



**Public Power Council's Comments regarding  
Devaluation of Long-Term Firm Southern Intertie Rights  
October 9, 2015**

We are writing in response to your solicitation for comments regarding the devaluation of long-term firm transmission rights on the Southern Intertie. We are pleased that BPA is holding workshops on these issues and treating seriously the problem raised by parties in BP-16. Preservation of the revenues needed to fund operation and maintenance of and replacement investments in BPA's assets and the equitable recovery of costs from the assets' users are central to BPA's statutory obligations. These objectives are also central to preference customers' concerns regarding pricing hourly-non-firm (HNF) transmission service on the Southern Intertie (IS or intertie). We appreciate BPA's focus on this question and its willingness to discuss these issues with customers and collaborate on solutions.

The devaluation of long-term firm transmission service on the intertie is a relatively new issue. At the close of the BP-16 rate case, BPA's Administrator called for workshops on the IS HNF rate and the decline in value of long-term transmission rights on that path.<sup>1</sup> BPA staff acknowledged the refusals of offers and withdrawal of long-term firm transmission service on that path, indicating a decline in the value placed on long-term IS transmission by customers.<sup>2</sup> PPC submitted joint testimony in the BP-16 rate case discussing the devaluation of long-term firm transmission rights on the Southern Intertie and expected consequences of that over time.<sup>3</sup> We will not repeat that information here but incorporate by reference that testimony and materials presented and provided by Powerex on this subject in these and the BP-16 workshops.

BPA staff sets out the types of actions that BPA can take to address the problem:

- Make changes to the rate design to preserve the value of LT firm service.
- Review the non-firm inventory practices.
- Ensure BPA curtailment priority is equally important to the adjacent BA curtailment priority.<sup>4</sup>

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<sup>1</sup> Administrator's Final Record of Decision, BP-16-A-02 (July 2015), Administrator's Preface, at p. P-1.

<sup>2</sup> BPA Staff, *BPA Transmission Southern Intertie Hourly Non-Firm Workshop Kick-Off*, Sept. 8, 2015, at p. 4.

<sup>3</sup> BP-16 Direct Testimony of Joint Party 6, BP-16-E-JP06-01.

<sup>4</sup> *Id.* at p. 5.

BPA can and should consider solutions that involve path owners and operators interconnecting at the California and Nevada borders with Oregon. We believe, however, that BPA should focus now on actions that BPA can implement in the near term. Negotiations with external owners and operators may take a significant amount of time with limited results. We prefer that BPA act expeditiously to assert the interests of the agency and its customers and negotiate from a relative position of strength.

BPA staff requested comments on its proposed “issue statement” and options that it should consider and discuss with customers. Comments in response to those two matters follow.

### Issues Statement

BPA staff casts the subject of this process as follows:

Customers are increasingly concerned that long-term firm transmission no longer has the value that it once had and some customers are not renewing service and are removing requests from the queue. Some customers also expressed concern that an equitable share of the economic benefits derived from markets served by the Southern Intertie remains with Northwest parties that purchase long-term service over the intertie. BPA wants to see what actions (if any) it should take to make sure long-term service remains viable and its customers receive an equitable share of the economic benefits provided by the Southern Intertie.<sup>5</sup>

BPA staff’s understanding that the issue statement must be accurate is an important insight. To reach the correct solution the issue must be commonly and completely understood. To achieve that understanding we suggest the following revisions. First, the concern is not that long-term firm transmission “no longer has the value that it once had” but that it does not have the value that it should have relative to other transmission services of lower priority on the Southern Intertie. This is an important distinction because the desire is not that the *status quo* value should remain. It is that the relative value of long-term firm transmission should reflect the value of the customer’s commitment in the form of a long-term reservation that is take-or-pay every hour in that period in exchange for, among other things, a priority of access to use the transmission service over other, lower-priority services. This quality has been eroded and that fact is the subject of the concern.

Second, that customers are not renewing their long-term firm transmission contracts and are withdrawing from the queue are facts that deserve serious consideration and

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<sup>5</sup> BPA, *BPA Transmission Southern Intertie Hourly Non-Firm Workshop*, Sept. 29, 2015, p. 3.

evaluation. We would revise the statement to reflect that this is a fact that supports the concern that further erosion of value will occur in the future as incentives promote that continued behavior.

Third, we view the concern over the equitable share of benefits to be an expression of the value of the priority accorded to long-term firm transmission over the Southern Intertie. As such it is really a restatement of the problem and the seed of a possible collaborative solution.

Lastly, we suggest that BPA staff explicitly take up its role as a participant with its customers in developing solutions to the problem. BPA has a very strong stake in this problem. It arguably has an affirmative obligation to ensure that it can continue to receive predictable, stable revenues from Southern Intertie customers that fully recover the costs of that transmission segment. As noted above, BPA staff acknowledges that there is a new and seemingly increasing reluctance among customers to commit to long-term transmission service reservations on the intertie and that there is substantial risk of a failure to renew current reservations as a significant amount of current long-term reservations are expiring and eligible for renewal. Proactive action is called-for in situations in which BPA can reliably forecast and remedy threatened reductions in revenue.

#### Alternatives for Consideration

PPC is interested primarily in investigating and implementing two types of actions:

1. Adjustment of the IS HNF rate using a rate design that would reflect actual usage of the IS HNF product. Actual use would support use of the 20 to 25 hours per week of HNF service in setting the rate and produce a rate of approximately \$15.00/MWh. Alternatively, setting the rate to reflect the cost of expansion of Southern Intertie capacity could also be workable, although the nature and expected cost of the next increment of capacity expansion would have to be better understood.<sup>6</sup>
2. Selling IS HNF in a different manner or on a different schedule.

With regard to adjustment of the IS HNF rate, BPA has broad discretion in rate design. Changes in the rate design, as described generally above, would both (a) accurately reflect the use and value of the product and (b) protect firm transmission customers on the segment from absorbing costs that should rightly be allocated to non-firm customers.

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<sup>6</sup> These proposals assume that the usual associated terms and conditions would apply such as scheduling, discounting and the like.

Regarding the second option identified above, we also believe that BPA should thoroughly investigate the efficacy and feasibility of selling IS HNF in a manner that better protects the value of firm IS transmission services. We are open to discussing the manner and timing of sales as well as the inventory of the IS HNF that can and should be made available. We understand that Powerex has proposed adjustments to the manner and timing of IS HNF sales and we are interested in discussing those.

Operational changes that BPA can make collaboratively with other path operators to ensure that the priority associated with BPA transmission service are also valuable, but we do not believe that pursuit of these alternatives should overshadow or supplant a current focus on solutions that BPA can implement unilaterally. Our desire that BPA focus rate and HNF sales and inventory solutions reflects both our belief that effective action is needed as soon as practicable and our current impression of what is most feasible. This does not mean that we are uninterested in discussing or have dismissed other possible solutions. We remain interested in other solutions that would best resolve the devaluation of firm transmission rights on the Southern Intertie.

All alternatives should be evaluated, however, in the context of BPA's statutory rights and obligations, including its rate directives. As we did in the evaluation of BPA's segmentation policy in 2014 and prior rate proceedings, we strongly urge BPA to focus on its statutory ratemaking directives and discretion. Generic FERC principles of ratemaking or considerations involving the Clean Power Plan are not co-equal to BPA's statutory directives and the policies stated in its organic statutes.<sup>7</sup> BPA has rightly declined to incorporate FERC rate-making principle in the past.

Thank you for the opportunity to comment. We look forward to discussing these issues with you in future workshops in this process.

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<sup>7</sup> We recognize the Federal Power Act as part of BPA's statutes but note that the nature and extent of the Federal Power Act provisions applicable BPA do not justify more than a highly selective consideration of FERC policy.