

Southern Intertie HNF Alternatives

Regional White Paper

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Calpine holds a significant quantity of long-term firm transmission on the Southern Intertie. We appreciate BPA's review and the tentative conclusion that the seam between the CAISO and BPA has resulted in a change to the value of long-term firm transmission. In fact, the crux of the seam is the difference between value-based pricing of transmission by the CAISO (i.e., bidding and congestion/shadow prices) versus the traditional cost-based approach of BP-16.

We have reviewed the alternatives offered in the "Regional White Paper", dated December 22, 2015. In total, the alternatives are attempting to properly reflect not only the absolute cost of providing the transmission service, but also the relative value of long-term versus hourly non-firm (HNF) products. The alternatives are grouped into "Rate and Non-Rate Alternatives". Rate alternatives boost price, while non-rate alternatives, generally, restrict availability

Calpine believes that value should be reflected in prices. It follows, therefore that transmission should be offered at a price which reflects its value, but importantly, that any transmission not pre-scheduled should be conveniently made available. As a general matter, we dislike the proposed "non-rate" alternatives that restrict the availability of transmission both because they restrain trade, and also because they reduce the potential revenue stream to offset the total system costs. Parties that want no-notice transmission, and do not commit to pay the ongoing cost of service (i.e., hourly non-firm) should pay a substantial premium over the firm price for access to that service.

Divining the "right" HNF rate, however, is no easy task. The simplest solution, which is part of several alternatives, is to adjust the denominator of the rate formula. One approach is to look south, and even the most casual observers of the CAISO market will conclude that as a result of the rather dramatic solar growth, there are only 4, or so, premium hours of each weekday, HE 17-20. So, 4 hours a day, 5 days a week would suggest that HNF could be based on much lower utilization (~20 hours per week) than that included in BP-16. This leads us to the conclusion that the rate alternatives, most likely alternative 2 holds the most promise for a productive and efficient result.

Thanks,
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