

M-S-R's Comments related to Wind Integration Issues and the LGIAs

What follow are M-S-R's comments on the "Connecting Variable Generation Resources to the Federal River Transmission System (FRCTS)" document and BPA's proposal to immediately execute LGIAs with new wind developers. M-S-R is not opposed to increasing the number of megawatts of wind that is on the system – it simply believes that it is premature to execute the LGIAs now before all of the stakeholders have fully vetted the issues in a dynamic and transparent process. While there is a desire for haste, there is no room for mistakes and it is important that everyone understand the issues.

The federal hydro system has reached its capacity to accommodate new wind resources. BPA has stated that there are 2200 MWs of pending LGIAs and that BPA anticipates that there will be in excess of 5000 MWs by 2012 in BPA's control area. Such a significant increase in wind will not just tax the FCRTS but will have lasting and potentially deleterious impacts on BPA's power and transmission customers. Northwest stakeholders deserve a complete understanding of the impacts and a coordinated approach.

BPA itself is unclear where or when the policy decisions should be made and appears to be taking an ad hoc approach as a result. Indeed, there are so many avenues in which these issues are being discussed; it is difficult to know what is true and what is assumed. The "TIPSC" group, the Wind Integration Forum of the Northwest Power Planning Council, the Network Open Season Group to name a few are also considering the impact of the additional wind and whether it necessitates changes to the manner in which BPA addresses costs throughout its system.

It is important that these issues be fully vetted in an open and transparent process. If it is, as M-S-R believes, inherently a policy decision then more of the Region needs to be engaged before the execution of additional LGIAs. Additional wind on BPA's system raises questions about BPA's relationship with FERC, its OATT and reciprocity rights, Fish Issues -- and as a General Manager of one Public agency put it, energy dumping in the Northwest. The Region needs to be clear in directing BPA in how best to manage this new resource.

The WIT has done an admirable job in trying to respond to various comments made by potential parties to the rate cases. However, WIT is not the decider of the rates or of how those rates are implemented. M-S-R continues to be impressed with the effort and responsiveness of the WIT. It feels, however, that the work done to date is insufficient to support the execution of additional LGIAs or the appropriate policy. There is more work to be done.

M-S-R supports the establishment of an appropriate amount of balancing reserves as part of the 2010 - 2011 rate case as a way to reduce rates. The thirty minute persistence appears to be a workable solution in light of the difficulty in forecasting. However, what happens if the estimate is wrong? The following needs to be considered if the proposed 2200 or more MWs of wind come on board:

- Clarify what happens when BPA runs out of reserves. As it has been made clear, the number of reserves finally identified will be used to set rates. That is a rate case cost analysis and not an

operational one. If the final number that comes out of the rate case is 500 MWs of reserves costs will be allocated and rates set accordingly. But what happens if the number is not sufficient from an operational perspective? BPA cannot just close down the system. The likely scenario is that there will be - at times - insufficient reserves to maintain reliability, meet WECC/NERC standards and to protect fish. This will require BPA to either use reserves designated for other uses or curtail. Neither is attractive.

Under one scenario, BPA would curtail wind generators, more and more frequently as additional megawatts of wind are added. Wind developers are already asking for a cap on curtailments in order to assure capital financing. If the size, frequency, and number of curtailments is limited, BPA loses flexibility to manage its system. The alternative scenario – that BPA will look to other resources such as resources otherwise earmarked for secondary sales raises concerns for public power, including the Slicers, about reduced revenue and loss of capacity. Before any additional LGIAs are executed, everyone needs to understand realistically what is going to happen and how that may affect them. The discussion in the last WIT made clear that there was not a clear understanding among the attendees.

- Identify Cost Shifts among Constituents. Two big issues are looming. First, one of the anomalies inherent in the manner in which BPA is allocating reserves is that both Power and Wind have claims to the same set of reserves. It is intended to allow the maximum flexibility within the system to do the right thing and to accommodate all of the needs of the customers. However, it means that at times the power customers (load) will hang on the reserves and other times the wind plants will hang on them. Under the proposed approach, wind pays for all of the reserves raising fairness issues.

Second, the approach described in the paper is one that may not allocate costs appropriately between new and old wind developments. It taxes existing plants for the costs inherent in bringing on new resources to integrate wind, thereby giving new wind a competitive advantage over existing developments. The “peanut butter” approach of spreading new and old costs among all wind developers results in cost shifts. These issues warrant further discussion before the LGIAs are executed.

- Unilaterally Changing old LGIAs is Inappropriate. Until BPA takes the affirmative step to tell FERC that it is no longer going to be held to FERC Orders, including 890B, those orders are good law and BPA must comply with them. BPA is considering how best to extricate itself from having to have its LGIAs approved by FERC and how to handle changes to other terms and conditions under various of its contracts. How that happens appears unclear resulting in reciprocity issues for the utilities involved.

- WIT's calculations do not address seasonal differences or other issues which would change the number of reserves necessary. WIT acknowledges that the needs of the system and the tolerance levels change over the course of the year – just as the need for reserves changes over the rate period – and apparently has done no studies to consider how this might impact costs or operations. A dynamic process in which that approach can be considered along with other approaches already considered by BPA would be desirable.
- The “control” features of the new (or old) LGIAs are unnecessarily burdensome. Since these changes – like the LGIAs themselves – are for the life of the plant, making changes without considering the impact of the language over time requires more discussion, especially in light of the ongoing WECC concerns with reliability. Perhaps one answer is that the “changes” giving BPA operational control are only operative for a set period and can be modified to comply with future needs.

The proposal reflects significant effort and work but fails to fully consider the cost shifts and allocation issues and policy implications. Those issues must be decided in the appropriate forum but in order for that to occur, BPA cannot continue to execute LGIAs – each one will increase costs and shift benefits regardless of any future policy decisions. Continuing to sign LGIAs will hamstring the agency's ability to set policy that appropriately balances the needs of the stakeholders. The Wit has done well but there is still much to discuss.