<u>Shell Energy comments to the BPA Regional White Paper "Presentation and Analysis of Southern Intertie Hourly Non-Firm Alternatives", December 22, 2015.</u>

Shell Energy North America (US), L.P. ("Shell Energy") appreciates the opportunity to provide comments to the BPA Regional White Paper "Presentation and Analysis of Southern Intertie Hourly Non-Firm Alternatives", December 22, 2015. Shell Energy is a market participant in the Pacific Northwest, and represents both load and supply resources.

In the white paper, BPA proactively puts forth rate and non-rate proposals to a potential shortfall in revenue needed for the Southern Intertie. The alternatives encourage market participant procurement and use of Long Term Firm (LTF) transmission rights. BPA explained that historically they have obtained approximately 95% of the annual revenue requirement for the Southern Intertie from LTF rights, and approximately 5% of its annual revenue requirement from Hourly Non-Firm (HNF) transmission rights. Shell Energy does not address the overall revenue requirement, but only the proposals in the white paper which could incent market participants to participate in LTF procurement.

BPA proposes 16 alternatives including status quo. We believe that BPA may achieve the optimal outcome by combining several of the rate and non-rate proposals. Further we believe that BPA and its customers will be best served by following many of the principles presented in the whitepaper and some others as follows:

- Assign risk to those parties that can best manage the risk;
- Ensure market transparency and liquidity;
- Avoidance of rate shock;
- Preserve the value of products which it sells and upon which market participants rely;
- Ensure that all transmission is available to the market throughout the scheduling time period, so that transmission, and revenue, is not "left on the table".

We support BPA Staff's Initial Leaning as presented in the December 17, 2015 PowerPoint from the Southern Intertie Hourly Non—Firm Workshop.

- White Paper Alternative #2 – Supported. - BPA has indicated a preference towards Alternative #2, HNF rate based on a different definition of "high value" hours. This alternative will provide a rate that increases the HNF rate proportionate to the market. This alternative would likely be based on historical data. To be objective, BPA will likely need to use historical Mid-C over California ISO price data. A determination of "high value" hours should be an open and transparent process, and should create an annual HNF rate, to provide clarity and certainty to the market. Any increase in HNF should be rational, i.e. HNF should not be increased to the point that there is a significant decrease in revenue. Depending on price elasticity, BPA may actually increase revenue on the Southern Intertie via proper increases in HNF. To the extent that LTF is not procured, it increases risk of cost recovery to BPA, however, that risk rolls to DA and RT pricing, and the market should then support a spread that is not reflected in long term markets but does reflect short term markets. Thus, properly priced, HNF should still provide a sufficient or greater contribution margin. Revenue overages and shortfalls should be carried forward. Regarding rate shock, the examples in the white paper show the projected rates to be within the range of other Transmission Owner's rates for HNF, thus the rates under this scenario are likely acceptable. BPA offers a range between 56 and 20 "high value" hours in a week. It may be helpful to calculate this over a historical 1, 2 or 3 year period for stability, and keep the rate in place for the duration of the BPA rate case, as opposed to an annual adjustment.

- Alternative #5 – Supported. - Elimination of the HNF interruption credit – While this was presented as an event that is infrequent, it could provide incentive to encourage market participants to contract under LTF, and agree with BPA that it could be an acceptable part of the proposal.

Regarding the non-rate alternatives, we do not support either of the BPA non-rate alternative leanings, Alternative #6 or Alternative #9, but believe that other non-rate alternatives could be effective.

- Alternative #6 – Not supported. - The proposal to not post the unscheduled portion of the HNF essentially leaves capacity, and revenue, on the table that could otherwise provide a contribution margin to the BPA transmission revenue requirement. In addition, as a general principle, it is inefficient for well-functioning markets to restrict information. This may also contravene FERC's intention to make all capacity available to market participants.
- Alternative #9 – Not supported. We do not support changing the HNF release time on the Southern Intertie, and believe that this will result in a significant amount of additional work on the part of market participants to potentially procure and schedule HNF each hour, and believe that a mis-alignment with the CAISO DAM will again cause economically inefficient decisions on the part of market participants. It should be recognized that, as stated in the BPA paper, the CAISO does not differentiate LTF from HNF in its daily scheduling process; however, the CAISO imposes penalties for not delivering energy according to a market participant's awarded energy schedule on an intertie. These penalties include both exposure to Real Time imbalance energy deviation charges, and punitive charges when a market participant fails to deliver at least 10% of their scheduled imports. Thus, market participants do have market based incentives to procure LTF to reduce economic risk in California ISO markets.

The following non-rate alternatives may be effective in encouraging LTF procurement:

- Alternative #7b provides for BPA to stop selling HNF on the Southern Intertie when schedules are within a certain percent or a MW threshold of SOL. We support the concept that BPA should stop sales of HNF when intertie capacity is constrained, and believe this should be part of the BPA proposal.
- Alternative #13 – We believe that if BPA proactively manages curtailments on the Southern Intertie prior to the interval, this will have a positive impact on the market. However, this will be difficult to estimate, and we suggest that BPA have a clear criterion which is available to market participants, including posting of flow gates which constrain or otherwise impact the intertie, so that the market understands system conditions and why the capacity is curtailed. In

addition, while it may be assumed, we believe that BPA be clear that it would not sell HNF in these situations, and curtailment should be prioritized to first curtail HNF before curtailing LTF in situations in which HNF was schedule on the intertie.

While Shell Energy supports the rate alternatives above, we would not oppose a phased approach that would focus on non-rate alternatives first, and a later evaluation of rate approaches to the extent non-rate alternatives did not achieve the desired results. Further, rate alternatives may take longer to vet in stakeholder processes.