

## **PRE-EXISTING CONTRACTS AND OBLIGATIONS**

### **FEASIBLE DISPATCH OPTIONS**

#### **Background**

The RTO Congestion Management Workgroup has agreed to the following rules of conversion of Pre-Existing Contracts (PECs) and Load Service Obligations (LSOs):

- 1) Customers must submit contracts or other information on PECs and LSOs to RTO West for review by (date).
- 2) FTRs for Point-to-Point PECs will be determined based on applicable contract terms and conditions, taking into account relative firmness and other restrictions or flexibility's stated in the contract.
- 3) FTRs for conversion of Network Service PECs will be determined based on Non-coincidental peak loads from 1998-2000
- 4) PECs and LSOs will be reevaluated each year prior to the annual FTR auction due to:
  - a) Changes in transmission system topology (changes in FDFs used to determine FTRs)
  - b) The development of new commercial flowpaths.
  - c) This analysis will include known changes and measurable changes in explicit contract demands.
- 5) Flow Distribution Factors (FDFs) will be used to translate PEC and LSO rights into FTRs across the designated flowpaths by using a load flow program reflecting a particular dispatch arrangement.

Given item 5 above, the workgroup then sought to define the feasible dispatch options that would be permitted for determining FTRs. Three alternatives have been proposed, where Alternative 1, having been the initial proposal, remains as part of the strawman. A supporting statement for each alternative has been included in the attachments below where Aleka Scott provided the statement for alternative 1, Rick Vemeers and Gerald Miller each for alternative 2, and Chris Reese for alternative 3.

Alternatives are as follows:

- 1) At the contract holder's choice, they could choose one or two (HLH/LLH) feasible dispatches. If two dispatches are chosen, FTRs are assigned on a HLH/LLH basis. If one dispatch is chosen, rights are uniform throughout the month.
- 2) Two feasible dispatches (on/off peak) for each month (total of twenty four) consistent with PECs and LSOs terms and conditions.
- 3) Multiple feasible dispatches (on/off peak) for each month consistent with PECs and LSOs terms and conditions.

The supporting document for Alternative 1 identifies that there is a close linkage between this issue and the other contract issues addressing over-allocation and load growth. All of these fall under the overall “value for value” principle. The supporting documents for Alternative 2 raises an additional and very significant issue that has not been debated yet within the workgroup. The issue is whether or not these FTRs can be resold by the rights holder. Chris Reese promotes utilizing multiple dispatches to more accurately reflect load shape and direction.

## ATTACHMENTS

### **Alternative 1**

*At the contract holder’s choice, they could choose one or two (HLH/LLH) feasible dispatches. If two dispatches are chosen, FTRs are assigned on a HLH/LLH basis. If one dispatch is chosen, rights are uniform throughout the month.*

#### Arguments in Favor:

This approach, and particularly the one dispatch portion of the approach, rests on the assumption that network customers will receive inferior service in the RTO world than under the Network contract. This inferior service is a result of the externalization of rights and risks and the resultant loss of diversity.

Currently, BPA has a bundle of transmission contracts that it manages its system to fulfill. As such, BPA can take advantage of the internal diversity of transmission peaks and loadings of its contracts to fulfill all of the contract needs. In the RTO, in order to schedule, each utility will need the full amount of its non-coincident peak load in order to schedule. If a path is over-subscribed, there is likely to be a reduction (pro-rata perhaps) of FTRs to bring total FTRs within available capacity. There seems to be a (dare I use the word) consensus that at least certain paths will be over-allocated as FTRs are assigned to individual customers.

Network customers are likely to be faced with many new costs as a result of RTO service. Network customers will need FTRs for their peak load in order to schedule. Because of over-subscription of paths, NT customers are likely to see pro-rata reductions in allocated FTR amounts. This will put the NT customer in the FTR market for existing load. Further, if a path is fully assigned with FTRs and the Network (NT) customer has load growth, the NT customer will be in the market for existing FTRs, for redispatch, or for market projects to relieve the congestion.

Another source of additional costs for NT customers in the RTO world may be for load growth. In today’s world, the NT customer may also be required to pay for the cost of new construction for load growth. However, the date at which these costs are visible (externalized) to the NT customer is likely to be much later in the current world than in the RTO world because of the internal management of congestion and the diversity of

loadings managed by the PTO. Thus, the cost of serving NT load in the RTO world is likely to be higher and riskier, and much more complex.

So with the conversion principle of “value for value” firmly in mind, Alternative 1 delivers some relatively small measure of value to the NT customer which it can use to offset the higher and earlier costs which the RTO presents. The single dispatch will allow the NT customer to sell off in the secondary FTR market the FTRs with are excess to its needs in both heavy and light load hours. These secondary revenues will help offset the increase costs of serving load described above.

On the other hand, other utilities have distinctly different HLH-LLH dispatch patterns resulting from management of hydro systems and other resources. It is reasonable that these utilities be allowed to submit two feasible dispatches (HLH/LLH) and that FTRs be assigned on a HLH/LLH basis.

Allowing contract holders to choose meets the needs of both the NT customers and those customers who have a need for a differing set of FTR in heavy and light load hours.

## **Alternative 2**

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| Two feasible dispatches (on/off peak) for each month (total of twenty four) consistent with PECs and LSOs terms and conditions. |
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This option should require dispatches consistent with network service for all network type pre-existing contracts inclusive of GTAs. Point-to-Point contracts should have rights consistent with the terms of the contract.

Network service has traditionally been a shaped product that relies on the diversity of loads to serve a network of loads rather than a number of loads with coincident peaks. This allows the transmission provider to serve the loads at a lower cost than if all loads had coincident peaks. In the case of the GTAs, there are multiple sets of network loads being served simultaneously at a lower cost for all. This arrangement also allows for hydro based systems to utilize the transmission system off peak to make more efficient use of both transmission and hydro systems. The utility can take advantage of the lower off peak transmission capacity to import energy to allow for the filling of reservoirs. The result is a lower cost to all customers.

Specifically, in the case of the GTAs, there is no requirement in the contract to serve any loads over and above the capacity of the transmission owner’s system. The transmission owner may choose to provide additional capacity, but the owner may also tell Bonneville that the owner just can’t serve the load. Bonneville would then construct as necessary to serve the load. In other words there is no load service obligation for load growth under the GTA above the contract demand limit. To convert GTAs as if they were PTP contracts is incompatible with both nature of network and agreements and inconsistent with the philosophy of the GTAs.

Network contracts, then, should continue to be administered consistent with network service, which means that FTR's during off peak periods are not available to the load for resale (they are available for other load service obligations as required by the LSE, excess FTRs would be disposed of consistent with RTO rules for disposition of excess FTRs.). This is probably a better statement of the issue than a requirement to submit two feasible dispatches for each month.

### **Alternative 2 (Second supporting statement)**

The allocation of FTRs to PECs and LSOs needs to recognize that under current operating conditions (dispatch) certain transmission paths are utilized at higher transfer levels during off-peak and shoulder hours rather than at the time of system peak loading. This operating condition results when: 1) lower cost thermal units are based loaded and western hydro units are back-off to allow for refill and 2) entities with peaking energy return obligations to Bonneville return and such peaking energy returns during off-peak hours. Assigning FTRs for PECs and LSOs on an off-peak and on-peak basis will free up transmission capability which can be sold as FTRs into the market during periods when such capability is required to meet the PEC or LSO requirement.

If an FTR is issued to reflect the peak utilization i.e. off-peak in some cases, then perhaps one feasible dispatch for each month consistent with the PEC or LSO terms and conditions will work. However, the issue as to whether or not a customer that is currently taking network or network like service should be allocated an FTR on a forecasted peak basis and then be able to resell any unused FTRs during non-peak periods would be inconsistent with the terms of the underlying agreement or tariff. Existing Point-to-Point service should, however, be allocated an FTR that is good for 8760 hours per year.

### **Alternative 3**

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| Multiple feasible dispatches (on/off peak) for each month consistent with PECs and LSOs terms and conditions. |
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Pros: Recognizes that most flowpath are bi-directional.

**Accurately** reflects the translation of existing contracts rights to flowpaths.

Minimizes cost shifts.

Most of the flowpaths are bi-directional. So there are a minimum of two dispatches per month and four if light and heavy load conditions are to be factored in. I did not think that the switch from contract rights to flowpaths was intended to be a mechanism for reducing rights on pre-existing contracts. Switching to flowpaths from contract rights will require the relevant dispatches that have used the existing contract rights to be included as part of the conversion.

