

Powerex Comments on October 14 Bonneville Southern Intertie Workshop

Powerex appreciates the opportunity to provide comments on the issues discussed at Bonneville's October 14, 2015 Southern Intertie workshop. These comments respond to Bonneville's request that stakeholders identify the specific rate and/or non-rate measures they support developing further and ultimately implementing, as well as the measures that stakeholders do not support pursuing at present.

Powerex appreciates Bonneville presenting a broad range of potential measures to address the Southern Intertie seams issues. Powerex also agrees that it is important to prioritize further efforts to focus on the specific measures that hold the greatest potential to effectively address those seams issues. This approach will make the best use of Bonneville and stakeholder staff resources, while keeping the workshop process on track to addressing the Southern Intertie seams issues in a timely manner.

As has been discussed in prior workshops, and was summarized in recent material prepared by FTI Consulting¹, there are three primary seams issues on the Southern Intertie arising from the manner in which Bonneville's transmission rules and practices interact with those of adjacent transmission providers:

1. Bonneville does not limit schedules on each Firm reservation on the Southern Intertie during de-rates;
2. Bonneville does not ensure that Non-Firm schedules on the Southern Intertie are curtailed before Firm schedules, and instead defers schedule curtailments to downstream transmission providers; and
3. Obtaining a CAISO market award allows Hourly Non-Firm to flow ahead of Firm service on the Southern Intertie.

Each issue is distinct and has a unique root cause. Consequently, a measure that addresses one of the seams issues may do nothing to resolve the other issues. To ensure that this series of workshops identifies a comprehensive response to the deterioration of value of investing in Long-Term Firm service on the Southern Intertie, it is critical that each of the three seams issues is effectively addressed. FTI Consulting has prepared a summary matrix showing which of seams issues are addressed by each of the measures identified in Bonneville's workshop presentation. The specific measures supported by Powerex correspond to the most effective unilateral potential measure for each of the three key seams issues. As explained more fully below, Powerex believes Bonneville should firmly commit to developing and implementing unilateral measures to address the seams issues on the Southern Intertie. Collaborative solutions are promising, but both their outcome and timelines are highly uncertain, and therefore they should be explored in parallel with—and not instead of—Bonneville's pursuit of unilateral rate and non-rate measures.

Southern Intertie measures supported by Powerex

To address Seams Issue 1, Bonneville should respond proactively to planned or otherwise known de-rates on the Southern Intertie by appropriately limiting the schedules that can be submitted on each Firm reservation

When de-rates occur on the Southern Intertie—which can be in the majority of hours—Firm reservations exceed the physical capability of the de-rated path. This permits the adjacent transmission provider, rather than Bonneville, to determine which Firm schedules flow and which ones do not. Powerex believes

¹ See "Issues and Alternatives Matrix (prepared by FTI Consulting)" posted by Bonneville at <http://www.bpa.gov/Finance/RateCases/BP-18/Pages/Customer-Comments.aspx>

this seams issue can be effectively and readily addressed. Specifically, when Firm reservations on a path are expected to exceed the actual capability of the transmission facilities, Bonneville should limit the quantity of schedules that may be submitted on each Firm reservation to an amount equal to the pro rata share of the actual capability. If, for instance, the PDCI is de-rated from its full rating of 2,990 MW down to 2,000 MW—that is, if only 66.9% of the full rating is available—then schedules on each Firm reservations should likewise be limited to 66.9% of the reservation quantity.²

This approach would ensure that all schedules submitted on Firm reservations will be able to flow, because the total of such schedules will not exceed the scheduling limit for the path. This avoids the current harmful situation in which total schedules on Firm reservations can exceed the scheduling limit during de-rates, in which case the value of Bonneville Firm reservations is eroded since it is the adjacent transmission provider, and not Bonneville, that determines which Bonneville Firm schedules flow and which ones do not.³ Powerex notes that Bonneville used to apply precisely this kind of proactive schedule restriction up until approximately 2005. When a path was known to be de-rated, Bonneville transmission staff would communicate with Firm rights holders and inform them of the reduced quantity of schedules they would be permitted to submit on those reservations. Powerex sees no reason why that same approach cannot be reinstated now.

Powerex believes Bonneville could readily implement a business or operational practice in which it proactively limits schedules that may be submitted on each Firm reservation on the Southern Intertie when there is a de-rate. Such an approach would be highly effective in resolving this specific seams issue.

To address Seams Issue 2, Bonneville should ensure that it performs and issues curtailments in at least half of the hours that curtailments are needed on the Southern Intertie

When a transmission provider other than Bonneville performs curtailments, the curtailment priority of transmission service on Bonneville's Southern Intertie segment is meaningless. Since this seams issue is rooted in Bonneville not being the transmission provider that issues curtailments (when curtailments are necessary), Powerex believes the simplest and most direct solution is to increase Bonneville's participation in the curtailment process. Specifically, Bonneville should ensure that it performs curtailments based on reservation priority on its system with at least the same frequency as the downstream/adjacent transmission provider. Curtailments based on Bonneville transmission reservation priority, in at least every other hour of each day, would ensure, appropriately, that transmission service priority on Bonneville's Southern Intertie segment is of equal importance to the curtailment priority on the adjacent provider's segment on an ongoing basis.

Re-establishing appropriate curtailment priority on Bonneville's portion of the Southern Intertie can be accomplished simply. Bonneville could ensure that it, and not the adjacent transmission provider, issues curtailments by running its curtailment process promptly at the WECC scheduling deadline of T-20 prior to every other delivery hour. If this practice does not result in Bonneville issuing curtailments in at least half

² In prior orders, FERC has required that any curtailments of schedules that have already been accepted be allocated *pro rata* based on scheduled quantity, and not of reservation quantity. However, Powerex is not aware of any FERC precedent preventing a transmission provider from prospectively limiting the quantity of schedules that may be submitted on a reservation in the first place.

³ The current approach permits Firm reservations to be scheduled in excess of their *pro rata* share when another Firm customer *chooses* to not schedule up to its limit. But the current approach also permits the highly damaging situation in which a Firm customer that schedules in excess of its *pro rata* share actually *prevents* other Firm customers from utilizing their own *pro rata* share, undermining the value of both customer's investments in Firm transmission service on the Southern Intertie.

of the hours (e.g., if the adjacent provider also performs curtailments at precisely T-20, or perhaps even earlier), Bonneville could issue curtailments immediately *whenever* total schedules exceed the scheduling limit.

Powerex believes that modification of Bonneville's operational practices, including the timing of performing its curtailment processes, is well within Bonneville's authority as a transmission provider. This change could be implemented without amending Bonneville's tariff. Nor would such a change require Bonneville to develop any new systems. In short, Powerex sees no reason why Bonneville could not immediately implement this solution.

Powerex is aware that downstream transmission providers could likewise seek to accelerate the timing of their curtailment process in an effort to preserve the *status quo*, which makes downstream transmission priority considerably and artificially more valuable than priority on Bonneville's Southern Intertie segment. A "race" to issue curtailments first is arguably not an ideal long-term solution. But avoiding such an outcome is not Bonneville's responsibility alone, nor would it justify Bonneville accepting the current situation in which all curtailments on certain paths are deferred to the adjacent transmission provider. As part of implementing its revised curtailment procedures and timelines, Bonneville should therefore reach out to adjacent transmission providers and offer to work with them to develop a coordinated framework that gives equal importance to transmission reservation priority on both systems. A coordinated framework, once agreed, could replace Bonneville's unilateral steps to take a more active role in curtailing Southern Intertie schedules according to the service priority on its segment.

To address Seams Issue 3, Bonneville should increase the Hourly Non-Firm rate on the Southern Intertie to levels that are at least comparable to those charged by transmission providers on the southern segments

The availability of Hourly Non-Firm service from Bonneville, even when the Southern Intertie has been fully committed on a Firm basis, undermines the service priority of Firm reservations on the Southern Intertie. As explained at various workshop discussions, the interaction of CAISO's market rules and Bonneville's transmission policies permit CAISO—and not the priority of Bonneville transmission service—to determine who flows across Bonneville's portion of the Southern Intertie.

There are two highly effective solutions that Bonneville could adopt on its own to address this seams issue. Most effective, and perhaps simplest to implement, would be the suspension of sales of Hourly Non-Firm service on the Southern Intertie altogether. Market participants would still be able to commit to selling into the CAISO markets without having procured Firm transmission service on Bonneville's Southern Intertie segment, but they would do so by obtaining transmission service on the secondary market.

While this would be a highly effective measure, there may be reasons that make it impractical at present for Bonneville to entirely stop offering Hourly Non-Firm service on the Southern Intertie. Powerex believes another highly effective approach would be to modify the rate charged by Bonneville for Hourly Non-Firm service on the Southern Intertie in keeping with the value of these transmission facilities. The specific rate, and the underlying cost-based rationale, would appropriately be established through an expedited "mini 7(i)" ratemaking proceeding, as suggested by Bonneville, with the new rate effective October 1, 2016.

Powerex believes that two broad approaches to the rate option merit further development and consideration, as they would be effective in addressing the seams issue with CAISO and would also appear to be well within Bonneville's rate-making authority:

- Bonneville could set the rate for Hourly Non-Firm service on the Southern Intertie to the estimated cost of expansion of the Southern Intertie (*i.e.*, \$27.48/MWh), in recognition that the facilities are fully subscribed on a long-term basis. This rate would ensure that Bonneville's sales of Hourly Non-Firm service on the Southern Intertie do not undermine the proper functioning of the secondary resale market (in which the cost of expansion can act as a cap, according to Bonneville's business practices). In the event that there are no unused Firm reservations posted for re-sale to other eligible transmission customers, then Bonneville could discount the rate (*e.g.*, to the BP-16 IS HNF rate of \$3.53/MWh). Under this approach, the secondary market would become the primary means for transmission customers to obtain service on the Southern Intertie when Firm reservations are not fully used. Bonneville would only sell additional Hourly Non-Firm service at a discounted price as a backstop measure when the secondary market was clearly not functioning.
- Bonneville could set the rate for Hourly Non-Firm service to a level comparable to the Hourly Non-Firm tariff rate of OATT transmission providers on the southern segments of the PDCI and COI (*i.e.*, between \$10-15/MWh). This rate level is also generally comparable to the transmission access charge and uplift charges that apply to exports from the CAISO (even before including any CAISO congestion charges). Such a rate could be achieved by assuming 20 hours per week of use in the hourly transmission rate formula instead of the current assumption of 80 hours per week of use. Both values are simply assumptions, and Bonneville would be equally within its authority to assume 20 hours per week as it has been to assume 80 hours per week. This materially higher rate would be an effective economic deterrent against "cherry picking" Hourly Non-Firm service in the hours of greatest value, and flowing ahead of Firm service on the Southern Intertie.

Powerex supports Bonneville opening dialog on collaborative solutions in parallel with pursuing the unilateral rate and non-rate measures identified above

Powerex concurs with several other stakeholders that collaborative measures developed jointly with adjacent transmission providers offer the potential for an efficient and lasting solution to the seams issues on the Southern Intertie. But potential collaborative solutions should be explored concurrently with—and not instead of—the development and implementation of effective unilateral rate and non-rate measures.

Implementing unilateral measures that effectively address each of the key seams issues in no way precludes pursuing collaborative solutions that may be developed jointly with adjacent transmission providers. For instance, Bonneville's unilateral efforts to address Seams Issue 2 by ensuring it issues curtailments in at least half of the hours could immediately be replaced with a coordinated curtailment framework that achieves the same objective: giving equal importance to transmission priority on Bonneville's Southern Intertie segment and to priority on the adjacent transmission provider's system. Such a framework was described in Powerex's comments following the September 29, 2015 workshop.

Similarly, Bonneville's adoption of a higher rate for Hourly Non-Firm service on the Southern Intertie could be discounted immediately upon implementation of a collaborative arrangement with CAISO under which all of the congestion value of the COI and PDCI is collected through CAISO's congestion charges, but these congestion revenues are shared between CAISO's Congestion Revenue Rights holders and

Bonneville's customers that have invested in Firm Southern Intertie service. This possible arrangement was also outlined in Powerex's prior comments.

Not only would the unilateral rate and non-rate measures not stand in the way of a collaborative solution, they would actually make collaboration more likely. Under the *status quo*, a disproportionate share of the value of these scarce transmission facilities goes to customers of adjacent transmission providers. There may be limited incentives at present for those transmission providers and their stakeholders to engage quickly or meaningfully in a collaboration process that would disturb this beneficial state of affairs. But a Bonneville commitment to implement practical and effective unilateral rate and non-rate measures would take the *status quo*—and the associated incentives against collaboration—off the table. But after Bonneville commits to implementing unilateral measures, collaboration would present neighboring transmission providers with a meaningful opportunity to realize increased efficiency and utilization across the shared facilities, with economic benefits equitably distributed.

Ultimately, however, Bonneville must be prepared to take meaningful steps to address the Southern Intertie seams issues regardless of whether adjacent transmission providers are interested in exploring collaborative solutions or not, and regardless of whether collaboration efforts bear fruit. It is the value of Bonneville's transmission service on the Southern Intertie that is at stake, and it is Bonneville's transmission customers that are being harmed by the seams issues that have emerged on the Southern Intertie. Collaboration, while promising and worth exploring, cannot be used to justify inaction or further delay on this critical matter.

Southern Intertie measures not supported by Powerex

Powerex opposes preserving the harmful status quo

Bonneville has included among the potential options a preservation of the *status quo*. Powerex finds such an outcome unacceptable in the face of broad stakeholder recognition of the Southern Intertie seams issues, the analysis presented by FTI Consulting in multiple Bonneville workshops, and Bonneville's information regarding multiple customers declining to renew or otherwise commit to Long-Term Firm service on the Southern Intertie.

Bonneville's transmission customers that have invested in Long-Term Firm service on the Southern Intertie have been and continue to be harmed by seams issues that fail to return to those customers an equitable share of the undeniable value of inter-regional transmission facilities. The customers being harmed by the seams issues include not only Powerex but also Bonneville Power Services—and, by extension, its preference power customers—but also include a range of other transmission customers including public power customers. Bonneville, as the administrator of the federal transmission system in the region, has a duty, and a long history, of acting as a forceful advocate on behalf of its transmission customers. Faced with the current seams issues that have been identified on the Southern Intertie, Bonneville must take action to protect its stakeholders from continuing harm.

Action is also necessary to further Bonneville's interests in both in the short and the long term. Maintaining the *status quo* would constitute a failure by Bonneville to address a clear and present threat to the viability of its business model for funding the Southern Intertie facilities. Currently, the entire \$100 million annual revenue requirement of the Southern Intertie is funded entirely from customers taking service on those facilities; service that is overwhelmingly used to deliver energy from the Northwest to higher-value markets in California. But this funding model falls apart if the transmission customers engaging in export transactions between the Northwest and California do not receive an equitable share of the value of those inter-regional transactions. If that value goes disproportionately to transmission

customers in California, for example, or if whatever value remains for Northwest transmission customers can be equally obtained without investing in Long-Term Firm service, then the demand for Bonneville Long-Term Firm service on the Southern Intertie cannot help but decline.

Some stakeholders have expressed skepticism that the potential for reduced Long-Term Firm sales on the Southern Intertie is even a realistic possibility. It is unclear exactly what further indication of reduced interest in Long-Term Firm service these stakeholders believe would be needed before Bonneville begins to evaluate and address the problem. Multiple customers have already declined to renew expiring reservations; to commit to service when it was offered; and/or have already withdrawn requests from the long-term queue (notwithstanding that maintaining a spot on the queue is entirely non-binding and costs relatively little).

Maintaining the *status quo* should not be an acceptable outcome in this workshop. At the very least, any entity proposing to maintain the *status quo* should clearly articulate (1) how Bonneville will continue to fund the Southern Intertie revenue requirement from customers that use those facilities; (2) at what point Bonneville *should* take measures to ensure continued sales of Long-Term Firm service; and (3) why those same measures should not be implemented now to prevent continued harm to existing Long-Term Firm customers.

Powerex does not support prioritizing less promising measures at this time

Several of the other measures identified by Bonneville in its October 14 workshop presentation may be of some benefit to one or more of the seams issues. But such measures, on their own, appear less likely to effectively address the intended seams issue than the measures discussed above. These less promising measures, which are identified as “potentially beneficial” in the FTI Consulting matrix of options, should not be prioritized for further consideration or development in this workshop so that Bonneville and stakeholder resources can be focused on the measures expected to be most effective.

For instance, Bonneville’s presentation included potential non-rate measures relating to the calculation of the Hourly Non-Firm inventory. This could include ensuring that Hourly Non-Firm service is only “sold once,” (*i.e.*, it would not be sold a second time if an Hourly Non-Firm reservation is only tagged for a portion of the reserved quantity, as is Bonneville’s current practice). Bonneville could also change its practices so that Hourly Non-Firm service is only available on counterflow schedules that use Firm transmission service. Such changes would help address the excessive amount of Hourly Non-Firm service that Bonneville presently makes available, and would likely be of some benefit toward addressing some of the seams issues. But a limited reduction to the availability of Hourly Non-Firm service may or may not have a material effect on the seams issues experienced on the Southern Intertie. Given the greater uncertainty regarding the effectiveness of these measures, Powerex believes Bonneville should focus the workshop’s ongoing efforts on the more promising measures discussed above.