



September 18, 2020

Re: NIPPC comments re BPA August Workshops

NIPPC appreciates the opportunity to provide comments to BPA on the topics below:

1. EIM Tariff Update

BPA staff has maintained that the Oversupply Management Protocol (OMP) set forth in Attachment P of BPA's tariff does not need to be reviewed in this workshop process.

NIPPC's review of Section 4.c. of Attachment P, however, suggests otherwise. Under BPA's tariff, a non-Federal generation project subject to displacement under Attachment P may recover only those costs specified in the Tariff. Based on the information provided in the workshops, however, it appears likely that generation projects subject to Attachment P will incur EIM charges associated with their compliance with BPA dispatch orders under Attachment P. NIPPC believes that generation projects subject to OMP should be held harmless from any EIM charges resulting from BPA's implementation of OMP. Accordingly, NIPPC believes Attachment P must be modified to allow generators to request reimbursement of EIM charges resulting from BPA's deployment of OMP.

2. EIM Losses

NIPPC is concerned with the staff proposal to allocate EIM losses to wheeling customers through an allocation of the Real Time Energy Imbalance Offset (RTEIO) charge code. The RTEIO appears intended to cover the incremental losses in the balancing area resulting from EIM transfers. Wheeling customers, however, already compensate BPA for transmission losses associated with their schedule. Wheeling customers who deliver their scheduled energy to BPA do not contribute to the BA's incremental losses resulting from EIM activity; accordingly, it appears inconsistent with cost causation principals to allocate a portion of the RTEIO charge code to those customers. Because wheeling customers do not contribute to incremental losses from the EIM, they should not be allocated a share of that account.

At this stage, NIPPC and its members have no insight into the magnitude of an allocation of the RTEIO charge code (or even whether a share of that charge code may prove to be a credit). But BPA is asking its customers — including wheeling customers — to accept the significant risk of as yet unquantified costs associated with BPA joining the EIM. NIPPC encourages BPA to allocate the RTEIO charge code only to customers who benefit from the EIM transfers. NIPPC maintains that any benefits wheeling customers receive from the congestion management or other “qualitative” changes resulting from the EIM are not sufficient to justify allocating a share of the RTEIO charge code to them. While wheeling customers may benefit from the EIM and its qualitative benefits, wheeling customers are already paying for their share of those benefits by contributing to the cost of Grid Modernization and other programs through BPA’s point to point transmission rates. The question here should be whether wheeling customers contribute to the EIM’s incremental losses — and if they do not, they should not bear any responsibility for a share of the RTEIO charge code.

NIPPC suggests allocating the RTEIO charge code to those customers who actually contribute to incremental losses associated with EIM transfers, and not more broadly.

3. Operational Controls

BPA indicates it intends to continue to retain its current Operational Controls. These Operational Controls give BPA the ability to limit non-Federal generation to schedules, as well as the right to curtail generation schedules to the actual output of the generator. NIPPC recognizes that these Operational Controls were effective in the past in limiting the quantity of balancing reserves that BPA required for reliability and helped reduce BPA’s rate for balancing reserves. NIPPC cautiously supports BPA’s continued use of Operational Controls to reduce the quantity of reserves needed for reliability purposes — because doing so should result in a lower cost to customers purchasing balancing reserves from BPA. However, NIPPC suggests that BPA becoming an EIM Entity adds a layer of complexity to Operational Controls. NIPPC therefore requests that BPA conduct a workshop to review the potential EIM impacts to renewable energy generators. NIPPC is concerned that renewable generators may inadvertently incur EIM charges when Operational Controls are deployed. Before deciding to continue current Operational Controls as currently constituted all parties must be fully informed regarding the potential EIM charges associated with deployment of Operational Controls.

4. Charge Code Allocation

BPA’s staff proposes to allocate the Neutrality Codes by “measured demand by magnitude.” Staff’s definition would allocate the Neutrality Codes based on load ratio share based on a customer’s measured demand (which is in turn defined as Metered Demand plus Export Schedules) Staff claims that this mechanism is consistent with other EIM participating balancing areas. While NIPPC recognizes the importance of consistency with other balancing areas on the mechanism to allocate charges and credits from the Neutrality Codes, NIPPC also believes it is inappropriate to allocate the Neutrality Codes to customers — like wheeling customers — who do not contribute to EIM trans-

fers or EIM transactions. NIPPC seeks confirmation that other balancing areas do allocate the Neutrality Codes to wheeling customers.

Further, NIPPC contends that BPA is seeking customer comment on Charge Code Allocation before fully disclosing all the details of how “measured demand by magnitude” will be implemented in its billing system. To use an example that is familiar to Point to Point customers, the costs of some ancillary services are charged to the Transmission Contract Holder (“TCH”) on the first leg of transmission away from a source generator, while other costs are invoiced based on the TCH on the last leg of transmission before serving load. BPA has not described to this level of detail how some EIM Charge Codes will be assessed. Absent this detail, customers cannot estimate how Charge Code Allocation may impact them. Before requesting final comment from the region and before any final decisions are made, NIPPC suggests that BPA should clearly explain how “measured demand by magnitude” will be assessed and applied in its billing systems.

5. EI/GI Deviation Bands

NIPPC supports removal of the EI/GI deviation bands.

6. Intentional Deviation

The Intentional Deviation penalty was developed by BPA in conjunction with customers at a time when customers’ transmission delivery options were limited to hourly schedules. With the implementation of 15 minute scheduling, the Intentional Deviation penalty was adapted to that new construct. NIPPC believes that the Intentional Deviation penalty will need to adapt again in light of the EIM, the additional price signals it sends to generators and the opportunity generators have to participate in the EIM. Conceptually, NIPPC supports elimination of the Intentional Deviation Penalty. NIPPC believes that the copious EIM price signals BPA will deliver to variable energy resources will likely be sufficient to ensure accurate scheduling behavior. At the same time, NIPPC recognizes that Intentional Deviation penalties can easily be avoided by simply scheduling to the BPA forecast.

NIPPC’s concern with the Intentional Deviation penalty is that it forecloses variable energy resources from the opportunity to engage in rational and appropriate market strategies within the EIM. In the absence of intentional deviation penalties, a participating resource (or a non-participating resource) might intentionally under-schedule its output based on the best forecast in order to mitigate its exposure to EIM charges and choose to deliver any surplus generation to the EIM as a price taker. This strategy would likely subject the generator to Intentional Deviation penalties even in those cases where additional incremental reserves would benefit BPA and the broader electric grid. As currently constructed, the Intentional Deviation penalty would incent generators to withhold this surplus supply from the market. NIPPC is also concerned that the Intentional Deviation penalty might apply to renewable Participating Resources which submit decremental energy bids into the EIM. At this point, it is merely conjecture that any variable energy resources would employ these strategy to reduce their exposure to EIM

costs and maximize its opportunity for EIM revenues. But so long as BPA imposes Intentional Deviation penalties at the current rate of \$100MWh, generators subject to Intentional Deviation penalties will likely not seek market solutions to limit their exposure. NIPPC believes that BPA's penalty rates should not lead to unnecessarily higher costs to its transmission customers or the EIM market. NIPPC also believes that BPA's rates should not inhibit rational and appropriate market strategies. BPA should consider whether it really wants to impose penalties on renewable energy generators who are prepared to provide surplus energy to the market and reduce EIM prices across the west.

BPA states that generators have the option to schedule to their own forecast, and if that forecast is superior to the scheduling values provided by BPA, no Intentional Deviation penalty will accrue. Some NIPPC members, however, believe that the magnitude of the Intentional Deviation penalty (which far exceeds the market price for energy) creates an economic disincentive for generators to develop better forecasts. NIPPC urges BPA to consider a pilot mechanism under which some sub-set of generators could implement alternative forecasts without risk of penalty in order to stimulate improvements to generation forecasting for the benefit of all parties.

7. Generation Inputs

NIPPC appreciates Staff's efforts in providing the information on Slide 53. While the BP-22 rate for uncommitted wind and solar projects will go down slightly, the new preliminary rate proposal represents a significant increase for customers who were able to take advantage of committed scheduling options.

NIPPC has consistently expressed concern that those customers paying for generation inputs were financially contributing to the capacity used to support BPA's participation in the EIM, without being allocated a share of EIM revenues to offset those costs. NIPPC notes staff's response to those concerns as set forth on Slide 51 of the August 26 presentation.

NIPPC remains concerned, however, that the customers who stand to benefit from EIM revenues are leaning on the capacity that other customers have paid for. Perhaps instead of allocating a share of EIM revenues to generation inputs customers, BPA should reconsider how it allocates the total reserve requirement. Currently, BPA allocates the reserve requirement to load, VERBs and DERBS. NIPPC asks BPA to consider allocating the reserve requirement to load, VERBS, DERBS and a new category — customers who receive a share of EIM revenues. NIPPC recognizes that this would likely result in some load customers paying a double share of generation inputs costs. But those customers would also be receiving an additional benefit — the EIM revenues — which will likely more than offset their additional cost. This mechanism would do more to ensure that customers contribute to the cost of reserves in proportion to the benefits they receive from the multiple uses those reserves are used to support.

8. Functionalization of Grid Modernization Costs.

Based on the presentation, it appears that BPA staff simply allocated grid modernization costs to the Transmission, Power or Corporate functions depending on which function performed the work. In the case of costs charged to the Corporate account, those costs were further allocated to Transmission or Power based on BPA's traditional allocation practices. If true, NIPPC rejects this functionalization method of allocation because it ignores long standing cost causation principles. Customers who benefit should bear the costs of a program.

NIPPC requests BPA develop a set of cost causation principles that it will apply consistently. Currently, it appears that BPA has a quiver of cost allocation principles; and BPA applies whichever cost allocation principle(s) allow it to justify a desired outcome. In this case, it appears that BPA has made no effort to apply cost causation principles to its Grid Modernization program (either in aggregate or by individual project).

9. Power Rates

On Slide 148 of the August 26 presentation, BPA outlines three buckets of EIM costs. As noted above in our comments on Generation Inputs, NIPPC encourages BPA to add a fourth bucket of EIM costs — a share of the capacity used to meet the resource sufficiency test, the passage of which is a pre-requisite to sharing any of the forecast EIM revenues.