

MRTU Seams Technical Conference
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Opening Comments of Chuck Durick
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Good afternoon and thank you very much for inviting me to address this conference today. I greatly appreciate the opportunity. I am very excited to see an LMP market finally emerging in the west. I think it really is a good thing.

Over the last ten or so years I have had extensive experience with the efforts to develop organizations in the northwest, including IndeGO, RTO West and Grid West. And, through that experience worked on a variety of market designs. As we struggled with various ways to define transmission rights, allocate and administer the new rights, it seemed that at every turn when we translated the physical rights into financial rights; the whole problem simply got easier for us. Overall the idea makes a lot of sense and I am pleased to see the region proceeding down the right path.

One particularly exciting aspect of MRTU is opening opportunities for a new wave of creativity in our industry. I think the idea of defining organized markets for distinctive components of electricity will almost certainly expand our views of how these services can be provided.

One example that has been particularly intriguing to me lately is generation reserve capacity. I am speaking here mostly of contingency reserves but the idea can apply just as well to peaking reserves, if it's in a fairly short time window.

If we shift our thinking away from reserves being an element of a reliability requirement and toward the idea of reserves being a commercial product, something that is easily bought and sold; we get a whole new view of things. Specifically, when I think about who today are the lowest priced providers of reserve generation; the answer is rather surprising – it is folks like Costco.

They are providing reserve generation capacity for retail sale at a price somewhere between a third and a half of what it costs us utilities to provide similar reserves on the power grid. They are selling 42 KW standby generators to residential customers at a price of about \$15,000. These are fueled with natural gas or propane, self starting and automatic cutover. I've read that in the hurricane states these generators are extremely popular with better than a 20% penetration in residential load. This is an industry that has expanded five fold the last few years.

Distribution engineers tell me this kind of generator can be safely attached to the grid without particular difficulty, though it does take a more sophisticated protection package. With roughly the same technology that we use to interrupt an air conditioner we can start a generator. Clearly I have glossed over a host of economic and technical issues in this example, still I think it is a viable example of that kind of creative progress we can make when we do have clearly defined markets in the individual components of electricity.

Enough about my view of the gold at the end of the rainbow, time to consider the mechanics of getting there.

This change means, of course, California will be out in front, with a market structure that is decidedly different from the rest of the west (as is the case today). And, as we can see by the attendance today, this has raised a variety of seams concerns. Seams problems are important and we should not take them lightly. However, it is much more important to not let ourselves get distracted or derailed by excessive worrying about potential seams problems.

The reality is we have seams problems today. We have them not only at the boundary of California, but also among the rest of us utilities. Even with fairly standard tariffs, seam problems emerge from such things as different business practices and different OASIS mechanics. Even rate pancaking is a form of seams problem that is with us today and certainly does degrade the efficiency of the system. A consequence for us at Idaho Power is shrinkage in our trading reach. Our traders tell me that since they have simplified our trading operation as part of a “back to basics” strategy, the extra cost and complexity of wheeling across multiple systems means they rarely trade more than two systems away.

To an extent, the California ISO has already reduced some of our seams problems in that we no longer have to schedule across multiple utilities inside of California and carry the transaction burden of making multiple schedules and paying multiple pancakes cross one state.

Another example of an existing concern is the operational impact on our transmission system that happens twice every day when California switches between their heavy load time block and their light load time block. This frequently causes flow changes through our system of hundreds of megawatts completely unrelated to any of our schedules.

Also, the uncertainty and instability of being in transition is a significant problem. California has been about to change market design for over 5 years. This being stuck in the middle of on our way somewhere, but never getting there is a problem at least as bad as seams. The stability we will gain by completing the journey is worth pursuing.

I have one bit of advice to help get us through this. I believe it is inappropriate to put an excessive burden of seams resolution on the ISO. We who are concerned about potential problems have a duty to clarify and validate our concerns and work cooperatively to resolve them.

In conclusion; yes, we are in the midst of a transition and transitions are often difficult and this is no exception. We will have a variety of issues to work through including seams issues but there is too much good that the other end of this transition to allow ourselves to be derailed or delayed by overreacting to potential seams problems. The important thing is to identify these quickly, clearly and set about solving them and do everything we can to enable the California ISO to meet its target starting dates for the MRTU for I believe that is something that will benefit the entire west.

Thank you very much for the opportunity and I look forward to the rest of the discussion.

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