I am very pleased to be here. Thank you for inviting me. Having spoken at the MidC Seminar previously I can tell you that from my point of view you are a most appealing audience.

Why?

Because you don't apologize for the trading you do day in and day out. And you don’t apologize for making money. You represent the good old American drive to make a buck.

I recognize that here in the heartland of public power invoking capitalism can be somewhat disorienting. If you work for public power and are feeling uncomfortable, think of your role the way Ken Peterson encouraged his staff at Powerex to think of theirs. For years, the mantra at Powerex was: “We keep socialism solvent!”

We don’t have a slogan at the Northwest & Independent Power Producers Coalition (NIPPC) but if we did, it would go something like this: “We risk our money so you don’t have to.”

And why do we risk our own money? Not ratepayers’ hard earned dollars, mind you, but our own? We do so because NIPPC members look to profit from meeting society’s need for electricity. NIPPC members seek a fair share of the power business by competitively delivering power and ancillary services as cheaply and as reliably as possible.

Late last year I spoke to a gathering of senior regulatory officials in Salem who are coordinating Oregon’s response to EPA’s Clean Power Plan under 111(d). In the course of my testimony I said that in NIPPC’s view, EPA’s call for a 30% reduction in power plants’ carbon emissions from 2005 levels by 2030 was wrong headed. I described the policy as “wrong headed” because EPA’s emission reduction goals EPA are too low. After all, the market can deliver much greater savings than EPA’s tail pipe policies.

I firmly believe we can do better at reducing carbon and do better achieving other important efficiencies because as Carl Weinberg put it, “If you want to change something in this country, create an opportunity for someone to make money doing it.” The trick is to let the capitalist urge, that All-American competitive spirit, go to work.
I readily admit that the Pacific Northwest doesn’t celebrate American capitalism and the values underlying it. Still, when it comes to the power business we’re engaged in a capitalist enterprise, we just think about it a little differently.

Here are several examples of Northwesterners’ contorted view of market dynamics.

As everyone here knows, BPA cycles back revenues from its power sales into California, passing along lower rates to preference customers. Since there’s nothing wrong with this practice why then do so many folks rail against these profitable power exports? Why do we berate Californians for heating their hot tubs with “our” electricity? We should instead want our neighbors to soak more, and at hotter temperatures.

And why do so many of our colleagues remember the California Energy Crisis with such selectivity? Why do they blame “markets” for the disaster when the explanation for what occurred is so much more complicated?

While the Enrons of the tale were guilty of criminal behavior, the fact is that any one who was able to take financial advantage of the chaos did so. Let’s not forget, for example, that even Bonneville was dinged at the Court of Claims for a $168.8 Million refund liability. (It got off on a technicality.) Seeing Bonneville and WAPA tagged as rogue actors suggests there’s more to the story than the blithe explanations convey.

We’re way past due in this corner of the country to tell the truth about how we do business, what we’ve learned and what we’re experiencing.

Regrettably the California Energy Crisis has become an Uber Myth spun up to serve the purpose of whoever is recounting the story.

We forget or choose not to recount the actual factors that led to the crisis in the first place.

The Four Horsemen of the California Apocalypse that that brought on the disaster were: (1) A stupid market design crafted by politicians which was ripe for gaming; (2) A dry water year in the Northwest, which Californians forgot was possible; (3) Real transmission congestion which complicated power deliveries north to south, and (4) A cowardly governor who feared sending consumers a market signal – raising power prices – they would respond to, thereby reducing demand.

These four factors combined to allow everyone with power to sell to fleece everyone forced to buy, including Golden State widows and orphans.

My point?
My point is that the Uber Myth of the California Energy Crisis would be laughable if it weren’t so dangerous. It is dangerous when people who know better deploy a myth to justify erecting obstacles in front of contemporary market-based solutions like the EIM, which are capable of creating efficiencies and reducing costs to power users.

History can also be lost from collective social amnesia.

We Northwesterners have conveniently forgotten the last time we reached an overarching consensus on power issues; it was 20 years ago.

I am referring to the gubernatorially appointed, “blue ribbon” panel convened as the Comprehensive Review of the Northwest Energy System. The “Comp Review” brought together every stakeholder interest engaged in the Northwest power industry. After 12 months of intense work, the group settled on recommendations with lasting impact.

But this diverse group also reached consensus, consistent with federal policy, to create a regional transmission organization in the Northwest.

The Comp Review initiated nearly ten years of earnest effort to design a consolidation of control areas where transmission operations were to be managed by an independent entity focused on that task and that task alone.

In 2005, at the end of that process, one long time transmission user neatly summed up the noble quest this way: “the current system of decision-making has not resulted in the efficiencies that are possible. If we could all 'cooperate and just get it done,' we would have done so by now and not spent the past 10 years talking about restructuring transmission.” [PNGC Power letter to BPA, 9/9/05]

Grid West came to an end when Bonneville, responding to its most vocal preference power customers, chose instead to endorse a proposal which promised operational transmission efficiencies without triggering FERC jurisdiction. The red herring tossed in front of Grid West was the “Transmission Issues Group.”

TIG was sold as a credible alternative to GridWest. As you can see from its original agenda, it was to quote Abraham Lincoln, describing a political opponent’s policy “as thin as the homeopathic soup that was made by boiling the shadow of a pigeon that had starved to death.”

The Transmission Issues Group committed itself to: (1) Improving operations with a single [regional] OASIS and a common approach for determining transmission availability; (2) Improving reliability and security including a study of voluntarily combining control areas; (3) Defining a regional transmission plan based on the principle of one-utility planning of system upgrades; and (4) Creating a market monitor to study the competitiveness of
Northwest energy and transmission markets, respond to complaints and issue reports.

TIG was all sizzle, no steak. As the participant quoted earlier explained, “good regional outcomes are not produced by local control but rather by a ceding of certain rights to an [independent] entity with a regional view and mission such as Grid West.” [PNGC Power to BPA, 9/9/05]

The only traceable legacies flowing from Grid West’s demise in September 2005 are three familiar planning entities: West Connect, Northern Tier Transmission Group, and Columbia Grid. That was the quasi-official legacy of Grid West with one exception.

That exception was an initiative that actually yielded measureable results: Ace Diversity Interchange or ADI. The idea of sharing incidental, stray generation among control areas emerged from a group of Grid West supporters eager to salvage something tangible after years of fruitless collaboration.

ADI’s success is noteworthy: hundreds of megawatts of inadvertent power has been balanced out and shared annually over the last ten years. The average annual cost has been $225,000.

Talk about bang for the buck!

But before we let Grid West recede back into the fog of time, let’s connect it with more recent history.

A vivid example for why Grid West was a good idea came with the rush of wind power development beginning around the time of the ISO’s demise.

The run up to 4700 MW of installed wind capacity in the Northwest, at the risk of indulging in a 21st Century cliché: has been disruptive.

Wind power dramatically challenged the status quo that consolidated control areas, managed by an independent entity, could have handled rather easily.

Everyone knows the story. Bonneville played primary host to the wind power surge. It initially took a relaxed position until it grew concerned with the build up of negative capacity on its system, seeing its reserves stressed beyond comfort. The Wind Integration Forum rallied the earnest and the creative but was slow to respond. It wasn’t until Iberdrola volunteered to self supply its own generation imbalance that pressure started coming off the proverbial teapot.

Unlike Grid West, which was about doing better, the “pilot” Iberdrola arranged with BPA was about keeping from doing worse… avoiding curtailments.
It didn’t quite work out that way. In the spring of 2011, Columbia Gorge wind farms were curtailed in Bonneville’s ill-conceived environmental redispach program. BPA pulled back the wind farms’ firm transmission rights and substituted its power for theirs thereby stranding PTC payments and REC fulfillments along with forcing breaches of contract from here to San Diego.

Environmental redispach was a low point in our industry’s history. Bonneville’s policy sparked litigation that eventually led to FERC’s December 2011 assertion of EPAct 2005’s Section 211A.

FERC’s action was significant. It was the first time the Commission, recognizing blatant discriminatory behavior, asserted its authority upon an otherwise non-jurisdictional transmission provider.

What’s ironic is that after the Ninth Circuit sustains FERC’s action as it surely will, BPA will be shown to have brought on what public power most fears, an erosion of Bonneville’s traditional freedom of action.

But in an organization as large and as complex as Bonneville there’s room for good along with the bad and ugly.

Just as wind power began grabbing everyone’s attention, Bonneville Transmission found time to test approaches for more creatively managing challenges on its system.

During December of 2006, Bonneville working in collaboration with NIPPC conducted an experiment in “reliability redispach.” The objective was to see how real time transactions routed through a third party could alleviate congestion on key Flowgates along the I-5 corridor.

The results of the experiment were striking not so much in operational terms, but rather for how they changed peoples’ perceptions.

The reliability redispach pilot showed the greatest skeptics in Bonneville World, staff in the Dittmer control center, how forecasting models accurately predict system response in real time. Staff at Dittmer and in other BPA offices saw for themselves how excessive flows could be relieved by re-dispatching generation around identified congestion. The pilot took the mystery out of an operational tool new to the Northwest even though it’s routinely used in the organized markets.

Meanwhile another innovation BPA supported, Iberdrola’s self-supply pilot mentioned earlier, impressed BPA transmission staff and agency management for a simple reason: it works.

The value of allowing generators to secure their own reserves – a principle FERC has long upheld when host BAs are unable to deliver reserves – is a proven win/win proposition.
Here at the MidC the next step in generators assuming greater responsibility for their operations is well underway.

To date, three generators have created their own Balancing Authorities to manage every aspect of their units’ interface with the grid. They’ve assumed all the obligations of a BA including fully complying with NERC, managing reserves and providing other ancillary services.

Gridforce Energy Management operates these three unique and fully certified BAs under a single umbrella called “GRID BA”. Participants include: Calpine, Shell Energy, and Exelon all of whom are, not incidentally, NIPPC members.

The addition of small, generator-focused BAs adds value to the overall grid by bringing the latest technology into play, adding enhanced visibility, improving reliability by adding redundancy in key areas, along with offering other added value.

The arrival of GRID BA will also expand the functionality and reach of the Mid-C Hourly Coordination Agreement. As it joins other participants in the Agreement, GRID BA will help capture incremental efficiencies, further enhancing the value of the combined, coordinated output provided under terms of the Agreement.

These innovations – ADI; reliability redispatch; customer supplied energy imbalance; generation-centric BAs – are all expressions of innovations that arrived after Grid West. They emerged not because they were envisioned wholesale, but because they were needed retail. In other words, these incremental innovations showed up because they solved problems transmission operators and transmission users could no longer ignore.

I remember ten years ago at one of the last Grid West meetings, when the late Vito Stagliano posed a pointed question. His question, which was really more of a challenge, went something like this: “Why do you guys always wait around for BPA to do something?”

In February 2013, PacifiCorp in partnership with the CAISO announced that it wouldn’t be waiting around for a change to how we manage transmission. February 2013 was when the West’s largest investor owned utility and the West’s only independent system operator (outside Canada) announced plans to jointly run an energy imbalance market: the EIM.

The EIM, which is in the process of expanding, has dramatically upped the ante in innovation. It is showing how interconnected generators can be automatically dispatched at least cost, staying ahead of shifting loads, changing weather conditions and other factors. The results are encouraging with PacifiCorp and CAISO showing millions of dollars saved in recent quarters.
And then there is the real shocker: the April announcement this year that PacifiCorp and the CAISO are studying melding PAC into an expanded ISO headquartered in Folsom.

I express it that way – “an expanded ISO headquartered in Folsom” – because before the CAISO can host a Westwide ISO it will need to shed its current governance and California-centric goals.

The grand ambition expressed by PacifiCorp and the CAISO is commendable. Certainly NIPPC is encouraged and will be engaged as the idea begins to take shape and is considered by the six utility regulatory commissions that will have to bless any proposed Meld.

Meanwhile, the latest transmission optimization proposal to emerge from the Power Pool is the implementation of an automated, centrally cleared 15-minute energy dispatch market. CCED, as it is known, is definitely better than the “homeopathic soup” Lincoln described, but I will leave it to you to decide how much better.

One thing is certain: recent days have brought a genuine shift in the prospects for constructive change in the management of the Pacific Northwest’s transmission system.

While stretches of that system might be owned by consumers, IOUs or the federal government, the grid belongs, at the end of the day, to those it serves: individuals who reside and businesses that operate here.

The Articles of Confederation, the loosey-goosey governance model of the Revolutionary Era had to be abandoned before the Founding Fathers could write the U.S. Constitution. Similarly, shedding what didn’t work to find something that did is what challenges us today.

While most of the country adopted Federal transmission policy and Congress’ intent to promote competition, we’re still operating our transmission system under an antiquated Articles of Confederation model.

It isn’t easy shaking off the inertia of entitlement and monopolistic practices we embrace here. But change is coming – in fact, it is accelerating – and the only way to keep from getting run over is to hop on and try managing outcomes.

This is our shared obligation – for the sake of those we serve, for our investors, for sake of the environment and depleted treasuries. Here in the Pacific Northwest, we can no longer offer talk as a substitute for action.

Thank you. I will be happy to take questions.