

July 19, 2012

Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621
Attn: Mr. Daniel Fisher

Via Email: dhfisher@bpa.gov and techforum@bpa.gov

Re: Comments of Puget Sound Energy, Inc. on “Mapping the Cost of Forecast Firm FCRPS Balancing Capability to Competing Balancing Needs and the Framework that Supports BPA’s Acquisition of Additional Balancing Reserves” issued May 9, 2012

Dear Mr. Fisher:

In this letter, Puget Sound Energy, Inc. (“PSE”) submits comments on the Bonneville Power Administration (“BPA”) document titled “Mapping the Cost of Forecast Firm FCRPS Balancing Capability to Competing Balancing Needs and the Framework that Supports BPA’s Acquisition of Additional Balancing Reserves” issued May 9, 2012. This document (“Concept Document”) is labeled as “A Conceptual Construct to Jump-Start Workshop Discussion” and its stated purpose is as follows:

- Outline a concept that maps the cost of limited forecast [Federal Columbia River Power System (“FCRPS”)] balancing reserves to competing balancing reserve needs.
- Outline a concept that would guide acquisition of additional balancing reserves when the forecast FCRPS balancing capability is less than the identified balancing need.

(Concept Document at 1.) The Concept Document indicates that the “final mapping construct and framework that BPA proposes after customer input will support the cost allocation used to set the cost of balancing services in BP-14 Initial Proposal.” Therefore, the results of discussions regarding concepts preliminarily outlined in the Concept Document may well have important

consequences for the costs of (i) regulation service offered under Schedule 3 of the BPA Open Access Transmission Tariff (“OATT”), (ii) energy imbalance service offered under Schedule 4 of the BPA OATT, (iii) generator imbalance service offered under Schedule 9 of the BPA OATT, (iv) Variable Energy Resource Balancing Service (VERBS), and (v) Dispatchable Energy Resource Balancing Service (DERBS).

Under the Concept Document, BPA would establish a sequence of access to FCRPS reserve capacity to determine BPA’s allocation of FCRPS costs, capacity acquisition costs, or a combination thereof to certain balancing reserve needs:

A sequence of access to FCRPS reserve capacity costs will be pre-defined for the rate case time period. The FCRPS cost allocation sequence will determine which balancing reserve needs are allocated FCRPS costs and which are allocated capacity acquisition costs.

(Concept Document at 2.)

The flowcharts on page 3 of the Concept Document suggest that BPA would allocate FCRPS costs first to the load balancing reserve capacity requirement¹ and then to the wind balancing reserve capacity requirement² and the non-Federal thermal generation balancing reserve capacity requirement. By allocating FCRPS costs first to the load balancing reserve capacity requirement, it appears that BPA would effectively provide hydroelectric and Federal thermal generation with balancing reserves at a lower unit cost than the unit cost charged by BPA for balancing reserves for wind, solar, and non-Federal thermal generation.

¹ The load balancing reserve capacity requirement includes both Federal hydroelectric and Federal thermal generation balancing reserve capacity requirements. *See, e.g.*, 2012 BPA Final Rate Proposal Generation Inputs Study, BP-12-FS-BPA-05 at 28 (July 2011).

² The wind balancing reserve capacity requirement includes both wind and solar generation balancing reserve capacity requirements. *See, e.g., id.*

1. The Concept Document Fails to Provide Any Rationale that Would Support a Cost Allocation Sequence for the FCRPS

The Concept Document does not justify the application of disparate, lower charges for the provision of balancing reserves for transmission of Federal power to load and does not explain how such disparate charges would be consistent with the statutory requirement that the recovery of the cost of the Federal transmission system be equitably allocated between Federal and non-Federal power utilizing such system. *See, e.g.*, Transmission System Act, section 10. In this regard, the BP-12 Record of Decision states at page 228 that “[a]ll balancing reserve capacity is pooled to lower costs to all users. Wind generators, thermal generators, and loads all use the amount of balancing reserve capacity set aside on a planning basis. Mainzer *et al.*, BP-12-E-BPA-23, at 19.”

Use of the FCRPS to provide balancing service is not a sale of energy or capacity. Rather, as the source of balancing reserves, the FCRPS is used to reliably operate the Federal Columbia River Transmission Service (“FCRTS”), as required by law. BPA is to “operate and maintain the Federal transmission system within the Pacific Northwest . . . [to] maintain the electrical stability and the electrical reliability of the Federal system.” 16 U.S.C. § 838b(d). Accordingly, the provisions of Northwest Power Act section 7(a) regarding rates for sales of capacity or energy (and the other provisions of the Northwest Power Act that govern the sale of energy or capacity) do not apply to use of the FCRPS to provide balancing reserves. Rather, use of the FCRPS to reliably operate the FCRTS is part of BPA’s transmission service, the cost of which is subject to the above-described equitable allocation requirement. *Cf.* BP-12 Record of Decision at page 316.

Further, statutory preference does not require a “sequence of access to FCRPS reserve capacity costs” as proposed in the Concept Document. Statutory preference applies to competing applications to purchase BPA power and only applies to supply, not price, for such purchases. A preference issue arises when there are competing or conflicting requests between a preference entity and non-preference entity to purchase an amount of Federal power. 16 U.S.C. § 832c(b); 16 U.S.C. § 839c(a). *See Aluminum Co. of Am. v. Central Lincoln Peoples’ Util. Dist.*, 467 U.S. 380, 393 (1984). In short, preference does not apply to BPA’s allocation of costs for balancing service.

Similarly, Northwest Power Act section 9(i)(3) does not provide for or require disparate charges for the provision of balancing reserves. Section 9(i)(3) provides, *inter alia*, that BPA is to furnish certain transmission services unless the Administrator “determines such services cannot be furnished without substantial interference with his power marketing program,

applicable operating limitations or existing contractual obligations." However, section 9(i)(3) does not qualify or limit BPA's obligation to provide transmission under various other statutory provisions. For example, section 9(d) of the Northwest Power Act requires BPA to provide transmission to utilities for transmission of non-Federal power:

In addition to the directives contained in [section 9(i)(1)(B) and section 9(i)(3)] and subject to:

- (1) any contractual obligations of the Administrator,
- (2) any other obligations under existing law, and
- (3) the availability of capacity in the Federal transmission system, the Administrator *shall provide transmission access, load factoring, storage and other services normally attendant thereto to such utilities and shall not discriminate against any utility or group thereof on the basis of independent development of such resource in providing such services.*

16 U.S.C. § 839f(d) (emphasis added). The directive to BPA in section 9(d) to provide transmission and other services to utilities is in addition to the directives to provide transmission in section 9(i) and is not qualified by any limitations in section 9(i)(3).

Moreover, the Concept Document's proposed sequencing of access to the FCRPS for pricing reserve capacity is not relevant to BPA's power marketing program. Instead, the use of FCRPS for balancing reserves is part of BPA's obligation to maintain the electrical stability and the electrical reliability of the Federal transmission system. The allocation of the cost of supplying balancing reserves from the FCRPS in no way implicates or interferes with BPA's power marketing program. In short, section 9(i)(3) does not apply to BPA's allocation of costs for balancing service.

Further, the Concept Document does not explain how application of disparate, lower charges for the provision of balancing reserves for transmission of Federal power to load would be consistent with BPA's charging itself rates that are comparable to the rates that BPA charges others.

The implementation of a cost allocation sequence for the FCRPS to balancing reserve capacity would be inconsistent with BPA's approach of providing Ancillary and Control Area

Services on the same terms and conditions and price to all members of the class of customers taking a particular service. BPA has not justified departure from BPA's current approach.

The Concept Document does indicate that "BPA assumes that loads should be served first." (Concept Document at 2.) However, BPA has not explained how any such priority of curtailment would justify allocation of higher cost resources to balancing service for wind. It is understandable that BPA should treat load shedding as a measure of last resort during periods of insufficient generation or transmission capacity. The Concept Document, however, addresses allocation of costs of capacity and not service priorities during periods of insufficient generation or transmission capacity. The Concept Document does not provide any rationale why load should be disproportionately allocated FCRPS costs and shielded from capacity acquisition costs.

2. It Does Not Appear that BPA Has Adequately Explored *Dec*

The Concept Document states that BPA will focus on planning for potential acquisitions for *inc* need:

BPA will focus only on planning for potential acquisitions for *Inc* need – *Dec* acquisitions appear to be expensive relative to the alternative of feathering wind. Absent customer feedback to the contrary, BPA will assume that this alternative of feathering wind is preferable.

(Concept Document at 2.)

It is not clear from the information available that BPA has sufficiently explored the availability of *dec* acquisitions. Accordingly, it is not clear upon what basis BPA has apparently concluded that *dec* acquisitions appear to be expensive relative to feathering wind. BPA has stated in various workshops that it conducted a request for proposals for *dec* acquisitions and that the resulting bids in response to such request were uneconomic. However, it is unclear what types and durations of *dec* products were requested, to whom such requests were made, how many responses BPA received to its request, and the nature of such responses. It appears that neither the results of BPA's request for proposals nor summary thereof (which could protect proprietary data, as appropriate) has been publicly released. Finally, it is not clear whether BPA will in the future explore the availability of *dec* reserves, on a planning basis or on a shorter-term operational basis.

BPA should not conclude that feathering wind in its Balancing Authority Area is economically preferable to *dec* acquisitions absent the provision of additional information (with

appropriate measures as necessary to preserve confidentiality of the details of individual bids) regarding the potential costs of *dec* acquisitions. Rather, BPA should work in collaboration with its customers to design a process pursuant to which BPA seeks to procure balancing reserves to the extent it is not physically feasible to provide balancing reserves from the FCRPS.

3. BPA Should Not Limit the Provision of Balancing Reserves to a Fixed Amount of Capacity Established in the Rate Case

The Concept Document states as follows at page 1:

Absent significant changes in self supply or scheduling practices for the final proposal, the forecast FCRPS limit will likely be insufficient to provide balancing reserves at the 99.5% level of service for either inc or dec reserves.

The Concept Document further states that BPA acquisitions “to provide the base level of service for each category in the FCRPS cost allocation sequence will be purchased prior to the start of the rate period.” (Concept Document at 2.)

If BPA's balancing reserves on the FCRPS and BPA's planned balancing reserve purchases are inadequate, BPA should purchase reserves on an operational basis. BPA should not limit the provision of balancing reserves to fixed amount of capacity established in the rate case. BPA should clarify that it will offer balancing service to the extent physically feasible to do so from:

- (i) capacity from any fixed amount of capacity from BPA's resources established in the rate case;
- (ii) capacity on BPA's resources in excess of any fixed amount of capacity established in the rate case if it is physically feasible for BPA to offer generator imbalance service using its own resources; and
- (iii) capacity available from third-party resources if it is not physically feasible for BPA to offer generator imbalance service using its own resources.

In this regard, see, e.g., FERC Order 890-A at paragraphs 289-90 and FERC Order 764 at paragraphs 270-71.

4. The Right to Comment on Allocation of Costs of Acquisitions to Accommodate Increases to the Base Level of Service is Reserved

The Concept Document states that inc acquisitions “will be made to accommodate requirements/need/requests to increase the base level of service (*i.e., Formula Rate II and Supplemental Service.*)” (Concept Document at 2.) The Concept Document further states that the allocation of costs of such acquisitions will vary depending on whether the acquisition benefits the balancing portfolio or individual pools of customers:

- i. Acquisitions that benefit the balancing portfolio – The FCRPS cost allocation sequence will be used to determine which balancing pools are allocated the costs of additional Inc acquisitions when acquisitions are made at the request of and for the benefit of the entire balancing portfolio.
- ii. Acquisitions that benefit individual pools or customers – When acquisitions are made at the request of and for the benefit of individual groups or customers, the group or customer that benefits from that acquisition will pay for the cost of that acquisition.

(Concept Document at 2.) At this time, it is not clear if, and under what circumstances, BPA will make acquisitions to accommodate increases to the base level of service. PSE reserve the right to submit comments regarding the allocation of costs for such acquisitions.

5. Conclusion

BPA should continue to provide balancing service for all users from a common pool, with all such users sharing proportionately in the costs of such pool. If BPA's balancing reserves on the FCRPS and BPA's planned balancing reserve purchases are inadequate, BPA should purchase reserves on an operational basis. It does not appear that BPA has adequately explored the availability of *dec* acquisitions. BPA should clarify that it will offer balancing service to the extent physically feasible to do so, as described above.

PSE appreciates BPA's review of these comments and consideration of the recommendations contained herein. By return e-mail, please confirm BPA's receipt of these comments.

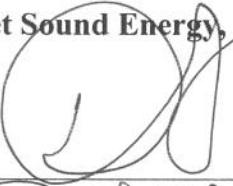
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Very truly yours,

Puget Sound Energy, Inc.

By

Its



David E. Miller