

July 8, 2020

Via email:

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U.S. Department of Energy
Bonneville Power Administration
Transmission Services

Re: Comments of Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., Regarding TC-22, BP-22 and EIM Phase III June 23 and 24, 2020 Workshops on

- (i) Donating Transmission to the EIM**
- (ii) Issues Raised by Assessing Losses on EIM Transfers**
- (iii) “New Method” for Pricing Balancing Reserves**
- (iv) BPA Loss Return Settlements**
- (v) Financial for Inaccuracy (FFI)**
- (vi) Meteorological Forecasts for VERs**

Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., (“Commenting Parties”) submit the following comments on the BPA TC-22, BP-22 and EIM Phase III June 23, 2020 Workshop presentation¹ and June 24, 2020 Workshop presentation.²

1. BPA Should Clarify the Process for Donating Transmission to the EIM and the Treatment of Such Donations.

BPA should clarify the process for donating transmission to the EIM on its system and the treatment of such transmission donations. The June 23 Presentation includes the following at page 92: “Any transmission customer can donate transmission to EIM by redirecting existing reservations to an identified interchange path or purchasing transmission on an identified interchange path and then donating it to the market.”

BPA should explain what an “identified interchange path” is and how and where such paths will be defined. BPA should provide illustrative samples of donated transmission e-Tags on BPA’s system for purchased transmission and for redirected existing reservations on an identified interchange path (including sample POR/PODs in the sample e-Tags).

BPA should also explain how donated transmission will be treated. If more than one transmission customer donates transmission on a particular identified interchange path and the

¹ Available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/23June20%20-%20Main%20Tarrif-Rates-EIM%20Workshop.pdf> (“June 23 Presentation”).

² Available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/24June20%20-%20Main%20Tarrif-Rates-EIM%20Workshop.pdf> (“June 24 Presentation”).

EIM dispatches fewer than the total MWs donated on that path, will it be possible to determine which donated transmission has been used and by which resources? If so, how and why will such determination be made?³ Will BPA aggregate donated transmission in a particular direction on an identified interchange path? If there is no aggregation, will it be practicable and desirable to have multiple dynamic ETSRs on a path?

BPA should coordinate with other EIM Entities to help assure that BPA's treatment of donated transmission in its BAA is workable.

2. BPA Should Further Examine Issues Raised by Assessing Losses on EIM Transfers.

The June 23 Presentation includes the following at page 64:

- While exempting loss paybacks for EIM Transfers would remove a hurdle to donation, given the financial obligation of the EIM Entity for any incremental losses created by and supplied by market energy, BPA should retain its existing practice of assessing loss returns on donated transmission for EIM transfers to minimize the financial risk to BPA and its customers.
- The implementation costs and complexity of assessing loss returns on EIM transfers is minimal.

BPA should analyze and compare (i) the estimated "hurdle to donation" of transmission for EIM transfers caused by assessing loss returns on donated transmission and (ii) the financial risk to BPA and its customers of exempting loss paybacks for EIM Transfers. BPA should provide this analysis and comparison to its stakeholders. This analysis should include consideration of the possible loss of EIM transactions if transmission contributions are impeded by the loss assessment.

Assessment of the complexity of requiring loss returns for EIM Transfers should also identify and take into account how to assess losses (i) if more than one EIM Entity donates transmission on a particular identified interchange path and the EIM dispatches fewer than the total MWs donated on that path or (ii) if curtailments occur on that path.

3. BPA Should Not Adopt the "New Method" for Pricing Balancing Reserves in the Absence of a Demonstration that the New Method Would Produce Revenues No Greater Than Those the Current Methodology Would Produce

The June 23 Presentation (i) proposes at page 135 a "new method" for pricing balancing reserves that would "build off of the methodology Power uses today to calculate the Demand

³ For example, if firm and non-firm transmission is donated on an identified interchange path, which transmission will be used if the EIM dispatches fewer than the total MWs donated on that path? Also, how will curtailments be allocated to various donated transmission?

Rate”,⁴ (ii) states at page 135 that “[f]or calculating the Demand Rate an LMS100 (a hybrid of frame and aero derivative gas turbine technology) is used to determine the marginal cost of capacity”, and (iii) states at page 136 that “[t]he ratio of calculated spinning cost to non-spinning cost is then applied to Power’s capacity rates and adjusted to collect the same revenue they would with no price changes.”⁵ (Underscoring added.) Insofar as capacity for BPA’s balancing reserves is not provided by combustion turbines, the cost of combustion turbines should not establish the revenue requirement for pricing BPA’s provision of balancing reserves.⁶

The new method is unclear, and in particular it is unclear what adjustment “to collect the same revenue they would with no price changes” means. BPA should explain what prices are used to determine that there would be no revenue changes and should explain the standard or base against which revenue change would be assessed.

The June 23 Presentation indicates at pages 129-31 that the current methodology for pricing balancing reserves is based on (i) the embedded cost of capacity and (ii) a variable cost of capacity calculated using the GARD model.⁷ (Arguably, the current methodology should not add “variable cost” to the embedded cost.⁸) In any event, BPA should not cause (or exacerbate) any overcollection of costs by pricing balancing reserves to produce more revenue than would be produced by the current methodology. In other words, BPA should not adopt the “new method”

⁴ With regard to BPA’s Demand Rate methodology for power rates, it should be noted that such methodology should result in power rates that are tied to and bounded by BPA’s embedded cost--because the Demand Rate methodology for setting power rates should be used to allocate BPA’s embedded power costs between capacity and energy. Under this methodology for developing power rates, any change in the allocation of costs to capacity should result in a corresponding and offsetting change in the allocation of costs to energy. Accordingly, BPA’s power rates for capacity and energy in aggregate should be bounded by BPA’s embedded power costs.

⁵ Item (iii) is stated at page 136 with respect to new method “Alternative Method A”; at page 138, the following is stated with respect to new method “Alternative Method B”: “Like in the previous methods, the rates are then adjusted to be revenue neutral.” BPA should explain what “revenue neutral” means and explain the standard or base against which revenue neutrality would be assessed.

⁶ See, e.g., Federal Columbia River Transmission System Act section 10 (which includes the following requirement: “The recovery of the cost of the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system.”); Northwest Power Act section 7.

⁷ The BP-10 Record of Decision describes the Gard model as follows:

The GARD model calculates the inc reserve Energy Shift cost by measuring the amount of energy shifted from HLH to LLH and then multiplying the difference between the market price forecast HLH price and the LLH price. Generation Inputs Study and Study Documentation, WP-10-E-BPA-08, at 76-86.

2010 Wholesale Power and Transmission Rate Adjustment Proceeding (BPA-10) Administrator’s Final Record Of Decision WP-10-A-02 / TR-10-A-02 (July 2009) (“BP-10 ROD”) at pages 327.

⁸ In other words, the current methodology arguably should not include a variable cost, particularly a variable cost determined based on forecasted market prices. (See, e.g., arguments advanced by Northwest Wind Group or Cowlitz County Public Utility District No. 1 and discussed in the 2010 Wholesale Power and Transmission Rate Adjustment Proceeding (BPA-10) Administrator’s Final Record Of Decision WP-10-A-02 / TR-10-A-02 (July 2009) (“BP-10 ROD”) at pages 321 through 330.) Although BPA generally has not accepted such arguments, these comments do not waive such arguments, including in particular with respect to inclusion of a variable cost based on market price forecasts.

for pricing balancing reserves in the absence of a demonstration that the new method would produce revenues no greater than those the current methodology would produce.

4. BPA Loss Return Settlements

a. The January 8 Recommendations of Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., Regarding BPA Transmission Losses Should Be Adopted

BPA should adopt the recommendations with regard to transmission losses in the January 8, 2020 Comments of Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., Regarding BPA Transmission and EIM Losses and EIM Charge Code Allocation (“January 8 Comments”).⁹ For example, the January 8 Comments include the following recommendations:

- (i) BPA financial settlement rates must be based on the cost of providing the losses and must equitably allocate such cost between financial settlement rates for transmission of federal and non-federal power; the financial settlement rates for transmission of federal and non-federal power should be equal.
- (ii) BPA should preserve the in-kind loss return option and should not consider proposing abandonment of a customer option of in-kind return unless and until an equitable financial settlement rate that applies to both Federal and non-Federal power is developed in a rate case.
- (iii) Any rate for financial settlement of BPA transmission losses is a rate for transmission service and must be developed in a BPA transmission rate proceeding and set forth as a transmission rate.

b. BPA Should Not at This Time Address a Loss Settlement Proposal for BP/TC-24

The June 24 Presentation at page 30 states six BPA “Alternatives” with regard to settling BPA transmission wheeling losses. Of the BPA Alternatives, it appears that Alternatives 3¹⁰ and 5¹¹ most closely align with the January 8 Comments. (Alternative 5’s concurrent return may present operational difficulties that render it impracticable.)

The June 24 Presentation at page 31 contemplates BPA proposing in BP/TC-24 financial loss settlement only; this is presumably based on a desire to eliminate an administrative burden of handling physical returns. However, it has been argued in various workshops that (i) the administrative burden of BPA’s handling physical returns is not significant in light of BPA’s

⁹ Available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/Comments/Dec%2012%20Workshop/Avista-010820%20comments%20on%20losses%20and%20EIM%20charge%20code%20allocation.pdf>.

¹⁰ See June 24 Presentation at page 30 (“**Keep** in-kind at 168 hours + **change** financial rate to be set in rate case + **implement** FFI”) (emphasis in original).

¹¹ See June 24 Presentation at page 30 (“**Change** in-kind to concurrent only + **change** financial rate to be set in rate case + **implement** FFI”) (emphasis in original).

overall transmission revenue requirement, (ii) the administrative burden should be reduced by implementation of FFI, and (iii) a physical return option is important to BPA's transmission customers. In any event, BPA need not and should not address at this time a loss settlement proposal for BP/TC-24; any such proposal when made should in any event be consistent with the loss settlement recommendations in the January 8 Comments.

c. Any Index or Market Price Used for a BPA Loss Return Rate Must be Bounded By and Not Exceed BPA's Embedded Cost

The June 24 Presentation includes the following at page 43: "Staff recommends that the energy component of loss returns be priced at an hourly index price." However, use of an index or market index might result in rates that exceed BPA's embedded cost.¹² BPA's rates for financial loss settlements should be cost based and set to recover the cost to BPA of losses.¹³ If an index or market price used for a loss return rate, the rate must be bounded by and not exceed BPA's embedded cost.¹⁴

d. BPA Should Not Use a Marginal Capacity Cost for a BPA Loss Return Rate; Any Capacity Cost Included in a BPA Loss Return Rate Should be BPA's Embedded Capacity Cost

The June 24 Presentation at page 47 presents three "Capacity Price Options" for a BPA financial loss return rate:

Embedded Cost:

- This is the capacity cost used in calculating balancing reserves rates which reflects only the fixed costs of the FCRPS. It is around \$6/kW-month.

Average Capacity Cost:

- This is the capacity cost used in calculating balancing reserves rates which reflects both the fixed costs of the FCRPS and the variable costs of standing ready. It is around \$7.30/kW-month.

Marginal Capacity Cost (Demand Rate):

¹² Insofar as energy for BPA losses is not provided by purchases at index, the index should not be used to establish a revenue requirement in excess of BPA's embedded cost for pricing BPA's provision of losses.

¹³ See, e.g., January 8 Comments at page 5; Federal Columbia River Transmission System Act section 10 (which includes the following requirement: "The recovery of the cost of the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system."); Northwest Power Act section 7.

¹⁴ BPA is of course not a jurisdictional investor-owned utility ("IOU") under Part II of the Federal Power Act; IOU rates are subject to a number of statutory requirements that are different from those generally applicable to BPA. Accordingly, use by an investor-owned utility of an (unbounded) index for pricing would not mean that BPA is necessarily authorized to use such an index.

- This is the capacity cost used in calculating the PF/NR/IP demand rate which reflects the cost to build a new thermal resource. It is around \$10.29/kw-month.

It has been argued in various workshops that BPA’s financial loss return rate should not include a capacity component. BPA should fully consider such arguments.

Assuming *arguendo* that a capacity component is included, it should be based on BPA’s embedded cost. Use of a marginal capacity cost for example might result in rates that exceed BPA’s cost.¹⁵ BPA’s rates for financial loss settlements should be cost based and set to recover the cost to BPA of losses.¹⁶

5. Any FFI Should Be Established in a TC Proceeding and Included in BPA’s Tariff

The June 24 Presentation at page 37 describes “Financial for Inaccuracy (FFI)” as follows:

- Inaccurate in-kind loss schedules count as strikes.
- The imbalance continues to be carried forward per current practice
- At this point the customer has the opportunity to correct their scheduling issues
- After a predetermined number of strikes, the following occurs
 - Customer is automatically be converted to fully financial loss settlements
 - Any outstanding imbalances would be settled financially
 - This conversion would remain in place until the end of that rate period.

Any FFI should be established in a TC proceeding and included in BPA’s Tariff. This includes the definition of a strike and the number of strikes before a customer is converted to fully financial settlements.

6. Use of Self Supplied or Market Operator Supplied Forecasts for VERs Rather than BPA Supplied Hourly Meteorological Forecasts

The June 23 Presentation includes the following at page 119 with respect to using a forecast other than BPA supplied hourly meteorological forecasts for VERs:

BPA is asking for customer input: Is there a need or desire for BPA to allow VER customers to use a self supplied* or Market Operator-supplied forecast?* NOTE: Self supplied forecast must meet all CAISO requirements for timing, frequency and performance.

¹⁵ Insofar as BPA is not using a new thermal resource to provide capacity for losses, the cost of a new thermal resource should not be used to establish a revenue requirement in excess of BPA’s embedded cost for providing capacity for losses.

¹⁶ See, e.g., January 8 Comments at page 5; Federal Columbia River Transmission System Act section 10 (which includes the following requirement: “The recovery of the cost of the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system.”); Northwest Power Act section 7.

BPA should not foreclose the option to use self-supplied or Market Operator-supplied forecasts for VERs. This option is important, particularly insofar as VER operators have no assurance going forward how BPA supplied hourly meteorological forecasts will be prepared and how they will compare over time with self supplied or Market Operator supplied forecasts for VERs.

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Nothing contained in these comments constitutes a waiver or relinquishment of any rights or remedies provided by applicable law or provided under BPA's Tariff or otherwise under contract. Commenting Parties appreciate BPA's review of these comments and consideration of the recommendations contained herein. By return e-mail, please confirm BPA's receipt of these comments.