

June 8, 2022

## COMMENTS OF NIPPC – Rate Case Workshop on May 25, 2022

Thank you for the opportunity to provide comments to the proposals and concepts discussed during the May 25 workshop.

### **EIM Impact on Balancing Services Costs**

Thank you for agreeing to address this topic in workshops.

NIPPC appreciates that BPA acknowledged NIPPC's arguments during BP-22 and recognized that BPA's participation in the EIM would allow BPA to monetize the variable costs of holding non-regulation reserves. NIPPC appreciates that BPA agreed to provide a 50% cost offset for the purpose of calculating the BP-22 rates. NIPPC applauds staff's initial leanings that a 100% cost offset for non-regulating reserves is justified for BP-24.

NIPPC agrees with much of the substance of staff's responses to NIPPC suggestion that a portion of the capacity costs associated with non-regulating balancing reserves should be allocated to BPA Power. Specifically, NIPPC agrees:

- EIM participation does not reduce BPA's capacity costs or the quantity of balancing reserves that BPA must hold,
- Existence of forecast error creates the need to hold capacity,
- It is appropriate to remove 100% of the variable costs for balancing reserves that can be offered into the EIM,
- The non-economic benefits of EIM participation are spread widely across many entities in the EIM footprint.

The question NIPPC has posed, however, is whether all customers who benefit from a product or service should contribute to its costs. In this instance, BPA Power uses the non-regulating reserve capacity established in the rate case to meet the balancing needs of BPA's Ancillary Services customers for an additional purpose – EIM Transfer Exports. BPA Power does not currently contribute to the cost of that capacity. NIPPC suggests that BPA Power – as a beneficiary of that capacity – should contribute to its cost.

Before BPA joined the EIM, provided balancing service to its Ancillary Services customers (load and generation). During the rate case, would BPA establish a quantity of capacity to provide balancing reserves. BPA Power recovered the cost of this capacity through rates established in its Generation Inputs process within each rate case. Those customers were also responsible for paying Power for the cost of imbalance energy when they had actual imbalances from their forecast or schedule.

In joining the EIM, BPA and its customers anticipated a host of benefits. Among these benefits were:

- Efficient energy dispatch,
- Improved congestion management,
- EIM Transfer Revenues.

To maximize these benefits, however, BPA and its customers must meet additional prerequisites. To qualify for EIM Transfers, BPA's Balancing Area must pass the EIM's resource sufficiency tests (to ensure that the Balancing Area has sufficient capacity and flexible resources to meet the requirements set by the market). Only after passing these tests, can the Balancing Area participate in the broader market footprint for EIM Transfer Imports or EIM Transfer Exports. Transmission Customers must also donate transmission capacity to enable EIM Transfers.

Both the Resource Sufficiency Test and the transmission donations are uni-directional. An EIM Balancing Area can pass the Resource Sufficiency Test in one direction and fail in the other. In order to pass in both directions;

There must be a sufficient EIM Participating Resource capacity bid range in the EIM through incremental or decremental energy bids above or below the Base Schedules to meet the imbalance plus the adjusted uncertainty requirement. . . .<sup>1</sup>

Likewise, transmission donations for imports or exports of EIM Transfers are calculated separately. Transmission donated for export of EIM Transfers will not support import of EIM Transfers.

BPA has indicated it will use the non-regulating reserve component of the Generation Inputs capacity to meet the bid range requirements of the EIM resource sufficiency tests. While BPA Power provides this capacity as a service to its Ancillary Service Customers, BPA Power does not allocate any cost of that service to itself to use it for this additional purpose. The costs of that capacity are covered by BPA's Ancillary Services Customers. Nevertheless, BPA Power relies on this capacity to satisfy the EIM's resource sufficiency test (at least in part) and to qualify to export EIM Transfers. Estimates for the value of EIM Transfer Revenues have ranged from \$4 million to \$40 million.

BPA staff have suggested that the Generation Inputs capacity included in BPA's Ancillary Services Rates is priced as a service; there is no "ownership" right associated with that capacity. NIPPC agrees. The question, however, is whether Power Services also benefits from that capacity to support EIM Exports and if so, whether they should be able to use it for free to support that additional purpose. NIPPC suggests it would be more appropriate for all beneficiaries to contribute to the cost of capacity when that capacity is available for multiple purposes.

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<sup>1</sup> CAISO Business Practice Manual; BPM for Energy Imbalance Market – Version 25; November 17, 2021; Section 11.3.2

Consider a hypothetical situation where BPA did not have a generation inputs process to allocate costs of capacity to ancillary services customers. This hypothetical could arise if all customers self-supplied their balancing reserves. In that case, BPA Power would be responsible for designating the full amount of capacity to meet the EIM resource sufficiency test; BPA Power would not be able to lean on other customers to cover a portion of the cost of that capacity. Again, NIPPC is not proposing that BPA Power take responsibility for all the costs of the generation inputs capacity – only that BPA Power contribute to the costs of that capacity in proportion to their benefit.

Bonneville staff have suggested the EIM's more efficient energy dispatch is adequate compensation to Generation Inputs customer for BPA Power's additional use this capacity. As noted above, however, both the resource sufficiency test and the transmission donations are uni-directional. BPA's Ancillary Services customers do not derive any benefit – including more efficient energy dispatch - from BPA Power's ability to access EIM Transfer Exports. BPA's Ancillary Services Customers derive benefits from a more efficient energy dispatch only if the BPA Balancing Area meets the requirements for EIM Transfer Imports. These requirements include donation of transmission rights to facilitate imports. If no customers donate transmission to facilitate imports of EIM Transfers, then the EIM market limits efficient dispatch within the Balancing Area footprint.

BPA Staff has also suggested that BPA Power is donating additional capacity to meet the resource sufficiency tests and is donating transmission rights to enable EIM Transfers. Staff suggests that these voluntary actions on its part should justify BPA Power to rely on the Generation Inputs capacity to meet the resource sufficiency test. But BPA Power's decisions to maximize its ability to sell energy outside of its Balancing Area do not benefit Ancillary Services customers within its Balancing Area. BPA's Ancillary Services Customers derive no benefit when BPA Power designates additional incremental capacity for EIM Exports or donates additional transmission rights to support Exports.

BPA Staff has suggested that the Generation Inputs process does not represent the full costs associated with the capacity designated in the rate case. NIPPC would appreciate a more detailed explanation of this argument. NIPPC notes, however, that the capacity component contained in the Generation Inputs formula is only one element of the charges that customers pay for imbalance services. There is still a significant energy component that customers pay when they have actual imbalances from their schedules. NIPPC suggests that the costs that are not embedded within the capacity component are still recovered through BPA's sales of imbalance energy to its Ancillary Services Customers and through EIM Transfer Export Revenues. That BPA recovers some of its costs through energy charges should not allow BPA Power to use the Generation Inputs Capacity to support EIM Transfers for free.

BPA's Ancillary Services Customers already contribute to the cost of capacity (through the generation inputs process) that would be used to meet the resource sufficiency test that applies to EIM Transfer Imports.

Currently, NIPPC does not know whether customers – including BPA Power – are donating transmission to support EIM Transfer Imports into BPA’s Balancing Area. NIPPC would be interested in learning details regarding the quantity of transmission – if any - that has been donated to support EIM Imports to BPA.

NIPPC acknowledges that if BPA Power is taking actions to enhance Imports of EIM Transfers, those actions should be considered as factors in weighing how much BPA Power should contribute to the cost of capacity used to meet the EIM capacity tests. The most important factor would be to identify how much transmission capacity BPA Power donates to facilitate imports of EIM Transfers. NIPPC notes that BPA Power has not made any commitment to its Ancillary Services Customers to donate any specific quantity of transmission to support EIM Imports.

NIPPC hopes that BPA schedules this topic for further discussion in a future workshop. While the question is simple, understanding all the nuances of how benefits and costs flow through this new market paradigm are complex.

### **Segmentation**

NIPPC has been closely following the Financial Plan Refresh process and the proposal for revenue financing based on capital forecasts. NIPPC seeks more information on how BPA proposes to allocate revenue financing among the specific segmented rates. NIPPC recognizes that any detailed discussion will need to occur after release of the Financial Plan Refresh Record of Decision.

### **Workshop Topics**

NIPPC thanks staff for their responses to NIPPC’s requests to include specific topics in future workshops. NIPPC offers additional comments for why those topics should be included in this process.

### **Operational Controls for Balancing Service (OCBR)**

NIPPC does not propose eliminating OCBR. NIPPC recognizes the value that the OCBR and its predecessor DSO 216 have brought to ancillary service customers. The operational flexibility that OCBR provides allows BPA to reduce the quantity of reserves it must set aside to meet its balancing needs. A smaller requirement for capacity results in a lower cost to customers who really on BPA for balancing service. NIPPC recognizes that eliminating OCBR would likely result in BPA significantly increasing the quantity of balancing reserve capacity and a corresponding increase in ancillary services rates.

Rather NIPPC suggests that it is appropriate to consider and explore how OCBR and EIM work together. Specifically, NIPPC suggests that it is appropriate to consider the impact of EIM within BPA’s methodology for calculating the amount of capacity that BPA will include in amount of capacity that BPA will supply for balancing reserves.

BPA does not currently set aside capacity to meet its forecast need for balancing reserves in 100% of hours considered in the rate case. Instead, BPA and its customers have agreed to set a capacity requirement to meet BPA's forecast need for balancing services in 99.7% of hours. During those hours when BPA's actual need for balancing services exceeds the quantity set in the rate case, BPA is able to deploy OCBR to maintain reliability of the system.

One specific question NIPPC hopes to explore with BPA in this process is whether BPA's participation in the EIM allows BPA to reduce the quantity of reserves needed to maintain the 99.7% standard (as compared to a 99.7% calculation if BPA's calculation does not consider the EIM). NIPPC suggests that if the EIM is available as a source of balancing reserves during some of the extreme events when BPA's supply of balancing reserves is stressed (and OCBR deployment is not required), then BPA could maintain the same quality of service (99.5%) with a smaller quantity of balancing reserves.

NIPPC offers the following simplified hypothetical:

BPA uses its existing methodology to determine that it must have 1000 MW of balancing reserves to meet the 99.7% quality of service. BPA sets its rates accordingly. During 50% of the tail events when BPA would otherwise rely on OCBR, the EIM is available to supply additional balancing reserves and does so. The result is that the quantity of capacity established in the rate case is higher than needed to meet the 99.7% quality of service standard. In other words, the availability of EIM transfers as a source of balancing reserves in some hours should be included as part of the calculation to determine how much capacity is required to maintain the quality of service standard at 99.7%.

BPA staff indicates that it may have insufficient data to incorporate this concept in the BP-24 rate case. NIPPC acknowledges the data limitation. At this time, NIPPC asks BPA to identify the specific data categories that might be necessary to allow this issue to be considered in future rate cases and to ensure that BPA collects and preserves the data for the appropriate time.

### **Oversupply Management Protocol**

BPA's Oversupply Management Protocol (OMP) has been in place since 2012 (though its predecessor Environmental Redispatch was adopted in 2011). OMP is currently set forth in Attachment P to BPA's OATT. Since 2012, OMP has not been seriously revisited.

At the same time, BPA reviews its program costs and capital requirements every two years as part of the Integrated Program Review. BPA sets rates and revisits its tariff every two years. BPA develops a Strategic Plan every five years. BPA is currently refreshing its 2018 Financial Plan. Considering the pace at which BPA revisits other elements of its business, NIPPC suggests that after 10 years, now is the appropriate time to revisit OMP. In addition to the length of time that has passed since BPA last reviewed it OMP, NIPPC notes that other factors have changed over that time including changes to the structure of tax incentives that drove some of the need for

OMP and BPA's active participation in the EIM. NIPPC does acknowledge that BPA has indicated a preference to conduct a review of OMP outside of the rate case/tariff revision process.

Nevertheless, NIPPC believes that now is the time for BPA to revise its Attachment P to identify the actions in the EIM it will take to reduce or avoid the need for displacement. Attachment P provides in part:

1. Before displacing generation under this attachment, Transmission Provider will take the following actions when available and Transmission Provider determines they will reduce or avoid the need for displacement:

- a) sales through bilateral marketing, including offering to sell power at zero cost;
- b) waiving real power loss return obligations;
- c) cutting prescheduled Pacific Northwest Coordination Agreement storage;
- d) deferring scheduled generation maintenance activities;
- e) deferring scheduled transmission maintenance activities;
- f) increasing pumping into Banks Lake at Grand Coulee;
- g) seeking flow reductions with BC Hydro;
- h) seeking additional load via spill exchange agreements, such as those under hourly coordination with Mid-Columbia Hydro Projects;
- i) seeking access to additional reservoir storage space at Federal Projects;
- j) reducing available balancing reserves to maximize turbine flows;
- k) selling Capacity Recallable Energy products; and
- l) reducing TDG levels at one Federal Project by transferring spill to another Federal Project consistent with the spill priority list.

NIPPC suggests that the EIM gives BPA additional tools to manage oversupply conditions on its system and that these new tools should be added to the list set forth in Attachment P. NIPPC suggests adding the following actions to this list:

- Purchasing and donating transmission to the EIM
- Designating additional generating capacity for EIM dispatch
- Submitting energy bids of \$0.00 into the EIM

These additional actions could also reduce or avoid the need for displacement. NIPPC suggests that BPA amend Attachment P to include these specific actions and commit to take them during periods when oversupply conditions are imminent.

NIPPC also suggests that discussing Attachment P and the EIM in a public workshop might stimulate staff and customers to identify other potential actions that BPA should add to Attachment P.

