Powerex Comments on Southern Intertie Hourly Non-Firm Rate

Powerex appreciates the opportunity to provide these comments to the Bonneville Power Administration regarding the rate for Hourly Non-Firm service on the Southern Intertie.

Powerex is very concerned that a seams issue has developed between the OATT framework for transmission service from Bonneville and the Locational Marginal Price ("LMP") framework for transmission service from the California Independent System Operator ("CAISO"). This seams issue has resulted in Firm service from Bonneville effectively having no scheduling priority over Non-Firm service, with California transmission rights—not Bonneville's OATT framework—largely determining who flows on Bonneville's transmission system. This highly troublesome situation is compounded by Hourly Non-Firm service almost always being available from Bonneville, at a rate that no longer accurately reflects costs. The seams issue with the CAISO makes this situation unique to the Southern Intertie, and does not have implications for Bonneville's Network or Eastern Intertie rates.

This seams issue is highly detrimental to Bonneville transmission customers that have made substantial multi-year investments in Long Term Firm service on the Southern Intertie. This outcome also negatively impacts revenues from Bonneville's off-system sales of surplus Federal power, and consequently results in diminished offsets to the power rates for Bonneville's Federal power customers. Ultimately, the de-valuation of transmission investments also poses a barrier to resolving the region's oversupply problem; the needed new investment in Long-Term Firm transmission service is unlikely to occur if transmission customers do not expect to receive valuable service in return for their investment.

Powerex commissioned FTI Consulting to conduct an independent analysis of the seams issues, which was referred to by Bonneville at the August 13, 2014 Workshop. A presentation summarizing that analysis is attached to these comments, so that the analysis is available to all interested Bonneville customers.

The current seams issues affecting the Southern Intertie bear a strong similarity to the intertie access policy debate during the 1980s and early 1990s. Then, as now, the value of Bonneville's Southern Interties was undermined by seams issues with California that, together with the framework for Northwest entities to access the Southern Interties, resulted in a disproportionate and inequitable share of the transmission value going to California rather than to Pacific Northwest entities. At that time, Bonneville took decisive action to ensure an equitable apportionment of the value of the transmission facilities.[1] Similar decisive action is equally necessary today to address the current incarnation of the seams issues with California, and Powerex urges Bonneville to continue to work with its customers toward identifying solutions.

Powerex recognizes that this dialogue is in its early stages for many in the region, and that a comprehensive response to the seams issues affecting the Southern Intertie is likely beyond what can be accomplished in the immediate timeframe of the BP-16 proceeding. The BP-16 transmission rate case can ensure, however, that the rate for Hourly Non-Firm service on the Southern Intertie does not encourage "cherry picking"—using the service in only selected valuable hours and thereby not bearing an appropriate share of the embedded costs of the transmission facilities. Discouraging "cherry picking" through appropriate cost-based rates for Hourly Non-Firm service on the Southern Interties is not only consistent with sound ratemaking principles, it is crucial in the context of the current seams issues that

[1] Attached is a Bonneville Issue Alert from 1984 describing the situation in the 1980s that led to decisive action by Bonneville to restore an equitable share of the value of the Southern Interties to the region.

have resulted in readily-available Non-Firm transmission service having equivalent effective priority to Firm service.

Powerex therefore puts forward two cost-based alternatives for Bonneville's consideration in setting the Southern Intertie Hourly Non-Firm rate. These rate alternatives can be readily implemented in the BP-16 transmission rate proceeding. As the regional dialogue continues outside the rate case context, Bonneville should also consider new or modified business practices and other non-rate measures to restore the priority of, and incentives to invest in, Long-Term Firm transmission service.

Alternative 1

The current Hourly Non-Firm rate was set based on 80 hours of expected reservations per week (*i.e.,* the 16 Heavy Load Hours during each of five week days in each week) for every week of the year, and grossing up the rate to ensure a total cost equivalent to annual service.[2] In other words, the rate is set to the weekly rate ($0.052/kW per day for 5 days = $0.26/kW) divided by 80 hours of expected Hourly Non-Firm reservations per week In 2012 and 2013, however, Hourly Non-Firm service on the Southern Intertie to either COB or NOB was reserved on average for only 9 hours per week per customer, including weeks in which no Hourly Non-Firm service was reserved at all. Examining only the weeks in which a customer did reserve Hourly Non-Firm service, only 22-24 hours were reserved, on average.

However one looks at it, actual use of Hourly Non-Firm transmission service is well below the 80 hours of expected weekly reservations embedded in the current BP-14 formula. This results in a rate that is not cost-based, in that it assumes usage levels that no longer occur, resulting in a disproportionately low level of costs being allocated to the Southern Intertie Hourly Non-Firm rate. Hence, there is ample reason to re-evaluate the usage assumption embedded in the hourly rate to ensure that all transmission customers using the Southern Interties pay an appropriate share of the costs based on accurate and realistic projections of usage.

Updating the Southern Intertie Hourly Non-Firm rate to reflect a conservative estimate of 20 hours of expected reservations per week (*i.e.*, equivalent to 4 hours each weekday) would change the rate as follows:

Current Hourly Non-Firm Southern Intertie Rate:

Step 1: Convert Long-Term Rate in $/kW/month to mills/kWh:

($1.128/kW/month) x (12 months) / (8760 hours/year) x (1000mills/$) = $1.545205 mills/kWh

Step 2: Current Hourly Non-Firm Rate = Long-Term rate (mills/kWh) x Total Hours Per Week / Expected Reservation Hours Per Week:

$1.545205 mills/kWh x (7 total days per week x 24 total hours per day) / (5 days per week x 16 hours per day of expected reservations) = $3.25 mills/kWh

Proposed Hourly Non-Firm Southern Intertie Rate:

Step 1: Convert Long-Term Rate in $/kW/month to $1.545205 mills/kWh, as in Step 1, above.

[2] *See* BP-14-E-BPA-07 at 69:8-10, explaining that the hourly rate "is calculated by dividing the annual rate by 8,760 hours/year, dividing by 1,000 to convert to mills, and multiplying by the LLH/HLH factors of 24/16 and 7/5."

Step 2: Proposed Hourly Non-Firm Rate = Long-Term rate (mills/kWh) x Total Hours Per Week / Expected Reservation Hours Per Week:

> $1.545205 mills/kWh x (7 total days per week x 24 total hours per day) / (5 days per week x 4 hours per day of expected reservations) = $12.98 mills/kWh

This alternative would lead to a cost-based Hourly Non-Firm rate that discourages cherry-picking and is consistent with sound ratemaking and business principles. Moreover, an increase in Bonneville's Hourly Non-Firm rate to approximately $13/MWh would also be consistent with hourly transmission tariff rates for service on the California side of the same transmission facilities, as shown below.[3]

Transmission Provider	Path	Hourly Rate ($/MWh)
TANC	COI	$17.64
SMUD	COI	$11.14
LADWP	PDCI	$9.00

Alternative 2

Firm transmission service on the Southern Interties is fully subscribed on a long-term basis. It is well documented that the Pacific Northwest region is experiencing conditions of oversupply and inter-regional transmission investment should be strongly encouraged. By setting the Hourly Non-Firm rate for the Southern Intertie at the cost of expansion (calculated by Bonneville as $27.48 mills/kWh), participants would be encouraged to enter the Long Term transmission queue to support expansion of the transmission system.

[3] Rates shown are the published tariff rates for Hourly Non-Firm Point-to-Point service, and do not include any required ancillary service charges. On August 4, 2014 LADWP approved its pending rate schedules, to go into effect September 1, 2014. The new rate for Hourly Non-Firm service during on-peak hours will increase to $10.81/MWh.