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## *Via Electronic Mail*

Rebecca Fredrickson  
Transmission Rates Manager  
Bonneville Power Administration  
905 NE 11<sup>th</sup> Avenue  
Portland, OR 97229

Re: Comments of ICNU on Southern Intertie White Paper

Dear Ms. Fredrickson:

The Industrial Customers of Northwest Utilities (“ICNU”) appreciates the opportunity to submit comments on the draft Regional White Paper, Presentation and Analysis of Southern Intertie Hourly Non-Firm Alternatives, issued on December 22, 2015, by the Bonneville Power Administration (“BPA”). Generally, ICNU appreciates BPA’s proactive approach in collaborating with stakeholders to protect the priority rights of long-term firm (“LTF”) transmission holders on the Southern Intertie. ICNU also appreciates the substantial amount of effort that BPA Staff and many regional stakeholders have expended on this stakeholder process.

In summary response to the draft Regional White Paper, ICNU recommends that BPA pursue both a rate and non-rate alternative as an outcome of this stakeholder process. First, ICNU recommends that the BPA adopt Alternative 3, calculating the hourly non-firm (“HNF”) rate based on the cost of expansion, as the best potential rate alternative. ICNU recommends that BPA implement this rate alternative in an expedited 7(i) proceeding. Second, ICNU recommends that BPA adopt Alternative 9 as the best potential non-rate alternative.

When BPA develops its final proposal, ICNU strongly recommends that BPA simultaneously pursue both a rate and non-rate alternative. Each alternative will have varying degrees of effectiveness in addressing the underlying problem. Accordingly, using both a rate and non-rate alternative has the potential to address the underlying problem in a more comprehensive matter.

As discussed in prior comments, ICNU believes that the underlying problem identified in this stakeholder process ultimately lies with the market design of the California Independent System Operator (“Cal-ISO”), where market participants are allowed to submit import bids for firm power into the day-ahead market, without having yet secured transmission to the market. This allows for a practice similar to selling non-firm energy as firm, which both the Cal-ISO and the Federal Energy Regulatory Commission (“FERC”) have long characterized as improper.<sup>1/</sup> While no specific instances of this market behavior have been identified, BPA would be justified in making a change to its HNF rates simply due to the potential that these improper practices are possible.

ICNU also believes it is important for BPA to take unilateral action now, as the consequences of maintaining the status quo have the potential to be substantial. Even if HNF transmission represents only a small percentage of energy scheduled on the Southern Intertie, improper use by only a small fraction of customers would have the potential to shift substantial value away from LTF rights holders.

## **A. Rate Alternatives**

### **1. Alternative 3 - Southern Intertie HNF Rate Based on the Cost of Expansion**

As expressed in prior comments, ICNU believes that it would be appropriate to apply a form of opportunity cost pricing to the HNF rate, calculating the rate based on the cost of expansion. ICNU believes this is a defensible approach because, as discussed in FERC Order 888, use of opportunity cost pricing is a permissible methodology to bypass the general requirement that non-firm rates be capped at the firm rate.<sup>2/</sup> The cost of expansion is an appropriate opportunity cost because, absent new transmission capacity, no incremental transactions can physically occur on the Southern Intertie, due to the fact that it is already fully subscribed. Such a methodology will also provide for an efficient price signal of the costs associated with HNF customers’ use of this commercial path.

In terms of effectiveness, ICNU concurs with BPA’s assessment that Alternative 3 would be a “very effective” solution, both to preserve LTF value and to encourage continued subscriptions on the Southern Intertie. BPA recognizes, when considering a rate alternative to preserve LTF value, that “[t]he degree of effectiveness is related to the magnitude of rate change.” Accordingly, an HNF rate based on cost of expansion methodology provides a rate adjustment of sufficient magnitude to ensure that LTF value will be preserved. Similarly, ICNU agrees with the conclusion that the likely magnitude of the HNF rate increase under Alternative 3 “would provide a very strong incentive to continuing LTF service on the Southern Intertie.”

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<sup>1/</sup> See, e.g., *American Electric Power Service Corporation, et al.*, 103 FERC ¶ 61,345 (2003).

<sup>2/</sup> Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, 61 Fed. Reg. 21,540, at pp. 319-320 (May 10, 1996).

When considering Alternative 3, any potential rate shock must be weighed in the balance of all Southern Intertie transmission service concerns. In other words, the crucial benefit of ensuring the preservation of LTF value, as accounting for 95% of Southern Intertie revenue requirement, far outweighs the comparatively modest rate concerns relevant to the 5% revenue requirement attributable to HNF service. Simply put, Alternative 3 is the best overall rate option when factoring all three main evaluative criteria used by BPA: 1) preserving LTF value (highest rating); 2) encouraging continued LTF subscription (highest rating); and 3) durability (second highest rating). In light of the relative priority which should be afforded to LTF concerns, therefore, Alternative 3 should be the first option considered as the focus of an expedited 7(i) rate proceeding in the coming months.

## **2. Alternative 2 - Southern Intertie HNF Rate Based on a Different Assumption of “High Value” Hours**

Although potentially less effective than Alternative 3 in preserving LTF value, and scoring lower under BPA’s overall evaluative rubric, ICNU could still support Alternative 2 in an expedited 7(i) proceeding. Specifically, ICNU would recommend the assumption of 20 “high value” hours in a week under an Alternative 2 analysis, to afford BPA the best possible means to preserve LTF value on the Southern Intertie and to encourage continued LTF subscriptions. Notwithstanding, ICNU has some concerns with this methodology because it could potentially be viewed as creating an HNF rate that exceeds the firm rate, despite FERC’s general policy to cap non-firm rates at the firm rate.

That said, ICNU agrees with BPA as to certain salutary attributes of the Alternative 2 option. First, this solution promises to be durable given “market conditions that indicate ‘high value’ hours are likely to be less effected by a change in the HNF than use of the HNF product period to period.” Second, in comparison to other alternatives, it should be easier to isolate rate design under this solution “since markets accessed by the Southern Intertie have a different set of ‘high value’ hours than those on the network.” Finally, as with Alternative 3, concerns over HNF rate shock should not prevent BPA from pursuing Alternative 2 in an expedited 7(i) proceeding, owing to the far more significant needs of ensuring LTF value on the Southern Intertie.

## **B. Non-rate Alternatives**

In conjunction with either Alternative 2 or 3, ICNU recommends that BPA continue to develop Alternative 9 (*i.e.*, changing the HNF release time on the Southern Intertie), as a complementary non-rate solution to durably preserve LTF value and to encourage continued LTF subscription on the Southern Intertie. In advocating for Alternative 9, ICNU emphasizes the need to further *develop* this potential solution. To be effective, the release of the HNF product may need to be made prior to 13:00, when the Cal-ISO market awards are posted. This presents logistical challenges, however, because it would require release of HNF prior to the closure of the WECC preschedule window at 15:00. But, since the Cal-ISO awards will determine who ultimately flows on the path, BPA should be able to safely develop a

methodology to determine unscheduled rights prior to the closure of the preschedule window, without substantial exposure to oversubscription.

Even with these logistical challenges, ICNU considers Alternative 9 to be the most promising non-rate solution under consideration. Releasing HNF transmission prior to the time that import bids are awarded by the Cal-ISO market would appear to be a direct and effective way that BPA can prevent improper use of HNF, while preserving the nature of the underlying HNF product. In theory, this alternative could ensure that a market participant would no longer have the option to secure HNF transmission after being awarded an import bid into the Cal-ISO. ICNU shares BPA's concern, however, that "this alternative might actually increase certainty of some customers' ability to acquire HNF," due to self-scheduling options. For this reason, ICNU believes that further study and analysis is imperative. Moreover, releasing HNF at T-60 as BPA suggests, or at another T- interval, may also be an effective means to "increase the risk of relying on HNF as customers would need to try and acquire HNF at the beginning of every hour rather than acquiring blocks of HNF." ICNU agrees that, "[i]f a customer is unable to acquire HNF transmission to deliver power or they need to buy HNF in excess of what they need, it creates an incentive for that customer to either acquire LTF or acquire firm transmission in the resale market."

### **Conclusion**

BPA Staff should be commended for its work thus far in receiving stakeholder feedback and in developing an analysis of options to maintain the priority rights of LTF transmission holders on the Southern Intertie. As BPA has identified, continued erosion of LTF value and diminishing LTF subscriptions on the Southern Intertie could endanger transmission cost recovery and negatively affect BPA and all of its customers. Hence, as potentially envisioned by the Administrator, an expedited 7(i) proceeding to implement rate Alternatives 3 or 2 is justified. Likewise, ICNU recommends that BPA continue to develop the non-rate Alternative 9 as a promising solution to complement an HNF rate increase.

ICNU also recommends that BPA continue its efforts to cooperatively address seams issue with the Cal-ISO. While ICNU strongly supports BPA's efforts to remedy LTF issues on the Southern Intertie through the rate and non-rate alternatives discussed in these comments, collaboration with the Cal-ISO may ultimately prove the best means to secure an enduring solution.

ICNU appreciates the opportunity to submit these comments regarding the use of HNF transmission on the Southern Intertie and looks forward to working with BPA Staff and other stakeholders in continuing to develop solutions on this issue.