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## ENERGY POLICY: PPC's Marilyn Showalter says FERC's Western bent may affect utility issues (09/12/2006)

### About This Episode



With a new FERC set to meet for the first time, questions are being raised as to whether or not a dominantly Western commission will have an effect on Western utility issues. During today's OnPoint Marilyn Showalter, executive director at the Public Power Council, explains why she thinks the Market Redesign and Technology Upgrade (MRTU) would be unsuccessful in the West. She discusses California's reliance on surrounding states for power, particularly during the summer months and talks about a new policy proposal released by the Bonneville Power Administration.

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### Transcript

**Monica Trauzzi:** Welcome to OnPoint. I'm Monica Trauzzi. Joining me today is Marilyn Showalter, executive director of the Public Power Council in Portland, Oregon, and co-chair of the Alliance of State Leaders Protecting Electricity Consumers. Marilyn thanks for being here.

**Marilyn Showalter:** Thank you for having me.

**Monica Trauzzi:** Marilyn, FERC is set to meet on September 21. It's the first meeting with five commissioners, three of them are new to the post, and these three are also from the West. What are you expecting to be at the top of the agenda at this meeting and throughout the fall?

**Marilyn Showalter:** I don't know exactly what will be on the agenda at that particular meeting, but I think there's some very important dockets and cases that are coming up this fall. The biggest one, that's the most important to the West, is the MRTU proposal, which is, I think, the biggest decision for the West since the Western energy crisis in 2001.

**Monica Trauzzi:** MRTU, like you said, is likely to be on the agenda. If you were trying to explain the market redesign and technology upgrade to the average California consumer, who doesn't know a lot about energy markets, doesn't know a lot about FERC, what would you tell them about the plan?

**Marilyn Showalter:** Well, first, it affects not just California, but the whole West. The California ISO is attempting to introduce a new pricing mechanism that has been used in the East, I think unsuccessfully for consumers, and introduce it into the California ISO system. That footprint is not all of California, but part of California. But it would affect us all.

**Monica Trauzzi:** Do you consider this meeting to be sort of a test for the three new commissioners, since they're all from the West?

**Marilyn Showalter:** I think it is, in a way, a test. I don't know that it was meant to be one, but the three commissioners are going to be their own individual people. Coming from the West per se, I don't think, dictates the approach or philosophy that these commissioners will take. But they all have had the experience of the Western energy crisis and they have had direct experience with the Western interconnection. For some time now I think the Eastern interconnection has been the main paradigm, and yet the West, which is very different in its physics, its history, its politics, and its policies, is just as important. It's not the other, it's another interconnection.

**Monica Trauzzi:** Is there a potential that the MRTU issue could be affected by the western bend of the new FERC commissioners?

**Marilyn Showalter:** Well, I think so, because I think the new commissioners will have an understanding that, for example, the Western interconnection is characterized by very, very long transmission lines and population centers that are remote from one another. The West is

characterized by retail regulation, not deregulation. The West has no organized markets, no RTOs outside of the California ISO. The California ISO footprint is one third of the load of the West, but less than that in terms of generation because the Cal ISO depends on the generation produced in the rest of the West. So the rest of the West is the bigger part of the picture. And the California ISO proposal should fit with the rest of the West and the way it does business, because by any measure, the rest of the West has been more successful than the Cal ISO footprint. If you want to measure by retail prices, investment in transmission, investment in generation, we've got a pretty good thing going. And I think we've found ways to make improvements other than retail deregulation, RTOs and the like, and certainly not locational marginal pricing.

**Monica Trauzzi:** And on that front, 12 senators did write a letter to FERC a few months ago, cautioning the commission about MRTU. They fear that it could potentially implement a standard market design in the region. Do you think this pressure from certain members of Congress will at all affect the MRTU issue when it goes before FERC?

**Marilyn Showalter:** Well, I think it should serve to impress upon FERC that this is a serious, serious issue to the West. We do not want another energy crisis. We still haven't recovered from the last one. FERC, I think, has a way out if they strip locational marginal pricing from the proposal and allow the Cal ISO to make incremental improvements on some real problems, namely fostering long-term contracts, addressing resource adequacy or procurement, addressing scheduling, and congestion management. It can do these things without locational marginal pricing. And, in fact, I would argue they will get a lot further, much faster without it. I might say, I think a good model has been Colombia Grid in the northwest, where we ended 10 years of struggle and stalemate by not trying to solve all problems at once, but moving incrementally and testing each stage along the way. And we, as a result I think, have gotten pretty far pretty fast with that approach.

**Monica Trauzzi:** But MRTU proponents would say that implementation would ultimately result in an improved market design and the grid would ultimately operate better. So how do you respond to them?

**Marilyn Showalter:** Well, Cal ISO's defense is that locational marginal pricing has been approved by FERC and is successful in PJM MISO in New England. That's where we differ I think it has been a failure. It has driven prices up. It has driven up the volatility. The end consumers, which is the only ultimate test, is what does this do for the end consumers, are paying higher prices, there's no prospect of healthy long-term generation, and no prospect of investment in transmission. By contrast, if you look at the rest of the West, the Northwest for example, we have completed more than twice as many transmission circuit miles than any other part of the country. Our rates are low, as is the rest of the West.

**Monica Trauzzi:** MRTU implementation has been pushed back to November of 2007, at this point. Do you think it's going to be pushed back even further and do you expect to see more congressional pressure on this front?

**Marilyn Showalter:** I would not be surprised if there is more congressional pressure. In terms of pushing back, I certainly hope that FERC does not approve the whole package first without putting the brakes on locational marginal pricing. But also, there are huge gaps in the proposal. It doesn't even address this very important seams issue. That is, how does the Cal ISO fit with the rest of the West? I think the Cal ISO's view has been, well, the rest of the West can fit with them. And it should be the reverse.

**Monica Trauzzi:** Record high temperatures in California this summer. How do you think the state fared?

**Marilyn Showalter:** Well, I think they got through without blackouts, but part of the reason was the rest of the West rallied to help it. Particularly the Bonneville area scrambled to help out, at some price to some of my members, my member utilities, who had to give up some power in order to send power down to California. What it points out is that the West is an integrated system and, in fact, I think, California is more dependent on the rest of the West than the reverse because they do not produce the generation that they need.

**Monica Trauzzi:** And let's talk about BPA. In July BPA released a long-term policy proposal which takes a hard look at the Northwest market. What is this proposal and what is the Public Power Council's recommendation to BPA?

**Marilyn Showalter:** Well, it's known as the regional dialogue proposal, and it is a proposal that the whole region has been working on. It's a proposal to lock up the Bonneville system for the next 20 years. And by lock up I mean parse out the benefits of the base system, but also the responsibilities to pay Treasury for example. So if we can get to a very complex, big agreement, we will assure ourselves of some benefits, and also assure Treasury. But every aspect of Bonneville is involved and all stakeholders are involved, meaning public power, investor owned utilities and their residential ratepayers, aluminum companies, environmentalists, fish interests. So it's a very complicated undertaking, and I think Bonneville has done a good job thus far of outlining the proposal, but there really is much to be filled in.

**Monica Trauzzi:** You mentioned Treasury, and I think what you're talking about is a provision in the plan to reintroduce President Bush's controversial budget proposal that would send some of BPA's money over to the Treasury Department. There was a big outcry the first time around. Is anything different now?

**Marilyn Showalter:** Actually, what I was referring to is our contractual obligation to pay our Treasury debt. The Northwest has never missed a Treasury payment in the last 20 years, in other words, our public power customers and the Bonneville system has made its Treasury payment as owed, with interest. What I was referring to for the next 20 years is that we would develop a system that would continue to do that. Now the president's budget proposal was a proposal on top of that, that in addition to paying what you owe to Treasury, OMB wanted to take another piece off the top of the system. That would cause major upset because, first of all, it would increase our rates and it would take money in good years, but not give anything back in bad years. Bonneville is coming off of six years of drought. This past year, right now, has been the first relief we've gotten. But it did not make up for the costs of the last five or six years. The nature of a Hydro system is you have good years and bad years, and our rates are determined so that they will balance out over time. So if you take some of the good year, money off the top, then we have to come up with the rest.

**Monica Trauzzi:** Final question. We're almost out of time. How do you think the new FERC might affect issues with BPA?

**Marilyn Showalter:** I think only indirectly with, for example, the OAT rulemaking. We have filed some joint comments with BPA, Public Power and investor owned utilities in the Northwest, worried that the OAT rule will reduce the flexibility of the hydrosystem, which is very different from the Eastern interconnection. And we need that kind of flexibility to send power to California when they need it and to do the best for our consumers.

**Monica Trauzzi:** OK. Marilyn thanks for joining me today.

**Marilyn Showalter:** Thank you.

**Monica Trauzzi:** This is OnPoint. I'm Monica Trauzzi. Thanks for watching.

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