Comments of the M-S-R Public Power Agency
Regarding
Southern Intertie Value Discussions

The M-S-R Public Power Agency ("M-S-R") is a joint powers agency formed by the Modesto Irrigation District, and the Cities of Santa Clara and Redding, California, each of which is a consumer owned utility. Beginning with a 2005 contract, M-S-R obtained contractual rights to the output from some of the first large scale wind resources developed in Washington State. M-S-R and its members currently have rights to 350 MW of wind generation in Washington and Oregon, which its members use to serve their customers and meet California's Renewable Portfolio Standards ("RPS"). Those customers ultimately bear the cost of the Bonneville Power Administration ("BPA") transmission rates.

M-S-R appreciates the opportunity to provide comments on issues raised in the recent BPA workshops discussing Southern Intertie value concerns, and regarding the Second Draft Whitepaper.

M-S-R appreciates BPA's inclusion of a description of the rate setting mechanism for the Southern Intertie in the revised Draft Whitepaper. As described in the Whitepaper, and in Appendix C, Hourly Non-Firm revenues are about $3 million per year, and cover roughly 3% of the Southern Intertie revenue requirement. Increases in the Hourly Non-Firm rate may reduce usage of that product, reducing a portion of revenues available to cover the costs allocated to the Southern Intertie. The whitepaper does not explain how that shortfall would be addressed. M-S-R suggests that the proposed experiment with changing the rates should not expose all Southern Intertie users to potential rate increases to make up for lost Hourly Non-Firm revenues. Instead, any such shortfall should be covered by net reserves available for risk. To the extent the change results in an increase in revenues, the increase could be added to reserves.

BPA's December 17, 2015, presentation indicates Staff is leaning towards one of the 'high value hours" rate design changes. Depending on whether the low or high alternative selected, this change is expected to raise Hourly Non-Firm rates by forty to two hundred and seventy percent. The stated purpose of the change is to increase the relative value of the Long Term Firm product, compared with the Hourly Non-Firm product, and increase Long Term Firm utilization. Given the potential detrimental effect on revenues, M-S-R suggests the low case of a 40% increase is more prudent.

The whitepaper indicates the current status quo places BPA at risk for customers not renewing Long-Term Firm rights. Appendix A identifies the owners of various portions of the Southern Intertie, and Appendix B depicts BPA's long-term rights renewal history. Appendix B shows that historically, rights that are not renewed are covered by new offers. It does show BPA at risk of nonrenewal of 358 MW in 2017, and 1,142 MW in 2019. The two are not tied together to indicate which rights holder(s) have expiring rights. While the various solutions are rated on their "effectiveness of preserving advantages of Long Term Firm in the CAISO market," none of the solutions provide any assurance that any of the rights holders will in fact renew their contracts if the solution is adopted. Accordingly, the effectiveness is theoretical, and the risks associated with the solutions must be considered in light of the fact that they may not resolve

BPA's ultimate concern – rights holders not renewing Long Term Firm rights. Changing market dynamics such as a move towards shorter term transactions may, separate and apart from the CAISO seams issues, negatively affect the advantages of Long Term Firm rights. M-S-R encourages BPA to consider the external market factors when it is considering the effectiveness of the proposed rate structure changes.

M-S-R understands that BPA is also considering some modifications to its scheduling protocols for Hourly Non-Firm service. M-S-R is agnostic regarding such protocol changes with the caveat that any changes not cause a reduction in Hourly Non-Firm revenues.

M-S-R is concerned about the seams issues identified by others as well as the seams issue M-S-R identified in its recent rate case testimony. M-S-R understands BPA will defer treatment of the seams issues but encourages BPA to address them at the earliest time feasible.

In conclusion M-S-R appreciates BPA's willingness to address important issues raised by its customers. M-S-R looks forward to further discussions regarding the Southern Intertie Value issues as well as future discussion of the seams issues.