



May 4, 2016

Via Electronic Mail

Rebecca Fredrickson
Transmission Rates Manager
Bonneville Power Administration
905 NE 11th Avenue
Portland, OR 97229

Re: BPA's Proposed HNF Methodology and Rate Considerations for the Southern Intertie

Dear Ms. Frederickson:

The Industrial Customers of Northwest Utilities ("ICNU") appreciates the opportunity to submit comments on the Bonneville Power Administration ("BPA") Staff's hourly non-firm Southern Intertie ("IS HNF") proposals and related rate considerations. BPA's proactive approach in collaborating with stakeholders to protect the priority rights of long-term firm ("LTF") transmission holders on the Southern Intertie is commendable. ICNU also appreciates the substantial amount of effort that BPA Staff and many regional stakeholders have expended on this stakeholder process.

In order to reflect current circumstances on the Southern Intertie, ICNU is supportive of the proposal to update outmoded IS HNF rate assumptions in the BP-18 Initial Proposal. More specifically, ICNU agrees that approximately 4-6 hours of evening peak now represent the highest value hours on the Southern Intertie, justifying a change to the denominator used to calculate IS HNF rates. Also, while more analysis needs to be done in the coming months, ICNU offers preliminary feedback on several related rate considerations being considered by BPA in connection with the IS HNF proposal.

A. BPA's IS HNF Rate Proposal

As BPA notes, the factors supporting the current IS HNF rate methodology no longer exist. ICNU agrees that significant increases in renewable generation have now shifted the highest value to the evening peak. A 4- to 6-hour range within the evening peak may be appropriate for consideration in the BP-18 Initial Proposal; however, ICNU recommends that the strongest consideration in a revised IS HNF methodology should be given to the use of a 4-hour denominator. Weighting toward the low end of the current high value hour range will provide maximum economic incentive for a customer to choose long-term transmission over HNF. In turn, this will further the end sought by BPA and many stakeholders—ensuring that BPA has predictable and stable cost recovery during rate periods.

That said, in prior comments, ICNU has expressed concern about creating an IS HNF rate that exceeds the firm rate, given the Federal Energy Regulatory Commission's ("FERC") general policy

to cap non-firm rates at the firm rate.^{1/} Accordingly, the viability of future rates under FERC standards should be considered as BPA and stakeholders analyze a new IS HNF rate denominator.

B. Additional Rate Considerations

ICNU appreciates the additional rate considerations which BPA has presented, related to the IS HNF proposal. Such considerations are important to ensure that the solution designed to preserve LTF value is not undermined in any way. While comments here are quite preliminary in nature, ICNU offers the following in support of BPA's request for specific stakeholder feedback:

- *Hourly Firm Rate* – BPA Staff's initial leaning, to use the same methodology for purposes of calculating Hourly Firm and HNF rates on the Southern Intertie, appears reasonable. ICNU agrees that Hourly Firm is a superior product to HNF and should not be provided at a lower price.
- *Scheduling Control and Dispatch ("SCD") Rate* – BPA Staff's initial leaning on the SCD rate also appears reasonable, i.e., continuing to charge the same rate for IS HNF service as for other hourly point-to-point services. Although the development of a separate SCD rate for IS HNF service could make use of the HNF product more costly, thereby providing a further incentive for the LTF product, a strong basis for creating such a separate rate should be identified before moving in this direction.
- *Daily Block 1 Rate* – ICNU is concerned that a change to the divisor in the Daily Block 1 rate could undermine the proposed IS HNF rate change. As BPA has noted, using a divisor of 6 or 7 days for the Daily Block 1 and HNF products could effectively lower the Daily Block 1 rate. Since this could result in the Daily Block 1 product becoming a potential alternative to the HNF product, the proposed HNF rate solution could become less effective. ICNU may have considerable difficulty supporting a rate proposal that would ultimately work against the preservation of LTF value.
- *Directional Rate* – Of the directional rate alternatives presented by BPA, ICNU is perhaps most interested in further exploration of the proposal to raise HNF and Hourly Firm rates in both directions, while discounting in the south to north ("S>N") direction. This alternative may provide the best means to balance conflicting concerns. That is, not discouraging use of the Southern Intertie when California has excess renewable generation through a S>N rate that is too high, while still discouraging customers from potentially undermining the LTF solution by taking advantage of a lower S>N rate (e.g., purchasing Hourly Firm S>N and then redirecting north to south using the HNF product). The discounting alternative may allow BPA flexibility to assess results and adapt quickly in order to find the appropriate balance.
- *Seasonal or On/Off Peak Rate* – ICNU believes that BPA consideration of different IS HNF rates during different seasons is worthwhile, given the potential for underutilization of the Southern Intertie during certain periods of the year. While ICNU also supports further discussion on different IS HNF rates during on peak/off peak hours, such consideration

^{1/} See Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, 61 Fed. Reg. 21,540, 21,603 (May 10, 1996).

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should not be pursued to the extent that any complexity could be introduced which may diminish the potential for a successful resolution of the primary IS HNF proposal during the BP-18 rate case.