

## **ICNU Comments on BP-18 August 24, 2016 Generation Inputs Workshop and DERBS Rate Design**

The Industrial Customers of Northwest Utilities (“ICNU”) appreciates the opportunity to submit comments on the August 24, 2016 Generation Inputs Workshop of the Bonneville Power Administration (“BPA”). ICNU is a non-profit trade association representing large energy users in the Pacific Northwest, many of which take electric service from BPA’s customers. In addition, some ICNU members operate industrial facilities with cogeneration resources that incur balancing service charges from BPA. Accordingly, ICNU is interested in the Dispatchable Energy Resource Balancing Service (“DERBS”) rate options presented by BPA in the Generation Inputs Workshop.

As an initial matter, ICNU appreciates that BPA has been taking a close look at rate design alternatives for the DERBS product in advance of the BP-18 rate case. ICNU understands that a large amount of analytical effort is required in developing the various alternatives. ICNU is also very interested in exploring several of the alternatives discussed at the August 24<sup>th</sup> workshop in the BP-18 rate case, and therefore, is appreciative of the time spent by Staff developing those alternatives, as well as time spent working with ICNU and other parties to assist in our understanding of the DERBS rates.

As discussed in prior comments, ICNU has a number of conceptual concerns with the application of DERBS charges to facilities that operate cogeneration equipment. These concerns particularly apply to facilities with cogeneration equipment that are served by the federal hydro system. While it is not necessarily clear from the Tiered Rates Methodology, Tier 1 loads presumably already pay for sub-hourly imbalance services as a component of their load service. ICNU has been concerned that loads with cogeneration equipment are required to pay additional amounts for DERBS service, even though the capacity acquired to serve those loads would seem to be sufficient to manage the net imbalance produced by the facility, taking into consideration the imbalance produced by cogeneration equipment. That is, if the capacity acquired for load service is sufficient to balance the “gross load” of an industrial facility with cogeneration, the capacity would presumably also be sufficient to balance the “net load” of an industrial facility with cogeneration.

In the BP-18 rate case, however, ICNU is also interested in exploring other potential rate design alternatives that align more closely with principles of cost causation and provide greater certainty, for both BPA and its customers, regarding the revenues or costs associated with DERBS. Specifically, for the reasons discussed below, ICNU is initially supportive of BPA’s proposal to move to a nameplate billing determinant for DERBS. As presented in the Generation Inputs Workshop, ICNU’s general preference is to for BPA to adopt Alternative #4, although ICNU would be amenable to Alternative #5.

In contrast to the current 5-minute interval billing determinant, there are a number of reasons why ICNU is initially supportive of a nameplate billing determinant for DERBS. First, the use of a nameplate billing determinant would be simpler than the existing 5-minute billing determinants. As ICNU understands, the 5-minute billing determinants are prone to errors, which could be potentially avoided by adopting a more straight-forward billing approach. This simplicity would not just benefit BPA, but would also benefit customers, who have historically struggled to audit and review the billing under the existing DERBS structure.

Second, a nameplate billing determinant provides great certainty for customers regarding the cost of operating their generators. Under the current framework, the DERBS charge has the potential to vary materially month to month, which makes it difficult for generators to budget the cost of acquiring this service. As ICNU understands, this lack of certainty has also proved to be problematic for BPA, as it has resulted in under-recovery of DERBS rates in the past, due to difficulty in forecasting balancing service sales using a 5-minute billing determinant.

Third, a nameplate billing determinant may be more consistent with the ratemaking principles of cost causation than the use of a 5-minute billing determinant. ICNU's understanding is that many DERBS customers improved their scheduling practices after the DERBS charge was implemented. Notwithstanding, these improved scheduling practices did not necessarily result in a reduction in the amount of reserves BPA requires to provide balancing services to the generators in the DERBS class. Improved scheduling performance has not necessarily caused costs to decline, and accordingly, the 5-minute scheduling data used as the current billing determinant may not be the best indication of which DERBS customers are causing BPA to carry balancing reserves.

In contrast, a nameplate approach may better align with the principles of cost causation, in recognition of the fact that, as a result of applying a 99.7% predictive level to calculate the level of reserves, large events in the tail end of the distribution are the driver of the need to hold reserves. Accordingly, the contribution of any given customer to the need to hold reserves probably better corresponds to the nameplate of a facility, rather than its hour-to-hour scheduling practices. In addition, application of a nameplate charge would be more consistent with the application of the DERBS charge as a cost of capacity.

While the prior billing determinant may have provided a greater incentive for customers to be on their schedules, to the extent that a customer deviates from its schedule in any given hour, such deviation may be harmful or may be beneficial to the system. Unlike an energy imbalance market, which uses sub-hourly price signals to address when imbalance is helpful or harmful to the system, there is not necessarily a direct connection between the scheduling error of a customer in any given 5-minute interval and the amount of reserve capacity that BPA requires to balance the DERBS customers class. Thus, while it is important for customers to

have sound scheduling practices, the 5-minute interval data may not be the best indication of the balancing cost attributable to any particular customer.

As noted, ICNU had looked forward to addressing this issue, as well as its conceptual issues with the DERBS charges, generally, in the BP-18 rate case. While ICNU understands that there is a potential settlement discussion ongoing, it hopes that those settlement discussions will not prevent BPA from adopting what initially appears to ICNU to be a fairer rate design.

Finally, with respect to the issue of having access to customer specific information, ICNU appreciates all of the work that BPA Staff has undertaken to work with the customers in order to provide ICNU with access to customer specific information in this process. While it would be convenient for the process of disclosing customer specific information to be more streamlined, it is ultimately up to the specific customers, not ICNU, to determine how their confidential billing information is to be used and distributed. One potential solution to make it simpler to disclose this sort of information in the future is for certain customers to execute a blanket letter of agency, which would allow BPA to discuss customer specific billing information with the consultants and attorneys of ICNU.

ICNU looks forward to the discussion of these issues surrounding DERBS in future rate case and settlement workshops, and ICNU looks forward to working with BPA Staff to evaluate the DERBS rate in the future.