

United States Government

Department of Energy
Bonneville Power Administration

memorandum

DATE: December 8, 2004

REPLY TO
ATTN OF: IG-32 (A04DN031)

SUBJECT: Response to Draft Audit Report on Management of Memo Account Schedules

to: Rickey R. Hass, Assistant Inspector General for Audit Operations – IG-34

Thank you for the opportunity to comment on the Draft Memo Account Schedule Report dated November 10, 2004. The Bonneville Power Administration (BPA) agrees with the draft report's recommendations because they add to overall scheduling efficiency for the small memo account portion of BPA's scheduled transmission capacity. However, since memo accounts have been successfully managed as part of normal operations, we believe the recommendations are unlikely to produce significant dollar savings. Savings estimated in the draft report are speculative since transmission must be available and there must be a willing buyer and seller; assumptions supported neither by the report nor our experience. Meanwhile, since operational risks discussed in the draft report are not attributable to memo account scheduling inaccuracies, we believe the recommendations will not significantly benefit operations.

We are taking the following actions to respond to the recommendations:

1. BPA is identifying memo account problems and notifying customers about them. Some large customers have changed their estimating practices in response to our initial requests. We expect others to respond as new procedures are developed. A few customers have asserted that their contract rights allow retroactive reconciliation of schedules and prevent resolution of memo account issues.

Legal staff, in conjunction with contracts staff, is currently reviewing memo schedule provisions in BPA contracts. Upon completion of the reviews for each customer, a one-on-one meeting will be held to encourage accurate memo account scheduling. In preparation for these meetings, BPA has held three joint customer meetings. We expect to complete this process by October 1, 2005.

2. Staff drafted proposals for the 2006 Transmission Rate Case that would address memo accounts including a scheduling deviation penalty, a curtailment compliance penalty and a take- or-pay rate for the hourly nonfirm product. The penalties and take-or-pay nonfirm product would provide financial incentives to encourage accurate scheduling. The proposals and their impacts are further described in Appendix 1, enclosed. There is a tentative agreement with customer representatives to settle the rate case. The agreement should include a curtailment compliance penalty and a take-or-pay nonfirm product.¹ We expect to complete the rate case and implement new rates by October 1, 2005.

¹ Rate case proposals must be approved in a rate proceeding under 16 U.S.C § 839e(i), so BPA cannot promise that staff proposals will be unchanged or part of the 2006 rates.

3. BPA has created a tracking system to monitor the accuracy of memo account schedules by customers. The system allows BPA to monitor whether its voluntary efforts have been successful and confirm that transmission capacity is being provided efficiently.

While we agree with the draft report recommendations, we believe the report paints an unrealistic picture and overstates the economic impacts and potential operational consequences of memo account use by a few BPA customers. For example, the discussion on page one of the report misstates the scope of this issue by inferring large constant volumes of energy being transferred over constrained paths during curtailment and the potential consequences of such actions. Additionally, the report states, "Customers for ten accounts scheduled over 1.1 million MWh that they did not use." Whether that amount is significant depends on many issues, including the timing and duration of the schedules, as well as loading restraints on pathways.

The report also notes that five of the ten accounts "scheduled between 30 to 99 percent more transmission than they used for a 2-month period." These percentages may be insignificant if they do not represent a large transaction over a short period of time on a constrained transmission path. Indeed, in our experience, most of the time this type of scheduling has inconsequential operational impacts and is inefficient. Moreover, the report fails to note that all of the transmission in question had been sold. Sales lost due to inefficiencies from memo account scheduling would have been nonfirm resales of the previously sold firm transmission capacity that would likely be sheltered by customers under their firm demand. In the end, the quantitative information cited in the report does not, on its own, make a case for memo account impacts on scheduling or operations, or meaningfully assist the reader in evaluating the importance of the assertions.

The draft report also mischaracterizes the relationship between curtailment and memo accounts by inferring that memo account scheduling inaccuracies can induce unnecessary curtailments. Curtailments are directives by dispatchers in response to real time energy flows, problems caused by unplanned events such as outages, not memo account schedule deviations.

Appendix 2 contains additional technical, editorial, and policy comments to improve the balance and accuracy of the report. We have had several productive conferences with IG staff to address these concerns. BPA will include a link to the final audit report and other relevant background information on our web site at http://www.bpa.gov/corporate/about_bpa/audits/

Again, thank you for allowing us the opportunity to comment on the draft report.

Sincerely,

Jeffrey K. Stier
Vice President for National Relations

Enclosure