Southern California Edison
Stakeholder Comments

Regional White Paper: Presentation and Analysis of Southern Intertie Non-Firm Alternatives
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Submitted by	Company	Date Submitted
Paul Nelson – (626) 302 - 4814 Danphy Wong – (626) 302 - 3763	Southern California Edison	January 22, 2016

Southern California Edison (SCE) herein comments on BPA's *Regional White Paper: Presentation and Analysis of Southern Intertie Non-Firm Alternatives* published on December 22, 2015.[1] (White Paper) SCE continues to have concerns with BPA's proposed statement of the issue and some of the proposed solutions. The White Paper includes the following statement:

> Customers have become increasingly concerned that long-term firm (LTF) transmission service on the Southern Intertie no longer has the value that it once had. Some customers are not renewing service and have removed requests from the queue. These customers have also expressed concerns that an equitable share of the economic benefits derived from markets served by the Southern Intertie should go to Northwest parties that purchase long-term service over the intertie. Bonneville Power Administration (BPA) wants to see what actions (if any) it should take to make sure long-term service on the Southern Intertie remains viable and its customers receive an equitable share of the economic benefits provided by the Southern Intertie.[2]

SCE has serious concerns about this statement as it implies that BPA's role to provide cost-based transmission on a non-discriminatory basis is being modified to become an allocator of economic benefits to customers that purchase long-term transmission service vs non-firm service. SCE provided similar comments to a previous BPA workshop held on this issue last year, and SCE recommends BPA review the comments as they are still relevant.[3] In summary, it is inappropriate for BPA to have a role to ensure that customers that have purchased long-term

[1] https://www.bpa.gov/Finance/RateCases/BP-18/Meetings/White%20Paper_IS%20HNF_V2_20151222%20(clean).docx
[2] Ibid, page 1.
[3] http://www.bpa.gov/Finance/RateCases/BP-16/Customer%20Comments/SCE%20Comments.pdf

firm transmission continue to receive economic benefits that may have occurred when they decided to purchase the transmission. Purchasing long-term firm transmission has the risk that economic conditions will change over time and the customers decided to accept that risk. BPA should not be in the role to manage that risk, otherwise other customers bear the burden of bad decisions they did not make.

If the issue is BPA's inability to collect its revenue requirement for the Southern Intertie because customers are no longer purchasing long-term firm transmission, then SCE is open to proposals that would resolve this issue provided that they meet the following principles:

- Cost-based rates to recover BPA's revenue requirement
- Not distort economic decisions to achieve least-cost dispatch (variable costs)
- Non-discriminatory access and treatment to all customers located within or outside BPA service area
- Encourages the efficient use of transmission capacity and does not allow or encourage withholding of unused transmission

1. Transmission ratemaking should not distort economic dispatch

Transmission rates are predominantly the recovery of fixed costs of past investments. To achieve the least cost dispatch of resources, and therefore minimize variable operating costs, the fixed cost should be ignored. Therefore, CAISO's market optimization does not incorporate transmission costs or firm vs non-firm transmission rights when selecting the units to dispatch.

However, it appears BPA is trying to ensure their firm transmission customers should be entitled to serve CAISO load over non-firm customers, with the following statement:

> The ability to bid into the CAISO Day Ahead Market (DAM) without firm transmission rights and procure hourly non-firm prior to the tagging deadline has the potential to devalue long-term rights in two ways. First, it increases the probability that a customer with LTF rights will not be able to fully utilize their transmission rights.[4]

Selecting a higher priced resource with firm transmission over a cheaper resource with non-firm transmission is economically inefficient. BPA's analysis of proposals of the effectiveness to

[4] White Paper, page 3.

"preserve LTF in the CAISO Day Ahead Market" is misguided as it will interfere with achieving least cost dispatch.

BPA's understandable desire to maintain full subscription of firm-transmission which achieves revenue certainty is in conflict with the use of energy markets in the West to achieve efficient dispatch. However, the loss of revenue certainty can be mitigated by the use of balancing accounts in the ratemaking process without distorting least cost dispatch.

2. SCE supports the status quo for Southern Intertie transition rates

The White Paper listed several rate design proposal and at this time SCE supports the status quo as it is does not violate the principles described above. SCE strongly objects to any rate proposals designed to capture market value or high value hours, as they violate the principle of cost based rates. Implementing these types of rates harm transmission customers located in BPA area through the reduction in energy sales. The implementation of higher 'valued' based rates will transfer revenue from the non-firm customer to BPA or to holders of firm transmission holders. This clearly violates a cost-based rate principle and creates issues of discriminatory access.

One proposal is to set rates based upon the cost of expansion, but then allow discounting of the rate to recover embedded cost. This proposal may have merit as it implies marginal cost based ratemaking which can achieve efficient market outcomes. It is unclear if this would be done as a redesign of all transmission rates or if this is piecemeal to only hourly non-firm rates.

3. SCE supports non-rate proposals that maximize the use of transmission and do not allow withholding

Currently, BPA releases transmission that is not being used by firm transmission customers. This achieves economic efficiency as it maximizes the use of transmission and allows more commerce. SCE strongly supports continuing this practice. SCE strongly objects to proposals that would reduce transmission use or allow withholding which can lead to market manipulation and result in higher prices. Withholding unused transmission on the Southern Intertie would artificially reduce economic trade which harms society.[5]

[5] The loss in economic trade would harm generators that cannot sell energy as well as consumers that cannot buy lower priced energy. This would harm participants located in California and the Northwest.