

September 7, 2018

VIA EMAIL

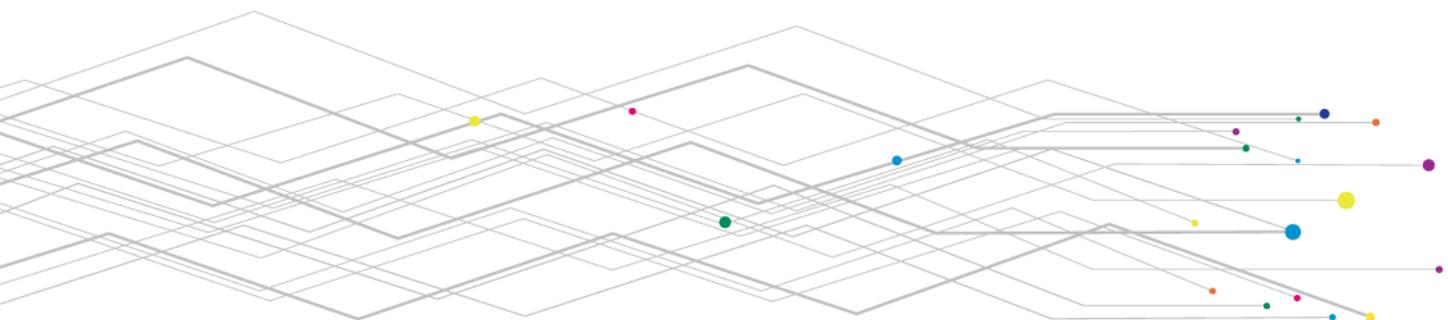
RE: Powerex Comments on BPA's SCD Whitepaper

Powerex appreciates the opportunity to comment on BPA's Scheduling, System Control and Dispatch (SCD) Whitepaper (published August 22, 2018 and revised on August 31).

Powerex appreciates the effort that has been expended on this topic; however, at this time, we feel there has not been adequate justification provided that would lead to a change to the current SCD service rate design. As many customers have noted, BPA has not sufficiently and clearly articulated the need for a significant rate change. BPA has stated that they aim to adopt tariff terms and conditions, and offer products and services, that are consistent with the FERC *pro forma*, and that align with industry standard; yet, as evidenced by the industry survey that BPA conducted, BPA's current SCD rate already aligns with industry standard. BPA should provide further justification for the need to move from the status quo.

As customers also noted, while BPA staff has developed a number of alternatives for customers to consider, and presented preliminary indications of potential cost-shifts, BPA has not provided analysis of additional costs that may be incurred to develop systems and implement a modified design. And while BPA responded to customer requests to compare SCD rate alternatives against BPA's rate-making principles, Powerex feels the matrix provided is insufficient, as it does not always reflect the pros/cons described under each alternate and is in some cases incorrect in its conclusions, as detailed further below. As a result, customers still have not been able to fully consider the implications of the various alternatives. Powerex believes that the next draft of the Whitepaper must include additional detail and discussion on the comparison of alternatives to the rate making principles, and should take into account customers' September 5 comments. Additionally, each alternative that truly meets the rate making principles, (not as presently depicted in the matrix), should be thoroughly reviewed with customers and fully costed in order to compare against the status quo. Absent that analysis, BPA should not present this SCD Whitepaper to its executive team or consider this rate design in BP-20.

Powerex offers the following detailed comments regarding the next draft of BPA's SCD Whitepaper:



a. Costs of Implementation:

BPA should provide an analysis of additional costs that may be incurred to develop systems and implement a modified design. BPA should also indicate any barriers, be it technical barriers, or lack of staff requirements, that would be problematic, and/or add to the costs of implementation of various alternatives. Powerex is concerned that customers will face increased rates, and questions the financial prudence of a decision that would increase costs to customers without any change in the actual scheduling service provided, or even the potential for degraded service if BPA struggles to implement a change.

b. Evaluating SCD Alternatives against Rate-Making Principles:

Powerex appreciates that BPA was responsive to customer requests for a matrix comparing the SCD rate alternatives against BPA's rate-making principles. For the purposes of a Whitepaper informing customers and decision makers of a significant rate change proposal, Powerex believes that a more detailed and nuanced comparison should be undertaken. Detailed discussion of the considerations that feed into the summary matrix should be included in the Whitepaper. Powerex offers the following comments on BPA's conclusions as indicated by the matrix:

i. Alternative 2: Base the SCD billing determinant on schedules and metered load, and charge SCD only once across BPA's system

In addition to the pros and cons identified by staff, this alternative introduces potential inequity in terms of the billing determinant allocation, as costs for each transmission type are proposed to be allocated based upon metered load, energy schedules, and reserved capacity. Moreover, this proposal potentially violates the principle of cost-causation as this non-homogenous billing determinant allocation has not been identified as the cost driver for any of the costs involved, whether scheduling, system control or dispatch. An evaluation of whether the principle of cost causation is met in terms of the allocation of scheduling costs to: (1) static schedules and metered load on a \$/MWh charge, and (2) dynamic schedules based upon \$/MW Reserved Capacity, has not been done, and we believe it should be.

Powerex also repeats our earlier concern, that scheduling costs are largely fixed costs to the Transmission Provider, as the TP requires a scheduling desk and the computer infrastructure and systems to run the desk, and that desk must be staffed no matter how often customers are scheduling transmission or energy on a TP's system. In other words, there is little-to-no variable cost component if customers schedule on their reserved capacity or not. Powerex also notes that only 19% of BPA's plant investment and 16% of O&M for SCD (\$51 million of \$226 million, for 2017), is allocated to the scheduling portion. BPA has not explained how this alternative appropriately allocates the majority of the costs associated with SCD (i.e. Dispatch and Control) to the scheduling of energy on the transmission system. Powerex therefore feels that this alternative potentially violates the principle of cost causation and requires further explanation/discussion in the Whitepaper as to why BPA believes that it meets the cost causation principle.

ii. Alternative 3: Base the SCD billing determinant on schedules and metered load, and continue to charge SCD on each segment

Powerex agrees that this alternative should not be considered.

iii. Alternative 4: “Roll-in” the SCD rate

Powerex believes that this alternative should not be considered. In addition to the pros and cons identified by staff, this alternative is not industry standard. Instead, most Transmission Providers, consistent with FERC’s Open Access Tariff, identify Scheduling, System Control and Dispatch as a separate and distinct Ancillary Service (Schedule 1), separately charge for this service, and typically allocate the costs based upon Reserved Capacity. As BPA has noted, there is not a strong cost-based reason to adopt this alternative. BPA has not provided any analysis that suggests that the cost contributions are proportional to net plant (which, based upon BP-18 data, would result in 86% to the Network; 12% to the Southern Intertie; 1.5% to the Montana Intertie; and, 0.5% to Utility Delivery). This violation of cost causation has not been noted in the matrix; instead, the matrix is presently indicating the opposite.

iv. Alternative 5: Base the SCD billing determinant on e-tags and charge SCD only once across BPA’s system

Powerex believes that this alternative should not be considered. In addition to the pros and cons identified by staff, this alternative potentially violates the principle of cost causation by allocating costs based upon e-tags. Allocating costs based on e-tags means the total SCD cost is allocated to the “Scheduling” function. Yet BPA has confirmed that the SCD costs are largely driven by the “Control and Dispatch” function (approximately 81%). Again, BPA has indicated in the matrix that the principle of cost causation has been met. Yet this is in direct conflict with staff’s Initial Evaluation which states that “E-tags may align closer to the usages of the scheduling portion costs of SCD, but not the control and dispatch aspect;” and “BPA is still analyzing the costs associated with providing SCD and whether e-tags are the proper metric to measure use of the systems and costs associated with SCD.” Again, Powerex believes the matrix should indicate cost causation has not been met.

Powerex also questions the matrix conclusion that all alternatives meet the rate-making principle of full and timely cost recovery. While Powerex understands that BPA will fully recover its costs through the determination of the revenue requirement and rates, Powerex would appreciate analysis and discussion from BPA with regard to how changing the SCD rate will impact rate recovery. For example, if BPA is collecting the SCD based on schedules (i.e. a variable that is dependent on market conditions instead of reserved capacity), then BPA will have to forecast the number of schedules and use that forecast to develop a variable rate. In response, customers may adjust their scheduling practices to avoid the new variable hurdle rate introduced by the new variable SCD charge, and BPA will under-recover costs. Moreover, BPA has indicated that some of these alternatives will require additional design, systems, and billing procedures that may increase the agency’s revenue requirements. These aspects have not been fully captured or identified in the Whitepaper, and Powerex believes that there could be added upward pressure on rates as well as under-collection in the rate period, leading to adjustments and changes in the future rate periods. This presents a cost shift from the current rate period to the next rate period and does not meet the full and timely cost recovery principle. Powerex would appreciate discussion on this point and believes it should be reflected in the Whitepaper and matrix.

Powerex appreciates BPA using the stated rate principles, and believes that these principles provide the appropriate guidance in terms of developing a rate design. However, the rate principles should not be the only guidance or consideration that is used by BPA in making any decision to change the SCD rate. As such, Powerex encourages further discussion in the Whitepaper with regard to each alternative's consistency or lack of consistency with the stated rate principles, as well as other factors, such as potential implementation costs or technical impediments. Furthermore, we recommend that alternatives that are inconsistent with the stated principles be explicitly recognized as non-viable alternatives.

c. Inclusion of Customer Comments:

Powerex appreciates that BPA revised their original Whitepaper to include a summary of customer comments, and will incorporate this round of comments into the next draft. This summary of comments provides context to the level of concern that has been expressed over the various alternatives.

Thank you for consideration of our comments and we look forward to the next draft of the Whitepaper.

Submitted by:

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Powerex