January 22, 2016

Portland General Electric and Puget Sound Energy, Inc. Comments for BPA Regional White Paper – Presentation and Analysis of Southern Intertie Hourly Non-Firm Alternatives

Portland General Electric Company (PGE) and Puget Sound Energy, Inc. (PSE) appreciate the opportunity to provide input on Bonneville Power Administration's (BPA) white paper regarding Southern Intertie Hourly Non-Firm (HNF) Alternatives. PGE and PSE have considerable interest in these proceedings. PGE, for example, is a Point-to-Point (PTP) transmission customer, California Oregon Intertie (COI) path owner, remote generation owner, and active market participant.

PGE and PSE understand that the scope of this white paper is focused only on the use of BPA hourly non-firm transmission in the CAISO Day Ahead Market (DAM), and agree Seams issues 1 and 3 as presented in the White Paper will be better addressed in a separate process. PGE and PSE support BPA's efforts to work collaboratively with its neighboring Balancing Authorities to address the identified seams issues. PGE and PSE reiterate their interest in remaining involved as BPA pursues collaborative solutions through ongoing discussions.

As a general matter, BPA should not attempt to use transmission policy to influence power market activity and BPA transmission rates should be set based on the embedded cost of transmission. While PGE and PSE recognize that discussion and evaluation of HNF rates is also warranted, they do not support an expedited mini 7i process. PGE and PSE continue to believe the most appropriate venue for such a discussion is in the BP-18 rate case. PGE and PSE continue to support BPA's efforts toward developing non-rate solutions if it is necessary to encourage stable, long-term firm (LTF) contracting for transmission service on the Southern Intertie to the extent it can do so without preferential treatment and without negative impacts to operations at other interties.

Position Support

During the BP-16 Rate Case, BPA heard the same concerns presented here and found that although the CAISO market that created these conditions has been in place since 2009, "… the Southern Intertie remains fully subscribed in the southbound direction, and BPA has a long queue of customers waiting for capacity." (BP-16 Record of Decision (ROD), page 111.) BPA determined that the current rate structure continued at that time to provide enough incentive toward LTF service. However, BPA did agree to continue "monitoring Southern Intertie sales to help determine whether any action was necessary," and suggested a potential for a separate rate case after the ROD was issued if these efforts concluded that action was needed. (ROD, page 112.)

PGE and PSE assert that the evidence presented still does not show the definitive trend away from LTF that would justify a separate rate case, and therefore recommends against a "mini 7i process" in favor of appropriately addressing the HNF issues in the upcoming BP-18 rate case. If BPA were to undertake a rates solution prior to the upcoming BP-18 rate proceeding, the primary driver should be based on verifiable concerns that BPA will be unable to recover its investments in the Southern Intertie in the interim period before the next rate proceeding becomes effective. The data provided by BPA do not sufficiently demonstrate that BPA will be unable to recover its costs during the 2016 and 2017 fiscal years.

- The renewal history data provided in Appendix B should be updated to reflect the renewals that occurred at the recent 1/1/2016 deadline. If BPA updates these numbers, PGE and PSE estimate, based on OASIS data, approximately 141 MW of transmission were not renewed. Compare this to the approximately 1,500 MW that remain in the queue, and BPA must make the same determination that it did in BP-16: that the Southern Intertie remains fully subscribed with a lengthy queue. As such, an expedited mini 7i is not warranted.
- The revenue data provided in Appendix C show a drop in revenues, but certainly not enough to indicate BPA is unable to recover its costs at the Southern Intertie and certainly not enough to show a definitive pattern. PGE and PSE recognize the significant changes to the regional market that are currently underway and recognize that the value of LTF at the Southern Intertie could continue to decrease if not mitigated. However, the current situation simply does not warrant the expedited action of a mini 7i. Rate issues can be more thoroughly and thoughtfully addressed in the BP-18 rate case.

Alternatives Analysis

At the December 17 workshop, BPA requested that customers provide feedback on the alternatives analysis presented in the white paper dated December 22, 2015. PGE and PSE provide these comments and observations on the issues and alternatives presented in the white paper for BPA's consideration.

Rate Alternative #1a -- Recalculate the Southern Intertie HNF rate using the methodology proposed by Joint Party 06 in BP-16, and #1b – Recalculate the Southern Intertie HNF rate based on a different measure of Southern Intertie usage.

> PGE and PSE believe that rate adjustments may ultimately be appropriate if needed to address a transmission revenue shortfall, but proposed rate alternatives #1a and #1b would constitute a significant rate adjustment outside of a standard rate case that would be inappropriate and may violate BPA's principles of rate stability and avoidance of rate shock. BPA's benchmarking study showed that the current calculation is more in line with other entities in the region than either of the proposed calculations. And again, PGE and PSE reiterate that the data presented does not support the need for such a rate change in a mini 7i process, but would be more appropriately addressed in the BP-18 rate case.

Rate Alternative #2 -- Calculate the Southern Intertie HNF rate based on a different assumption of "high value" hours

> PGE and PSE believe it would be difficult for BPA to justify applying this approach only to the Southern Intertie. Further, this approach could result in a significant rate adjustment outside of a standard rate case that would be inappropriate and may violate BPA's principles of rate stability and avoidance of rate shock. Again, such an action would be more appropriately addressed in the BP-18 rate case.

Rate Alternative #3 -- Set the Southern Intertie HNF rate based on the cost of expansion

> PGE and PSE believe it would be difficult for BPA to justify applying this approach only to the Southern Intertie. Further, this approach would result in a significant rate adjustment outside of a standard rate case that would be inappropriate and may violate BPA's principles of rate stability and avoidance of rate shock. Further, it is unclear why a Southern Intertie rate should be based on the cost of expansion rather than embedded cost.

Alternative #5 -- Eliminate the HNF interruption credit

PGE and PSE believe elimination of the credit for the interruption of HNF would provide some incentive for customers to maintain LTF subscriptions but is not likely to address the concerns at issue.

Alternative #6 -- Sell HNF inventory once

With only one round of HNF made available, this may encourage subscribers already leaning toward LTF to move in that direction. However, PGE and PSE agree with BPA's assessment that the amount of HNF impacted by this rule would be minimal and the effect may not be noticeable.

Alternative 7a – Do not sell HNF on the Southern Intertie

PGE and PSE are opposed to this alternative. BPA would be eliminating the secondary market as a source of revenue and limiting its cost recovery capabilities to only the LTF contracts. In addition, BPA would unnecessarily hamper regional access to the CAISO market. Ultimately, this alternative could result in increased rate requirements for LTF customers to cover the loss of revenue from the secondary market.

Alternative 7b -- Stop selling HNF on the Southern Intertie when schedules are within a certain percent or a MW threshold of SOL

PGE and PSE are concerned that BPA is moving in the dangerous direction of constructing BPA policy that limits access to transmission service to certain customers in an effort to influence market activity. Also, BPA may find it difficult to confine this approach to the Southern Intertie.

Alternative 8 -- Implement duration based competition on the Southern Intertie

PGE and PSE support BPA exploring this alternative and agree that it could restrict the HNF customers' ability to cherry pick the peak hours if there is more risk of the schedule being bumped for another HNF with a longer duration. However, BPA may find it difficult to confine this approach to the Southern Intertie.

Alternative #9 -- Change the HNF release time on the Southern Intertie

BPA may have difficulty confining this practice to the Southern Intertie. Also, a number of BPA transmission customers may have difficulty purchasing HNF at T-20.

Alternative #10 -- Limit HNF sales on the Southern Intertie to the amount calculated after the close of the Day Ahead preschedule window

PGE and PSE are concerned that BPA is proposing to limit access to a market when there is available capacity under the accepted ATC methodology. Again, PGE and PSE are concerned that BPA is proposing to use transmission policy to influence the power market and participants. Transmission policy should be based on reliability and cost recovery and should not be used to benefit certain customers over others.

Alternative #11 – Limit availability of HNF service on the Southern Intertie (tie to posted secondary transmission market)

Again, this alternative suggests BPA is attempting to use transmission policy to influence power market activity and PGE and PSE are concerned this alternative would adversely affect market liquidity.

<u>Alternative #13 -- BPA proactively manages curtailments on the Southern Intertie prior to the interval</u>

PGE and PSE suggest BPA identify the OATT principle that would allow BPA to curtail the north side of the Southern Intertie when congestion is actually occurring on the south side of the path. Additionally, PGE and PSE suggest BPA explain how this process will affect other network interties.

Request for Additional Analysis

PGE and PSE would like to see more detailed analysis to assess whether there is a valid concern that merits immediate rates action or if – under the circumstances – it would be more prudent to defer action pending definitive information regarding potential lost transmission revenue. The tables in Appendix B provide only summary information. BPA should provide additional data regarding the following:

- Notices BPA has received regarding customers' intentions not to roll-over their rights and what percentage of those eligible for roll over they represent.
- Updated information regarding BPA's queue for both the COI and PDCI.
- Historical unsold long-term firm rights on the Southern Intertie.

PGE and PSE are concerned that BPA has not weighed the costs of moving forward with an expedited 7i process against the potential benefits such an approach may offer compared to simply incorporating the issue into the upcoming BP-18 rate case. PGE and PSE suggest that BPA provide some initial data detailing the potential revenues, costs, and rate increases each of the rate and non-rate alternatives are expected to bring. What increased costs would BPA attempt to recover in the expedited 7i process and what is the cause of those costs? Is there a forecast of potential lost revenues? What is that forecast based upon?

PGE and PSE suggest that BPA add an assessment of the benefits to be gained and costs to be incurred by completing an expedited 7i process compared to enacting, as necessary, available non-rate alternatives prior to the BP-18 rate case. While a good starting point, the qualitative analysis provided in the whitepaper lacks depth and data that is required for customers and BPA to make properly informed decisions. PGE and PSE recommend that prior to engaging in a rate making process, BPA provide a more detailed quantitative analysis.

Conclusion

PGE and PSE remain unconvinced that the *de-minimis* near-term lack of renewal of long-term firm transmission contracts represents a material impact to BPA and its customers, and therefore does not support an expedited mini 7i process. A review of BPA OASIS reservations reveals that approximately 141 MW were not renewed at the 1/1/2016 deadline; however, BPA has approximately 1,500 MW of reservations waiting in the queue. In other words, there is little to no BPA revenue at risk.

PGE and PSE appreciate the opportunity to participate with BPA and other regional parties seeking solutions to these important issues. PGE and PSE look forward to continuing regional dialogue on this matter.