NIPPC

October 13, 2020

NIPPC submits these comments following BPA's workshop on September 29, 2020.

Loss Factors

BPA staff has asked for additional comments regarding customers' administrative burden related to monthly Loss Factors.

In calculating the price of an energy transaction both the buyer and seller must weigh a variety of factors before executing a deal. One of the factors that both parties must consider is the cost of delivery of any deal. These delivery costs include not only the tariff rates of BPA and any other transmission service needed, but also the cost of system losses that must be repaid (or in the case of physical returns, the quantity of energy that must be delivered as compensation for system losses). If BPA adopts monthly loss factors, energy traders will be required to constantly update the loss factors in calculating the costs of delivering a potential transaction. Further complicating the matter, any proposed transaction with a delivery term that straddles the end of a month would need to apply two separate monthly loss factors to determine accurately the delivery costs associated with a transaction — a transaction that straddles multiple months would have to apply different monthly loss factors for each month of the transaction term.

Adopting seasonal loss factors, however, would allow BPA to largely achieve its goal of greater accuracy in loss factors; while at the same time minimizing the complexity of calculating the true cost of delivery as part of energy transactions that span one or more months.

Capacity Charge for Losses

NIPPC again encourages BPA to delay implementing any charge for capacity associated with losses until concurrent physical loss returns are available. As suggested previously, BPA should focus its efforts on working with customers to develop an option to allow concurrent loss returns as soon as practicable.

NIPPC has several concerns related to staff's proposal to include a pricing component for capacity associated with transmission losses. First, BPA staff is incorrect that an index price (or the Locational Marginal Price [LMP] or Load Aggregation Point [LAP] price) does not include a contribution to a generator's capacity charge. Any index price, LMP or LAP price above a generator's marginal cost of production will provide a surplus above the unit's dispatch cost; this surplus will contribute to the unit's fixed costs. While this premium above a unit's operating cost may not reflect a negotiated rate for capacity, depending on the energy market prices and a generator's operating costs, the surplus could be minimal or substantial. But it is not accurate to suggest that an index price (or LMP or LAP price) provides no contribution to a unit's fixed costs. While the EIM is not a capacity market and is not intended to compensate generators for capacity, depending on the actual clearing price in any hour, most generators will receive some surplus revenue above their operating cost to contribute to a unit's fixed costs; in the case of BPA where marginal production cost is nearly zero — all revenues from the EIM should be assumed to contribute to the fixed costs of the underlying units

Real Power Losses on EIM Transfers

BPA proposes to exclude the EIM Transfers from its calculation of measured demand. BPA also proposes to use measured demand to allocate costs associated with various charge codes associated with the EIM. This seems to create the absurd result that the losses associated with EIM transfers will be allocated to all users of the system EXCEPT those transactions that actually cause EIM losses. This result also does not appear to be consistent with any cost causation principles BPA has articulated in the past. While the dollar amounts of impact to other users of the system may be minimal, that alone should not excuse the entities who make EIM transfers from contributing their fair share to the losses they create on the system.

With regard to the proposed tariff language, NIPPC recommends that BPA replace the word "excluding" with the word "including" and develop a mechanism that charges EIM losses to the generators who benefit from the EIM dispatch.

Financial Planning Issues

Based on the information shared at the workshop, NIPPC urges BPA to immediately suspend all work on the proposed new control center until these financial issues are resolved. Now is not the time to move forward with multi-hundred million dollar projects that are not critical to the safe and reliable operation of the system; NIPPC anticipates that a short delay in the timeline for a new control center will not jeopardize the safety and reliability of the system.

NIPPC also suggests that BPA reconsider its decision to maintain $1.5 Billion in unallocated borrowing authority. BPA has indicated that it wants to maintain this $1.5 Billion financial cushion in the event of an unforeseen disaster that requires unanticipated spending. It's not clear, however, that Congress in setting BPA's borrowing authority limit recognized the need for a "cushion" against emergencies;

rather it is more likely that Congress intended BPA to use this full amount of borrowing authority as needed in the course of BPA's normal operations, with greater flexibility than BPA is currently indicating. NIPPC suggests that any disaster, such as an extreme weather event, requiring the use of $1.5 Billion to address would be a significant blow to the region and would likely require a substantial regional and Federal response — part of which could prompt expansion of BPA borrowing authority.

NIPPC also suggests that BPA could allocate all EIM revenues to the repayment of debt. As NIPPC has noted in multiple past comments, transmission customers have paid and will pay a significant percentage of both the start up and ongoing costs of BPA's EIM participation, but BPA staff has consistently declined to consider mechanisms to offset those transmission costs with revenues from EIM transactions. Given the financial picture described in the workshop, BPA should consider allocating all EIM revenues to early debt repayment. As a starting point, NIPPC would recommend an allocation of EIM revenues either 100% to early payment of transmission debt or the standard corporate allocation between transmission and power (65% to transmission and 35% to power).

NIPPC also recommends that BPA identify any changes in its enabling statutes that prevent it from entering partnerships with entities willing to bring equity financing to projects needed to expand the transmission system.

NIPPC will support an expansion of BPA's borrowing authority. Accordingly, NIPPC urges BPA to NOT include any additional revenue financing or other financial mechanisms in the BP-22 Transmission Rates.

Secondary Revenue

BPA recently completed an Expedited Rate Case suspending application of the Power financial reserves surcharge. Given the COVID-19 pandemic and its economic impacts, NIPPC did not object. BPA, however, has proposed a 20% increase in transmission rates. The disparity in treatment of potential rate increases during a pandemic between BPA's Power and Transmission customers is stark. While Power customers receive relief from a rate surcharge intended to ensure that Power customers contribute to BPA's financial health, Transmission customers are presented with a double digit rate increase intended for the same purpose. As noted above, NIPPC recommends that all EIM revenues be dedicated to supporting BPA's long term financial health. Considering that transmission customers are bearing the majority of EIM costs — both start up and ongoing — and the stated purpose of joining the EIM is to more efficiently manage congestion (a transmission function) NIPPC suggests that secondary benefits from joining the EIM — including revenues from the EIM transactions — be allocated to Transmission as suggested above.