

SMUD COMMENTS ON BONNEVILLES WHITE PAPER TITLED CHALLENGE FOR THE NORTHWEST – PROTECTING AND MANAGING AND INCREASINGLY CONGESTED TRANSMISSION SYSTEM

SMUD appreciates the opportunity to comment on the above white paper. SMUD compliments Bonneville on the production of a very thoughtful, readable and frank presentation of the issues it faces in managing its important transmission system. Our more detailed comments are as follows:

Page 1 – It should be noted that part of the issue is that NERC has a mandatory requirement that all schedules be tagged and pathed from source to sink.

Page 4 – The SMUD control area is directly interconnected with region and the BPA system at COB. It may be appropriate to note that interconnected loads and resources also have an impact on the BPA system.

Page 13 – It should be stated that another reason not to rely on curtailment of Interties for mitigation of transmission problems that originate elsewhere on the system is that such a procedure is not equitable to the counter parties with whom the northwest is trading.

Page 14 – It should be stated that re-dispatch of federal generation can trigger corresponding response from generation at the other end of regional interties and export of generation from California to Bonneville real time and free of charge. This is an interim arrangement intended as a stopgap measure to deal with OTC management until system control functions on interties can be improved to rely on curtailment pursuant to standard tagging and scheduling protocols. This stopgap measure must be replaced in the near future with a compliant curtailment based OTC management system. The economic impacts to intertie counter parties is substantial and must be terminated by the above improvements to the management of OTC, so that reliability is improved and the burdens are shared in a more equitable manner.

Page 15 – Statements regarding the reliability, capability and economic impact of the Bonneville system should address directly interconnected entities that also are impacted by the Bonneville transmission system, including the SMUD control area and the utilities and power marketing administrations contained therein. Further, it should be noted that the need to be prepared to make counter-schedules or curtailments can increase operating reserve requirements significantly and cause substantial cost increases to transmission users and thus to consumers, as is now the case in the SMUD control area due to the intertie OTC mitigation arrangements now in place at the California – Oregon border.

Page 16 – SMUD suggests adding the following questions to the list:

“ Does the solution preserve forward knowledge and stability of transmission costs so that LSEs can rely on transmission of long term firm power

contracts to mitigate market volatility, or does it instead increase the volatility and cost of delivering long term power contracts?”

“Does the solution preserve process simplicity and the ability to change schedules up to 20 minutes before the hour, as long as system capability exists, to adapt to changes in loads and resources?”

“Does the solution give transmission customers choices in how to deal with congestion (i.e. avoid it by responsible scheduling within rights, or curtail in unexpected events), or does it force transmission customers to buy re-dispatch service from markets that can have dominant players gaming the system and exercising market power as has happened elsewhere in the West and the nation?”

Page 17 – The cost of COI OTC mitigation to California Parties, including uncompensated energy counter-schedules, and maintaining the reserves needed to call on such energy, should be mentioned.

Page 19 – It should be recognized that reliance on re-dispatch as the sole mandatory option for OTC mitigation presents the suppliers of inc and dec bids with market power to charge predatory rates for their now needed services and the potential to game the system by scheduling in a way that creates the need for the re-dispatch services they sell. This is not a speculative concern, rather it is a historical fact.

Page 28 – The description of non-LMP systems should be edited to capture how many physical rights based systems operate in many regions of the country. In these systems, such as SMUD’s and many other LPPC transmission owners, physical rights are not auctioned in the short term, rather they are obtained through construction of transmission or purchase of long term contracts. Congestion is largely avoided by not accepting all schedules, rather only schedules that are within physical rights and current operating limits are accepted. All schedules are on identified paths from source to sink and tagged in compliance with NERC mandatory requirements. Real time events that reduce path OTC are dealt with by implementing curtailments according to firm and non-firm rights and applicable transmission tariffs. Transmission that is surplus to native load requirements is posted on an OASIS web site, in SMUD’s case Westtrans. Any re-dispatch is accomplished on a voluntary bi-lateral basis with all costs paid by the willing participants only. A bulletin board to facilitate more voluntary re-dispatch and a secondary transmission market is under development. Chronic congestion is mitigated by construction of transmission and/or generation. Operator flexibility, vision and tools are maximized while complexity, market power, gaming, cost, and cost shifting are minimized.

Page 29. – The description of LMP based systems should be edited to include references to some of the large problems encountered by these systems, such

as complexity, extension of the timing, duration and complexity of scheduling, settlement and billing processes, gaming, market power, volatility in the price of power and transmission, unavailability of long term transmission cost hedges and the forcing of transactions into shorter term markets.

Again thank you for the opportunity to provide these comments. We look forward to continuing participation in the resolution of these issues. Please contact Brian Jobson to discuss these comments further.