

Generation Inputs Workshop

October 17, 2014



Agenda

- Spring Imbalance Capacity Acquisitions
- Transmission Policies regarding Delivery of Reserves Acquired from Third Parties



Spring Imbalance Capacity Acquisitions



Objectives for Today's Discussion

- Share high-level information on observed market liquidity for spring 2014 acquisitions.
- Discuss acquisition strategy principles and provide an initial outline of the proposed acquisition time frames.
- Solicit input on how best to cost-effectively utilize our spring acquisition budget for the BP-16 rate period.



General Observations from Spring 2014

- We experienced insufficient market liquidity given the amount of Imbalance Capacity we attempted to purchase in the preschedule time frame.
- To date, thermal unit operators expressed little interest in bidding on short term capacity Request for Offers (RFOs), at least during this time of year:
 - Specific feedback solicited from thermal advocacy groups has suggested that a minimum of at least a one month purchase would be required to solicit interest.
- Many suppliers appeared to have already made longer term capacity sales which effectively took them out of the market for shorter term offers on most days.
- At least two IOUs have stated that as a general rule, they never bid on capacity RFOs because company policy doesn't allow them to sell "Calls" without special executive approval.
- Both Northwest and Northern California system conditions physically impacted a number of counterparties' ability to participate in the RFO process this last spring.



General Observations (continued)

- Feedback on BPA's preschedule acquisition process has suggested that breaking the RFOs into HLH and LLH pieces and reducing the bid amounts to 25 MW may enable additional counterparties to participate.
- When purchasing capacity across a multiple-day period (such as Friday/Saturday) separate RFOs were required when the need varied each day.
- Additional feedback suggested that longer notification periods before bids were due would increase participation.



Proposed Acquisition Strategy

To the extent that transmission policy allows, any purchasing strategy should spread acquisitions across the year to best address insufficient market liquidity levels and encourage a competitive environment when supplementing FCRPS INCs during the spring. A few ideas to address this would be:

- Explore whether modification of existing transmission policies might better support acquisition of imbalance capacity further out in time (next topic).
- Purchase ahead for spring to avoid or limit preschedule purchases during this time period.
- Constrain preschedule purchases in some way to create cost competition if none exists – now using these acquisitions to enhance reliability.
- Investigate/test using a Balancing Reserve Forecast, such as R3T, to target the amount we attempt to acquire in a preschedule timeframe to a specific projected need.



Proposed Acquisition Strategy Timeline

- Issue RFO for at least one purchase during the fall period for the late April/May-June acquisition period (depending on resolution of the transmission policy).
- Issue RFO during late winter period when water supply for the region is better defined for the late April/May-June acquisition time period.
 - The two purchase periods above would have the objective of taking 200 MW or more off the table before the end of March.
- Once we get into spring, we will look at the value and need for attempting weekly acquisitions.
- After that, we run the preschedule acquisition process used last year, but reduce the minimum purchase amounts to 25 MW for LLH and HLH.



Questions, comments, or other feedback ?



Transmission Policies Regarding Delivery Of Reserves Acquired From Third Parties



Today's Discussion

- Summary of Current Policies
- Review of Current Issues
- Potential Alternatives
- Discussion
- Next Steps



Current Transmission Policies for Delivery of Reserves Acquired from Third Parties

- BPA offsets the cost of obtaining transmission, on BPA's system, with a credit for the amount of 3PS (Third Party Supply) reserves scheduled.
- BPA does not require loss returns for delivered 3PS reserves.
- BPA performs Available Transfer Capability (ATC) checks and encumbers ATC capacity on MOD-029 ("intertie") flowgates.
- Reservations on MOD-029 paths are subject to Short Term (ST) Competitions and Preemption.
- BPA does not perform an Available Flowgate Capacity (AFC) check, nor encumber AFC capacity on MOD-030 ("network") flowgates.
- Reservations will use capacity and/or dynamic schedules.



Current Transmission Policies for Delivery of Reserves Acquired from Third Parties (Continued)

- BPA does not allow existing Transmission Service Requests (TSRs) to be redirected into a no-charge reservation for delivery of 3PS reserves.
- BPA does not allow a no-charge reservation for delivery of 3PS reserves to be redirected to either a MOD-030 or MOD-029 path.
- BPA does not allow a no-charge reservation to be resold.
- Reserves are scheduled using capacity or dynamic e-Tags.
- Power Services creates the capacity tag for Transmission Services to deploy the reserves when needed.



Issues with Advance Purchases of Reserves

- New reservations for delivery of monthly block purchases of reserves cannot be “firmed up” until after competition and preemption processes are completed 30 days prior to delivery of reserves.
- Applying competition policies earlier is not an option.
- Suppliers have informed BPA that they often need to decide how to market their capacity more than 30 days in advance of delivery.
- In order to facilitate a deeper market for reserves sold in monthly blocks, particularly for the spring freshet months (April-July), BPA desires to issue Request for Proposals (RFPs) 60 to 90 days (or more) prior to delivery.
- This begs the question of how to manage the risk that transmission may not be available to successful bidders after competition is completed.



Potential Solutions

- Option 1: Allow 3PS Suppliers and/or Power Services to redirect existing TSRs to deliver reserves acquired.
- Option 2: Acquire balancing capacity prior to being able to reserve firm transmission for delivery (outside competition window).
 - Raises the question of who bears the risk?
 - **Sub-option A:** Supplier takes the financial risk—if subsequent competition or preemption precludes obtaining transmission on a needed path, the contract would terminate.
 - BPA would look to replace capacity with weekly or preschedule acquisitions.
 - **Sub-option B:** Risk borne by acquisition budget and/or service quality— if subsequent competition or preemption precludes obtaining transmission on a needed path, BPA would still pay the successful bidder its capacity price. BPA would then seek to obtain weekly or daily firm transmission.
 - Non-firm transmission question – should BPA allow delivery on non-firm transmission in those instances that firm transmission is not available.
 - Could limit use of non-firm transmission to deliveries that creates counterflow to prevailing flows, particularly during the spring freshet.



Discussion

- Questions?
- Comments?
- Other Ideas?
- Next Steps:
 - Written comments

