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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 2012 Failure to Comply Parking Lot Issue**

Matt;

TransAlta requests that Failure to Comply (FTC) be put on the "Parking Lot" list of topics submitted by customers for the BPA 2012 Joint Rate Case. Two specific issues about the rate, found in Section II.B.1 of the 2010 Rate Schedules, should be addressed in a workshop or other suitable forum.

1. The \$1,000/MWh rate is not just or reasonable and should be lowered.
2. The rate should include a tolerance band, similar to Generation Imbalance, so the penalty is assessed as was originally intended, with its full weight applied to negligent generation operators who ignore curtailments entirely or treat compliance like an economic decision.

TransAlta submits the following justification for changes to the FTC rate and rate structure, and suggests that the discussion begin here.

**Lower Rate**

The \$1,000/MWh rate is not just or reasonable and should be lowered.

To TransAlta's knowledge, during the 2010 Transmission Rate Case proceedings when the FTC rate was raised to its present level, BPAT did not perform analyses or calculations to quantify the cost of noncompliance in order to develop the rate. Instead, an enormous number was randomly selected for shock value alone. The rate would not survive a careful cost-allocation analysis and should be reduced to \$250/MWh or 150% of the hourly MIDC index, whichever is greater during the curtailment hour when noncompliance occurred.

At these levels, the rate is both reasonable and it fulfills FTC's original intent of preventing generator operators from considering curtailment compliance as an economic decision. To

illustrate, Table 1 shows how average HLH and LLH MIDC prices during the 2010 Transmission Rate period compare to \$250/MWh.

Table 1: MIDC Price Statistics<sup>1</sup>

Average MIDC Prices During the 2010 Transmission Rate Period		
Shape	MIDC (\$/MWh)	% of \$250/MWh
HLH	\$38.96	16%
LLH	\$32.20	13%

The data above shows that setting the FTC rate at \$250/MWh provides ample economic disincentive for ignoring curtailments because it is well above average prices. Including the provision that sets the rate at *the greater of* \$250/MWh or 150% of the hourly MIDC index keeps the disincentive during extremely rare instances when the market has spiked beyond \$250/MWh.

Further, setting the rate at \$250/MWh does not preclude BPAT from directly assigning non-complying generation operators FERC, NERC, or WECC monetary penalties if their actions cause a violation of a Reliability Standards as described in Section 6.1 of the FTC Business Practice V3.B.

### Tolerance Band

The rate should include a 1.5% tolerance band within which FTC does not apply. For example, curtailed generators whose output exceeds the sum of their schedules plus 1.5% of those schedules are charged FTC.

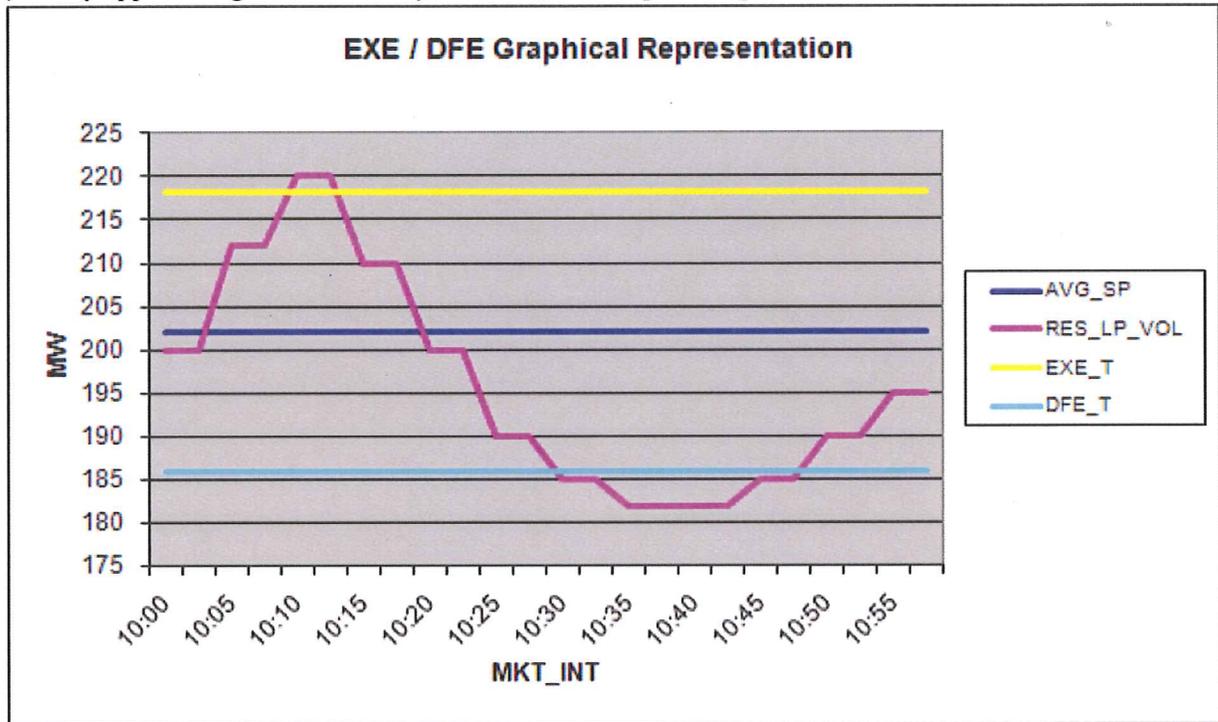
$$\text{FTC Penalty MW} = \text{Generation in excess of (Schedules + (Schedules * 1.5\%))}$$

As designed, the FTC rate is fundamentally flawed because it presumes that all generation—regardless of its size, number of units, fuel type, or control systems—can be operated perfectly and controlled to within one MW. This presumption is entirely unrealistic. As a result, the penalty applies indiscriminately to generation operators who, despite responding immediately to curtailment notices and taking all reasonable steps to comply, over-generate even slightly.

This realistic and reasonable application of a charge or penalty is not new. BPAT's own Generation Imbalance rate is applied this way, and other system operators use the same method to solve similar problems. As shown below in Figure 1 for example, the Midwest ISO utilizes a tolerance band called *Dispatch Interval Excessive Energy (EXE)* for penalizing generation operators who exceed their dispatch targets. MISO, like most system operators, understands that an economic disincentive must be in place to govern adherence to dispatch instructions, while at the same time recognizes that perfect execution is unrealistic.

<sup>1</sup> Source: HLH and LLH Day-Ahead MIDC prices from Oct 1, 2009 to Jun 30, 2010

Figure 1: MISO Example of Tolerance Band for Excessive Generation<sup>2</sup>  
 (Penalty applies for generation over yellow line, which equals Dispatch Set Point MW + Tolerance MW)



Reworking the FTC rate into one that is just and reasonable can easily be accomplished during the 2012 Transmission Rate Case proceedings. BPAT’s current method of applying Generation Imbalance charges work nicely for this change, so the necessary internal billing mechanisms already exist. BPAT simply needs to acknowledge that the current FTC rate and rate design was never “designed” at all. It was based solely on shock value, it is unjust because it hammers generation operators who make every reasonable effort to comply, and it should be fixed.

Sincerely,

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

<sup>2</sup> Source: Midwest ISO Post Operating Processor Calculation Guide, MS-OP-031-r7, effective date: MAR-01-2010, page 27