

CON-039

Larson, Cheryl A - PS-6

From: Latham, Dale S - PSS-6
Sent: Monday, June 30, 2008 9:06 AM
To: Larson, Cheryl A - PS-6
Cc: Burbank, Nita M - DKC-7; Rogers, Robert A (Joe) - PSS-6; Miller, Todd E - LP-7; Mason, Kelly J - PSS-6; Garrett, Paul D - PSS-6
Subject: Proportional Scheduling
Attachments: PNGC Scheduling Proposal FINAL.doc

Please log this in.

From: Aleka Scott [mailto:AScott@pngcpower.com]
Sent: Friday, June 27, 2008 5:00 PM
To: Latham, Dale S - PSS-6; Wilson, Scott K - PS-6; Chalier, Annick E - PFP-6; Gendron, Mark O - PS-6; Norman, Paul E - P-6
Cc: Zabyrn Towner; Joe Nadal; John Prescott; Hobson, Claire A - PSW-6; Garrett, Paul D - PSS-6; rmsidurdson@bpa.gov; Doug Brawley
Subject:

Dale,

We are very much opposed to the new language in the scheduling section requiring, unless otherwise agreed, proportional scheduling to multiple PODs for utilities in multiple balancing authorities. We urge BPA to remove this onerous and unfair proposal from the contracts and adopt PNGC's language in its place. We would be happy to meet with any subject matter experts you have on this issue so we can bring it to a quick and agreeable resolution.

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6/30/2008

1085

BPA Template 6/17/08, Load Following, Scheduling Section 13

Recommendation: Replace BPA's current scheduling proposal with PNGC's proposal below.

Background - BPA included in the 6/17/08 draft of the contract a pernicious little sentence in Section 13, Scheduling. It reads:

Drafter's Note: Include the following sentence for the following customers with load interconnected to multiple transmission systems: Asotin County PUD, Benton REA, Big Bend, Central Electric Coop, Clark Co, Clearwater, Columbia Basin, Columbia Power, Columbia REA, Columbia River, Cowlitz, Douglas Electric, Emerald, Harney, Hood River, Inland, Kittitas, Klickitat, Lane, Lewis, Northern Lights, Oregon Trail, Surprise Valley, Tillamook, Umatilla Electric, Wasco, Wells Rural, West OR, Whatcom:

Unless the Parties agree otherwise, non-federal resources serving Above-RHWM Load shall be scheduled proportionately to «Customer Name»'s PODs based on the ratios included in Exhibit E, Metering. (Load Following Regional Dialogue Contract Template at 31.)

BPA's rationale for this proposal is to decrease the risk of increased cost of Tier 1 resource acquisition. The agency believes there could be increase costs from balancing, capacity additions, or augmentation, if part of a utility's load that is in multiple balancing authority areas is disproportionately used to sink a non-federal resource. However, the theoretical cost, the loss of a potential future opportunity to sink a potential future resource is not a cost that BPA should consider in implementing restrictions that will prevent real non-federal resource development. To do so would unfairly allow BPA to acquire the best resources (once a utility has identified a resource) and sink that to load while requiring different, more costly rules for non-federal development of the same resource.

For the listed utilities and PNGC, this proposed contract requirement would either remove incentives for or present substantial obstacles to non-federal resource development. These utilities are in multiple balancing authority areas (BAAs). One customer, PNGC, has load in 8 BAAs. BPA's language would require the utilities to schedule any non-federal resource to each of those BAAs in proportion to total load at each Point of Delivery (POD). Because utilities do not schedule to PODs, this translates to proportional scheduling each resource to each BAA based on load ratios. Thus, BPA would force BPA to wheel all non-federal resources, even resources behind utilities' meters, to every POD.

Why is this such a bad idea? BPA's scheduling proposal:

- is anti-competitive,
- is contrary to prudent utility practice,
- imposes excessive implementation costs for utilities wheeling to multiple sink balancing authorities and on a scheduling agent, and

- puts unnecessary pressure on the transfer service cap.

Anti-competitive –This BPA proposal could make potential resource acquisitions uneconomical to utilities. However, because BPA would not be subject to its own proposal, the agency could then acquire potential resources and sink them to the utility's load in the BAA where the resource is located.

Requiring different rules for non-federal resource development is discriminatory and produces a very un-level playing field. Tier 2 rates, by virtue of all being "federal" resources and operating in accordance with the principles below, will necessarily be advantaged over non-federal resources serving multi-BAA utilities. While this is perhaps not BPA's intent, it certainly is a clear potential result of the rule.

Section 2, principle 1 and 4 of the TRM is restated below for convenience.

"BPA Principle #1:

Tiering is a ratemaking construct implemented through an allocation of costs rather than an allocation of power.

BPA Principle #4:

BPA will achieve separation of costs between the Tiers 1 and 2 and among the Tier 2 Cost Pools through the ratemaking process and the separation will not affect the operation or dispatch of the FCRPS. BPA will use available resources to serve system load in the most efficient and cost effective manner possible, without considering the ratemaking aspects of tiering." (TRM, p. 3)

Contrary to Prudent Utility Practice –A prudent utility operating in multiple balancing authorities would minimize transmission costs by sinking generation located in a particular BAA to its load in that BAA to the maximum extent possible. Indeed, under TRM Principles #1 and #4, BPA would do exactly that, as it would not be subject to its onerous scheduling requirement. But, BPA would impose tiered rate principles on real non-federal power. BPA would force utilities to seek waivers or arrangements other than the default from BPA before developing any non-federal resources, in effect making us as nimble at resource acquisition as BPA's decision making process.

Imposes Excessive Implementation Costs – Apart from the unnecessary wheeling costs imposed by the BPA proposal, there is a whole range of other costs. The non-federal resource in question would have to be added as a Network Resource to each BAA to which it is required to be wheeled. This process, which requires a year's notice by BPA, is not trivial, and oddly, this burden would fall on a Load Following customer's

scheduling agent, BPA. Further, the administrative burden of the multiple schedules would also fall on a Load Following customer's scheduling agent, again BPA. And, because BPA's policy is only to pay for the "last wheel" for non-federal power, a utility developing resources may well incur other wheeling charges, losses and ancillary services in trying to reach the multiple BAAs.

Impact on Non-federal Transfer Service Cap –

Under the proposal, there would be much more wheeling of non-federal resources for those utilities in multiple BAAs since they now have to wheel to each BAA. The additional wheeling to load puts pressure on the non-federal wheeling cap. This additional cost of wheeling non-federal was not anticipated when the non-federal wheeling discussions were undertaken. If this proposal stands, BPA should raise the transfer wheeling cap, or eliminate it, to take into account the potential increased wheeling that this proposal will necessitate.

PNGC Proposal - We propose that BPA remove the current scheduling language and replace it with the following:

Include the following in contracts for customers with load in multiple balancing authorities:

A Party shall give the other Party one year's notice if that Party intends to use <<Customer Name>>'s load as a sink for a new resource or purchase power commitment. Use of the load as a sink shall be for at least one year. If such sinking to a customer's load causes operational problems, then the Parties shall work in good faith to come to a mutually agreeable solution to such problems.

The PNGC language requires that both **BPA and a utility developing non-federal resources give the other one years' notice of intent to sink** to a BAA resource to a BAA load. It is expected, at least for load following customers, that this would be a long-term sink of a resource with a minimum of one-year required. BPA PS would be the scheduling agent for such a customer. The proposal would allow BPA to work with its customers to recognize that each party has a right to sink new federal or non-federal resources to load in the most economical fashion available *at the time*.

Summary - BPA's scheduling proposal to require proportional wheeling to each POD is bad public policy. The policy is anti-competitive, contrary to prudent utility practice, imposes excessive implementation costs, and puts unnecessary pressure on the transfer service cap.

This proposal tilts the field in favor of BPA's Tier 2 in a very significant way. While BPA is paying lip service to its desire to encourage non-federal resources, including renewable resources behind the meter, the proposal works to greatly discourage

development. New resource development always faces a host of potentially fatal problems – BPA should not be the source of even more.