

Customer Redline Comments On the TR-12 Settlement Agreement

TEMU



TransAlta Energy Marketing (U.S.) Inc.
222 SW Columbia Street, Suite 1105
Portland, Oregon
USA 97201

Main: (503) 295-8180
Fax: (503) 295-8188
www.transalta.com

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Matt Rios
Transmission Account Executive, Transmission Sales
Bonneville Power Administration
Mail Stop: TSE/TPP-2
7500 NE 41st Street, Suite 130
Vancouver, WA 98662-7905

Subject: TransAlta Comments and Edits on BPA's 2012 Rate Case Partial Transmission Settlement Agreement (Redline Draft 11-19-10)

Matt;

TransAlta has been participating in the ongoing rate case proceedings starting with the summer workshops through the November 17, 2010 Transmission Settlement Discussions when customer comments and suggested edits were solicited for the latest draft Settlement Agreement. TransAlta's response covers both. Comments come first and specific edits (intended for Barry Bennett) are second on page 3.

Comments on Section 1.a. (Redline Draft 11-19-10)

As stated in meeting, TransAlta appreciates the facts that BPA has included Failure to Comply (FTC) in the Partial Settlement Agreement and that progress is being made.

- The rate reduction combined with the 11-19-10 deletion of the WECC price cap language provide some real relief for generators who, by all reasonable standards, comply with curtailments. They are steps in the right direction and TransAlta supports those changes.
- Regarding BPA's current position of omitting a tolerance band in FTC's rate design, that decision has implications for any Thermal Reserve rate that BPA may develop in the 2012 or future Rate Case. TransAlta contends that BPA is facing an either/or decision between a FTC tolerance band and allowances on any future Thermal Reserve rate, and that BPA must choose. This decision is explained below.

FTC Tolerance Band vs. Thermal Reserves

During the November 17, 2010 Transmission Settlement Discussions, TransAlta pointed out two consequences of not including a tolerance band to FTC's rate design. First, generators will continue to intentionally under-generate during curtailments so normal variability in their

output will not draw costly FTC penalties. Second, this intentional under-generation will obviously add to BPA’s balancing reserve burden. These two realities were acknowledged by Milos Bosanac and other BPAT staffers, and they actually encouraged under-generation as a method of avoiding FTC penalties.

If this is BPA’s preferred alternative to redesigning the FTC rate, then allowances will have to be made to any future Thermal Reserve rate design as the following example demonstrates.

Figure 1: Intentional Under Generation to Avoid FTC

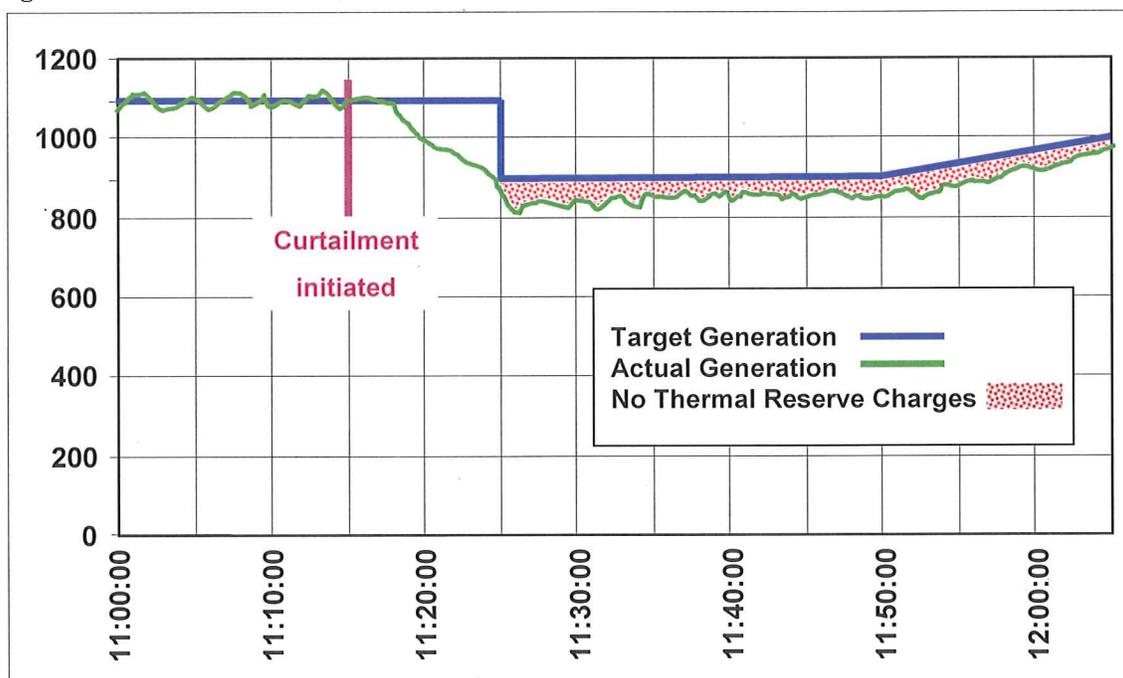


Figure 1 shows how a generator producing 1,100MW operates when receiving a 100MW transmission curtailment at 11:15. Without a tolerance band added to FTC’s rate design, the generator behaves just as BPA suggests and intentionally under-generates (green line) during the curtailment. Operating well below the target generation level (blue line) avoids any risk that natural variability in their output exceeds target generation and draws the costly penalty.

While that behavior helps the generator avoid FTC, it forces BPA to deploy additional balancing reserves to close the gap between target and actual generation... at a time when separate BPA initiatives are trying to conserve balancing reserves, and when BPA is contemplating a new Thermal Reserve rate.

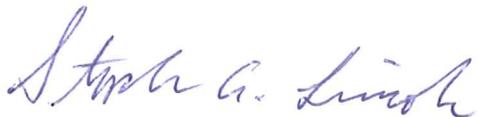
If BPA prefers that generators intentionally under-generate during curtailments, then any new Thermal Reserve rate design that BPA develops in the 2012 or future Rate Case must take this into account, and the rate should not apply during periods when any of a generator's transmission schedules are curtailed. Using Figure 1 as an example, a generator would not be charged for Thermal Reserves caused when under-generating during a curtailment (red shaded area).

Specific Edits: Section 1.a.

Because BPA must choose between adding a tolerance band to FTC or waiving any future Thermal Reserve rate during curtailments, and because BPA seems to be choosing the latter, TransAlta requests the following edits to Section 1.a. of the Partial Settlement Agreement.

A change in the rate for the Failure to Comply Penalty Charge from 1000 mills per kilowatthour to the greater of 500 mills per kilowatthour, ~~or 150% of an hourly energy index, or the WECC energy price cap on spot market sales.~~ In the event that BPA implements a Thermal Reserve rate in the 2012 or future Rate Case, the Thermal Reserves rate shall not apply while any of a generator's transmission schedules are curtailed.

Sincerely,



Steve Lincoln
Manager, Transmission Analytics
TransAlta Energy Marketing (U.S.), Inc.
222 SW Columbia Street, Suite 1105
Portland, OR 97201