Southern California Edison
Stakeholder Comments

Regional White Paper: Presentation and Analysis of Southern Intertie Non-Firm Alternatives
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Submitted by	**Company**	**Date Submitted**
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Southern California Edison (SCE) SCE continues to have concerns with BPA's proposed statement of the issue and the proposed solution described in BPA's *Regional White Paper: Presentation and Analysis of Southern Intertie Non-Firm Alternatives* published on February 16, 2016.[1] (White Paper)   The White Paper includes the following statement:

> Bonneville Power Administration (BPA) customers have become increasingly concerned that long-term firm (LTF) transmission service on the Southern Intertie no longer has the value that it once had. Some customers are not renewing service and have removed requests from the queue. These customers have also expressed concerns that an equitable share of the economic benefits derived from markets served by the Southern Intertie should go to Northwest parties that purchase long-term service over the intertie. BPA wants to see what actions (if any) it should take to make sure LTF service on the Southern Intertie remains viable and its customers receive an equitable share of the economic benefits provided by the Southern Intertie.[2]

SCE has serious concerns about this statement as it implies that BPA's role to provide cost-based transmission on a non-discriminatory basis is being modified to become an allocator of economic benefits to customers that purchase long-term transmission service vs non-firm service. SCE provided similar comments to a previous BPA workshop held on this issue last year, and SCE recommends BPA review the comments as they are still relevant.[3]   In summary, it is inappropriate for BPA to have a role to ensure that customers that have purchased long-term

[1] https://www.bpa.gov/Finance/RateCases/BP-18/Meetings/White%20Paper_IS%20HNF_V3_FINAL.pdf
[2] Ibid, page 1.
[3] http://www.bpa.gov/Finance/RateCases/BP-16/Customer%20Comments/SCE%20Comments.pdf

firm transmission continue to receive economic benefits that may have occurred when they decided to purchase the transmission. Purchasing long-term firm transmission has the risk that economic conditions will change over time and the customers decided to accept that risk. BPA should not be in the role to manage that risk, otherwise other customers bear the burden of bad decisions they did not make.

If the issue is BPA's inability to collect its revenue requirement for the Southern Intertie because customers are no longer purchasing long-term firm transmission, then SCE is open to proposals that would resolve this issue provided that they meet the following principles:

- Cost-based rates to recover BPA's revenue requirement
- Not distort economic decisions to achieve least-cost dispatch (variable costs)
- Non-discriminatory access and treatment to all customers located within or outside BPA service area
- Encourages the efficient use of transmission capacity and does not allow or encourage withholding of unused transmission

The proposed solution is to significantly decrease the number of hours that an hourly service customer is indifferent to purchasing long-term service, which results in an increase of the rate by 225% to 10.57 mills/kWh. It appears this is to capture high-value times periods consisting of 5 hours by day over a five day period. BPA has offered no analysis on how this might resolve a problem of the collection of their revenue requirement or if there are other solutions that can result in necessary revenue collection without distorting or discouraging short-term trading. With the advent of the Energy Imbalance Market (EIM), and with discussions of the CAISO expanding its market throughout the West, the concept of "long-term firm transmission" is becoming increasingly out of step with the way markets operate today and increasingly more so in the future. Thus designing rates towards encouraging long-term purchases is likely to prove counterproductive in the near future.

1. Transmission ratemaking should not distort economic dispatch

Transmission rates are predominantly the recovery of fixed costs of past investments. To achieve the least cost dispatch of resources, and therefore minimize variable operating costs, the fixed cost should be ignored. Therefore, CAISO's market optimization does not incorporate transmission costs or firm vs non-firm transmission rights when selecting the units to dispatch.

However, it appears BPA is trying to ensure their firm transmission customers should be entitled to serve CAISO load over non-firm customers, with the following statement:

> The ability to bid into the CAISO Day Ahead Market (DAM) without firm transmission rights and procure hourly non-firm prior to the tagging deadline has the potential to devalue long-term rights in two ways. First, it increases the probability that a customer with LTF rights will not be able to fully utilize their transmission rights.[4]

Selecting a higher priced resource with firm transmission over a cheaper resource with non-firm transmission is economically inefficient. BPA's analysis of proposals of the effectiveness to "preserve LTF in the CAISO Day Ahead Market" is misguided as it will interfere with achieving least cost dispatch.

BPA's understandable desire to maintain full subscription of firm-transmission which achieves revenue certainty is in conflict with the use of energy markets in the West to achieve efficient dispatch. For clarity, SCE agrees that BPA must design rates that will recover their costs. However, the loss of revenue certainty can be mitigated by the use of balancing accounts in the ratemaking process without distorting least cost dispatch.

[4] White Paper, page 3.