SNOHOMISH COUNTY
PUD
PUBLIC UTILITY DISTRICT NO. 1
Your Northwest renewables utility

January 22, 2016

Submitted via email: refredrickson@bpa.gov

Bonneville Power Administration
905 NE 11th Ave.
Portland, OR 97232

Subject: PUD No. 1 of Snohomish County comments on the Southern Intertie Hourly Non-Firm Product White Paper Alternatives

Dear Ms. Fredrickson,

Public Utility District No. 1 of Snohomish County (Snohomish) welcomes the opportunity to comment on the Southern Intertie Hourly Non-Firm Product and the alternatives identified in Bonneville Power Administration's (BPA) draft White Paper published December 22, 2015.

The Southern Intertie is a valuable transmission path and one of the primary connections between the Pacific Northwest and California. As a Pacific Northwest Third AC Capacity Owner and long term firm rights holder, Snohomish believes that the costs and benefits of the Southern Intertie should be equitable between users of capacity on both ends of the line. However, we understand that this equity is eroding as California Independent System Operator (CAISO) customers are able to purchase and utilize the hourly non-firm product on an equivalent priority basis to long term firm service. This severely impacts the value of firm reservations for Northwest customers and devalues long term investment in the Southern Intertie.

Snohomish's comments are aimed at providing feedback on the factors contributing to this erosion of equity; first by addressing the seams issues affecting the intertie, then directly addressing the proposed alternatives laid out in BPA's draft White Paper.

Seams Issues

BPA and customers have identified three "seams" issues which are contributing to the loss of value for long term firm rights holders. These are:

1. BPA does not limit use of firm rights during de-rates on the intertie
2. BPA's hourly non-firm service is functionally equivalent to firm service in the CAISO day-ahead market
3. Consistency of Open Access Transmission Tariff (OATT) curtailment priorities between neighboring Balancing Authorities

In its White Paper, BPA considers seams issues 1 and 3 to be "out of scope" for this process, but states that these issues must be addressed. Snohomish believes seams issue 2 has the largest impact on firm rights holders, but agrees with BPA that seams issues 1 and 3 must be resolved. For this reason, Snohomish requests that BPA establish another process or workshop this summer to discuss working towards a resolution. Snohomish believes that BPA must address these problems in a public forum, whether that involves amending BPA business practices, working directly with the CAISO, or a yet unidentified solution.

Alternatives

Snohomish believes that implementing a combination of rates and non-rates solutions will best address the seams issue. By implementing a rates solution in an expedited 7(i) process beginning in March 2016, BPA can recapture some lost value, as well as bring the hourly non-firm rate to comparable levels with California-based transmission providers' hourly non-firm rates.[1] Meanwhile, BPA can implement a targeted non-rates solution, further closing the gap in value.

Alternative 0 – Maintain the Status Quo

Snohomish recognizes the need for change from the status quo. As such, Snohomish strongly opposes Alternative 0 to maintain the current hourly non-firm methodology for the Southern Intertie.

Alternative 2 - Calculate the Southern Intertie HNF rate based on a different assumption of "high value" hours

Snohomish strongly supports BPA adopting the methodology proposed in Alternative 2. Utilizing a more accurate assumption for evaluating the "high value" hours properly sends price signals and supports economic allocation of Southern Intertie capacity. This methodology seems to contain the most analytical rigor, and does not rely on assumptions or require the use of a discount factor.

Snohomish also recognizes that this alternative presents a range of possible outcomes between $5 and $13 per MWh. In its December 17 presentation, BPA's effectiveness matrix shows that this alternative becomes increasingly effective as the price approaches $13 / MWh. As the non-firm rate increases, the benefit of using the hourly non-firm product over firm service decreases, helping to bridge the gap in value and encourage investment in long term reservations. Snohomish would recommend that the methodology focus on the higher end of the price spectrum. A nominal increase from $3.53 to $5 / MWh, for example, is unlikely to result in a significant shift from the status quo. In turn, this will result in continued erosion of long term firm rights and the possible loss of long term reservations.

An added benefit to holding an expedited 7(i) process and implementing a revised rate in fiscal year 2017 is the opportunity for BPA and its customers to observe the market impacts of the new rate. These observations will lend BPA strong evidence for retaining or revising the rate as part of the BP-18 Rate Case. Snohomish urges BPA to elect and proceed with Alternative 2, and to implement a non-firm hourly rate at the higher end of the price spectrum, in order to effect relief.

Alternative 5 – Elimination of the Hourly Non-firm Interruption Credit

Snohomish supports the elimination of the Hourly Non-firm Interruption Credit. While this credit is not a major factor in the benefit differential, it is another example of the imbalance

[1] Snohomish recognizes that a direct comparison may not use comparable terms, based on system configuration, eligible Intertie access, and facilities included. BPA Draft White Paper, Page 10-11

between firm and non-firm rights holders. Elimination of the credit does not directly influence the level of the rate, but rather shifts risk from the transmission provider to the customer. Snohomish is not currently aware of a similar credit offered on any other transmission provider's system. While eliminating this credit will not fully solve the seams issue, it will further reduce the gap in value between firm and non-firm rights holders. Snohomish supports the analysis as stated in the draft White Paper and supports adopting Alternative 5.

Alternative 6 – Sell HNF Capacity Only Once
Snohomish supports adopting Alternative 6, as described in the White Paper. Currently, BPA re-sells any unscheduled HNF capacity in the event a customer only partially schedules their full purchase. This adds uncertainty to the amount of inventory available and promotes selling capacity in excess of what is actually available. Snohomish is not aware of any other transmission provider that resells capacity that has been sold once already. Selling HNF capacity only once does reduce the overall amount available as compared to today, but increases the potential utilization by long term rights holders.

Alternative 7 – Do Not Sell HNF on the Southern Intertie
Snohomish strongly opposes this Alternative. Currently, hourly non-firm provides benefit to BPA, Pacific Northwest stakeholders and California stakeholders. While this benefit is currently imbalanced, it is not efficient or prudent to completely eliminate the benefit for everyone. Rather, implementing the alternatives identified in these comments will help rebalance the costs and benefits of hourly non-firm and will send the proper price signals to firm and non-firm rights holders and encourage continued investment in the Southern Intertie.

Alternative 9 - Change the hourly non-firm release time on the Southern Intertie
Snohomish believes that this non rate-based solution has the potential to solve the seams issue related to the timing mismatch between CAISO bid awards and the release of hourly non-firm inventory. However, there has not been enough study of the potential impacts of shifting the release time for hourly non-firm. It is unclear how either possible release time identified in the White Paper (either Noon on the preschedule day or T-60 before the hour) would affect the market in the Northwest or in California.

Snohomish encourages BPA to continue analysis on this option and hold further workshops to evaluate possible effects. Because this alternative does not affect the hourly non-firm rate, BPA could continue with an expedited 7(i) in parallel to these additional workshops. Once the proper timing and approach is identified, BPA could then make any needed changes to its Business Practices. Snohomish agrees with the White Paper analysis that this option could be effective at encouraging subscription to long term firm but believes that further study is necessary before implementation takes place.

Other Alternatives
To the extent an alternative is not listed here, Snohomish takes no position on that alternative. Many alternatives could have promising outcomes, but the costs, systems, and continued oversight to implement could be prohibitive. Snohomish does not explicitly oppose those alternatives, but rather believes that the alternatives supported in these comments are the most

reasonable and effective methods for addressing the overarching issue of maintaining value for long term firm rights holders.

Conclusion

Snohomish appreciates the opportunity to provide feedback on the issues facing the Southern Intertie and on BPA's draft White Paper. Snohomish looks forward to the final White Paper, as well as the continued public discussions related to seams issues 1 and 3. If you have any questions about Snohomish's comments, please contact me, either by phone at (425) 783-8309 or by email at irhunter@snopud.com

Sincerely,

Ian Hunter

Ian Hunter
Transmission Policy Analyst