December 31, 2015

refredrickson@bpa.gov

Re: Hourly Firm on Southern Intertie

Dear Rebecca,

Thank you for the additional opportunity to submit comments. I submit these comments on behalf of EDP Renewables. Please confirm receipt of these comments.

Introduction

As I have previously stated, Bonneville should do nothing at this time. The "problem" is one of perception completely unsupported by data. The proposed solutions will not address customers' perceptions. Instead, the proposed solutions create a very real risk of unintended consequences – specifically increasing the cost of seasonal oversupply. In addition, this process has been flawed. Bonneville is seeking a unilateral solution to a regional problem. BPA has not engaged the CAISO to address the seams issues between CAISO's modern market mechanisms and the antiquated system of bilateral agreements to which some in the Northwest are clinging.

Data do not support conclusion that HNF is limiting value of LTF

The data provided by Bonneville staff in this process clearly demonstrate that the use of hourly firm transmission on the Southern Intertie has steadily declined over time, despite customer perceptions to the contrary. The data also shows that the heaviest use of hourly non-firm transmission occurs in the spring – when Bonneville is actively encouraging exports in order to minimize the need to trigger its oversupply management protocol.

Some customers with long term firm transmission rights may be correct that the value of their rights is being eroded. But Bonneville's data suggests that the erosion in value is not the result of increased use of hourly firm. Any erosion in value is far more likely to be the result of changes in the California market. In his remarks to the NW Power and Conservation Council on November 18, Elliot Mainzer noted that the energy prices at the COB hub are at historic

lows. Furthermore, he suggested that the downward price pressure will "almost certainly get worse" as California adds more solar generation to its system and natural gas prices remain low. Increasing the cost of hourly firm (or limiting its availability) is not going to increase prices in the California market.

The White Paper correctly notes that under the current paradigm the "value" of the is based on the ability to move power from "a low cost region (usually the Pacific Northwest) and a historically high priced region (usually California)." But low natural gas prices and competition from new solar generation resources in California are disrupting the underpinnings of that value proposition. Over time Bonneville should expect the market price differentials between the Pacific Northwest and California to continue to become more unpredictable. Even if Bonneville adopts one or more of the proposals described in the White Paper, the changes in the underlying market dynamics between California and the Northwest will continue to exist. Even if Bonneville attempts to protect the market share of Long Term Firm rights holders, those changing market dynamics will continue to put pressure on customers deciding to renew those rights.

Proposed solutions will not address problem

Customers urging Bonneville to act have identified three specific issues which they believe are effecting the value of their long term firm rights on the COI. Bonneville has already determined that two of those issues are outside the scope of this stakeholder process. A solution that only addresses one of the identified issues and ignores the other two will be no solution at all. Customers who currently believe that the value of their long term firm rights is declining as a result of three separate problems will not reverse their opinion if Bonneville acts only to solve one problem and ignores the other two.

Solutions have unintended consequences

Furthermore, a partial solution - in addition to not addressing the perceived problem - may have unintended consequences that increase costs for the region. Bonneville's data indicates that hourly non-firm use correlates with high stream flows. The spring season is when the region struggles with potential oversupply conditions; Bonneville is under intense pressure to minimize the costs of curtailing wind projects. One of the most important tools Bonneville has to reduce the need to curtail wind projects is to maximize its export capability. Any measure which limits the availability of hourly firm transmission - or increases its cost - may require Bonneville to curtail wind projects more frequently.

When Bonneville triggers its oversupply management program to curtail the output of wind projects, it must pay wind projects. Approximately 90% of those costs are paid by Bonneville's load serving customers. Until now, one of the most effective mechanisms Bonneville had to reduce the need for oversupply management was to maximize exports.

This process, however, is apparently designed to reduce the use of Hourly Non Firm service which will have the inevitable result of increasing the need for oversupply management. In order to preserve the value of Long Term Firm rights on the intertie, Bonneville is proposing to increase the risk and cost of oversupply management.

Multilateral negotiations needed

At this time, Bonneville should take no action to limit the availability - or increase the cost - of hourly firm on the COI. Instead Bonneville should engage with the owners of the southern portion of the COI to develop comprehensive solutions to the three separate issues that Bonneville customers have identified. The scope of that process will need to expand to include additional issues that may be identified by the southern owners. Solutions will also likely have to recognize that the southern owners are entitled to a share of the value of the combined (northern and southern) facilities. Bonneville and its Long Term Firm customers should not assume that they are entitled to all of the value the combined facilities.

In seeking solutions with the southern owners, Bonneville should consider that changing market conditions may mean that the greatest value of the transmission system may no longer be to provide 16 hours blocks of peak energy. In the future, the greatest value of the transmission system may be to deliver capacity to California during morning and afternoon ramps and otherwise providing flexible reserves. Bonneville should consider how it could continue to recover its revenue requirement for Southern Intertie facilities under this new paradigm.

Bonneville's Rate Principles

In the White Paper, Bonneville sets forth a list of rate and non-rate principles. In its list of non-rate principles, Bonneville includes "impacts to different customers." In considering impacts to different customers, Bonneville should consider whether the proposal will increase the likelihood and amount of oversupply mitigation. As noted above, any changes which make Hourly Non-Firm transmission more difficult to obtain or more expensive will likely increase the need to manage oversupply.

Alternatives:

Alternative #0:

EDPR would support. This alternative has no unintended consequences which would increase the need to manage oversupply conditions. This alternative also gives Bonneville time to work with the owners of the southern facilities to develop a long term mechanism that will allow long term recovery of the revenue requirement for the intertie facilities in the face of changing market dynamics. As noted above, the real threat to retention of long term firm

customers is uncertainty and changing market dynamics - competition from Hourly Non-Firm transmission is minor in comparison.

Rate Alternatives:

EDPR would support a rate alternative if it were accompanied by aggressive discounting during periods of oversupply. EDPR has no opinion on which rate alternative is more appropriate. But in order to avoid cost shifts (increasing the costs of oversupply to preserve the value of Long Term Firm rights on the Southern Intertie) Bonneville must clearly and aggressively discount Hourly Non-Firm sufficiently ahead of time to allow the market to fully utilize the export capacity on the Southern Intertie leading up to oversupply conditions.

Non-Rate Alternatives:

EDPR is concerned that all of the non-rate alternatives proposed permanently reduce the ability of customers to use Hourly Non-Firm during periods of oversupply. While rate alternatives can be temporarily suspended through discounting, non-rate alternatives can not.

In the White Paper, Bonneville evaluates the effectiveness of the non-rate alternatives based upon whether Hourly Non-Firm can compete against Long Term Firm in bidding into the California market. In addition, BPA should evaluate the effectiveness of the non-rate alternatives in light of the changing market dynamics between the Pacific Northwest and California. This evaluation should consider the effectiveness of the various proposals in preserving the value of Long Term Firm Rights in light of 1) continued low natural gas prices; 2) the impact of increasing solar generation installations in California; 3) expansion of the energy imbalance market in the NW; 4) the potential impact of PacifiCorp (and others) joining an expanded CAISO market.

Comments on Specific Non-Rate Alternatives:

Alternative #7A – This alternative is inconsistent with FERC's open access principles. It would significantly increase the need for and cost of managing oversupply conditions.

Alternative #7B – This alternative would reduce the availability of Hourly Non-Firm at the very times it is most needed to avoid or mitigate the need for oversupply.

Alternative #11 – In the White Paper, Bonneville assumes that it would allow Long Term Firm rights holders to resell their transmission rights at a market price based on the price differential between the California and Northwest markets. As the White Paper notes, a market based transmission resale rate would effectively eliminate the benefit of a transaction for customers which did not own Long Term Firm rights. But Bonneville should also evaluate this alternative on a cost-based transmission re-sale rate. While it seems obvious that a

customer with Long Term Firm rights would like to get the benefit of the price differential without actually bidding into the market, Bonneville may be able to preserve the value of long term firm rights by limiting the price of transmission resales to the actual cost plus a fixed premium.

Alternative #13 – Bonneville should enforce OATT priorities.

Any costs associated with system or hardware upgrades should be allocated to Southern Intertie rates.

Thank you again for the opportunity to provide comments to this process.

Sincerely,

Henry R. Tilghman

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