



July 8, 2020

Re: NIPPC comments on BPA Workshops on June 23 and 24

General Comments

NIPPC members are concerned about the remaining areas of uncertainty related to the tariff and rates changes BPA must implement in order to participate in the EIM. NIPPC members recognized that changes to the status quo would be required for BPA to join the EIM. At this point in BPA's public process, however, it is only clear that customers will be facing new charges, new costs, and new risks but without any understanding of the magnitude or volatility of those charges, costs and risks and without any clear understanding of what tools customers will have to mitigate those charges, costs and risks.

Accordingly, NIPPC urges BPA to prepare a presentation that addresses the following:

BPA should identify the EIM charges and rate case costs¹ for the following classes of customers: loads, participating resources, non-participating resources and wheeling customers.

For each of the customer classes above, BPA should identify the EIM charges and rate case costs in the following scenarios:

The customer is on its base schedule

The customer is below its base schedule

The customer is above its base schedule

The presentation should also explain any additional costs each customer would be exposed to if it changed its base schedule after the deadline for EIM base schedules to be submitted.

In some cases, staff may need to identify that BPA is still considering multiple options.

¹ NIPPC understands that the specific rates will be calculated in the BP-22 rate case. For purpose of these scenarios, NIPPC would be satisfied if BPA identified the specific rate where BPA expects to recover a cost, or the options that remain under consideration.

Ideally, at the end of this presentation, customers would have a clear idea of 1) which rate BPA intends to recover a cost, 2) what EIM charges would apply and 3) what tools customers can use to mitigate their exposure and 4) what questions remain open for resolution.

Resource Sufficiency

Staff proposes to continue to have loads and resources submit schedules based on their best available schedules subject to the more restrictive timelines imposed by the EIM. NIPPC generally supports this alternative.

Staff also proposes that BPA not establish a target to pass the EIM's Resource Sufficiency test. NIPPC generally supports this alternative.

NIPPC members, however, remain concerned about the continued absence of any mechanisms to reallocate the costs of capacity that BPA will rely on to participate in the EIM. Currently, BPA calculates the quantity of generation capacity needed to meet its various reliability requirements through the rate period (via the "generation inputs" process). The cost of this capacity is then allocated among generators on BPA's system and BPA's loads (potentially, this capacity requirement will also be shared with wheeling customers for capacity needed to supply losses — although, as discussed later, NIPPC does not support capacity costs in the charges for Real Power Losses).

BPA intends to rely on this "reliability capacity" which is paid for by one subset of BPA customers to enable BPA's participation in the EIM. BPA's participation in the EIM is expected to generate incremental revenues that will not be directly shared with all of those customers allocated the cost of that capacity. Effectively, BPA will be relying on transmission customers (both Federal and non-Federal users of the BPA transmission system) to pay the costs of capacity for reserves which will then be used to generate incremental benefits exclusively for BPA's power customers. NIPPC believes that a mechanism which results in transmission customers paying costs while power customers receive benefits is inconsistent with BPA's statutory obligations.

NIPPC recognizes that BPA's power customers are allocated a portion of the costs of generation inputs. But non-Federal loads and non-Federal generators are also allocated a share of the costs of generation inputs. BPA should not rely on the generation inputs capacity to produce incremental benefits exclusively for its load customers without compensating the transmission customers who pay a significant portion of those costs.

Transmission Usage on the Network

NIPPC generally supports the staff proposal to allow customers to donate both firm and non-firm point to point transmission for EIM transfers. As BPA and its customers gain more experience with EIM operations, BPA will need to make sure that customers' ability to redirect and donate their existing long term transmission rights is not unnecessarily negatively impacted.

NIPPC, however, urges BPA to reconsider its apparent decision to charge customers for losses associated with the transmission they donate to support EIM uses. NIPPC has two concerns with the proposal. First is a potential for over-collection of loss revenues. Second is the likelihood that imposing a loss obligation based on donations will discourage customers from donating their transmission reservations to the EIM.

As noted above, BPA will allow customers to donate both long term firm transmission rights as well as non-firm transmission rights. Customers who wish to ensure that they have access to the EIM may end up donating more transmission rights than the EIM could dispatch. This could arise in several ways: BPA could fail the sufficiency test resulting in limits to EIM transfers, or customers could purchase and donate sufficient firm and non-firm rights that exceed the actual EIM transfers.

Please explain how BPA will allocate loss charges when transmission donations exceed actual flows. If BPA applies its loss calculation to all donations — especially when those donations do not result in actual flows on its system, BPA will likely end up collecting far more in revenue than its rate case forecast. And obviously, customers who face a charge for donating transmission - even when their resource is not dispatched by the market - will likely donate their transmission only when they believe their bids are likely to be accepted. This disincentive will likely limit the amount of transmission donated to the market which will result in less market efficiency and higher costs for all customers.

NIPPC recommends that BPA develop an alternative mechanism to recover loss obligations from the customers who contribute to EIM flows. Customers who contribute to EIM flows should compensate BPA for losses, not customers who donate their transmission but are not dispatched.

Another alternative would be to apply incremental revenues from EIM transactions towards the otherwise unrecovered costs including real power losses that result from flow over donated transmission. It appears that BPA will be the only participating generator for at least the first six months of its participation in EIM; NIPPC suggests that it is appropriate for BPA Power to absorb all the real power losses associated with EIM usage; at least until future rate periods when there are more participating generators who might also contribute to flows on the system.

EIM Base Schedules

BPA proposes two alternatives; requiring base schedules to be submitted at either T-50 or T-57. NIPPC members generally support the T-50 alternative.

NIPPC notes that the presentation describes negative consequences when certain types of schedules are submitted after T-57. After T-57, changes to schedules that sink in the balancing area can lead to financial consequences and penalties for the balancing area. But equal and offsetting changes to the export tag and generator base schedules as well as wheel-through transactions appear to have no negative consequences for the Balancing Area, so long as those changes are made prior to T-40. Accordingly, NIPPC suggests that customers be allowed to submit changes to wheel

through schedules (and schedules that balance base schedules and export etags) at least up until T-40. NIPPC seeks additional information on the magnitude of the negative consequences described if wheel through schedules are changed between T-40 and T-20; if the magnitude of costs and risks is de minimis, NIPPC would urge BPA to allow changes to those schedules up to T-20.

Generator Inputs

NIPPC suggests that customers should be allowed to use their own forecast as opposed to requiring customers to use the BPA Hourly Meteorological Forecast. To date there is no evidence that customers' forecasts are less accurate than the BPA forecast. At some point, BPA and customers can explore whether BPA's forecast is sufficiently more accurate than customers' forecasts and re-evaluate whether the alternative is appropriate.

BPA also proposes changes to the status quo methodology for calculating the VERBS rate. Some of these changes would be required if BPA were to join the EIM (elimination of the committed scheduling paradigms); other changes could have been incorporated in previous rate cases (changing from three categories of balancing services to two and an update to the wind forecast).

While NIPPC supports the obvious efforts of BPA staff to find mechanisms to offset upward rate pressure on the ancillary services rates caused by EIM requirements (i.e. loss of committed scheduling), NIPPC also recognizes that those new mechanisms could have been implemented independently of joining the EIM. Reductions in the quantity or reserves resulting from improved performance of the BPA wind forecast could be applied to the status quo where committed scheduling is an option. Likewise, rate reductions resulting from moving from three categories of reserves to two categories could be applied to the status quo. It would be curious to see what the BP-22 ancillary services rates would be if committed scheduling were still an option — but all the other proposed changes were applied. Please provide this calculation at a future workshop.

Unsurprisingly, NIPPC generally supports lower rates for its members over higher rates. Unfortunately, NIPPC still has insufficient information to support any of the proposed alternatives or reforms. The greatest unknown that prevents NIPPC from supporting any specific alternative at this time is the as yet unexplained risk of exposure to EIM charges for participating and non-participating generation subject to the generation inputs rates. For example, to what extent are customers who purchase ancillary services from BPA mitigated from exposure to charges based on the EIM Locational Marginal Prices? In determining whether the proposed generation inputs rates are acceptable, NIPPC and its members must weigh those rates not only against the existing rate for that service, but in the overall context of the total costs and all the risks associated with joining the EIM.

NIPPC also notes that the portion of the presentation that describes the net impact to BPA's load customers likely understates their benefits. Staff explains that the sum of all the proposed changes to the ancillary services rates would result in an \$8.6MM credit to

power customers. BPA estimated its annual EIM net revenues to be at least \$29-\$34MM per year. Accordingly, NIPPC calculates the rate period benefit to load customers of sacrificing the committed scheduling options currently available to renewable generators to be roughly \$66MM to \$75MM per rate period.

And as noted above, BPA's generation inputs customers pay for more than half of BPA's total reserve requirement all of which will be used to support BPA's participation in the EIM. But BPA has yet to propose a mechanism to use any portion of the incremental net revenues it receives from EIM transactions to offset the costs allocated to generation inputs customers for capacity that enables BPA to participate in the EIM.

Transmission Losses

NIPPC members support the proposal to allow customers to settle losses in kind for the TC-22 rate case. NIPPC also supports the rejection of concurrent loss returns in favor of maintaining the status quo where losses are returned 168 hours later. NIPPC members, however, do not support the proposal to eliminate in-kind loss returns in TC-24.

NIPPC sees the elimination of in-kind loss returns as another example of BPA forcing transmission customers to purchase capacity from BPA for the primary purpose of producing revenue credits for power customers.

NIPPC looks forward to reviewing a proposal for the pricing of the energy component of losses when it is presented. NIPPC's reaction will likely depend on which hourly index BPA proposes to use.

As a threshold matter, NIPPC disagrees that charges for transmission losses should include any capacity component. NIPPC believes that BPA's loss obligation is essentially an obligation to provide energy with no requirement to set aside a quantity of capacity to meet losses obligations over the course of the rate period. There is very little uncertainty associated with transmission losses (when compared to the uncertainty associated with BPA's obligation to provide contingency or balancing reserves). Given the effect of other changes that BPA has imposed on customers, most customers schedules will be submitted at pre-schedule so there will be very little uncertainty. Furthermore, in many hours, BPA will receive more energy in loss returns from the week before than it would have to set aside to cover losses. If BPA does choose to pursue a capacity component for transmission losses, NIPPC will expect the calculation to include an offsetting credit for those periods when BPA receives more energy than its loss obligation for an hour. Simply because BPA has not chosen to value "decremental" capacity in its calculations does not mean that the decremental capacity has no value.

NIPPC does, however, generally support BPA's goal of having a customer's obligation to return losses more closely align with BPA's actual losses. For example, some NIPPC members would support changing the time delay from 168 hours after flow to near-concurrent in-kind loss returns. NIPPC encourages BPA to evaluate the impact of allowing customers to return in-kind losses on the next preschedule day.

Likewise, some NIPPC members also support more granular loss factors in order to more accurately align a customer's obligations to return losses with BPA's actual losses. For example, NIPPC would support seasonal loss factors, such as summer vs. all other months. The difference between losses based on heavy load versus light load hours, however, does not seem material. Again, NIPPC supports the overall goal to move in-kinds returns closer to BPA's actual losses without causing undue customer burden.

Hourly Firm in TC-22 Rate Period

NIPPC supports BPA's proposal to continue offering Hourly Firm service according to limits based on ATC with a reservation window that is open until 23:40PPT on the day prior to the operating day. NIPPC also encourages BPA, in collaboration with customers, to expand the scope of the TC-22 proceedings to explore ways to mitigate limits to the Hourly Firm product. NIPPC observes, for example, that after a year of interaction with BPA, customers are still seeking resolution for the de minimis treatment of short-term redirects.