

October 31st, 2014

To: BPA Tech Forum, *delivered via email to Techforum@bpa.gov*

RE: Generation Inputs Workshop (October 17, 2014) Request for Comments

Renewable Northwest appreciates the opportunity to comment on two important issues discussed at the October 17, 2014 Generation Inputs workshop (“workshop”): (1) the proposed spring acquisition strategy for the FY 2016-17 rate period, and (2) transmission policies regarding delivery of balancing reserves acquired from third parties well in advance of the identified need. We commend BPA for beginning the discussion of these issues in a timely manner and urge BPA to resolve the transmission policy issues as soon as possible.

Renewable Northwest’s members approach these issues with two primary concerns in mind: (1) as renewable energy generators, our members have an acute exposure to increased curtailment risk if BPA does not procure a sufficient amount of balancing reserves; (2) as transmission customers, our members hope that the FY 2016-17 acquisition budget can be managed effectively without requiring the use of transmission financial reserves. From our perspective, getting the procurement strategy right is critical to the success of the FY 2016-17 Generation Inputs Settlement Agreement and to BPA’s efficient and cost-effective long-term provision of balancing services.

General Comments:

Over the past two years, Renewable Northwest has urged BPA to gain experience with short-term purchases of balancing reserves (both pre-schedule and hour-ahead); at the same time, we have also recognized the value of BPA making longer-term balancing reserve purchases well in advance of the real-time need (3 months to a year in advance). Particularly in light of the structure of the FY 2016-17 Generation Inputs Settlement Agreement, we are supportive of BPA devoting increased attention to enabling advanced purchases of balancing reserves. Ultimately, however, our position is that BPA should do all of the above.

We agree with BPA’s statement that, “... any purchasing strategy should spread acquisitions across the year to best address insufficient market liquidity levels and encourage a competitive environment...” (p. 7, workshop presentation). In order to accomplish this goal, BPA should enable the systems and amend the policies necessary to provide the total least-cost, least-risk portfolio of balancing reserves to its customers. Such a portfolio should

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include a mix of both federally sourced and non-federally sourced balancing reserves, committed and procured on both a short-term and long-term basis. It may sound like a big leap, but BPA is currently making solid progress in this direction. This portfolio approach would help to provide all of BPA's customers with low-cost, high-quality balancing services and would free up federal assets to pursue higher value products.

As BPA moves forward with its acquisition strategy, Renewable Northwest urges BPA to maintain a high degree of transparency and provide frequent opportunities for public input. Within the confines of the confidentiality necessary to conduct a competitive bidding process, we urge BPA to request customer feedback as the RFOs are designed, offers are received, and contracts are signed. Ultimately, if the acquisition strategy is not managed successfully, BPA will be placing increased curtailment risk on its customers.

Renewable Northwest also urges BPA to gain experience with longer-term advanced purchases as soon as possible, hopefully in time for the 2015 spring period. BPA should endeavor to resolve the identified transmission issues as soon as possible and conduct a trial advanced purchase for a small amount of balancing reserves to be delivered in the spring 2015 period. Gaining experience with advanced purchases in the spring period is an important first step and will help to tease out any implementation issues in advance of larger purchase amounts of greater consequence.

Acquisition Strategy:

If BPA does not procure a sufficient amount of balancing reserves in advance, it will expose BPA to short-term market risk and exhaust the acquisition budget prematurely, ultimately exposing Renewable Northwest members to increased curtailment risk. As such, BPA should solicit responses from as many suppliers for as many MWs as they choose to make available and review all proposals for the least-cost, least-risk contribution to BPA's portfolio of balancing reserves. As a general rule, and within reason, BPA should not discourage bidders from making creative offers; BPA should indicate it will consider all reasonable offers and evaluate the terms and conditions of any offer based on its cost, risk, and feasibility.

Different suppliers of balancing reserves have different strengths and capabilities. BPA should be pursuing an approach that allows as many diverse suppliers to participate in BPA's solicitations as possible. Within reason, potential suppliers should be encouraged to submit bids based on whatever timeline, terms, and conditions shape their individual best offer. When comparing bids, BPA should evaluate all bids based on their cost, risk, and feasibility and how each bid fits into BPA's portfolio of balancing reserves. Promoting competition in this nascent market will benefit all of BPA's customers and serve ratepayers well in the long run.

BPA should endeavor to procure in advance at least 200 MW of balancing reserves for the FY 2016 spring period. BPA should not, however, limit the amount of advanced purchases it requests in the RFP. We agree that BPA should issue at least one RFO in the fall period for at least one purchase targeted for the April/May/June time period. However, we don't think that BPA should preclude looking at the merits of offers for the entire spring period. We also agree that issuing an RFO during the late winter period when water supply for the region is better defined makes sense. However, neither of these RFOs should be limited in the number of MWs BPA considers. Also, we urge BPA

to develop the analytical capability to analyze the value and need for weekly and preschedule acquisitions. BPA should also work with customers to weigh the tradeoffs between advanced purchases and short-term purchases during the “fall” and “later winter” timeframes—not “once we get to spring” (p. 8, workshop presentation).

We support BPA’s ability to constrain preschedule purchases for the purpose of managing the acquisition budget; BPA should not be obligated to purchase on the preschedule timeframe at any price. BPA should work with customers to determine how the tradeoff between a price cap and the level of curtailment risk should be managed. BPA should pursue gaining experience with this structure in FY 2015.

We also support BPA investigating and testing the use of a balancing reserve forecast, such as R3T, to target the amount of acquisitions in the preschedule timeframe. As part of this endeavor, BPA should solicit third-party expert review of BPA’s wind forecast, the R3T model, and how load forecasts are input into R3T.

Transmission Policy Issues Associated with Advanced Third-Party Acquisitions:

With respect to how to handle the conflict that has been identified between advanced long-term purchases and competition protocols, BPA should not take any options off the table at this point—one approach may work best for a certain subset of suppliers, whereas a different approach may work better for a different subset of suppliers. BPA should facilitate all options and evaluate all offers based on their cost, risk and feasibility.

Specifically, BPA should allow third-party suppliers and/or Power Services to redirect existing TSRs to deliver third-party balancing reserves. It is our understanding that this capability would significantly reduce the identified conflict with competition protocols for many potential suppliers, at least over the MOD-30 paths.

BPA should also move forward with the option to acquire balancing reserves prior to being able to reserve firm transmission and should explore all options to reduce the risk and cost of not being able to deliver those reserves when they are needed. If, as BPA hypothesized under “Sub-option A” (p. 15, workshop presentation), a competition or preemption does preclude third-party balancing reserves from being delivered, BPA should *not* necessarily “terminate” the contract. If the contract has long-term value, BPA should keep the contract in place and, at the very least, fill in the hole with weekly, daily, or non-firm transmission and/or use short-term third-party purchases until the transmission necessary to support the long-term contract can be firmed up.

In addition, we recommend that:

1. BPA continue to offset the cost of obtaining transmission on BPA’s system with a credit for the amount of third-party reserves scheduled.
2. BPA allow redirects of existing transmission rights to support third-party supply of balancing reserves. This change is critical and by itself will mitigate the competition issue for many suppliers using MOD-30 paths.
3. BPA allow no-charge reservations to be resold.

4. BPA explore the use of non-firm transmission to deliver third-party supply of balancing reserves under predetermined limited circumstances when firm transmission is not available.
5. BPA break up the preschedule acquisitions into HLH and LLH pieces and reduce the minimum bid amount to 25MW.
6. BPA explore the option of using NT transmission to support the provision of the balancing reserve services necessary to serve the total pooled need of the system.
7. BPA explore BPA merchant's use of non-firm recallable energy products as an alternative to non-firm transmission during any period where an advance purchase of balancing reserves is, for whatever reason, temporarily unable to secure firm transmission.

Thank you for the opportunity to comment,

/s/

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