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June 20, 2014

**VIA EMAIL**
Tech Forum
Bonneville Power Administration
905 NE 11th Ave.
Portland, OR 97232

Re: Comments on BPA Staff's Straw Proposal for BP-16 Balancing Reserves Services and Costs.

Dear Tech Forum:

Thank you for the opportunity to comment on BPA staff's proposed concepts regarding FY 2016-17 capacity reserve services and rates. The concepts proposed by BPA staff have prompted valuable discussions of rate and cost issues as well as service terms and conditions. PPC provides these comments to convey our perspective on these concepts as well as where the discussion should be directed going forward.

First, two fundamental considerations that drive PPC's perspective have not yet been discussed in workshops: (a) pricing the capacity reserves products in accordance with BPA's statutory rate directives and (b) insulating customer classes from cost and reliability risk that can be created by service quality choices and optionality that BPA may be asked to provide to other customer classes. Pricing and insulation from risk are pivotal issues for preference customers and our willingness to accommodate commercial desires of generators depends entirely on the appropriate resolution of those matters. The comments provided here are contingent on the successful resolution of those issues.

In PPC's comments on the straw proposal, PPC posed a set of questions, the answers to which are needed to understand the impact of the straw proposal. BPA staff provided answers or partial answers to some those questions at its workshops and we appreciate their responsiveness. Without the answers to the remaining questions, however, we are handicapped in providing definitive comments on the straw proposal beyond the previously stated interest in continuing to discuss the straw proposal components in more detail.

With regard to specific aspects of the straw proposal and the discussion of capacity reserve cost, PPC has the following comments in addition to comments previously submitted.

- BPA should retain the 99.7% confidence interval for incremental capacity (inc) reserves for balancing requirements. PPC views BPA's provision of balancing capacity to ensure continuity of load service as a critical component of the services that preference customers contract for. If other customer classes wish BPA to carry fewer reserves for their needs, they should specify the mechanisms to ensure that they cannot lean on the

FCRPS for reserves they have not paid for. The acceptability of those different confidence intervals, of course, depends on compensation of BPA for reserve use, BPA's acquisition strategy, and the amount of FCRPS reserves physically feasible.

- With regard to the 900 MW of inc reserve supplied by the FCRPS, we have further questions regarding the basis for the statement that the FCRPS is capable of providing that amount of reserves in the August-to-March timeframe and its effects on other power product inventories.

- Regarding the proposed springtime balancing reserve levels, we need more information regarding the proposal's impact on costs and do not take a position at this time. Without a clear understanding regarding pricing and the commercial consequences of this alternative, we cannot evaluate the proposed rate treatments and acquisition strategy.

- In order to move the acquisition strategy discussion forward, VERBS customers need to speak to the commercial arrangements that can meet their needs. PPC does not intend to take any option off the table but our evaluation of all options turns on who bears the risk and pays the costs of implementation. That said, however, we cannot support unbounded costs under any option for acquisitions of either inc reserves or decremental capacity (dec) reserves.

- Providing exceptions in the proposed reliability tool for some thermal generators is neither unduly discriminatory nor preferential. It is reasonable to accommodate the physical differences of different generation in applying operational requirements. These differences can materially affect both their ability to change their generation levels and the value that they provide in resolving a reliability threat. For example -

    - Large, base load thermal plants may not be able to alter their generation levels with the same speed as variable generation.
    - Thermal plants have restricted ability to change generation levels under some conditions when they are ramping.
    - Thermal generators do not have a common fuel source and are not geographically concentrated; as result their station control errors are not correlated to any relevant extent and they may bear less responsibility for imperiling reliability.
    - Very small thermal plants may not ever receive a share of a curtailment of more than a fractional megawatt, making the effort to curtail their output or limit to schedule of no value.
    - Co-generation output often cannot be reduced on short notice without creating safety and production risks. If output is reduced, the associated load is reduced potentially making the BA situation worse.

- Exempting VERs from application of the Persistent Deviation penalty and applying an "Intentional Deviation" penalty is not unduly discriminatory toward VERs. If anything, it is potentially unduly preferential because DERs are not provided the opportunity to

avoid exposure to the Persistent Deviations penalty. VERs are already exempted from the third penalty band for excessive use of Generation Imbalance energy. VERs receive special access to tools and service terms and conditions that permit them to reduce their error and exposure to imbalance charges. DERs are not offered those tools and options. It is reasonable to penalize VERs that fail to take advantage of those tools in order to improve their scheduling. Moreover, BPA proposes to benefit VERs by reducing their planned balancing capacity requirement and VERBS rate through use of these tools. The failure of VERs to use those tools causes BPA to use the capacity set aside and paid for by other customers and so shifts costs to those customers.

- We are concerned that BPA's explanation to date of the "scheduling Incentive'' in its straw proposal is too sparse to elicit meaningful comments. PPC's members, including some of whom have wind resources, need answers to several questions to respond meaningfully to BPA's proposal. For example:

    - Is the proposal for customers to identify in advance the basis for their schedules and to qualify for an exemption from Persistent Deviation penalties optional, or is the application of the proposed Intentional Deviation penalty to VERs mandatory?
    - What methods of forecasting used for schedules would be acceptable in the context of this alternative?
    - Would the Intentional Deviation penalty be imposed solely for deviating from the scheduling method? Alternately would the penalty only apply to deviations exceed an allowable error threshold, which the accepted scheduling method would produce?
    - How will the Persistent Deviation penalty itself be determined?
    - If a party submits a schedule developed in full compliance with the accepted methodology and it proves not to be accurate, will the party be subject to Generation Imbalance charges that include a penalty component (*i.e.*, band 2 charges that exceed the index value)?

  There may well be additional questions that seemed pertinent depending on the answer to those listed here.

- In regard to the embedded cost calculation methodology, we are interested in continuing to discuss the concept methodology, which starts with the total system costs to determine the cost of capacity reserves. Given that BPA operates an integrated power system to meet all its obligations, examining the full range of BPA's production costs in light of providing balancing services is appropriate. However, PPC's analysis of this type of methodological change is in its very early stages and we do not have specific recommendation at the time.

- We remain interested in discussing BPA's methodology for calculating the variable costs components of the embedded costs and whether changes could be made to the methodology to more accurately represent the costs of energy shift, system wear and other costs created by making capacity reserves available.

Please feel free to contact PPC staff if you have questions about the comments. We look forward to continuing discussions with you prior to your development of your initial proposal.

Sincerely,

Nancy Baker
Senior Policy Analyst

cc: R. Scott Corwin, Executive Director
PPC Executive Committee
PPC Rates and Contracts Committee