Comments of Exelon Generation on
BPA's Southern Intertie Hourly Non-Firm Alternatives White Paper
Submitted via email to: refredrickson@bpa.gov
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As a long-term firm (LTF) rights holder on the Southern Intertie, Exelon Generation has been following with interest the ongoing deliberations about the relative value of LTF versus Hourly Non-Firm (HNF) on the Southern Intertie, and the concerns that value of the LTF is being eroded. The Regional Whitepaper – Presentation and Analysis of Southern Intertie Hourly Non-Firm Alternatives (Whitepaper) notes three key reasons that could be causing a reduction in the value of LTF, but proposes to focus on one of them at this time. Specifically, the Whitepaper presents alternatives for dealing with the potential devaluation of LTF created by "[t]he ability to bid into the CAISO Day Ahead Market (DAM) without firm transmission rights and procure hourly non-firm prior to the tagging deadline." The result of this is that BPA's HNF service has the same priority in the CAISO Day Ahead Market as LTF service. For the other two problems that the Whitepaper identifies as potential causes of devaluation of LTF – the fact that BPA does not prorate LTF scheduling during path derates and that neighboring OATT transmission providers do not recognize each other's curtailment priorities – BPA plans to address them in separate proceedings.

The mismatch in the market designs employed by the CAISO and BPA is at least part of the problem, and therefore Exelon Generation would urge that both the CAISO and BPA should work collaboratively to solve the identified seams issues, when such resolution is possible. However, it is unlikely that the CAISO congestion management system will be harmonized with BPA's cost-based scheduling/tagging regime in the foreseeable future. In essence, the fundamental fix of a common market design is likely not achievable, so secondary fixes to re-establish the presumed benefits of LTF over HNF need to be considered. Moreover it is important to note that there is changing market landscape throughout the West – driven largely by environmental policies and mandates to increase the use of renewable resources and the desire for increased reduction in the levels of GHG emissions – that will undoubtedly be reflected in the narrowing of pricing spreads between the Pacific Northwest market and its neighboring markets. Market prices must be allowed to accurately reflect these market shifts and pricing trends so that there are maximum efficiencies brought to bear in meeting these environmental goals.

With respect to the specific Alternatives presented in the Whitepaper, Exelon Generation is not convinced that any change to the HNF rate mechanism is warranted at this time. Any increase to HNF rate will increase the value of LTF, but the tradeoff between preserving the value of LTF (as measured by whether or not customers are willing to sign up for it), and the short term revenues achieved by making unused system capacity available through HNF service seems quite difficult to predict.

Exelon Generation shares the concern noted by BPA in the Whitepaper that Alternatives #1 (Recalculate the Southern Intertie HNF rate using the methodology proposed by Joint Party 06 in BP-16 or Recalculate the Southern Intertie HNF rate based on a different measure of Southern Intertie usage) and #2 (Calculate the Southern Intertie HNF rate based on a different assumption of "high value" hours) could create severe rate shock. Historic usage could change dramatically from year to year, causing unpredictable changes in rates not tied to ratemaking principles. Likewise, Exelon Generation would not support either Alternative #3 (Set the Southern Intertie HNF rate based on the cost of expansion) or

Alternative #5 (Eliminate the HNF Interruption Credit), as both are untenably arbitrary and far afield of cost based solutions.

Exelon Generation objects to each of the non-rate alternatives that are aimed at restricting the use of HNF service (alternatives #6, #7, #7a, #7b, #8, #10, and #11). Mechanisms that artificially restrict maximum use of the system conflict with open access principles that available transmission should be made available.

With respect to Alternative #9 (Change the HNF Release time on the Southern Intertie) and Alternative #13 (BPA proactively manages curtailments on the Southern Intertie prior to the interval), Exelon Generation believes that there may be merit in pursuing each of these alternatives because each of them more directly addresses the fundamental problem of ensuring that LTF actually has a higher priority than HNF. However, Exelon Generation would urge that, with respect to Alternative #13, there needs to be careful attention to implementation to ensure that curtailment management does not result in a situation that eliminates all certainty associated with HNF awards – i.e., at some point, an award of HNF and use of that award for scheduling must not be undone by late scheduling of LTF.

Exelon Generation looks forward to continued participation in these deliberations. If you have question, please contact Dirk Vanderlaan (410-470-4343) or Mary Lynch (916-606-0783.