Public Power Council
825 NE Multnomah, Suite 1225
Portland, OR 97232
(503) 595 - 9770
www.ppcpdx.org

January 22, 2016

via email: refredrickson@bpa.gov

Rebecca Fredrickson
Manager of Transmission Rates and Revenues
Bonneville Power Administration
911 NE 11th Ave
Portland, OR 97232

Public Power Council Comments – Southern Intertie Hourly Non-Firm Rate Issues

Dear Rebecca:

The Public Power Council (PPC) appreciates this opportunity to comment on the second iteration of the draft white paper, "Presentation and Analysis of Southern Intertie Hourly Non-Firm Alternatives," dated December 22, 2015. As we have indicated through evidence in the BP-16 rate proceeding and participation in this process, this is an important issue to BPA and its customers.

On the whole, PPC believes that the draft white paper frames the issues and describes the potential alternative solutions reasonably correctly. This includes the core issue that, under current practice, the value of the long-term firm product on the Southern Intertie (IS LTF) is devalued due to the fact that "BPA's hourly non-firm product has the same priority in the CAISO Day Ahead Market as the long-term firm product."[1]

In addition to framing the above seams issue, the current white paper also presents a variety of potential rates and non-rates solutions. In choosing among potential solutions, 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.

As a first matter, PPC is opposed to continuation of the status quo on this issue. Throughout the process of the BP-16 case and this current workshop process, we are convinced that the seams issues identified are real and have meaningful impacts on the

[1] Draft White Paper, page 4.

value of the LTF product on the Southern Intertie. Not addressing the issue deprives transmission customers purchasing the IS LTF product of the value of that product and also creates a threat to the viability of long-term cost recovery on the segment.

Based on analysis of the options presented in the white paper, PPC supports a change to the Southern Intertie hourly non-firm (IS HNF) rate as the most immediate and important solution. Specifically, "Alternative #2 – Calculate the Southern Intertie HNF rate based on a different assumption of 'high value' hours" appears promising. Within this option, PPC supports the calculation based on 20 high value hours per week, resulting in an IS HNF rate of approximately $13/MWh.

This rate alternative has a number of advantages. It would be very effective under most economic conditions in ensuring the intended advantages of long-term firm service under BPA's OATT framework and encouraging continued subscription of the IS LTF product. The alternative would also not require any tariff or business practice changes and would be a durable, stable solution through time. The IS HNF rate under this alternative would also be comparable to levels charged by transmission providers on the southern side of the facilities.

Although PPC supports a change to the IS HNF rate level as the central solution to this particular seams issue, additional complementary solutions (both rate and non-rate) appear worthy of consideration. Specifically, "Rate Alternative #5 – Eliminate the HNF interruption credit," "Non-Rate Alternative #6 – Sell HNF inventory only once," and "Non-Rate Alternative #9 – Delay the HNF release time on the Southern Intertie to a time closer to the start of each delivery hour" may have merit. PPC would like to continue to explore the effectiveness of these and the non-rate options discussed below in a complementary role with a particular emphasis on effectiveness and avoidance of unintended consequences.

The BPA white paper raises the issue of potential rate shock in implementation of a relatively large percentage increase in the IS HNF rate. PPC does not believe this is a substantial concern in this context. Because the actual volume of IS HNF sales is small, any rate change will have minimal impacts on BPA's revenue collection in either an upward or downward direction. Similarly from the perspective of customers who purchase the IS HNF product, the small volume of sales means even a relatively large change in rate would have minimal impacts on the overall cost of doing business.

In terms of timing, PPC supports implementation of a change in the IS HNF rate in an expedited rate proceeding ahead of the BP-18 rate period with the rate going into effect for FY 2017. This approach has the benefit of providing relief on this issue, which has been ongoing for some years, at the earliest opportunity. Additionally, having the rates in effect for one year ahead of the BP-18 rate period would act effectively as a pilot program and allow for adjustments based on any unforeseen consequences.

PPC also supports the potential for working collaboratively with the CAISO in the future to develop potential collaborative solutions to this and other seams issues. However, this type of collaborative effort should occur in parallel and not instead of appropriate unilateral actions on BPA's part. Any collaborative non-rates solutions should also be at least as effective as the proposed changes to the IS HNF rate.

The white paper also identifies two seams issues regarding the Southern Intertie that are outside the scope of the present effort. These are the issues described as follows: "BPA does not limit the use of firm reservations during de-rates" and "OATT transmission providers do not recognize the curtailment priority of neighboring OATT transmission providers." BPA staff has stated that these issues will be addressed in separate but parallel processes. PPC supports this approach and looks forward to engaging with BPA in those efforts.

PPC appreciates the opportunity to comment on this important issue, and commends the efforts made to date by BPA staff to find constructive and effective solutions to this important issue in a timely manner. Thank you for your consideration of these comments.