

**TRANSITION ADVISORY COMMITTEE**  
**Transmission Subcommittee**  
February 14, 2002  
Original Minutes with Attachments

Please note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes and Exhibits are on file at the offices of the Legislative Services Division.

**SUBCOMMITTEE MEMBERS PRESENT**

Mr. Wheelihan, Chair  
Rep. Roy Brown  
Rep. Steve Gallus  
Rep. Alan Olson  
Sen. Don Ryan  
Sen. Emily Stonington  
Sen. Fred Thomas

**STAFF MEMBERS PRESENT**

Jeff Martin, Legislative Research Analyst  
Robyn Lund, Secretary

**AGENDA**

**Attachment 1**

**VISITORS' REGISTRATION**

**Attachment 2**

**I CALL TO ORDER**

Roll call was taken.

**MOTION/VOTE:** REP. OLSEN moved to accept January minutes. Motion passed unanimously.

**II PRIMER ON EMINENT DOMAIN AS IT RELATES TO ELECTRICITY  
TRANSMISSION LINES AND NATURAL GAS PIPELINES**

**Krista Lee Evans, EQC Staff**, said that she was the lead staff on the eminent domain study that the EQC conducted last year. See **Attachments 3 and 4**. The premise of eminent domain is that the sovereign has inherent powers that are fundamental to the legitimacy and durability of the government.

Eminent domain is defined as the right of the state to take private property for a public use. Both the state and the federal constitutions provide for eminent domain. In Montana, the state or one of its designated agents can take property through condemnation activities. There are limitations provided in law on the exercise of the right of eminent domain and a specific process that must be followed (Title 70, chapter 30, MCA).

Just compensation must be made to the property owner under condemnation. The property owner must be provided due process of law. Eminent domain has to be for a public use, the definition of which lies with the Legislature. Land that belongs to the state, city, county, or town and is not appropriated to a public use; land that belongs to the state, city, county or town and is in public use, as long as it would go to a more important use; or private property belonging to any person may all be taken using eminent domain. A right-of-way for any public use and any structures and improvements on the right-of-way may be condemned using eminent domain.

The easement is presumed to be a sufficient interest unless the parties agree that a greater interest should be taken, or the condemner shows that a greater interest is necessary. The burden lies on the condemner to prove that the interest greater than an easement is necessary.

The eminent domain process is shown in **Attachment 5**. There are two primary levels: the preliminary procedure; and the hearing, judgment and any subsequent proceedings. There is more information about eminent domain on the EQC website.

**REP. OLSEN** asked about the process on federal lands. **Ms. Evans** said she is not sure if the state can condemn federal land, rather it is a negotiation process. **REP. OLSEN** asked if on existing right-of-ways, will that still be a big issue. **Ms. Evans** said that you would have to condemn, depending on who owns the right-of-way. **REP. OLSEN** asked how the process would work on existing power lines and structures to upgrade them for someone else's use. **Ms. Evans** said that you can't condemn just the structure; you have to condemn the right-of-way and the structures on it. You would then have to pay just compensation for the right-of-way and the structures.

**SEN. STONINGTON** asked, if a property owner who didn't want an upgrade on the land, could the landowner make the case that the state as a whole doesn't need the upgrade. **Ms. Evans** said that you could make that case, but it wouldn't matter. In Montana it is never looked at whether the entire project is needed. If it is a public use as defined by the Legislature, it can go forward. The landowner may be able to prove that the property is necessary to the entire project.

**REP. OLSEN** asked if you have to pay for the rights-of-way, does it become your property. **Ms. Evans** said that it did.

**SEN. THOMAS** asked if the state could condemn all the houses in a neighborhood for the purpose of setting up a low income housing district. **Ms. Evans** said that it depends on if it is a public use. The

courts would have to determine that it would be a better use than it is now.

**SEN. STONINGTON** asked if a generator wants to connect to a power line 100 miles away, can the owner design the transmission line to go straight there. **Ms. Evans** said that could be done with eminent domain, but that there are other controlling laws, such as MEPA (Montana Environmental Policy Act), that will play a part.

**SEN. RYAN** asked if there is a maximum time line for the process. **Ms. Evans** said that the time lines are provided by statute, but sometimes it takes longer than is provided for.

### **III PERSPECTIVES ON THE DEVELOPMENT OF REGIONAL TRANSMISSION ORGANIZATIONS**

For a glossary of terms see **Attachment 6**.

#### ***A. Bonneville Power Administration (BPA) and Montana Power Company (MPC)***

**Peggy Olds, BPA**, presented to **Attachments 7, 8, 9, and 10**.

**Ted William, MPC**, said that he has been representing MPC on the RTO West.

**Ms. Olds** said that FERC order 2000, issued in December 1999, led investor-owned utilities and BPA to look at the formation of an RTO that works for our region. Some of the things that an RTO should do is to provide for backup service, manage congestion, handle parallel path flow problems, and manage its own OASIS (Open Access, Same-time Information System) site. OASIS lets everyone see what transmission is available and to purchase power on an equal basis. Order 2000 also called for RTO's that could monitor markets to prevent market power abuse and "gaming", operate a planning and expansion function, and perform inter-regional coordination.

In the fall of 1999, several utilities worked on the creation of RTO West: Avista, BPA, MPC, Nevada Power and others. The proposed RTO West would cover approximately 90% of the high voltage facilities in the region. The RTO, as a nonprofit entity, will manage but not own the poles and wires. There will be a nine member board to govern the RTO. Participation under this model is flexible.

The Stage 1 filing, submitted to FERC in 2000, asked for approval on the scope and geography, as well as the bylaws. In April 2001, FERC approved the governance documents and the bylaws, as well as the scope and geography. The participating utilities are working to complete that proposal and file it soon. This will complete the idea of RTO West.

**Mr. Williams** said that there is very broad and often divergent opinions about how to do these things. The key to the RTO West development was a lot of public process. There is a regional representative

group that includes a broad base of parties that has worked on the RTO development. When this first started he was skeptical of the public process and how well it would work. He found that the process allowed for understanding of all of the participants. It is important that the public process worked as well as it did. The proposal as it stands today is infinitely better than where it started and that is because of the public process.

**Ms. Olds** said that BPA is participating in the development of the RTO because it is the tie that binds the region. Everyone agreed that in order to comply with Order 2000, BPA needed to be a part of the discussion. BPA has brought a strong sense of public purpose to the RTO West development. They have brought representatives from all perspectives to the table. That has helped the RTO proposal to embody that public purpose.

The other important issue for BPA is that an RTO can help maintain and enhance a secure and reliable transmission system for the region. That is not happening today with operators managing their separate systems. The RTO proposal would integrate the region's transmission planning function and provide a platform for all stakeholders to participate, thereby reducing some of the uncertainty in transmission planning. BPA is working to ensure that the RTO is consistent to the principles that they started with at the beginning. They are still crafting the final concept for RTO West. The next filing with FERC won't be the last step in the process. The filing utilities are intending to ask FERC for approval of the concept consistent with Order 2000 characteristics and functions.

**Mr. Williams** said that because of divergent interests, there isn't a general consensus on the issues. Because of the divergent ideas, there has been a lot of give and take in the process. The concept for the pricing proposal in Stage 1 was good for MPC customers. As they went through the process there were all kinds of ways to shift the costs between parties. MPC has a huge geographic area to serve but is not much load. In contrast, Idaho Power Company, for example, has a bigger load in a smaller area. This means that they pay less for transmission. The classic cost shift is when you put those two entities together and create a revenue requirement and a rate based on the combination of those loads. In that situation, Montana's rates go down and Idaho's rates go up. At the end of Stage 1, MPC was happy with the pricing proposal. However, that proposal didn't work for other entities. The goal was to maintain customer rates at the same level that they would be at without the RTO. He is not sure that has been done. There is also a question of the signals that will be sent to generators. The pricing proposal is still evolving, it may not ever be the best for Montana.

There was a general belief within FERC that the costs were going to be less than the benefits. When you get into an area that already has fairly low costs, that may be questionable. At the end of Stage 1, there will still some questions that didn't get enough public input. For Stage 2, an outside entity developed the benefit-cost analysis. The results of the study indicated that the benefits exceeded the costs by \$350 million per year for the region. That study showed that there was substantial benefit to loads and substantial detriments to generators, but the benefits still outweighed the detriments. They found that prices went down to everyone in RTO West, except in Montana. The explanation was that

Montana's costs were cheap now. They will remain low in comparison, but will still increase.

**Mr. Williams** discussed **Attachment 11**. The model shows that without the pancake rates, the wheeling charges are removed, which means that the generator will get some money back. The benefit-cost study showed a marginal change before and after the RTO. The model says that there is an increase in cost, but he said the logic may be flawed. In the real world, if the generator is competing with generators who are sourcing power from outside the system, the power price at the mid-Columbia is lower than at the Montana border because there is an additional charge made by BPA to use their system. There will be another additional charge for using the MPC system. In the RTO world, the price of power at the Montana border is the same as the mid-Columbia price. His suspicion is that both ideas are a little bit right and are dependent on supply and demand. He thinks that we have to decide whether the cost-benefit analysis is accurate for Montana true. He thinks that the RTO will be good for competition, but we need to be careful that the RTO does what it is intended to.

**REP. GALLUS** asked if the RTO will increase the number of benefactors to the Columbia River system and BPA generated power. **Ms. Olds** didn't think so. She thinks that the RTO, will lead to the efficient operation of the system, the resolution of pancake rates, and a reduction in some barriers.

**REP. GALLUS** asked, with an RTO that includes southern states, would those states be considered benefactors of the Columbia River System. **Ms. Olds** said that they have tried to protect existing contract rights, so current BPA contract holders will not be forced to abrogate any existing contracts. This model protects those contracts.

**REP. BROWN** said, if Montana agrees to join an RTO, there needs to be an economic benefit to the group as a whole. We would end up flat or paying more. He asked if Montana would benefit by joining an RTO. **Mr. Williams** said that although Montana is out on the end, the elimination of pancake rates may bring everyone into the middle. There will be more access to supply alternatives in Montana. In the future, it would be cheaper to get power from other areas without having to pay the pancake fee. The transmission in Montana on a firm basis is full. RTO West eliminates the distinction between firm and non-firm, so it will allow more opportunity to use the transmission system.

**Michael Early, Columbia Falls Aluminum (CFA)**, said that he has been working on this issue since 1996. He thinks that the Subcommittee is asking the right questions. What is it going to cost the state? Who gets the benefits? What does the state lose in jurisdiction and control over rates in the future? They were at this stage four years ago with IndeGo (Independent Grid Operator). The IndeGo process collapsed because the pricing system didn't work for each state. There is a new proposal before us that is very complicated and deals with a significant amount of money. We need to be certain about what path we are going down. We don't want to change our minds down the road.

**REP. BROWN** said it is all right if the rate goes up some, if there is a benefit. The benefit that he sees is the ability to get rid of some of the constraints in the system. **Mr. Williams** said that the RTO enhances the ability to relieve congestion, but it isn't a given that the RTO will lead to millions of

investment in transmission. It is better enabled with the RTO than it is today. One of the big advantages is the ability to relieve congestion in the future.

**Ms. Olds** said that we will not know with precision what the rates will be. In RTO West, they attempted to construct a pricing model that would promote efficient use of the transmission system, to avoid substantial increases in costs among existing ratepayers, and to eliminate pancake rates. The pricing model includes the use of a company rate. BPA customers will see the rate that they see today. They have added an inter-company payment for long-term contracts that they now have to avoid cost shifting. A transmission reservation fee (TRF) was also added. That fee would be charged to those who don't have transmission access now. The chart in Attachment 11 shows what will happen in an RTO West scenario.

BPA customers will pay the BPA rate. If BPA needs to purchase additional power to serve load, they would have to pay the TRF like anyone else. That is not unlike what it is happening today. What they can't say yet is what the price on the index will be.

**SEN. STONINGTON** asked what say does the state Legislature have in whether the state joins the RTO. **Ms. Olds** said that they would have a lot of say through the public process and the control over MPC. **SEN. STONINGTON** asked, in terms of statutory authority, the state can't say whether it will join the RTO. **Ms. Olds** said that is correct. **SEN. STONINGTON** said that it would really be up to MPC as to whether they join the RTO and the Legislature's ability to influence that.

### ***B. Rural Electric Cooperatives***

**Bill Drummond, Western Montana Electric Generating and Transmission Cooperative**, said that they serve 50,000 customers in Montana. Everyone would agree that there are problems with the current system that need to be fixed. He doesn't know if RTO West is the right proposal to resolve those problems. The goal for cooperatives is reliable service to their loads at cost. RTO West is a vast improvement over other proposals that have been seen. The cooperatives need to ensure that preexisting contracts will be honored. Load service and contractual rights must receive equal service rights under RTO West. Cooperatives don't want to be forced to convert contracts to RTO contracts. All wholesale transmission facilities must be included in the RTO West. There needs to be net benefits to consumers. Cost shifts need to be minimized. Company rates need to be in place for 10 years to help mitigate cost shifting. There need to be three RTO's in the west, but one power market. They don't want a single RTO for the west. They feel that RTO West should remain a not-for-profit entity.

The draft cost/benefit study is premature. The numbers are still being reviewed. There need to be additional studies done. Relying on the results of the draft study is relying on what you think you know that isn't necessarily so. RTO West is the best model seen to-date. They will continue to work on it's development.



*E. Columbia Falls Aluminum Company*

**Michael Early, CFA**, said that costs for the RTO and California are higher than that found in Montana. He said that the cost benefit study isn't done yet. The cooperatives want a company rate for as long as they can have it. They want to be insulated from the RTO because they are not comfortable with it. He is not persuaded that the company rate will be the same for the rate that you would pay absent an RTO. Part of what the RTO does is eliminate the pancake rates, making it cheaper for Montana resources to get to California. If generators in Montana can get out-of-state loads, what will the impact to the local customers be? The state's role is still in question as to whether the state PSC has to approve the transfer of control of these assets to another entity. The filing utilities have indicated that they intend to make a formal filing with each state PSC asking for approval. This process will allow for these issues to be explored in a formal setting to make an informed decision. There are things the state can do to ensure that the proposal is one that is sufficient. For supplemental information see **Attachment 12**.

*E. Governor's Office*

**Mark Lindberg, Governor's Office**, said that the Governor wants one voice about this issue. He is challenged with providing the Governor information. He participated last week in the National Governors' Association task force on electric infrastructure. It was an executive policy forum that made some recommendations to current policy. They developed some principles that will be discussed this month. The Western Governors' Association is a leader in the nation in providing the model of what an RTO may or may not look like. At the task force meeting 8 out of 11 states were represented.

What the RTO is going to be, is just getting started. The next step is to gather the information and see how it will work for Montana. The debate is how can the RTO be shaped to best fit Montana as well as the other western states. The Western Governors' Association supports the establishment and enforcement of regional electric reliability standards; they oppose any amendment to SB 1766 that would jeopardize needed transmission; they want to modify federal intrusion to state retail electric decisions. The position is the states should have the right to make their own decisions. These positions have been sent to the Vice President and to members of Congress. The Association is suggesting that HR 3406 needs to be amended to authorize regional advisory bodies of states to which FERC may defer.

Montana must be able to influence how the proposal will come out. He presented some maps, **Attachment 17**, that show where transmission lines in the western states.

**REP. GALLUS** asked if there is any technology coming that could make this a bad investment in the long run. **Mr. Drummond** said no. Much of the investment that is necessary in the system now is going to have to be made whether or not there is an RTO. System congestion requires a lot of the investment. Efficiencies can be gained by redesigning the way the transmission system is operated. It is



more a question of what sort of efficiencies that can be garnered quickly and cheaply. **REP. GALLUS** asked, with the idea of three RTO's in the west, what would the RTO that would include Montana look like. **Mr. Drummond** said it would include Montana, Idaho, Wyoming.

**MR. WHEELIHAN** asked if that meant all of Montana or where the two grids meet. **Mr. Drummond** said that would be where the two grids meet.

**SEN. RYAN** asked if the cost would be the same for energy coming from California to Montana as energy from Montana going to California. **Mr. Williams** said that it would not be the same. There is the pancaking of rates going in both directions. With the RTO, the generator in Montana would pay a transmission fee to use the RTO West system. There have been discussions between RTO West and Cal ISO to eliminate the seam problem so that the party doesn't end up paying multiple rates to use the Cal ISO system. A generator in California that wants to serve a Montana load would simply pay the Montana rate to get to the Montana load, and possibly a rate for Cal ISO in addition. The ability to transact seasonal changes is enhanced. **SEN. RYAN** asked if there is any line loss. **Mr. Williams** said that is a huge issue and is not addressed currently in the RTO West proposal.

**Mr. Early** said that we are not going to know what is happening in California. If a generator in Montana wants to get to the California border, does it pay a different charge than a load that wants to send the same energy back to his load? The answer under the current model is yes.

**SEN. STONINGTON** said that the volatility of the market makes her unsure about what we are doing. The major competitive advantage of Montana is that it is resource rich and has low energy costs. Montana may lose whatever competitive advantage it had under the RTO. Who is advocating for Montana, the consumers and economy of this state? What are our options to insulate ourselves from the increased cost? **Mr. Early** said that the filing utilities intend to file with the Commission. **Mr. Williams** said that he does not think that the PSC has approval authority over MPC's participation in the RTO. **Mr. Early** said that if there is no approval authority, it becomes a political question. What political influence can be brought by Montana to ensure that the state's needs are met by the RTO? There is a lot of push on MPC to do join the RTO. The state needs to determine whether the RTO meets the needs of the state. If not, the state needs to push back.

**MR. WHEELIHAN** asked what the time frame for the model to be reworked is. **Ms. Olds** said that the contractor that did the initial study is to have it done by February 24. BPA has contracted to have additional sensitivity analysis to model things such as high and low water years and to test the robustness of the model. BPA expects to have that work done by February 27. BPA has also contracted to assess the reliability of moving to an RTO. Would an RTO protect the region against longer, more severe outages? That study has to be done by the end of February.

**SEN. STONINGTON** asked, if the investments need to occur anyway, why is FERC pushing so hard. **Ms. Olds** said that FERC is taking a national perspective. Order 2000 is a broad brush stroke

to address problems that have been seen across the country. In the northwest they have a stable system. They need to assess if this is the right thing in our area and if it works based on our principles. FERC is pushing hard, but that doesn't mean that the states have to go there.

**Mr. Drummond** said that the cheap rates are a result of low cost resources and regulation. That regulatory structure is gone. We need to focus on the marginal resources and the new resources that are coming in. In terms of gas-fired generation, we don't have a competitive advantage, but we do have one with coal.

**Mr. Lindberg** said that we need to understand the business part of it. He doesn't know if that part of it is a political process. The governor has said that we want to be a part of the RTO and that we don't want FERC jurisdiction in deciding what an individual state should do. The chairman of FERC has said that they would like to see these issues handled by the states. The Department of Energy is leaving a little window of what line or lines they would like to pinpoint as a national security issue. The national administration hasn't decided if this is a national security issue. If that turns out to be the case, this is a moot issue.

#### **IV ALBERTA-MONTANA TRANSMISSION CONNECTION**

**Ted Williams, MPC**, said that the intertie between Montana and Alberta goes back many years. At that time MPC was looking at selling power into Alberta. In the end it was too expensive and never happened. Seven years ago, the intertie was looked at in more detail, but still didn't pan out. Twenty years ago, transmission didn't have to stand on its own but now it does. The question that always comes up is: who is going to pay?

**Gary McWhorter, MPC**, said that 7 years ago, MPC looked at construction of 40 miles of 240 kv line from Western Area Power grid to the Shelby substation and north to the border. Very preliminary siting work was done. At that time there was a 7% cost increase; that has roughly doubled. It is a \$60 million project to construct.

**Mr. Williams** said that 20 years ago they were looking to export power to a load that needed supply. Today they are looking at the intertie as an opportunity to have another source of supply into Montana and help increase competition in the state. It is key that there is a phase-shifting transformer that is part of the hardware package. That transformer would allow both import and export of power.

**SEN. THOMAS** asked, if this is built, would the people who are using the electricity that flows over it who pay for it. **Mr. Williams** said that in cost-based regulation the answer would be yes. In a market-based situation, if the supply is greater than the demand, then there will be suppliers who decide to take on some costs to get to the market. If demand outweighs supply, the customer will have to pay for those costs. We are talking about a revenue requirement increase for MPC of 14 or 15 % to build that line. **SEN. THOMAS** said that is not a regulation. Why does the ratepayer need to finance the

cost of the line? **Mr. Williams** asked if the use of the line is to serve the ratepayers, why shouldn't they pay for it. **SEN. THOMAS** said that they are already paying transmission costs to get their power right now. **Mr. Williams** said that incremental investments have to be recovered somehow. **SEN. THOMAS** asked if MPC would charge the ratepayers less from somewhere else and charge them for using the line; or is this a regulatory thing that the ratepayers get stuck with. **Mr. Williams** said that FERC's policy is that transmission facilities should be all rolled together and a single rate determined. They have said that the utilities can charge for specific facilities and charge the greater of market. If MPC puts that money at risk and then market conditions change, nobody will be using that line anymore. **SEN. THOMAS** said that it depends on whether there is a regulated environment. **Mr. Williams** said that there are instances where generators have built transmission on a project finance basis. FERC said that was fine, but it is a different risk profile. Who is it that is going to take the risk? That is what is at issue. If the line's primary purpose is to serve the load in Montana, MPC may elect to do that. At this point, MPC is not convinced that the line will pay for itself.

**REP. OLSEN** asked how does Montana encourage transmission in Montana, rather than bringing power from out-of-state? **Mr. Williams** said that if there was justification for transmission out of Montana, that is an option. **REP. OLSEN** said that if there is a need for power in Montana, couldn't MPC better spend that money in-state rather than to import power from Canada. **Mr. Williams** said that you need supply in the state. As a builder of transmission he is going to invest where it is the best to recover the costs. Clearly, better infrastructure in Montana would help things like the job base in Montana. **REP. OLSEN** asked if there was the commitment for transmission in the state, wouldn't that benefit Montana more than building transmission out of Canada. **Mr. Williams** said that this intertie isn't something that MPC is advocating. As to building transmission from Montana into the grid, if it makes sense to do that MPC would be willing to do that as well.

**SEN. STONINGTON** asked about the regulatory authority over transmission in the rate base. **Mr. Williams** said that wholesale transmission is regulated by FERC and retail transmission is regulated by the PSC. There is a \$50 million annual revenue requirement associated with MPC transmission. MPC recovers some of that revenue from wholesale activities and the rest is in state jurisdiction and is part of the state rates. **SEN. STONINGTON** asked for the percentages. **Mr. Williams** said that roughly 2/3 is recovered in state rates and 1/3 is recovered through wholesale activities. **SEN. STONINGTON** asked if MPC decided to build the line to Alberta in order to increase supply in Montana, would it have to be approved by both FERC and the PSC. **Mr. Williams** said that it would.

## **V FEASIBILITY OF REGIONAL DC LINES**

**Larry Taylor, FGS and Associates**, referred to **Attachment 16**. He briefly described the technical aspects of the AC system and why DC makes sense in some cases. In AC systems, you may be able to improve power flow but when you get to the saturation point of the AC components, some big investments are required to improve the transmission flow.

A generation control area is where the generation and the load are balanced in a real time, reliable manner. Increasing the generation into the grid causes the power to flow. If the balance is off, power will flow outside the control area. When transactions are made in different areas, a flow is scheduled; in reality, the power doesn't flow over the intended lines. If you build a line, you may encourage flow on that line that you did not intend and you may run into constraints on a transmission system.

Transmission systems must be able to withstand contingencies without the loss of load. When we look at improving transfer capability of an AC system, we have to look at all the elements of the network and find out where the restrictions are. In some cases it may require an upgrade to a smaller part of the system.

The DC system is much simpler. It can move the power in a controlled manner from one point to another point. The advantage of a DC line is that power goes where you want it to. Other advantages include: lower line losses, narrower right-of-way, and the ability to build a DC line over an AC system, which frees up local transmission capacity. DC transmission lines cost is about 1/3 of the cost of a AC line for the same power transfer capability. A DC line requires a converter station. The disadvantages of a DC line is the cost of the converter stations and the fact that an AC system must be designed so that it can accept the DC power.

After you have run out of AC transmission, the question becomes: what next? Are you going to put in more investment for building more AC or are you going to integrate DC and use it with the AC? You get the benefits of being able to get into larger markets using a DC system.

**REP. OLSEN** asked about the financing of DC projects. **Mr. Taylor** said that the technology has been in use for many years. However, it takes economic justification for building something like this. It would open up Montana's natural resources to be a supplier for other parts of the country. With deregulation, he doesn't see that anyone will step out and do this. It would take a large entity to do this because it would require a major investment. It may be put together in pieces and eventually work toward a grid. It will displace energy on the existing AC system. **REP. OLSEN** asked whether a DC system going over to Washington would bypass the bottlenecks that BPA is working on. **Mr. Taylor** said that it could do that. It would be the next phase after fixing some of the smaller AC bottlenecks. The BPA fixes are relatively low in cost and can improve the through-put of the AC system. The question is, after you do that, where are you going next? DC is a long-term solution. He doesn't know if putting in a DC line would be the most cost effective way to start. There are other ways to improve the through-put of an AC line. If you do real-time control of the AC system, then you can operate the transmission at a higher through-put. If you take advantage of the thermo limitations of the system, you can get a higher through-put. One of the concerns with the transmission issue that he has is that we are spending a lot of time trying to manage a scarce resource rather than fixing the resource.

## **VI MONTANA-DAKOTAS REGIONAL TRANSMISSION STUDY AND RELATED TRANSMISSION ISSUES**

**Ed Weber, Western Area Power Administration (WAPA)**, referred to **Attachment 14**. He said that WAPA is a major transmission provider in the state of Montana. They have 1,500 miles of transmission, primarily in the eastern part of the state.

At one time the states operated as islands, with generation built where the loads were. Now market conditions have changed. The FERC mandated the separation of generation and transmission, so now generation can come from anywhere. The transmission system is constrained and being used in ways that it wasn't designed for. In Montana there are some constraints limiting both imports and exports. The east-west intertie, the Yellowtail South, Butte South and the Pacific Northwest are examples of those constraints.

The transmission system seems to be the limiting factor. The regional study sets the stage for problems that have occurred in North Dakota and Montana, as well as other parts of the country. The regional transmission study was funded by Congress. The study is to be completed by independent contractors. It will consider new generation sources in the Montana and the Dakotas regions, transmission upgrades that can be made to integrate new energy sources, transmission to markets outside of Montana, and cost estimates to build.

Like Montana, North Dakota has constraints for getting power out of the state. The study will look at options for enhancing and upgrading the transmission system. The study examine five generation locations and transmission options for each of those locations. They are only looking at transmission as far as Spokane. They have also considered Alberta as a potential market. The options will look at integration with the existing transmission. They want to take advantage of the existing infrastructure with upgrades being done in stages. They will have the report out by early summer 2002.

WAPA is doing a similar study in North Dakota looking at transmission to the east.

**SEN. RYAN** asked if the study was only about physical capability of transmission or contractual ties. **Mr. Weber** said that they are focusing on the physical capacity of the system and not contracts

**MR. WHEELIHAN** said that the study will be published by July 1. **Robin Johnson, WAPA**, said that the initial plan was to get it done by June 1. After expanding the scope of the study, they are thinking that it will be late June before it is ready and it will be published on the web site.

**SEN. STONINGTON** asked what recommendations will come from the study. **Mr. Weber** said that they are going to try to rank the different transmission alternatives with the combinations of generation. They are not going to rank the generation projects. **SEN. STONINGTON** asked if they are looking at 530 or 240 kv lines to the Bell substation. **Mr. Weber** said that was correct. **SEN. STONINGTON** asked if that came out as the top priority, then the recommendation would be to do that to improve the system in the western region. **Mr. Weber** said that they are looking at the best bang for the buck to unbundle the resource pool. There are several proposals for new generation.

They are looking at the different directions for each of the generators. **SEN. STONINGTON** asked if this would give priorities that would allow for the most transmission to pass through the system.

**Mr. Weber** said that was correct.

**Mr. Weber** said that the Great Falls to Havre to Fort Peck was one of the oldest lines. In 1986, the section from Havre to Fort Peck was rebuilt. Now they are going to rebuild the first section. They will do it a piece at a time over several years. For other transmission studies see Attachment 14. The Miles City DC intertie expansion is getting a lot of attention. WAPA has had inquiries about expanding that. If they expand the intertie, they will have to expand the transmission on both sides, which may not be the best way to go.

What will WAPA do to provide new transmission? The amount of transmission that they sell has to offset the cost of building that line. A long-term contract is needed. Other things to look at for encouraging new transmission are economic incentives, market forces, RTOs, and state and national legislation.

**SEN. STONINGTON** asked about the time frame. **Mr. Weber** said that with just the projects that WAPA is working on, they are looking at 2004 or 2005 for completion. He would say certainly within the next 10 years there will be a new major transmission project announced. **SEN. STONINGTON** asked about who is going to pay for it. **Mr. Weber** said that WAPA would absorb the costs and spread those out over the transmission users. If they increase the load, it keeps the network service rate lower. **SEN. STONINGTON** asked if the costs to the ratepayer would go up. **Mr. Weber** said that they wouldn't. They would recover enough through the tariff that they wouldn't have to raise the rates. There are costs associated that may be assigned to the project. Some of the projects will have to absorb some of the costs themselves.

**SEN. THOMAS** asked who regulates the rates. **Mr. Weber** said that the rates are reviewed by FERC, but rates are approved by the Secretary of Energy. **SEN. THOMAS** asked if Mr. Weber had been in contact with representatives of announced projects. **Mr. Weber** said that some of the projects have made requests to interconnect with MPC, so MPC would deal with those studies. WAPA has had a number of requests to interconnect with WAPA's system. **SEN. THOMAS** asked if Mr. Weber had to decide right now where to build a new transmission line to sell to the west coast, where would he put that line. **Mr. Weber** said that he would build a 500 kv line from Colstrip over the divide to Spokane.

**SEN. STONINGTON** asked if that hypothetical line would follow the BPA corridor.

**Mr. Weber** said that there is major generation being proposed in Great Falls. He is thinking ahead that if generation is in Great Falls, they are very transmission limited right now.

## **VII UPDATE ON FEDERAL LEGISLATION AFFECTING TRANSMISSION**

**MR. WHEELIHAN** said that congress action is very fluid. There are 2 bills that have the possibility of affecting transmission in Montana. In the House bill there are incentives to build transmission that investor-owned utilities like, but public power doesn't like those same provisions. On the Senate side, the bill is less liked by the investor-owned utilities, but public power likes it more. It is a very fluid situation where the language and momentum changes daily. He referred to **Attachment 15**, a section-by-section summary. There is a lot of tug-of-war. It is impossible to predict what this legislation will look like and when it will move. The bills deal with FERC jurisdictional issues. There are questions about interconnection standards. Incentives to build new generation are mentioned.

### **VIII REVIEW TRANSMISSION WORK PLAN AND SUBCOMMITTEE DISCUSSION**

**MR. MARTIN** referred to the draft work plan, see **Attachment 16**. The work plan is based on a series of questions such as, what are the transmission needs in Montana and how do the proposed generation projects affect those needs? How does transmission affect the market structure of electrical energy? What are the planning and development functions of BPA, WAPA, the state, and others? What are the costs of new transmission and who benefits and who pays? What are the impediments to new transmission? What is the states's role in formation of the RTO? For a complete list, refer to Attachment 16.

The work plan is designed to assist the Subcommittee in determining the scope of what the Subcommittee will take on for the rest of the interim. Hopefully the information and analysis will help the Subcommittee determine whether the state can formulate realistic public policy. The idea that this Subcommittee can serve as a forum for discussing how the state can get involved in these issues was added to the work plan.

**SEN. STONINGTON** said that this is a complicated field, but it would be helpful to keep a running tab on questions that may affect policy issues that they may want to undertake. For example, they have heard that the RTO will cause rates to go up. She would like to know that the PSC has the oversight authority to approve those rates. There are a lot of questions that have been raised, she wants to make sure that we are asking the right questions far enough in advance that we are protected. We should at least know what the options are. There needs to be some accumulated effort.

**MR. WHEELIHAN** agreed. The Subcommittee needs to know who has what jurisdiction over what. The idea would be to always be thinking about what the role of the state is.

**SEN. STONINGTON** said that the one theme that keeps coming up is PSC authority. The panel discussion in the next meeting about the state's role is good, but it should be more than just enhancement.

**MR. MARTIN** said that the questions reflected issues raised by the Subcommittee. The

Subcommittee should focus on questions that they want to consider at the next meeting.

**MR. WHEELIHAN** said that maybe Subcommittee members should have discussions throughout the meeting between panels and speakers.

**MOTION/VOTE: SEN. STONINGTON** moved approval of the work plan with the additions. Motion passed unanimously.

## **IX      OTHER BUSINESS**

**REP. GALLUS** asked about the natural gas supply and transmission for the Continental energy project in Butte. **MR. MARTIN** said that the Continental project has undergone an EIS, which can be found on the DEQ web page. Chapter 2 describes the construction and siting of natural gas pipelines. A representative of Montana Power Co. didn't see any technical difficulties with the construction of the pipeline and storage facilities. There will be some issues related to eminent domain and environmental impacts.

**REP. GALLUS** said that he has been informed that Montana Trout Unlimited isn't opposed to the pipeline in its entirety, but they are concerned about how the pipeline crosses some of the streams. He would like to keep the committee informed of this issue.

## **X      ADJOURN**

There being no further business, the meeting was adjourned.

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