

May 12, 2020

RE: Comments on Bonneville's April 28, 2020 BP-22/TC-22/EIM Phase III Workshop

Introduction

Powerex appreciates Bonneville staff's continued efforts to engage its stakeholders on important topics for the upcoming rate and tariff proceedings. Bonneville's April 28, 2020 workshop addressed steps 5 and 6 (discussion of customer feedback and staff's proposal) of Bonneville's workshop process for a key issue: EIM charge code sub-allocation. Bonneville also requested feedback on EIM Scheduling Timelines, which can have a direct impact on customers' ability to use their transmission rights and/or the costs associated with doing so.

Powerex provides the following comments on these issues, as discussed more fully below:

- The experience of Powerex in the EIM, which it believes is shared by most other EIM Entities as well, has been that several EIM charge codes are highly complex. In Powerex's experience, it can often be both extremely challenging and highly time-consuming to try to trace back costs (and credits) from particular EIM charge codes to one or more specific market activities and/or one or more specific transmission uses. In some circumstances, this simply cannot be done at all. Further compounding these complexity challenges is the general lack of alignment between specific EIM charge codes and the specific transmission cost allocations that exist under Bonneville's current OATT. It is therefore unclear the extent to which Bonneville can sub-allocate costs (and credits) from particular EIM charge codes to specific transmission customers in a manner that is accurate, transparent, and consistent with the cost (and credit) allocations generally intended under Bonneville's current OATT.
- Bonneville is unique among transmission service providers participating in the EIM as a result of the very extensive use of its transmission system by third parties, including during the EIM timeframe (*i.e.*, after T-57). This means that Bonneville has a far larger and more diverse group of transmission customers, each of which may be directly affected by Bonneville's specific decisions regarding the sub-allocation of EIM charges. This also means that any inaccurate and/or inappropriate sub-allocation of EIM charges could apply new costs (and/or cost risks) that disrupt the existing incentives for continued third-party investment in Bonneville transmission service. As described in detail below, this includes the critical topic of the T-57 scheduling deadline and the potential for customers to be exposed to new and unpredictable costs for the use of their firm rights. Bonneville's decisions regarding whether or how to sub-allocate EIM charges will therefore need to be very carefully considered, and may ultimately need to differ materially from approaches taken by other TSPs participating in the EIM.
- Given the extensive challenges associated with accurately and appropriately sub-allocating EIM charge codes to Bonneville's transmission customers, the numerous transmission

customers potentially affected, the level of exposure of Bonneville’s transmission cost recovery to continued incentives for third party transmission purchases, and the unclear benefits of sub-allocation (since most EIM charges are, in aggregate at the EIM Entity level, largely offsetting), Powerex urges Bonneville to defer the sub-allocation of EIM charge codes until Bonneville gains EIM experience. While Powerex is not categorically opposed to the careful, accurate and appropriate sub-allocation of EIM charge codes, this deferred sub-allocation approach would enable Bonneville and its customers to better evaluate the sub-allocation issue in light of actual experience and real-world data gained through Bonneville’s EIM participation.

- To the extent Bonneville decides to implement sub-allocation of EIM charge codes from the outset of its EIM participation, Powerex believes extensive engagement with transmission customers and the CAISO will be needed in the months ahead.

EIM Charge Codes Are Complex And Challenging To Sub-Allocate Accurately

Powerex’s experience with the EIM over the last several years—both as a transmission customer and as a Canadian EIM Entity—has increased its appreciation of the substantial, multilayered, complex inter-relationships and impacts of various EIM charges and credits.

The manner in which EIM charges and credits may be sub-allocated to customers can have multiple unintended consequences, including material shifts in costs and/or benefits between customers and customer groups. Indeed, even the CAISO has encountered areas where the implementation of EIM charge codes has had unintended consequences, requiring the CAISO to make significant modifications to how it was calculating EIM charges and payments to address issues that went unidentified by CAISO and EIM Entities for months, and in some cases, even years.¹

The CAISO’s breakdown of EIM-related costs into specific EIM charge codes is also highly misaligned with the breakdown and allocation of charges under Bonneville’s OATT. This means that attempting to map the myriad EIM charge codes onto the charges under Bonneville’s OATT may at times be an exercise in fitting a “square peg in a round hole.” This is not a criticism of either Bonneville’s OATT or the EIM financial settlement framework, but merely a recognition of two inherently different approaches to categorizing costs (and credits).

Bonneville’s Transmission Business Is Uniquely Situated Due To Significant Use Of The FCRTS By Third Parties, Including During The EIM Operational Timeframe

When considering its decision regarding sub-allocation of EIM charges and credits, it is important to recognize that Bonneville is situated very differently from other EIM Entities. Namely, a broad and diverse set of third-party transmission customers rely on the FCRTS extensively to facilitate

¹ See, e.g., *Cal. Indep. Sys. Operator Corp.*, FERC Docket No. ER19-2497-000 (filed July 30, 2019) (proposing changes to allocation of EIM neutrality payments and charges).

transactions throughout the West. This can include scheduling transmission to serve native load, scheduling transmission to wheel-through the FCRTS to support sales and deliveries to California or other balancing authority areas, engaging in 15-minute scheduling and/or dynamic scheduling, and even scheduling transmission across the Bonneville transmission system to enable EIM Transfers between existing EIM Entities.

Bonneville has been able to recover a large portion of its transmission revenue requirement by encouraging third-party customers to invest in Bonneville transmission service, often through commitments of several years. The significant revenues that are generated by the use of the FCRTS by third-party transmission customers make a very substantial contribution to recovering the costs of the Bonneville transmission system, thereby reducing the transmission costs that are ultimately incurred by Bonneville's preference power customers.

As a result of the high level of third-party users of the FCRTS (including after T-57), Bonneville's transmission business has considerably more at stake from the application of entirely new—and potentially unpredictable—sub-allocation of EIM charges and credits. Not only will these decisions affect a larger group of customers, but it will also affect a larger portion of Bonneville's transmission business.

Perhaps the clearest example of how the sub-allocation of EIM charges can impact the transmission business comes from the experience of EIM TSPs that have chosen to sub-allocate EIM “imbalance charges” to their transmission customers merely for using their existing transmission rights after T-57. Such sub-allocation of EIM imbalance charges is a departure from the pre-existing rights and responsibilities of OATT transmission service, under which a transmission customer has the right to schedule delivery of energy or capacity on the reserved path, up to the established scheduling deadline of T-20 prior to any hour (or sub-hourly interval), and in return it commits to paying the established transmission rate. A transmission customer that is suddenly subject to a sub-allocation of EIM charges on any schedule changes after T-57 faces two adverse outcomes:

- It can forego potentially valuable scheduling activity after T-57 in order to avoid the new, unpredictable “imbalance charges,” effectively losing the ability to use the rights it has already paid for after T-57; and/or
- It can continue to use its rights up to T-20 prior to any hour (or sub-hourly interval), but be exposed to these new, potentially large and unpredictable “imbalance charges”.

The effect of applying EIM imbalance charges to any and all schedules submitted after T-57 has been to charge firm transmission customers EIM-based congestion costs for simply using the existing transmission rights they already paid for (thus not causing any new “imbalances” that need to be managed by the EIM whatsoever). In Powerex's view, this goes against the intended value proposition of “firm” transmission service, which provides priority scheduling rights and is not subject to

congestion from other lower-priority users of the system². In addition, EIM-based congestion charges are often highly unpredictable, and therefore create significant financial risk to transmission customers that are exposed to them.³ ***In Powerex's experience, this materially and unnecessarily harms firm transmission rights holders, and can reduce the incentives to continue to invest in firm transmission service.***

Transmission customers will naturally seek to avoid activities that attract new, volatile, and unpredictable EIM cost allocations. While for many EIM TSPs, the impacts to their customers may have been limited (as they may have had limited third party activity after T-57), this is not likely to be the case for Bonneville given the far greater participation of third party users of the FCRTS. Were Bonneville to adopt such an approach, it would likely have far-reaching consequences for its customers and it may ultimately discourage many of the important uses of the federal transmission system today. Powerex fully expects that such an approach would:

- Discourage customers from engaging in hourly and sub-hourly bilateral transactions after T-57;
- Reduce participation in the CAISO's hourly HASP markets on the Pacific AC and DC Interties, and virtually eliminate the benefits of 15-minute scheduling in the CAISO FMM;
- Impair the ability of customers to schedule resources on an hourly and sub-hourly basis after T-57, including variable resources, to meet native load in the BPA BAA and in other BAAs;
- Eliminate the incentive for customers to make their Bonneville transmission rights available to enable EIM transfers between other EIM BAAs; and
- Significantly limit intra-hour scheduling more generally (including 15-minute scheduling and dynamic scheduling).

² Powerex recognizes that this is an approach that FERC has accepted as applied by other EIM Entities, but this does not ensure that the approach will be successful in maintaining strong incentives for Bonneville transmission customers to continue to invest in transmission service.

³ Importantly, a crucial detail that may have not been widely understood during the implementation of previous EIM Entities is that EIM congestion charges allocated to customers that schedule after T-57 do not actually reflect a net costs incurred by EIM TSPs, since EIM congestion charges on EIM TSPs transmission system are generally offset by credits in other EIM charge codes (e.g., congestion rents credited to the transmission provider).

The above is only one real-world example of how Bonneville’s transmission customers could be materially harmed if Bonneville were to develop a similar sub-allocation approach adopted by several other EIM TSPs. But the sub-allocation of any EIM-related charges raises the same questions:

- Does avoiding exposure to these new EIM charges require the customer to forego an important attribute of the transmission service they procured?
- Do these new EIM charges materially increase the financial risk and/or the cost of Bonneville transmission service?
- Ultimately, do these new EIM charges erode the expected value of investing in long-term Bonneville transmission service going forward?

An Initial Approach Of No Sub-Allocation Would Minimize Risks And Enable Future Evaluation Based On EIM Experience

As Powerex explained in its February 25, 2020 comments, it believes that the most efficient use of time and resources for Bonneville would be for it to defer sub-allocation of EIM charge codes for a fixed initial period of time following its integration into the EIM. Deferring the sub-allocation of EIM charges will protect customers from inaccurate, inappropriate and potentially volatile EIM cost allocations while Bonneville gains the experience necessary to verify that EIM charges and credits can indeed be sub-allocated accurately, transparently, and appropriately, avoiding any unintended consequences.

Powerex believes that operational experience with the EIM can also answer the threshold question of whether sub-allocation of specific EIM charge codes will achieve benefits commensurate with the associated burden to both Bonneville and its transmission customers. Critically, a large portion of EIM charges and credits are entirely offsetting at the EIM Entity level; that is, a charge under one code is often directly offset by a credit under one or more other charge codes. Thus, at the level of an EIM Entity, activities captured under multiple EIM settlement charge codes often net out to zero (the prominent exceptions being where energy or other products are transferred to or from the particular EIM Entity and the EIM). In other words, a sub-allocation of some EIM charge codes may not be necessary to ensure that Bonneville is revenue neutral, as the aggregate of EIM charges and credits generally lead to this outcome already. While the benefits of sub-allocation may thus be limited, the risk of inaccurate sub-allocation is that relatively small sums may be “split apart” into large charges and large credits, each of which is inappropriately allocated to different Bonneville transmission customers. The specific EIM charges allocated to an individual customer or group of customers could therefore exceed Bonneville’s net EIM-related costs, perhaps many times over.

An initial approach in which Bonneville does not sub-allocate EIM charges and credits can therefore avoid the risk of adverse consequences to transmission customers—and the associated risk to Bonneville’s transmission business—while enabling Bonneville and its customers to better evaluate the potential benefits of sub-allocation in the future.

If Sub-Allocation Is Pursued At The Outset, Stakeholder Collaboration Will Be Valuable To Help Define An Appropriate Sub-Allocation Approach

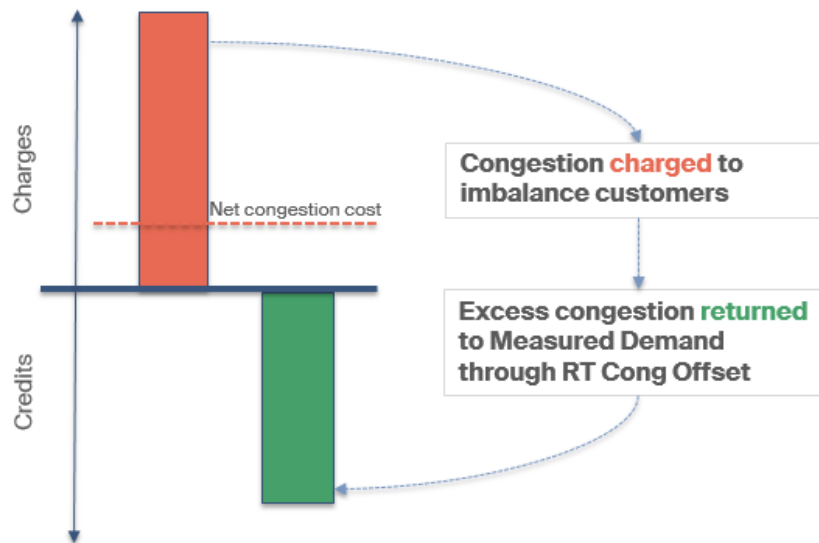
In the event that Bonneville elects to sub-allocate EIM charges and credits from the outset of its EIM participation, Powerex believes that the sub-allocation process should be carefully structured and developed in close collaboration with its customers. In particular, Powerex believes that a sub-allocation framework should have the following attributes, at a minimum:

- 1. Accurate cost allocation should include all charges/credits related to a particular activity*

Powerex appreciates Bonneville's workshop materials that emphasize the linkages between charge codes, and Powerex agrees with Bonneville's conclusion that there are many charge codes that must be allocated together, or not at all. For example, EIM imbalance charges can often result in an over-collection of congestion and loss revenues by the market operator, recorded in specific EIM charge codes that are ultimately returned to the EIM Entity through credits in the neutrality accounts (*i.e.*, other EIM charge codes). An allocation of EIM imbalance charges alone would therefore result in an incomplete (and inappropriate) allocation of costs and credits.

- 2. Accurate cost allocation should avoid a mismatch in the allocation of related charges and credits, even though these may appear in different charge codes*

In practice, EIM charges may be assigned to customers in a manner that is not aligned with the allocation of related credits. For instance, EIM congestion charges have typically been allocated by EIM TSPs based on each customer's EIM imbalances, yet credits reflecting excess collection of EIM congestion charges by the market operator have typically been allocated by EIM TSPs based on each customer's measured demand. If Bonneville were to apply such an approach, this could result in a very significant transfer of dollars between Bonneville customers (and for amounts that significantly exceed the actual net costs of Bonneville's transmission service), as depicted below.



3. *Proper cost allocation requires an accurate and complete decomposition of charge codes*

Bonneville should seek to validate and de-compose each charge code into its sub-components to ensure that any and all sub-allocations are made to the right customers. This effort would very likely require Bonneville working extensively with CAISO in the months ahead to increase the transparency of the neutrality accounts given that these accounts often contain numerous components, each of which often also requires many inputs to calculate. For example, the real-time imbalance energy offset charge code is composed of multiple elements including adjustments for GHG, UFE, losses, congestion payments, and EIM transfers. In addition, the Real-Time Congestion Offset (RTCO) charge code requires that CAISO calculate the congestion value that is owed to each EIM Entity based on a complex determination of congestion payments, binding constraints, shift factors, and imbalance quantities across the EIM area. Each of these accounts and their elements should be reviewed to determine the appropriate manner in which to sub-allocate each sub-component of costs accurately.

4. *It will be useful to design a “roadmap” for cost allocation that will guide Bonneville’s and customers’ sub-allocation analysis and decision-making*

Powerex believes the steps above would allow Bonneville to establish a roadmap of EIM charge code sub-allocations that would enable Bonneville and its customers to fully understand the proposed sub-allocation approach *before* implementing EIM charge code sub-allocations in the real-world. This roadmap also would allow Bonneville to ensure it has the necessary data to implement the approach, while working with CAISO as needed to ensure sufficient data is made available to effectively achieve Bonneville’s cost allocation objectives.

5. *Sub-allocation of charges and credits should be evaluated for consistency with the terms of transmission service under Bonneville’s OATT, and to minimize undermining incentives to invest in Bonneville transmission service*

As discussed previously, there are certain EIM-related charges that appear to directly contradict and undermine the value of transmission service that Bonneville provides. In particular, the sub-allocation of EIM “imbalance energy” charges for schedules submitted or modified after T-57 has the effect of negating the economic benefits of specific transmission capacity that has already been paid for by customers. In order to maintain strong incentives for transmission customers to continue to invest in Bonneville transmission service, it may be preferable for Bonneville to consider alternative means of recovering certain EIM-related charges from the approaches employed by other EIM TSPs.

Powerex believes that developing the details of a workable sub-allocation framework will require extensive collaboration and engagement with CAISO and with Bonneville’s transmission customers. Powerex is committed to supporting such collaboration in the event that Bonneville decides to pursue sub-allocation from the outset of its EIM participation.

Sincerely,

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