Lewis County
PUBLIC UTILITY DISTRICT

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Date: September 19, 2014

To: BPA Techforum

Re: Powerex Comments on Value of Southern Intertie

Fr: Dan Bedbury, Director of Power Supply and Utility Services / Lewis County PUD

Lewis County PUD appreciates BPA's recent willingness to provide timely BP16 rate and customer forums to address structural seams issues between the CAISO and the Northwest – ISO/Non-ISO seams issues that are negatively impacting the value of Northwest investments in the Southern Intertie (SI). Presentations by Powerex, FTI consulting, and BPA have broached a troubling pattern regarding the value of historical, and soon to be incremental, investments in the northern portion of the AC and DC intertie that BPA needs to address and remedy through a menu of potential rate and non-rate solutions.

Specific actions are not without a weave of potential unintended consequences though, so Lewis also wants to share that we appreciate BPA's analysis on the potential impacts of potential rate solutions and do restate them here:

<u>Non-Impacts</u>

- BP16 (and future) rates not impacted since BPA forecasted revenue and purchases are based on Mid-C prices
- BPA Power transmission and ancillary services expenses not effected as they too are priced at Mid-C

<u>Impacts</u>

- If the SI NF rate did require a change to BPA's Network Non-Firm IS rate, if BPA sales volumes are greater than BPA Power firm network transmission sales under contract, then there would be an increase in BPA P transmission and Ancillary Services expenses
- Cash- Reserves; changing the SI NF rate will be a net revenue impact

While the last bullet has merit and needs to be further researched, it's Lewis's contention that one key reality would seem to dwarf this issue, and it's the fact that Northwest BPA customers who are paying for the imbedded costs of the SI are not receiving the fair, shared value they imagined when the investment was made. While It's true that not all future scenarios are, were, or will be evident at the time transmission infrastructure investments are made, statements like this (from Powerex comments) from CAISO fly in the face of the tenets articulated at the time the Intertie was conceived, planned, constructed and financed by Northwest parties:

"It is important for the CPUD to recognize that firm transmission is not relevant for power imports into the CAISO-controlled grid, which applies to the majority of renewable energy imports for California's IOUs. This is because all imports must competitively bid supply at the interties, and only the lowest price offers are accepted for scheduling by the CAISO, regardless of transmission quality, dynamic transfer or firming and shaping arrangements. The CAISO does not place a scheduling priority for energy delivered via firm vs. non-firm transmission"

Lewis supports Powerex's disagreement with the conclusion made by FTI consulting; that the Intertie, under today's realities, unlucky for us has just become an economic stranded asset. Lewis believes the SI does indeed have significant value but that those who have paid, and will pay, for the fixed imbedded costs are not receiving the value they deserve due to California-centric scheduling and tagging rules that in essence serves California's current and growing energy 'and' capacity needs with energy-only prices priced at Mid-C + BPA Intertie Non Firm + a small margin. What should be value in our pockets, has been converted into congestion payments to residents of the Golden state; spinning nonfirm into gold by bumping Firm participants from participating due to MRTU tagging rules and BPA business practices around timing releases of Non-Firm IS.

Northwest parties who invested to create the very IS transmission that links Mid-C priced energy into California that 'spot' market participants use for non-firm deals are bumped from the competition because CAISO MRTU rules by their very nature is dispatching transmission 'below' the margin- that is, prices for transmission are too low to support a business plan to build new transmission. Firm IS contract holders are cut out of the deal unless they are at, or below, the competing bid using non-firm, which is Mid-C + BPA Intertie Non-Firm + an even smaller margin that the competitor banking on getting Non-Firm, which they might not even get.

Those sorts of returns on an investment would not seem to provide enough incentive for either (1) rolling over one's Firm LT Intertie Rights, or (2) investing in new transmission assets that support/increase exports or imports from California. Both are extremely worrisome and not in the best long-term interests of either the Northwest or the Southwest. As Powerex pointed out in their comments, BPA's projected transmission revenue for $2017 for SI revenue, $107,000,000, is almost entirely made up of sales of LT Firm. If current owners of Firm IS continue to see low/diminishing returns on their investments, they might start moving to the other side of the aisle, decide against rolling over their LT IS rights, and look instead at short term IS products to manage their physical books. The LT rate impacts on Northwest customers could be dire. The impact on reliability could be dire as well.

Potential Actions by the BPA

The conversations vetted thus far have been around potential rate and non-rate fixes what would allow Firm IS contract holders to receive the level of value they should receive to support the investments they have made, and incent new investments that are good for the NW, and the SW. When you think about FERC Order 1000, and FERC's vision for regional cooperation and coordination to build new lines and sub-stations where needed, the outcome of MRTU and the issues we are confronting today would be show-stoppers before any parties even came to the table.

Lewis appreciates BPA walking through the rate constructs for the IS Non-Firm rate and supports a movement upward in the price for non-firm IS using the same inputs to the model that has driven the rates thus far; the number of hours of forecasted use of such Non-Firm on the Intertie. As such, Lewis supports BPA raising the price for IS Non-Firm to $12.98/Mwh to reflect actual use of this product on the Southern Intertie. Not only is this the correct value for this product, but it more fully comports with many non-firm transmission rates in CA that are in the $9-$12/Mwh range.

Along with this rate change, Lewis hopes that BPA addresses non-rate solutions that would address the post-MRTU lost value of the IS for Firm contract holders. Lewis fully supports those non-rate solutions as presented by BPA at its September 10th customer meeting and offers one other concept as well:

- Only release IS Non-Firm at T-60 minutes
- Only provide for the sales of IS Non-Firm if there is insufficient LTF available for resale on OASIS
- When Calculating ATC, allow normal tags to encumber transmission instead of using the energy profile
- BPA should reducing its hourly non-firm transmission sales by the amount of secondary offers of firm service posted to BPA's OASIS site

As BPA pointed out at its customer recent customer meeting, these non-rate solutions do come with a price tag, requiring BPA time and money to carry out requisite system changes. As such, Lewis would like to hear more about these costs (software / internal FTE and/or consultant costs) so as to be in a better position to measure the expected net benefits of required system enhancements.

Regards,

Dan Bedbury
Director of Power Supply and Utility Services
Lewis County PUD