

## **Comments on BPA September 9, 2014 Workshop Southern Intertie Issues**

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Please find Southern California Edison's (SCE) comments on BPA's September 9, 2014, Transmission Rates Workshop concerning the Southern Intertie. These comments focus on the presentation made by BPA, the presentation done on behalf of PowerEx, and PowerEx's proposal to increase non-firm transmission rates.

### **SCE Objects to BPA Adopting a Transmission Rate Mechanism or Release Practices for the Purpose of "Capturing Value" as Opposed to Recovering Embedded Costs**

SCE has significant and material concerns with BPA exploring transmission pricing and practices with the goal of "capturing value" or "strengthening resale" value. As a transmission provider, BPA has an obligation to provide transmission on a non-discriminatory basis, with the objective of recovering embedded costs. Given that BPA markets generation it is imperative that BPA's transmission service is viewed by all impacted parties and their regulators as non-discriminatory and efficient.

SCE strongly encourages BPA to abandon the pursuit of any rate structure or practice that violates the core principles of cost recovery, non-discrimination and market efficiency. To do otherwise would likely run contrary to FERC expectations and mandates for non-discriminatory transmission access, and could possibly run afoul with other regulatory requirements and statutes.

**SCE Objects to BPA Adopting a Transmission Rate Mechanism or Practice with the Goal of Providing Benefits to Existing Firm Transmission Rights Holders or to “Strengthen Southern Intertie LTF[Long-Term Firm] Resale Market”**

As noted above, BPA has an obligation to provide non-discriminatory access to transmission. Adopting rates or practices that instead are designed to benefit incumbent firm transmission right holders violates these basic tenets and will likely not survive regulatory scrutiny. Moreover, as discussed below, such practices would likely harm the region and the market, while only providing benefits to a small number of existing Firm rights holders.

**SCE supports BPA’s Current Practices for the Release of Non-Firm Transmission**

Currently, BPA releases unused transmission as non-firm after 10:00 PM on the day prior to flow. This release mechanism provides several very important benefits to the region and the markets. First, it prevents “transmission hoarding” in which a Firm transmission holder neither utilizes nor releases unused transmission. Without this release, some Firm transmission holders might have the incentive to withhold transmission from the market in order to increase private benefits to the detriment of the regional market. For example, hoarding transmission could prevent the ability of other generators from selling surplus economic generation. This also creates a market power concern whereby the Firm rights holder can increase the price of their transmission resales by withholding transmission to create artificial transmission scarcity. Either of these outcomes would be detrimental to BPA’s load and generation customers with surplus power, as well as other customers in the WECC.

BPA’s current release practice serves as a check against market power (in 3<sup>rd</sup> party transmission holding) and in turn helps foster more efficient transmission utilization. This release allows participants in the Northwest to make additional sales without concerns of manipulation, and in a cost effective manner. In turn, this process adds efficiency to the market and helps regional generation sales.

In the presentation on September 10, 2014<sup>1</sup>, BPA listed several alternatives to the current release process: 1) "encumber" transmission tags similar to dynamic tags, 2) only release non-firm transmission at 60 minutes before the trade hour, 3) only sell non-firm if there is insufficient long-term firm available for resale on OASIS. SCE objects to all three proposals. Each proposal has the net effect of withholding transmission or restricting transactions from the market. Such withholding or restrictions will artificially impair market efficiency and will harm sellers of power in the Pacific Northwest by in effect placing an additional tax or transaction costs on their sales. Thus not only will the market at large be harmed from inefficient transmission release, but Pacific Northwest sellers in particular will be harmed by facing increased costs, and in turn decreased sales.

As noted above, these proposals attempt to "strengthen [the] resale" of transmission sold by Firm transmission holders, but they do so at the expense of harming overall market efficiency, and in particular, harming regional sellers.

SCE strongly encourages BPA to maintain rules which improve market efficiency, and to reject procedures that will in effect provide windfalls to a handful of incumbents at the expense of all other market participants by allowing for the withholding of or the improper release of transmission.

### **PowerEx has not Demonstrated BPA's Current Pricing and Practices Require Modification**

Based on the recent meeting, SCE notes the following list of apparently uncontested facts:

- 1) BPA is fully honoring priority rights of existing Firm rights holders.
- 2) To date, BPA has not experienced a problem with selling Long-term Firm transmission.
- 3) Parties have renewal rights, and if they no longer value the transmission they do not have to renew the Firm rights. This embedded option already provides such holders with a degree of financial protection.

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<sup>1</sup> The presentation is posted at [http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Southern%20Intertie%20presentation\\_final.pdf](http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Southern%20Intertie%20presentation_final.pdf), last viewed September 19, 2014

- 4) BPA has a substantial queue of participants seeking Firm rights, thus BPA should have a reasonable expectation there will be interest in the Firm rights if the current holder does not renew the rights.
- 5) Firm rights do not expire simultaneously. Instead, a certain amount of rights periodically expire.

While PowerEx raised concerns that long-term Firm rights may currently be “out of the money” based on current CAISO spot prices, they completely failed to demonstrate current transmission pricing or practices has created **any problem** for BPA for the sales of Firm transmission.

PowerEx also failed to demonstrate there is **any reason** for BPA to change current practices or pricing, or that changing practices and prices would improve market efficiency and in turn regional benefits. To the contrary, PowerEx’s proposal to increase non-Firm prices seems to benefit only existing Firm rights holders to the detriment of regional sellers, market efficiency, and thus the market at large.

No party has argued BPA is violating the Firm nature of the rights. What appears to be the case is Firm rights holders are making a rational economic decision not to exercise their firm priority on a day-ahead basis, and this economic decision at times allows BPA to release the transmission as non-firm. Moreover, this outcome is the rational result of market forces and market prices. In the case of the Southern Intertie, the market provides highly efficient, highly contested and highly transparent prices on an hourly basis. The market reaction as well as the release of non-firm transmission is a favorable and efficient economic outcome, both preventing the hoarding of transmission and providing benefits to consumers and suppliers in the region. Transmission release is not a practice that BPA should view as a “problem requiring remedy”.

Because the current practice of releasing non-Firm transmission is beneficial to the region and the market, and since there is no evidence that sales of long-term Firm transmission have been harmed, SCE urges BPA to move deliberately and based on facts. As such, BPA should maintain current practices, continue to monitor market performance, and look for instances where parties choose not to renew Long-Term Firm service. Moreover, given the existing queue, lack of renewal may simply provide a different party, with a different market view or need, to subscribe to the now released transmission. This too provides efficiencies and benefits to the market. And under this outcome, BPA still has no “problem” to solve. Of note, Firm contracts

expire at different timeframes. SCE understands there is no looming “cliff” or dramatic quantity of renewal, thus in the event of non-renewal, only a limited number of MWs would be impacted. SCE encourages BPA to provide additional data on the timing and quantity of renewals if BPA has concerned that non-renewal is an imminent and material issue.

If, based on actual results, and objective considerations of market efficiency, BPA concludes changes are needed, a thorough, and transparent process should take place. This process should explore larger issues such as regional pricing trends and the overall economic effectiveness of existing transmission. For example, at some point market fundamentals may not be sufficient to recover the embedded costs of parts of the system, and BPA would need to explore options under such conditions. Any resulting proposal must ensure non-discriminatory access to transmission, and reasonable rates and practices which provide efficiency to the market at large.