.

3. For the Demand Response Case, the added assumption is that peak generation requirements fall by 3.5% beginning in 2004, due to a combination of *price response* and *distributed generation*.

The section on analytic assumptions seemed to be more restatement and mention of source material than reasoned explanation of what numbers were actually used and exactly how they were derived. This section seemed weak and unsatisfying to a reader looking for answers as to how the original parameters and their assumed changes were determined.

Heat rates are expected to decline by 1% from 2004-2010, with unit availability to improve by 2.5% for the same period, then both remain constant from 2010-2020. There is no explanation or demonstration why these assumptions are so. The authors admit that there is no new research or improvement in the knowledge base on which to ground these estimates. Then there is a telling admission that "the intent of the study is to indicate the importance of generator efficiency to the overall impacts of RTO policy…rather than establishing a specific estimate of improvements based on statistical analysis or other comparative methods."

This is a telling admission by FERC Staff and the consultant and we would extend it to most of the other assumptions made for this modeling exercise. This study does not really attempt to quantify the actual costs or benefits of any specific type of RTO. Rather, the study makes use of a model to demonstrate the sensitivity of costs and benefits to certain variables. Instead of saying, "implementing an RTO will lead to net benefits of X million dollars," they are instead trying out some obvious variables that everyone expects to be affected by RTO formation, and showing that certain assumed changes in those variables have measurable impacts of a certain size. Instead of saying that implementation of Order No. 2000 will save X billion dollars, they are saying that something much more conjectural, e.g., if heat rates improve by 2.5% as a result of Order No. 2000, then there will be a benefit of X billion dollars.

The IPUC would agree in the abstract that the changes they assume would result in net benefits. The question to which we desire an answer — the question this study does not address — is how much the formation of RTOs will improve heat rates and transfer capability and reserve sharing. Until we know those answers, we do not know if implementing Order No. 2000 is cost-effective.

It would be useful to have a study that would indicate whether the benefits to be expected from RTOs were worth the costs. Instead, this study is a sensitivity analysis that assumes a certain magnitude of changes and shows that RTOs are cost-effective **IF** the changes happen as assumed. There is very little evidence that the assumed magnitudes are likely to occur, whether on their own or in direct response to FERC requirements. Will anything further be done to make this study more practically useful to state commissions?

Why Pick on Native Load?

A final point. As has come to seem usual, this Commission report has negative things to say about native load, that "if contracts, including native load, are in fact non-responsive to underlying market conditions, then consumers will not experience the potential benefits of policy changes as much or as quickly as they would in a more responsive transactional environment." The report goes on to say that this "dampening" effect of contracts and native load treatments is not directly represented in the analysis, but is a factor to keep in mind when interpreting results.

The duty of the Idaho Public Utilities Commission is to ensure that Idaho customers have a safe, reliable, and affordable supply of electricity. It is a duty that cannot merely be given away. We must and shall insure that native load obligations are served.

Still Unanswered Questions About Details of the Study

What Do States Really Want?

The biggest issue is that states must make their decision about RTOs based on their impact on customers within their local jurisdiction. NARUC notes of the February 27 FERC meeting at which this study was unveiled, show Commissioner Breathitt asking the kind of question that is of interest to state commissions: Can the results of the study be extrapolated down to retail savings? The notes indicate "ICF (the contractor who performed the study) stated that this would be very difficult to do." Also from NARUC notes, another question asked if the study included considerations of native load. The answer was that certain native load requirements "make the system less efficient or are not the least cost alternative" and that "the model does not account for native load requirements on a broad scale." Answers and admissions such as these indicate well the essential divergence between what FERC Staff and the consultant wanted from this study and what many states wanted and expected as results.

Some note that the biggest benefits identified in this study come not from simple transmission but from improved generator performance and demand response, items which many would assert do not require national FERC attention and are well within the capability of ordinary state regulation. Page 24 notes that integration of generation and transmission is one of the requirements of the study. No one would deny the tight linkage between the transmission grid and power plant operating decisions. But there is a curious following sentence that says "many of the key policy issues involved in the Commission's RTO policy also concern aspects of the transmission system." The IPUC was under the impression that the Commission's RTO policy was and should be primarily or solely concerned with "aspects of the transmission

system." We do not understand why FERC's primary emphasis and the main source of benefits is identified as the result of things other than transmission.

Does RTO Formation Cause the Changes the Model Assumes?

For virtually all the parameters assumed to change between the Base Case and the Transmission Only Case (better capacity sharing, lower reserve margins, improvements in transfer capability), there was little information available to define the amount and pace of these improvements. For the Policy Only Case, there was no justification for the claimed improvements in unit availability and heat rates. For the Demand Response Case, there was no justification for the assumption that peak generation requirements are reduced by 3.5% beginning in 2004.

States were looking for the type of analysis that would tell us whether the benefits to be expected from RTOs were worth the costs. What we got instead was a sensitivity analysis that assumed a certain magnitude of changes and showed that, given those assumptions, RTOs were cost-effective. On the March 15 conference call, WUTC Commissioner Showalter used the term "tautology" to describe this process of assuming the end result in order to prove it. There is little evidence that the assumed magnitudes are likely to occur, whether on their own or in direct response to FERC overtures. It appears that FERC Staff got what it wanted out of this analysis, but that this type of analysis is not really amenable to answering the questions of most interest to states. Therefore there is unlikely to be anything further that can make this study more practically useful to state commissions.

Does FERC Understand the West?

We see in this study what is in many ways a restatement of what we already know, that broader integrated markets offer efficiency improvements in the form of better economic

dispatch, lower reserve margins through pooling, and cost savings for all as a result of energy trades between summer and winter-peaking areas. What is not clearly shown is exactly how an RTO will improve on our existing situation. For the Northwest in particular, we still wonder whether the consultant is familiar enough with the specific integration already in place through WSCC to make an informed judgment whether additional benefits can be achieved? For instance, the Transmission Only Case represents a limited benefits scenario due only to increased reserve pooling and transmission coordination. We are unsure whether the consultant is aware that within WSCC, there are significant reserve-sharing arrangements even without the presence of an RTO.

In the end, we cannot help thinking that the power flows this study anticipates happening as a result of RTO formation are, for the most part, changes that have already been occurring in the Western Interconnection. Pooling and sharing to minimize reserve requirements, seasonal exchanges to take advance of peak load diversity, export and import over long distances and across many utility service areas, are NOT something new in the West. They might indeed be enhanced slightly by improvement in the integration of western transmission but at what cost?

How Big Are the Benefits?

The study notes that even the Transmission Only case offers "significant potential economic gains." We do not agree. We believe that "significant" should be defined not in absolute terms, but in relative ones. The billions of dollars estimated as benefits sound large until one considers that those apparently large amounts are only on the order of .5% to .9% of the Base Case. Given the magnitude and generality of the study itself, we believe that the less than 1% benefits are well within the margin of error to be expected within the model itself and

therefore amount really to zero. We note that few prudent customers of any product would change their spending habits to achieve such minimal benefits, e.g., switch insurance coverage or go to a different grocery store or gas station to get such savings.

An interesting discussion takes place at page 80 near the very end of the report. The report says that even if RTO costs are at the high end and RTO benefits are at the low end, the national net cost/benefit outcome is "close to even." The report states this indicates that there is little downside risk to FERC's current policy. We believe there is another equally reasonable interpretation: that RTO formation is proving to be a major undertaking of the sort that should not be undergone without a reasonable expectation of quite significant benefits. Saying that RTOs are not likely to cost you anything (net) is faint praise. The other viewpoint, which we find equally plausible, is that if RTOs are not likely to offer much benefit either, why bother with them at all?

Will There Be Further Progress at Closing the Gap Between FERC and States?

By the end of the March 15 Western State Commissioners Regional Teleconference, after listening to the responses of FERC Staff and the consultant to questions posed, one thing finally seemed clear. There are two diametrically opposite worldviews in play and no apparent way to reconcile them. The FERC Staff view, somewhat biased over the long term since Order No. 888 toward showing the benefits of competitive markets, is that the cost benefit study shows substantial benefits from the demand response and generation efficiency improvements associated with two of their scenarios. They believe these benefits to be inextricably linked with the RTO "platform" shown in the Transmission Only case. They see the "scenario analysis" found in this study as proving the benefits of RTOs. To FERC Staff and the contractor, the three scenarios are really all one and inseparable.

We believe most western States see the three scenarios in the study as separate and distinct items, with the demand response and generation efficiency scenarios barely connected to RTOs at all. We believe that the case for RTOs is encapsulated in the single Transmission Only scenario. When we look at that scenario alone, we see meager benefits, so small as to be suspect and well within the margin of error of any model. To us, the only measurable benefits presented are those that do not logically depend on the presence of RTOs.

FERC Staff and the consultant were unabashedly proud of their "innovative" work in a scenario study to validate their belief that competition is vital to the public interest. We were equally appalled to find that the cost benefit analysis is only a high-level conceptual study that provides very little support for a state level determination that putting transmission assets into an RTO will bring demonstrable benefits to native load customers.

IV. CONCLUSION

The IPUC is pleased that the Commission undertook this study to outline the benefits and costs to be expected with RTO development, in response to state concerns. However, the scope of benefits outlined in the study appears quite limited and the benefits claimed do not seem directly attributable to RTOs. Furthermore, the uncertain and uneven allocation of those benefits among states may make it quite difficult for some state commissions to make a finding that the transfer of regulated utility assets to an RTO is in the public interest.

RESPECTFULLY SUBMITTED this 9th day of April 2002.

FOR THE IDAHO PUBLIC UTILITIES COMMISSION

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