

Powerex Comments on Bonneville White Paper: Background/Context and Description of Alternatives

Powerex appreciates the opportunity to provide these initial comments on Bonneville's November 17, 2015 draft Regional White Paper. Specifically, Powerex's comments respond to Bonneville's request for stakeholder input regarding the background section and the description—but not the merits—of the proposed alternatives. Though not expressly requested by Bonneville, Powerex also supports Bonneville's proposal to focus specifically on the seams issue between Bonneville and CAISO, as distinct from the other two seams issues that have been identified (*i.e.*, curtailment practices between Bonneville and downstream OATT providers, and Bonneville Firm rights exceeding transmission capability when the Southern Intertie is de-rated). Powerex appreciates Bonneville's commitment to address the other two seams issues through a separate stakeholder process.

Powerex sincerely appreciates the effort expended by Bonneville to examine the seams issues experienced with CAISO on the Southern Intertie. As is evident from the explanation of the seams issues in the White Paper, Bonneville staff has come to very similar conclusions as Powerex and numerous other entities in the region, as reflected in customer comments, the analysis of FTI Consulting, and the analysis discussed by BPA Power Services staff during the BP-16 rate workshops.

The commitment of Bonneville staff to understanding the issues affecting the Southern Intertie is reflected in the White Paper's clear articulation of the specific rules and practices that interact for transmission customers seeking to deliver energy on the Southern Intertie:

- The White Paper correctly recognizes that CAISO's market design "...allows customers without long-term firm [BPA transmission reservations] to bid into the CAISO DAM using hourly non-firm [BPA service] because 1) customers are not required to have acquired transmission to submit a bid, and 2) the CAISO grants awards economically without consideration to the OATT priority of the transmission which will deliver the energy."¹
- The White Paper identifies how Bonneville's release of unused Firm transmission reservations as Hourly Non-Firm service interacts with CAISO's rules: "Because BPA sells unused long-term capacity as hourly non-firm at relatively low costs, customers without long-term capacity are able to bid into the CAISO DAM and purchase HNF transmission if they are awarded."²
- Finally, the White Paper concludes that "HNF customers are largely insulated from any additional risk of relying on a short term non-firm product [to deliver energy to CAISO]."³

Powerex concurs with the White Paper's description of the mechanism through which the value of Bonneville Long-Term Firm transmission service on the Southern Intertie has lost a meaningful product difference over Non-Firm service. Powerex also agrees with the White Paper's statements regarding the consequences of this loss of product quality:

- "The ability to bid into the CAISO Day Ahead Market (DAM) without transmission and procure hourly non-firm prior to the tagging deadline has the potential to devalue long-term rights in two ways. First, it increases the probability that a customer with long-term rights will not be able to

¹ White Paper at 4.

² White Paper at 3.

³ White Paper at 5.

fully utilize their transmission rights. Second, it has the potential to decrease the value of sales into the Southern Intertie Scheduling Points.”⁴

- It is evident from additional data provided by Bonneville that Long-Term Firm reservations have primarily been de-valued through the second of the mechanisms identified by Bonneville (*i.e.*, through reduced value of sales to CAISO, rather than through those sales being prevented outright).
- The White Paper also identifies inflated CAISO congestion charges as a primary consequence of the loss of product quality distinction between Bonneville Firm and Non-Firm transmission service: “When the amount of bids into a Southern Intertie Scheduling Point exceed the scheduling limit, the marginal cost of congestion at the [CAISO] Scheduling Point increases.”⁵

The White Paper also summarizes Bonneville’s observations regarding a reduction in transmission customer demand for Long-Term Firm reservations on the Southern Intertie, and the reasons behind these reductions:

- “BPA has experienced some customers not rolling over their long-term Southern Intertie service.”⁶
- “... some customers have expressed reluctance to execute future rollovers.”⁷
- Some customers have “removed requests” from the long-term queue.⁸
- Transmission customers have indicated this is “due to a perceived reduction in the value of long-term firm rights.”⁹

Powerex strongly supports each of these items and conclusions in the draft White Paper. The draft White Paper provides a thorough and complete discussion of the different rules that apply to deliveries over the Southern Intertie, how those rules interact to undermine the product quality attributes that Firm service is supposed to have over Non-Firm service and, ultimately, how this is being manifested in a reduction in demand to commit to Bonneville Long-Term Firm service on the Southern Intertie.

Powerex recommends that Bonneville consider expanding the Background section with a discussion of the potential impact on Bonneville’s different stakeholders of a sustained reduction in demand for Long-Term Firm transmission service on the Southern Intertie. This could include a description of how the burden of recovering the approximately \$100 million annual revenue requirement for the Southern Intertie would shift to sales of short-term service, the utilization concerns that arise if use of the Southern Intertie incurs variable charges (as opposed to largely sunk transmission charges under Long-Term service), and the potential for and consequences of under-recovery of the Southern Intertie revenue requirement. Adding such a discussion to the Background section would help complete the White Paper’s examination of the seams issues by clarifying for all readers why it is vital that Bonneville address the problem. This will also help dispel any misperception that Bonneville is addressing the seams issues on the Southern Intertie only to support the investments made by its existing transmission customers.

⁴ White Paper at 2.

⁵ White Paper at 2.

⁶ White Paper at 2.

⁷ White Paper at 2.

⁸ White Paper at 2.

⁹ White Paper at 2.

Finally, Powerex suggests a minor re-wording of one passage of the White Paper. Specifically, the first sentence of the sub-section entitled “HNF Use in the CAISO” appears to describe a chronology of specific CAISO rule changes that may not be entirely accurate, nor is it strictly necessary for the discussion of CAISO’s *current* rules. Instead, Powerex suggests initiating this sub-section along the following lines:

CAISO’s implementation of the Market Redesign and Technology Upgrade (MRTU) in 2009 made CAISO the central counterparty for all transactions using CAISO’s share of the Southern Intertie. CAISO has repeatedly informed customers that they are not required to submit a day-ahead e-Tag for awards in CAISO’s day-ahead market. The combination of CAISO as the single buyer of energy on its share of the Southern Intertie, together with the lack of a day-ahead e-Tag requirement for day-ahead market awards, allows customers without long-term firm ... *[continue as per draft text]*

Powerex looks forward to continued participation in Bonneville’s Southern Intertie workshops, and once again appreciates the concerted efforts of its staff to develop effective solutions to the seams issues that have been identified.