Comments of the M-S-R Public Power Agency
Regarding
Southern Intertie Value Discussions

The M-S-R Public Power Agency ("M-S-R") is a joint powers agency formed by the Modesto Irrigation District, and the Cities of Santa Clara and Redding, California, each of which is a consumer owned utility. Beginning with a 2005 contract, M-S-R obtained contractual rights to the output from some of the first large scale wind resources developed in Washington State. M-S-R and its members currently have rights to 350 MW of wind generation in Washington and Oregon, which its members use to serve their customers and meet California's Renewable Portfolio Standards ("RPS"). Those customers ultimately bear the cost of the Bonneville Power Administration ("BPA") transmission rates.

M-S-R appreciates the opportunity to provide comments on issues raised in the recent BPA workshops discussing Southern Intertie value concerns.

Scope and Magnitude of the Problem. M-S-R agrees with the verbal and written comments seeking to better understand the problem before proceeding with solutions. One of the concerns raised was that entities are leaving the queue and will not renew long-term firm transmission rights when existing contracts expire. The data presented seems to indicate the scope of that element of the problem is very limited. If the only evidence of a problem was the limited volume of requests leaving the queue then the problem itself may not be worth any risks associated with the various solutions.

Other data presented involved the amount of economic value being transferred from Northwest Parties to Participating Transmission Owners (PTOs) on the California Independent System Operator (CAISO) system through congestion rents. On that issue, M-S-R submitted testimony in BP-16 explaining some of the CAISO market elements that may be influencing that problem. In short, one CAISO market mechanism makes it less attractive to use one of three California intertie lines, moving transactions from the Northwest on to two lines, and thereby increasing congestion.[1] The CAISO representative's statements at the most recent workshop indicate the CAISO is not interested in modifying its market structures to address the issues, at least not in the BPA's forum.

Another element of the problem is the frequency of derates on the COI and DCI. Powerex asserts that BPA's process results in excessive Southern Intertie Firm service being available during derates, which then shifts value determinations to the CAISO, which decides which schedules get accepted through its acceptance of bids. Some parties appear to believe that issue is beyond the scope of this process.

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[1] *See* BPA-16-E-MS-01, at pp. 10-13. As explained there, the CAISO's Integrated Balancing Authority Area ("IBAA") tariff provisions effectively create a $0 economic value for one of three AC transmission lines connecting the COB to NP-15, for deliveries into the CAISO market. As a result, the IBAA encourages deliveries from the Pacific Northwest into California to use only two of the three available lines, which logically leads to higher congestion charges, contributing to the value shift problem.

It appears that the scope of the problems that are asserted is limited to the interface between BPA and the CAISO market. The value of using the Southern Tie for transactions to deliver energy outside the CAISO does not appear to be affected by the issues presented. Of course, the CAISO market represents a significant amount of load, so the limitation to the CAISO does not mean the problem is insignificant. In that regard, M-S-R fully agrees with the participants that expressed a need to consider pending market structure changes when considering both the problem and the proposed solutions. Will the problem be more or less significant with an expanded energy imbalance market? How would PacifiCorp joining the CAISO as a PTO affect the problem? M-S-R does not assert that those developments need to occur before the issue can be addressed by BPA, but the implications need to be considered.

<u>Solutions</u>: With regard to the solutions presented to date, M-S-R's view is influenced by the uncertainty of the scope and magnitude of the problem, discussed above.

With regard to potential rate solutions, M-S-R would like to know how they would affect existing firm point-to-point rates on the Southern Intertie. For example, raising Hourly Non-Firm rates could either raise or reduce revenues, depending on the market reaction. If revenues are reduced as a result of the proposed solution, will there be a direct impact on the Southern Intertie rates, or would the impact be spread across all transmission customers?

M-S-R comments on a few of the other proposed solutions below.

1. Some solutions call for negotiations with CAISO and other owners of the southern portions of the intertie to resolve the allocation. Some of the proposals are clearly targeted towards the CAISO, while others are less clear. While a negotiated solution could be beneficial, the statements during the workshops seem to indicate there is not much interest on the part of the CAISO to enter into negotiations.
2. Some solutions would change the timing and frequency of releases of non-firm service. It is not clear how these proposals would work, and whether they might enable firm rights holders to exercise market power by not allowing open access to transmission capacity that remains unused or unreserved during times when others can use such transmission capacities.
3. One of the proposals made by Powerex would involve BPA making its transmission service on the Southern Intertie available for free, but only for sales to the CAISO. Firm rights holders on BPA's system would benefit by receiving a share of the congestion rents across the entire intertie. This novel approach appears to be similar to BPA becoming a partial PTO on CAISO's system, turning over control of its lines to the CAISO. However, instead of BPA collecting the congestion rents, the rents would go to Firm rights holders. It is not clear how taking away revenues from BPA and transferring them to its firm rights holders would affect rates. It also not apparent how BPA could justify charging for use of its system for deliveries to one Balancing Authority Area while allowing it to be used for free for transfers to another Balancing Authority Area. Charging some customers for service while allowing others to use it for free raises questions regarding statutory authority and obligations. How do favorable terms for sales to CAISO meet the obligation to encourage the widest possible use of power at the lowest possible rates to consumers? Would it result in undue discrimination? Would transferring revenues from BPA to holders of firm transmission rights result in sufficient

> revenues to pay costs and debts? Would holders of firm transmission rights retain the ability to make deliveries to points of receipt other than the CAISO, in addition to obtaining a form of congestion right from the CAISO? Does BPA have statutory authority to transfer operational control to the CAISO?

BPA's request for comments included a request that parties provide a ranking of potential solutions. M-S-R does not believe the scope and magnitude of the problem has been sufficiently demonstrated for it to undertake a ranking of potential solutions.

M-S-R looks forward to continued discussion of the problem and potential solutions.