

June 28, 2018

*Submitted via Tech Forum (techforum@bpa.gov)*

**Re: Scheduling, System Control, and Dispatch (SCD) rate design**

Northwest Requirements Utilities (NRU) is a trade association that represents the interests of 53 NT customers of BPA. NRU members are keenly focused on BPA's transmission rates and reliability, and as such, any change to the allocation of costs associated with BPA's transmission and ancillary services must be made consistent with the ratemaking principles BPA presented in its April 24, 2018 BP-20 workshop.<sup>1</sup> As described below, BPA staff's proposal to modify the Scheduling, System Control, and Dispatch (SCD) rate design would fail to comport with BPA's ratemaking principles and would actually create the very problems that BPA staff claim the modifications would address.

During the May 30th BP-20 workshop, BPA staff introduced a proposal to change the SCD rate design. BPA staff provided three reasons for why they are considering a change: (1) simplify rate designs where appropriate; (2) charge SCD in a way that is consistent with industry standard and BPA strategy; and (3) customers have indicated the SCD charge, as currently designed, is creating an additional hurdle rate.<sup>2</sup> However, BPA staff did not provide a sufficient explanation for any of these three reasons. Furthermore, as described in more detail below, a close examination of each reason demonstrates that a change in the SCD rate design would actually create, not resolve, problems with the SCD rate.

BPA staff also failed to explain how the current SCD rate design falls short of its ratemaking principles. Our analysis shows that the SCD rate collects over 15% of Transmission's revenue requirement. Given this magnitude, it is essential that any modifications to the rate design are prudent and consistent with BPA's ratemaking principles.

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<sup>1</sup> [https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.04.24\\_BP20\\_RateCaseKickoff.pdf](https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.04.24_BP20_RateCaseKickoff.pdf), slide 3.

<sup>2</sup> May 30 workshop, slide 19.

BPA staff has shared only preliminary thoughts on the proposed alternative to the current SCD rate design. Our understanding of BPA's proposal is to modify the SCD rate design to charge SCD based on scheduled energy flow (i.e., \$/MWh billing factor)<sup>3</sup>, which also has the effect of eliminating any SCD charges for Intertie use. In contrast, the current SCD rate design charges the rate to each segment (Network PTP, NT and IR; Southern Intertie PTP; and Montana Intertie PTP) and uses the same billing factor as the base NT and PTP transmission rates (i.e., \$/kw-month).

In summary, NRU opposes modifications to the SCD rate design because the current SCD rate design better comports with BPA's rate principles, and the proposed modification to the rate design would create the very problems BPA purportedly seeks to address. BPA and customers should leave the rate design as-is and spend their limited time working on more pressing issues. Below we respond to the three reasons BPA staff has provided as rationale for changing the SCD rate design.

#### **1. Simplify rate design where appropriate.**

BPA staff has indicated they are reviewing rate designs and looking to simplify where appropriate. While a reasonable goal, the existing SCD rate design appears to already be the simplest approach.

*a. Existing rate design uses same forecasted data as other transmission rates.*

The same data are used to calculate the SCD rate and other transmission rates. This is shown in Table 7, Calculation of PTP, IR and NT Rates, and Table 10.1, Calculation of Ancillary Service Rates, which reference Tables 4 and 5, forecasts of transmission sales. Unless otherwise inappropriate, using the same data for different rate calculations minimizes risks of errors and simplifies the rate setting process. It is unclear how BPA would forecast scheduled MWhs, though it is clear it would introduce extraneous work that would not be used for any other rate setting purpose.

*b. Existing rate design uses same billing determinant as other transmission rates.*

Similarly, the proposed alternative would require new systems and processes to calculate the billing determinant to calculate the SCD rate. BPA staff's proposal uses scheduled energy flows in \$/MWh as the billing determinant. The existing rate design uses the same billing determinant (\$/kW-mo) that are used for the other base

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<sup>3</sup> [https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.05.30\\_BP20\\_TxRates.pdf](https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.05.30_BP20_TxRates.pdf), slide 22.

transmission rates: NT, PTP, IR and the interties. To our knowledge, BPA does not have the systems or processes in place to calculate scheduled energy flows and bill off them. It is also unclear how BPA would allocate SCD costs to individual transmission customers for schedules that include multiple owners.

- c. New billing determinant poses risks of inaccurate forecasting and billing; increased systems/processes conflicts with agency's Strategic Plan.*

Changing the billing determinant from reservations to scheduled energy flows would require new systems, processes, and additional staff time. BPA would need to develop the expertise and systems to forecast schedules for use in the rate case. Inaccuracies in forecasting could result in cost shifts among customers and potentially over- or under-collecting the revenue requirement. BPA would also need to develop the expertise and systems to isolate the actual scheduled energy by individual customer and properly bill for this. Adding to the complexity is the need to use various sources of information to determine scheduled flows; for example, BPA has static tags, dynamic tags, and unscheduled loads. BPA would need to develop the systems to accurately pull information from all of these sources and assign them to the appropriate customer.

Historically, there have been numerous situations where BPA has had data or billing errors, so much so that we had an entire public process on how to handle errors. BPA should avoid introducing additional opportunities for inaccuracy without sound justification.

- d. Existing SCD rate appropriately addresses cost causation; new methodology likely to cause cost shifts.*

One of BPA's ratemaking principles is "cost causation – fairly allocate costs to customers based on proportionate use."<sup>4</sup> The costs associated with the SCD service are to provide for "the movement of power through, out of, within, or into a Control Area."<sup>5</sup> SCD services are provided on a "stand ready" basis; any time power moves across the system, SCD services need to be ready and available. Due to the nature of these services, it is appropriate to allocate SCD costs based on reservation amounts because that is the amount of power that could be scheduled at any given moment. In other words, BPA's systems must be robust enough to provide scheduling, control, and dispatch services for maximum amount of power within and through its system.

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<sup>4</sup> [https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.04.24\\_BP20\\_RateCaseKickoff.pdf](https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.04.24_BP20_RateCaseKickoff.pdf), slide 3.

<sup>5</sup> BP-18-A-04-AP04, page 118.

Because the costs are incurred regardless of the actual flow of energy, but rather based on the SCD services standing-ready, the appropriate cost causation is to allocate those costs based on reservations, as the existing methodology does.

Cost shifts would occur when a customer schedules less than its reservation amount. The SCD service needs to be available for the full reservation amount, but under the revised methodology, customers would only pay based on the scheduled flow. This would shift costs from PTP customers who schedule less than their full reservation to customers who schedule their full reservation or are charged based on load. Additionally, BPA would no longer directly recover costs associated with SCD services provided on the interties, which would shift costs to customers who only use the Network.

## **2. Rate design consistency with industry standard and BPA strategy.**

BPA staff state that charging SCD once is consistent with industry standard and BPA strategy.<sup>6</sup> Based on our own research, we find that the existing rate design is in fact consistent with other balancing authority areas in the PNW. In addition, the existing rate design is more consistent with BPA's strategic plan.

- a. Research indicates the industry standard in the PNW for allocating SCD costs is to use reservations, which is consistent with BPA's existing SCD rate design.*

Our review of the rate treatment of SCD costs in other balancing authority areas show they either base the rate on reserved capacity (as BPA's existing rate design does) or roll it into the Network Rate (which again would be allocated based on reserved capacity).

Here is a summary of what we found:

- **Avista:** No separate charge for this service.
- **Idaho Power:** No separate charge for this service.
- **PacifiCorp:** For Yearly Service, one-twelfth of the Yearly Rate determined pursuant to this Schedule 1 multiplied by either: (1) Reserved Capacity for Point-to-Point Transmission Service or (2) Monthly Network Load calculated pursuant to Section 34.2 of the Tariff for Network Integration Transmission Service.

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<sup>6</sup> [https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.05.30\\_BP20\\_TxRates.pdf](https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.05.30_BP20_TxRates.pdf), slide 19.

- *Northwestern*: Yearly rate: the maximum charge shall be \$2.00/kW of Reserved Capacity or Network Load per year.
  - *NV Energy*: For Point-to-Point Transmission Service, the rate shall be applied to the Reserved Capacity. For Network Integration Transmission Service, the rate shall be applied to the Transmission Customer’s Monthly Network Load as determined for each month during such period pursuant to the methodology set forth in Section 34.2 of this Tariff.
- b. *BPA’s Strategic Plan focuses the agency on identifying cost reductions and improving efficiencies in people, processes and systems; changing the rate design without justification conflicts with the Strategic Plan.*

BPA’s Strategic Plan and grid modernization initiative direct the agency to find efficiencies in systems and processes and reduce costs. The proposed changes to the SCD rate design would increase staff time, costs, and risks. Without demonstrating the benefit and rationale to changing the rate design, the proposed change conflicts with BPA’s strategic direction to focus efforts and funding on key initiatives.

**3. Assertion that customers view the SCD charge as “an additional hurdle rate.”**

One reason BPA staff provided for proposing a change to the SCD rate is that “we have heard from customers that the SCD charge, as it is currently designed, is creating an additional hurdle rate.”<sup>7</sup>

- a. *NRU members do not see the SCD charge as an additional hurdle rate.*

It is unclear who the referenced customers are in this assertion, but they are not NRU members. *Some* customers may view the SCD charge as an additional hurdle rate, but certainly not all customers; as such, this fails to justify a change to the methodology.

- b. *Unclear what “hurdle rate” means in this context.*

The term “hurdle rate” is typically only used to describe an additional rate or charge between two or more transmission balancing authority areas, regions, or seams; thus, we believe that BPA’s primary objective is to remove the purported “hurdle rate” from the Intertie segment. This fails to consider cost causation. BPA’s rate schedule defines the SCD as “an Ancillary Service required to schedule the movement of power through,

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<sup>7</sup> [https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.05.30\\_BP20\\_TxRates.pdf](https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.05.30_BP20_TxRates.pdf), slide 19.

out of, within, or into a Control Area.” Thus, there are costs, and benefits, of SCD associated with use within the Control Area, and in/out of the Control Area. Simple cost causation would consider the use and purpose, and allocate the costs accordingly, just as the existing rate design does.

***Conclusion***

Given the lack of evidence that the current SCD rate design fails to comport with BPA’s rate principles, NRU opposes further work on modifying the rate design. Unless or until BPA demonstrates problems with the existing rate design, BPA and customers’ time and energy should be spent on higher priority issues, consistent with BPA’s strategic direction.

We appreciate the opportunity to comment on this issue. If you have any questions or would like to discuss further, please don’t hesitate to contact any of us.

Sincerely,

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