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January 22, 2016

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Submitted via email to refredrickson@bpa.gov

RE: NRU Comments and Preferred Alternatives: BPA Southern Intertie Hourly Non-Firm Transmission Draft White Paper

As requested by BPA, Northwest Requirements Utilities (NRU) submits the following comments on the proposed alternatives on BPA's December 22nd draft "Regional White Paper: Presentation and Analysis of Southern Intertie Hourly Non-Firm (HNF) Alternatives" (Draft White Paper). NRU commends BPA on holding a productive and orderly process to engage the region on this complex and timely issue. As a representative of 53 Load Following customers of BPA that also hold NT transmission contracts, we are keenly interested in ensuring the long-term value of and investment in the Southern Intertie is maintained. As transmission customers, maintaining the long-term value of the Southern Intertie is important to NRU members in order to minimize the risk of stranded assets and costs.

Problem Statement

BPA recovers the majority of the Southern Intertie costs through long-term firm transmission contracts. BPA must ensure that long-term firm transmission continues to be a valuable product for those transmission customers who utilize the Southern Intertie. Based on the previous rate case filings and the Draft White Paper, there appears to be a significant risk that long-term firm transmission customers will increasingly decline to renew their existing contracts. As BPA articulates in the Draft White Paper, this will have two negative effects. First, a decrease in long-term firm subscriptions would likely result in a rate increase to the remaining long-term firm Southern Intertie transmission customers. Progressively, this could strengthen the disincentive for the remaining long-term firm Southern Intertie customers to renew their contracts, exacerbating the problem. Second, the risk of BPA under-recovering or over-recovering increases because as more customers move towards shorter-term services, "the volatility around cost recovery increase." Draft White Paper at 2. The risk of these outcomes jeopardizes BPA's ability to recover the long-term investment in the Southern Intertie and could leave the Agency with stranded transmission costs that would have to be recovered from BPA's other transmission customers. This is an unacceptable outcome and BPA has the responsibility to mitigate this risk and ensure full future recovery costs of the Southern Intertie from that segment.

Preferred Rate Alternative

NRU agrees that BPA should pursue actions that are most effective in addressing the core issue at hand and that are consistent with BPA's statutory obligations, including rate directives.

Of the rate alternatives described in the Draft White Paper, NRU supports adoption of Alternative #2: Calculate the Southern Intertie HNF rate based on a different assumption of "high value" hours. Increasing the HNF rate better ensures that non-firm service is not an economic alternative to investing in long-term service on the Southern Intertie, thus reducing the risk of stranded costs in the Southern Intertie due to undersubscription. A rate solution is the most predictable and understandable means of addressing the risk of future under-recovery.

As the Draft White Paper articulates, the current Southern Intertie HNF rate is calculated such that a customer reserving 80 hours per week pays the same as a customer with long-term firm transmission. Using 80 hours per week to calculate the rate reflects the standard industry trading practices in the bilateral market of the Pacific Northwest: trading in multi-hour blocks of 8, 16, or 24 hours. However, the California Independent System Operator (CAISO) day ahead market operates at an hourly granularity. The different industry standard practices between the bilateral market in the Pacific Northwest and the hourly market in the CAISO day ahead market provides a strong rationale for modifying the number of "high value" hours used to calculate the Southern Intertie HNF rate.

Consequently, NRU supports calculation of the Southern Intertie HNF rate using the assumption of 20 "high value" hours. This would result in a rate of $13/MWh. This removes the economic incentive to "cherry pick" high value hours rather than investing in long-term firm service.

This rate design is consistent with BPA's statutory requirements and ratemaking principles. Of particular importance to this topic are principles 1a "Full and timely cost recovery" and 1b "BPA's rates are based on total system costs." Alternative #2 would help BPA mitigate the risk of future under-recovery by setting BPA's transmission rates in a more equitable fashion based on the firmness of the actual transmission. It also meets principle 1c because the rate would not distinguish between federal and non-federal uses of the Southern Intertie and principle 1d by keeping the long-term and short-term rates as low as possible while still recovering the costs of the Intertie.

Alternative #2 also meets all of BPA's ratemaking principles, including cost causation, consistent with statutory obligations and minimizing compliance risk and simplicity. Principles 2d "avoidance of rate shock" and 2e "rate stability from rate period to rate period" are perhaps the most relevant on this topic and go hand-in-hand. BPA states in the Draft White Paper that Alternative #2 might violate the principle of avoiding rate shock. NRU disagrees. Even though this alternative will result in a higher hourly non-firm rate, it will help avoid large and volatile swings in all Southern Intertie rates in the future. It is essential that BPA take actions to avoid the risk of stranded assets and potential rate instability that could occur if BPA does not address the problem now.

Additionally, Alternative #2 does not require tariff or business practice changes and results in a durable and consistent rate design over time.

Expedited Rate Case and Additional Processes

Due to the concerns about the devaluing of long-term firm transmission on the Southern Intertie articulated above, it is appropriate for BPA to hold an expedited rate case this spring to formally address this issue through a change to the rate design, which would go into effect at the start of FY 2017. In the event BPA holds an expedited rate case, NRU intends to advocate for an adoption of Alternative #2, calculating the rate based on 20 high value hours per week.

NRU also urges BPA to continue to evaluate whether it would be prudent to adopt any of the non-rate alternatives explored in this process and to work collaboratively with the CAISO as appropriate to address this and other seams issues as they arise. However, the primary focus should be a near-term rate solution. If other refinements are necessary, doing something now creates and opportunity for data collection on the effectiveness and an additional opportunity to refine business practices over time and rates in the BP-18 rate case.

Conclusion

NRU appreciates the public process BPA has conducted following the conclusion of the BP-16 rate case. This has been educational and provided the opportunity for robust and thorough discussion among stakeholders. For the reasons stated above, NRU encourages BPA to implement Alternative #2 and calculating the rate based on 20 high value hours per week. BPA should initiate an expedited rate case in the near future to revise the calculation of the Southern Intertie HNF, resulting in a new rate starting in FY 2017.

Respectfully,

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