



April 15, 2020

Re: NIPPC comments on BPA Proposed TC-22/BP-22 and EIM Process and Engagement Change

NIPPC cautiously supports BPA Staff's proposal to "pause" the workshop schedules for May and June to allow staff to develop a comprehensive straw proposal. As Staff noted, many of the rate and tariff issues (as well as EIM policy and implementation decisions) are inter-dependent. NIPPC agrees that any effort that independently evaluates elements of EIM implementation, tariff changes and rates issues can only be taken so far and that at some point all of the discrete options must be considered as a comprehensive package.

On the other hand, NIPPC is concerned that in developing a straw proposal, staff will have to make decisions about which policy options to incorporate into a straw proposal. While some of these issues have been robustly discussed in stakeholder workshops, other issues have not. Over the past few months, NIPPC (and other participants) have offered written comments in response to issues raised in the workshops, but it is not clear to what extent BPA staff has considered this stakeholder input or incorporated that input into its policy development. NIPPC hopes that if Staff does postpone public workshops in order to develop a comprehensive straw proposal, that Staff will review and incorporate the past comments of NIPPC and others.

NIPPC suggests BPA Staff should use the following high level principles to guide development of a straw proposal. Many of these principles have been suggested in earlier comments:

- EIM should not harm the bilateral energy market or infringe on transmission customers' existing rights;
- Deviations from FERC approved models must be justified;
- Customers who contribute to the costs of a program should share in its benefits.

EIM v. Bilateral Energy Market

The EIM is intended to optimize near real-time imbalances — deviations from load forecasts and generation schedules — across its footprint subject to transmission constraints. The EIM will not replace scheduled bilateral transactions. NIPPC suggests that bilateral energy transactions will continue to represent the bulk of the use of BPA's transmission system. Accordingly, BPA must ensure that EIM implementation does nothing to harm the bilateral energy market. Many of the topics addressed in workshops as part of the EIM/BP-22/TC-22 process create a potential for harming the bilateral energy market. Among these are:

- Short Term ATC calculations that understate the quantity of Short Term Firm Transmission that could safely and reliably be made available to the market;
- Failing to undesignate Designated Network Resources;
- Deadlines to purchase ATC and/or submit schedules to implement the EIM but that restrict parties' ability to engage in bilateral transactions;
- Eliminating option for in-kind loss returns and requiring financial settlement of losses at inflated rates
- Unnecessarily restricting the flexibility of redirects by using an overly conservative ATC methodology; and
- Applying overly restrictive de minimis rules to requests for Short Term Firm transmission requests and redirects.

In deciding not to pursue the I-5 Corridor Reinforcement project, the Administrator suggested that his decision:

reflect[ed] a shift for BPA – from the traditional approach of primarily relying on new construction to meet changing transmission needs, to embracing a more flexible, scalable, and economically and operationally efficient approach to managing our transmission system.

While the EIM can enhance flexibility related to managing congestion and optimizing energy imbalances, many of the policy proposals implemented in TC-20 (especially those related to the availability of hourly firm transmission) and proposed for TC-22 appear to limit the flexibility and operational efficiency of the short term bilateral energy market.

Furthermore, the Energy Imbalance Market is a modest geographic expansion of a fully organized market in California that incorporates dramatically different mechanisms than the BPA OATT for allocating and recovering the costs of transmission service. Not every policy decision the CAISO has made will be adaptable to a region that retains a bilateral energy market and OATT principles. The EIM Locational Marginal Prices (LMP) reflect only the locational costs of serving deviations from load forecasts and generation schedules. Those EIM LMPs do not necessarily reflect the underlying value of energy in the bilateral market. The EIM LMPs are not

a proxy for an index based on bilateral transactions and should not be used to settle charges that do not reflect a deviation from a forecast or schedule.

BPA Should Justify Any Deviations from FERC Approved Models

In the TC-20 process, BPA developed a decision matrix for when it would pursue a deviation from the FERC-approved OATT. NIPPC recommends that BPA apply the same decision matrix in considering deviations from FERC approved policies related to implementation of the EIM. Perhaps the most critical of these is the decision related to direct allocation of EIM charge codes to customers. As staff noted in its presentations, FERC has approved allocation of 27 EIM charge codes directly to customers. NIPPC urges BPA to adopt the FERC approved charge code allocation model. Adopting the FERC approved charge code allocation would have two benefits. First, it would avoid creating seams between EIM Participating Entities which allocate charge codes differently. Second, it would send clear price signals to BPA's customers and speed their adoption of new practices to mitigate their exposure to EIM prices. If BPA proposes some alternative to the FERC approved charge code allocations, BPA should justify its proposed alternative using the same decision matrix it applies to tariff deviations. NIPPC also suggest applying the following additional principles to a decision on charge code allocation:

- Equitable cost allocation between Federal and non-Federal users of the transmission system;
- Prevent cross subsidy of power rates by transmission customers;
- Incent appropriate market behaviors by applying cost causation principles;
- Mitigate seams and potential for charge code allocation misalignment with other EIM Entities;
- Full and timely cost recovery, considering cost causation while balancing with simplicity;
- Develop understandable and transparent methodology(s) that we can build upon as we gain experience in the market;
- Feasibility of implementation, recognizing forecasting constraints and administrative implications.

One of NIPPC's core principles is to "ensure efficient and transparent pricing signals are sent to all market participants facilitating investment in electric power supply and transmission infrastructure." Accordingly, NIPPC will support direct allocation of charge codes to customers where feasible. The costs and credits associated with the various charge codes represent a price signal that market participants must have in order to make informed decisions in the market. These price signals are also likely to incent behavior that reduces the overall cost of the various charges to individual customers. NIPPC believes that customers who adapt their behavior to minimize these charges should not be responsible for subsidizing or sharing the charges incurred by customers who do not change their behavior.

Customers Share of Benefits Should Be Commensurate with Their Cost Contribution

As the Administrator noted in the Record of Decision on the Western Energy Imbalance Market:

. . . the EIM is just one aspect of a well-designed energy market. Additional mechanisms are required to compensate Bonneville for the capacity value of the flexible, carbon-free federal power it chooses to provide.

Clearly, the Administrator was concerned that BPA not provide its flexible carbon free capacity to the Western market for free and looked to the development of a day ahead capacity market by the California Independent System Operator as a positive future development. In order for BPA to bid into the EIM, however, it must identify sufficient capacity to meet the EIM's resource sufficiency and flexible capacity screens. Failure to provide sufficient capacity to pass these screens will result in limits to BPA's (and resources in its Balancing Area) ability to bid into the EIM. Unlike the concerns related to recovering costs for capacity in a broader market, BPA already has a mechanism to recover the costs of the capacity that BPA will use to pass the EIM screens. The capacity needed for BPA to meet its reliability obligations will also serve to pass the EIM screens. BPA's "Generation Inputs" customers — customers who purchase ancillary services such as load following, and VERBS and DERBS, already compensate BPA for the value of its flexible capacity. In turn, BPA will rely on that capacity to satisfy the EIM sufficiency tests and allow BPA to bid its resources into the EIM. Just as BPA does not wish to provide its capacity to a day ahead market without compensation for the value of that flexible carbon free capacity, BPA's ancillary services customers wish to share in the regional benefits which derive from compensating BPA for the costs of capacity that is used to satisfy the EIM sufficiency tests. NIPPC suggests that generation input customers should receive a share of benefits from BPA's EIM transactions commensurate with their contribution to cover the costs of the capacity. NIPPC suggests that any failure to share the benefits of EIM transactions with generation inputs will represent a subsidy of power rates by transmission customers.

Many customers anticipated that BPA's decision to join the EIM would reduce the quantity of reserves necessary to support safe and reliable integration of renewables. Integrating renewables across a larger geographic footprint would ordinarily result in a lower reserve requirement. Staff however has signaled that joining the EIM will not impact the quantity of reserves needed for integration. Moreover, the EIM timelines will require elimination of the committed scheduling options that customers have traditionally used to reduce their ancillary services rates. NIPPC encourages Staff to include mechanisms in its straw proposal that will put downward pressure on BPA's ancillary services rates.

Accordingly, NIPPC tentatively supports Staff's proposed procedural change to suspend customer workshops to allow Staff to develop a comprehensive straw proposal. NIPPC, however, urges Staff to develop a straw proposal consistent with the principles laid out above.