

June 3, 2016

Powerex Comments on BP-18 Southern Intertie Rate

Powerex appreciates the opportunity to provide these comments to the May 24, 2016 BP-18 Transmission Rate Case Workshop.¹ Specifically, Powerex provides these comments regarding Staff's leanings on the Southern Intertie rate for Hourly Non-Firm (HNF) service.

Powerex reiterates its appreciation for Staff's thorough and detailed efforts to develop an IS HNF rate methodology that reflects the unique circumstances on the Southern Intertie. Powerex strongly supports Staff's leanings regarding the IS HNF rate methodology. Powerex also supports Staff's leanings regarding the rates for Hourly Firm service and for SCD.

Powerex believes that the revised IS HNF rate methodology can be highly effective in addressing seams issues on the Southern Intertie, which have permitted Non-Firm service to flow ahead of Firm service, undermining the incentives to invest in Long Term Firm service. To ensure this solution is effective, however, it is vital to address two key rate design "gaps" that, if not addressed, would continue to allow a customer to "step ahead" of Firm service, while circumventing the higher rate. Specifically, Powerex urges Bonneville to:

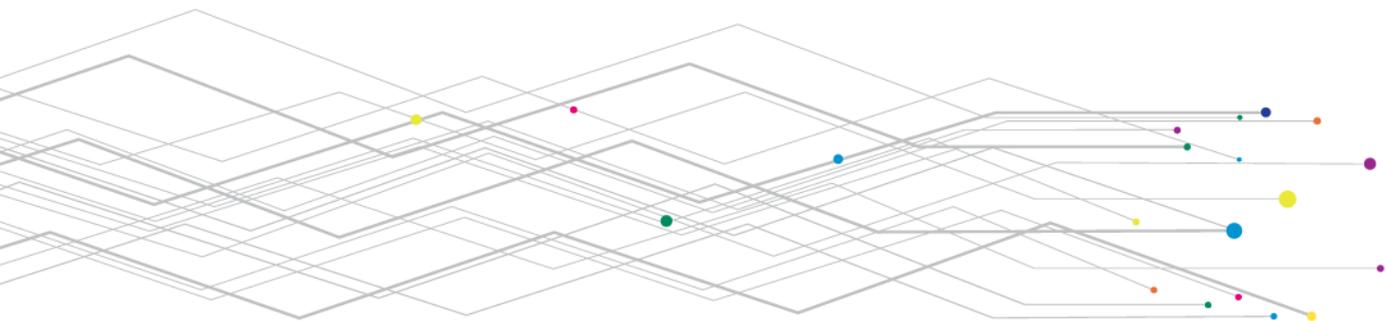
1. Ensure Daily Non-Firm service is not offered on the basis of unscheduled Firm reservations, either by delaying the release of unscheduled Firm capacity or by requiring Daily Non-Firm service to be requested no later than 2 p.m. of the day prior to delivery, consistent with other OATT transmission providers on the Southern Interties.
2. Ensure that transmission customers using 1-NS service pay the revised HNF rate, by charging the difference between the HNF rate and a *pro rata* credit for the original Short Term Firm service being re-directed.

Powerex is mindful that the above recommendations are not directly rate issues. However, the effectiveness of the revised IS HNF rate methodology depends critically on this rate not being bypassed through alternative services offered by Bonneville. Powerex therefore believes it is both appropriate and advisable to ensure non-rate measures support and reinforce the rate measures being developed in the BP-18 rate workshops.

Powerex strongly supports Staff's leanings regarding the IS HNF rate

Powerex believes that Bonneville Staff have undertaken a diligent examination of the issues surrounding the appropriate rate design for HNF service on the Southern Intertie. Staff's leanings are well reasoned

¹ These comments refer to Bonneville Staff's presentation at the workshop, available at https://www.bpa.gov/Finance/RateCases/BP-18/Meetings/BP-18_TxRateCaseWorkshop_20160524_updated.pdf



and supported by objective analysis. Powerex therefore strongly supports Staff's leanings regarding the IS HNF rate design details. Specifically:

- Powerex supports Staff's leaning to use 5 days per week and 5 hours per day in the IS HNF rate calculation (slide 6). While use of a lower number is also supported by both data and the evolving nature of CAISO's markets, Powerex believes Staff's leanings represent a balanced proposal and an appropriate starting point for the revised rate. It is important to note, however, that this represents an *average* number of hours, but this does not mean that each day will have precisely five high-value hours, or that high-value hours will never occur on weekends. For this reason, the average number of hours is important for determining the rate, but that rate should apply even during days (or weeks) experiencing a different actual number of hours of use.
- Powerex supports Staff's leaning to not implement different IS HNF rates for on-peak or off-peak periods, or different seasons (slide 11).
- Powerex supports Staff's leaning to maintain the same IS HNF rate for South-to-North and North-to-South service (slide 10).
- Powerex supports Staff's leaning to explore the use of discounting in the South-to-North direction, but not to apply the discount for North-to-South service (slide 10).

Application of Staff's leanings would result in a rate of approximately \$11/MWh for Hourly Non-Firm service on the Southern Intertie. Powerex believes this rate will be highly effective in discouraging customers from relying on the Southern Intertie seams issues to flow on "unused" Firm capacity ahead of transmission customers investing in Long Term Firm service.

In addition, Powerex supports many of Staff's leanings on other rate design matters related to the IS HNF rate:

- Powerex supports Staff's leaning to apply the same rate to Hourly Firm and Hourly Non-Firm service on the Southern Intertie (slide 8).
- Powerex supports Staff's leaning to not determine the rate for Scheduling, System Control and Dispatch Service (SCD) differently for the Southern Intertie (slide 9).

Effectiveness of the revised HNF rate will be undermined if rate design "gaps" are not closed

Bonneville Staff expressed concern that the revised IS HNF rate not be undermined or circumvented through the clever use of other transmission service products. For instance, Staff appears to have explicitly considered the possibility that a transmission customer could purchase discounted service in the South-to-North direction and attempt to re-direct the reservation in a North-to-South direction, thereby acquiring HNF service in the North-to-South direction at a lower rate than the revised HNF rate. (Slide 10) To prevent such a strategy from bypassing the non-discounted rate for original IS HNF service in the North-to-South direction, Staff clarified that the discount would *not* apply to service that is re-directed in this manner.

Powerex fully endorses the general concern expressed by Staff, and the need to ensure that the revised IS HNF rate is not bypassed. Increasing the IS HNF rate is critical to ensuring that transmission customers cannot "step ahead" of Firm customers at a low cost. But if there continue to be other low-cost ways for transmission customers to "step ahead" of Firm customers, then the priority of Firm service will continue to be undermined and Bonneville will not have achieved its objective of encouraging continued investment in Long Term Firm service on the Southern Intertie. Staff and stakeholders have worked carefully and thoroughly over the past year (or longer) to craft a rate solution that begins to address the

seams issues identified on the Southern Intertie. It would be truly regrettable if this solution were rendered ineffective through “gaps” in the design of other Southern Intertie rates.

These “gaps” can be closed by ensuring that the proposed rate of approximately \$11/MWh applies to all transmission service provided on the basis of “unused” Firm reservations.

The primary transmission service that is offered based on unscheduled Firm capacity is Hourly Non-Firm service; use of IS HNF service is directly discouraged by the proposed rate change. But there are two other ways for a transmission customer to obtain service based on unscheduled Firm reservations:

1. by reserving Daily Non-Firm service, and
2. by reserving Short Term Firm service in the South-to-North direction and re-directing that service North-to-South as hourly non-firm secondary (1-NS) service.

The higher rate must also apply when these products are used to flow on unscheduled Firm capacity.

Closing the “gap” for Daily Non-Firm service in the North-to-South direction

A transmission customer can flow on unscheduled Firm reservations either by reserving Hourly Non-Firm service or Daily Non-Firm service on the Southern Intertie after 10 p.m. of the day prior to flow. Under Bonneville’s current practices, unscheduled Firm reservations are added both to the ATC for Hourly Non-Firm service as well as to the ATC for Daily Non-Firm service. In order to discourage the use of Daily Non-Firm service to flow ahead of Firm service, either the rate for Daily Non-Firm service must increase (to eliminate the ability to acquire unscheduled Firm service at a cost savings to the new HNF rate) or Daily Non-Firm service must not be offered on the basis of unscheduled Firm reservations.²

Staff’s leaning is to not change the methodology for calculating the Daily Block 1 rate. Powerex does not necessarily oppose leaving the Daily Block 1 rate methodology unchanged, but this makes it critical that unscheduled Firm reservations *not* increase the amount of Daily Non-Firm service that is offered on the Southern Intertie. In other words, unscheduled Firm service would be available only as HNF service. Two possible ways to achieve this goal are:

1. Delay the release of unscheduled Firm reservations as Non-Firm service; or
2. Require Daily Non-Firm service to be reserved no later than, say, 2 p.m. of the day prior to flow.

A later release of unscheduled Firm reservations as Non-Firm service is under discussion in the related workshops on non-rate measures. For instance, releasing unscheduled Firm reservations as non-firm service on a one-hour-at-a-time basis, at 90 minutes prior to the start of each delivery hour, would eliminate the ability to acquire unscheduled Firm capacity as Daily Non-Firm service.

Alternatively, transmission customers requesting Daily Non-Firm service could be required to do so prior to the current 10 p.m. release of unscheduled Firm as non-firm service. Currently, Daily Non-Firm service can be reserved all the way up to the start of the delivery day. Many other transmission service providers

² At the May 24 workshop, a participant suggested that Bonneville Staff consider applying the Daily Block 1 rate as a cap on the total cost that a customer would pay for HNF service on any given day. Powerex opposes this suggestion, as it would severely undermine the effectiveness of the HNF rate proposal. Assuming that the Daily Block 1 rate methodology is not changed, the cost of Daily Block 1 service will be reached after five hours of HNF service at the revised rate. Using the Daily Block 1 rate as a cap on the daily charges for HNF service would effectively make HNF service *free* after the fifth hour of use. Therefore, instead of achieving a rate increase for HNF service, this suggestion would lead to a rate decrease for every day with a higher-than-average number of “high value” hours. This is entirely contrary to the purpose of pursuing a HNF rate change, and does not support Bonneville’s objective of encouraging continued investment in Long-Term Firm service on the Southern Intertie.

apply an earlier deadline, however. For instance, all OATT providers on the southern segment of the California-Oregon Intertie (*i.e.*, TANC, SMUD and WASN) require Daily Non-Firm service to be requested by 2 p.m. of the day prior to flow.³ Similarly, LADWP—which provides transmission service on the southern segment of the Pacific DC Intertie under an OATT framework—and requires Daily Non-Firm service to be requested by noon of the preschedule day (which may be up to four days prior to the delivery day).⁴ Bonneville could apply the same reservation request deadline for Daily Non-Firm service that is applied by other OATT transmission service providers on the Southern Intertie, thereby eliminating the potential for Daily Non-Firm service to be used as a means to bypass the revised HNF rate when acquiring unscheduled Firm service.

Closing the “gap” for re-direct of South-to-North service

A transmission customer could also obtain service based on unscheduled Firm reservations through the use of Non-Firm re-direct over secondary points (1-NS). All Firm service, regardless of duration, can be re-directed to alternate delivery points. This makes it possible for a transmission customer to reserve Short Term Firm service South-to-North (which is often available) and then re-direct that service on a Non-Firm basis in the North-to-South direction. Since unscheduled Firm North-to-South service is added to Non-Firm ATC, the Southern Intertie seams issues—which permit Non-Firm service to flow ahead of Firm service—can be exploited through a strategy to acquire lower cost Short Term Firm service in the South-to-North direction and then redirect it as 1-NS service in the North-to-South direction.

Bonneville Staff already recognize this possibility in Slide 10, in the context of limiting discounting only to service in the South-to-North direction. But the issue arises *anytime* that reserving Short Term Firm service South-to-North offers a lower-cost way of accessing unscheduled Firm reservations in the North-to-South direction than paying the revised IS HNF rate. Powerex therefore recommends that Bonneville charge transmission customers using 1-NS in the North-to-South direction the difference between (1) the revised IS HNF rate; and (2) a *pro rata* credit of the rate paid for the original Short Term Firm service in the South-to-North direction. This should apply to Short Term Firm South-to-North service of any duration (*i.e.*, Hourly, Daily, or Monthly). This will foreclose the opportunity for a customer to acquire Short Term Firm South-to-North service for the purpose of lowering the rate they face for unscheduled Firm service in the North-to-South direction. In this manner, Bonneville can ensure that all transmission customers flowing North-to-South on unscheduled Firm service pay the revised HNF rate.

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³ The relevant business practices can be found at:

http://www.oasis.oati.com/woa/docs/SMD1/SMD1docs/SMD1_Business_Practices_v12_03252014.pdf at 7 (SMUD); http://www.oasis.oati.com/woa/docs/TANC/TANCdocs/Clean_Final_Business_Practices_May-2015-v2.pdf at 6 (TANC); and http://www.oasis.oati.com/woa/docs/WASN/WASNdocs/WASN_BP-009_OASIS_2015_0722_v10.pdf at 17 (WASN).

⁴ See LADWP’s general business practices, available at:

http://www.oasis.oati.com/woa/docs/LDWP/LDWPdocs/Products_Offerings_and_General_Business_Practices.pdf at 6.