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BPA Plan for Power Lines Gets Static From Utilities

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A Bonneville Power Administration plan to create a nonprofit arm to manage all the high-voltage electricity lines in the Northwest is drawing sharp criticism from many investor-owned utilities.

At issue is as much as \$750 million in annual revenue from the traffic of electricity in the region that for-profit companies want the chance to get their hands on.

"This is going to be a big fight," says Kevin O'Meara, an economist with the Public Power Council of Portland, an advocacy group for public, nonprofit utilities.

Whether it's run by the BPA or some other entity, "a regional transmission system should, in the long run, produce some cost savings and reduce everyone's electric bills," says Jim Litchfield, an **energy** consultant in Portland. "But this is going to be a very tough process getting there."

The fight, just beginning to brew, was jump-started in December, when the Federal **Energy** Regulatory Commission issued a landmark deregulation order that directed utilities around the country to submit by Oct. 15 proposals to set up regional transmission organizations. These organizations aim to make the nation's overloaded network of high-voltage, long-distance electricity transmission lines more efficient and reliable and to hasten a truly deregulated market.

But FERC left a key question up to local entities: Should for-profit companies or nonprofit operators run the regional organizations?

There is widespread disagreement in the Northwest over the answer. Many investor-owned utilities are wary of the BPA's playing traffic cop on the region's high-voltage grid, saying they just don't have confidence it would act in the private sector's interest. The Portland-based federal agency markets half of the power used in the Northwest, and it owns 80% of the high-voltage lines that crisscross Washington, Oregon, Idaho and western Montana.

"We have some concerns with the extent of BPA control," says William Pascoe, vice president of transmission services for Butte-based Montana Power Co. He says the worry is that a BPA spinoff might be biased in favor of BPA customers, granting them preferential access to the grid.

Montana Power, like many others in the industry, thinks the regional transmission manager should be a for-profit outfit, which, the theory goes, would be motivated to control costs, thus increasing earnings.

But there are some investor-owned utilities that have doubts. Jim Collingwood, general manager of grid operations for Idaho Power, a unit of Boise-based IdaCorp., says that company is wary of a for-profit corporation controlling the Northwest's high-voltage grid because a single entity would hold monopoly power over transmission, with a profit margin as the bottom line.

For its part, the BPA seems convinced that its model makes the most sense. The agency's administrator, Judi Johansen, says she believes the BPA should form the "heart and soul" of the regional transmission organization because as operator of 80% of the existing lines, Bonneville already has the expertise and staff capable of making the smoothest transition.

Ms. Johansen says the new transmission operator would be independent, and its workers would sever their ties with her agency.

Peggy Olds, Bonneville's regional transmission project manager, says the BPA is waiting to see other ideas. "We've put our cards on the table, and this is just the beginning of a very long complex discussion. But the clock is ticking."

High-voltage lines are what move power from producers to the lower-voltage lines that carry electricity directly to homes and businesses.

FERC envisions a few independent operators at the reins of the grid by December 2001, in a consolidation it thinks would make the system more manageable and flexible.

Bonneville wants to be that operator in a large swatch of the West. So it put forth the plan to spin off as a nonprofit corporation its transmission business, which employs 1,660 people. Under the blueprint now being discussed at the agency, the nonprofit corporation would manage the grid not only in Washington, Oregon, Idaho and western Montana, but also in parts of Utah and Wyoming, where many of the coal-fired generators that supply electricity to the Northwest are located. Congress would ultimately have to approve such a move by the BPA.

BPA critics say the idea that the agency would have ultimate control bothers them.

"Bonneville has screwed up with this plan, saying it has to retain control over the system," says Brett Wilcox, president of Goldendale Aluminum Co., in Goldendale, Wash., which buys some power directly from the BPA. "This isn't going to work unless Bonneville completely separates itself from the transmission system. And they are going to have to prove it to us." BPA officials say the nonprofit spinoff would be completely independent, with a separate board of directors. But for-profit utilities worry that old loyalties would remain.

"There just isn't a lot of trust out there in the agency," says Mr. Litchfield, the **energy** consultant. "They have to do a tremendous job of showing everybody that they intend to form a completely independent agency."

Steve Oldham, vice president for strategic development at Sierra Pacific Resources, a Reno-based utility seeking regulatory approval of its bid to purchase Portland-based Portland General Electric Co., says it would be in everyone's interest to let the private sector control the grid.

"We definitely believe that the regional operator should be a for-profit business," Mr. Oldham says, because the profit motive would drive the regional entity to use the system to its fullest capacity. "The policy [question] ought to be, how do we turn this business over to private enterprise?"

Whatever the makeup of the regional organization, it will face challenges. Under the FERC order, it could establish a single rate for access to the grid. Current rates vary widely, by as much as 300%, because some utilities serve rural areas, where the low population translates into higher delivery costs per customer, or some utilities have generators on the opposite side of the Cascade Mountains from their customers.

Urban areas along the Interstate 5 corridor enjoy some of the cheapest transmission rates now. But "there is a real potential here for transmission costs to increase by 50%, maybe even double", says **Robert McCullough**, managing partner in **McCullough** Research LLP, an **energy consulting** firm in Portland. "It's largely an accident of geography, because it just costs more for a utility on the side of a mountain to transmit power than it costs a utility to serve the population centers on the I-5 corridor."

--- Creating Static

The Bonneville Power Administration is planning to set up a nonprofit unit to run its high-voltage electric lines. But investor-owned utilities, wanting their share of revenue from the traffic of the lines, are slamming the idea.

-- Miles of line: 15,269

-- Geographic area: Oregon, Washington, Idaho and Western Montana.

-- Market control: 80% of the region's high-voltage lines

-- Value of the system: BPA has invested \$4.8 billion in transmission

-- Revenue: \$544 million a year

-- Debt: \$1.9 billion

Source: Bonneville Power Administration