

# **Bonneville Power Administration's Draft Oversupply Management Protocol**

## ***A Narrative Explanation***

February 2012



## **Oversupply Management Protocol**

### **A. Background**

The Bonneville Power Administration (“BPA”) operates the Federal Columbia River Power System (“FCRPS”) as an integrated hydroelectric system, in which the operation of each dam depends on operation of all others and water conditions in the Columbia River drainage basin affect all of the FCRPS dams. The Federal Columbia River Transmission System was developed simultaneously with hydroelectric development. As BPA described in detail in BPA’s Interim Environmental Redispatch and Negative Pricing Policies Record of Decision (“ER ROD”),<sup>1</sup> during periods of high water flows BPA and the Federal agencies that operate the dams take reasonable actions to protect endangered fish and other aquatic species by maintaining Total Dissolved Gas (“TDG”) levels at or below the levels set by states under the Clean Water Act and adopted in the Biological Opinion issued by the National Oceanic and Atmospheric Administration. TDG levels increase when water is spilled over spillways instead of run through the turbines to generate electricity. During high-flow events that threaten to cause TDG levels to exceed state water-quality standards, BPA tries to avoid spill by running water through generators to lower the amount of spill and reduce the TDG level.

Before 2010, BPA was able to mitigate high-flow events by offering low-cost or free hydro power, which was generally sufficient to incent all thermal generators in BPA’s balancing authority area to shut down and allow their loads to be served with hydro power. The increase in wind generation in the Pacific Northwest, however, has changed this economic model. Because wind generators receive state and Federal

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<sup>1</sup> BPA’s Interim Environmental Redispatch and Negative Pricing Policies Record of Decision (May 2011) (“ER ROD”) at 5-8.

benefits based on the amount of power they produce, free Federal hydro power is not enough to incent them to shut down.<sup>2</sup>

In June 2010 BPA faced a high-flow event in which BPA used all reasonable tools at its disposal to mitigate rising TDG levels.<sup>3</sup> BPA offered free power, reduced the generation at Columbia Generating Station nuclear plant to the lowest level possible without risking its ability to return to full power, and made a number of operational adjustments to manage TDG levels and protect endangered fish. The June 2010 high-flow event was the first time BPA had faced a high-flow event with a significant amount of wind generation on its system. During the event the wind generators continued to operate rather than respond to BPA's pricing incentives. Although BPA was able to meet TDG limits, that experience demonstrated that the introduction of a large wind fleet had changed the landscape for BPA's management of excess water.

Following the June 2010 event BPA performed a lessons learned exercise and began holding workshops with regional stakeholders. One of the primary topics of these discussions was BPA's negative pricing policy, under which BPA was unwilling to pay negative market prices to displace other generators during high-water events. This policy was based on the belief that BPA's environmental obligation during high-water events should not be an opportunity for other generators to recover more than their costs and the concern that there would be no limitation on BPA's potential cost exposure once it entered a negative market. Regional parties suggested several possible solutions and BPA investigated the viability of all suggestions.

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<sup>2</sup> *Id.* 8-9

<sup>3</sup> *Id.* 9-11.

BPA issued a draft ROD on February 18, 2011, detailing its proposed environmental redispatch and negative pricing policies. BPA received 41 comments on the draft ROD, some supporting and some opposing BPA's proposals. After considering all comments BPA issued the final ROD, which set out BPA's interim environmental redispatch plan for managing TDG levels in high-water events and described BPA's negative pricing policy. BPA committed to take a number of operational and marketing actions to mitigate TDG levels, including offering power at zero cost, before implementing environmental redispatch. If these actions were insufficient, BPA would implement environmental redispatch. It would issue dispatcher orders that required thermal generators to reduce their generation to minimum generation levels. If that was insufficient to manage TDG levels, dispatcher orders would require wind generators to reduce their generation levels to zero, or as much as necessary. The generators' loads would be served with Federal hydro generation at no charge.

When the ROD was issued, the Northwest was experiencing an extremely wet spring. The runoff was the fourth highest since 1929, with the Columbia River at flood stages for much of May and June. TDG levels exceeded the limit at several projects, and BPA tried to avoid spill by running water through the generators to mitigate the potential impacts of the high TDG levels on fish. During most of the heavy load hours BPA was able to find loads for all of its available generation through conventional marketing methods. During many light load hours, however, BPA had to secure additional load to mitigate TDG by displacing all or a portion of the wind in its Balancing Authority under the interim Environmental Redispatch and Negative Pricing Policies.

During the 2011 high-flow event BPA redispatched approximately 97,000 MWh of wind generation (5.4% of the 1,760,905 MWh of wind generation produced between May 18 and July 18, 2011). Over the same period, Bonneville sold over 750,000 MWh of energy for less than the cost of the associated transmission. Of this amount approximately 250,000 MWh were sold at a price of zero, and BPA spilled an estimated 12,400,000 MWh worth of water in addition to the normal spill for fish.<sup>4</sup>

On June 13, 2011, a group of BPA transmission customers that own generation filed a complaint with the Federal Energy Regulatory Commission (“Commission”) under Section 211A of the Federal Power Act, alleging that BPA’s Interim Environmental Redispatch and Negative Pricing Policies failed to provide comparable transmission service.<sup>5</sup> On July 19, 2011, BPA filed an answer to the complaint, and various other parties intervened and filed comments. After the complaint was filed, BPA and a group of parties, including public power customers, investor-owned utilities and wind generators, began to discuss ways to resolve the complaint.

On December 7, 2011, while the parties were having compromise discussions, the Commission issued a final order rejecting BPA’s Environmental Redispatch Policy on the basis that it does not provide comparable transmission service.<sup>6</sup> The Commission found that BPA’s Environmental Redispatch Policy “impinges on the transmission service obtained by non-Federal generation, such as generation facilities owned by Petitioners, in order to deliver Federal hydropower from [BPA’s] system.”<sup>7</sup> The

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<sup>4</sup> BPA Answer in Docket EL11-44-000; Attachment D, Spain Affidavit at P 29; Connolly Affidavit at P 61.

<sup>5</sup> Many of these same Transmission Customers, as well as other Transmission Customers, filed appeals with the Ninth Circuit Court of Appeals challenging the ROD. A briefing schedule was set and the Administrative Record was filed, but those proceedings have been stayed in light of the Commission’s order.

<sup>6</sup> Order at P62.

<sup>7</sup> *Id.*

Commission's finding was based in part on the "business, commercial, and economic impacts associated with [BPA's] Environmental Redispatch Policy."<sup>8</sup> The Commission ordered BPA to file tariff provisions addressing the comparability concerns raised in the proceeding.<sup>9</sup>

On January 6, 2012, BPA requested rehearing and clarification of the Commission's order. In the meantime the Commission's order is in effect and BPA will comply with the order as BPA understands it. Based largely on the compromise discussions, BPA proposes to amend its tariff to include an Oversupply Management Protocol as Attachment P and to propose the cost allocation methodology discussed below.

## **B. Oversupply Management Protocol**

### **1. Attachment P**

In response to the Commission's order, BPA proposes to add Attachment P to its tariff and interconnection agreement template, which will provide for an Oversupply Management Protocol. This protocol is intended to allow BPA to displace non-federal generation in BPA's balancing authority area<sup>10</sup> in order to mitigate TDG levels at the lowest cost to the region, while compensating the displaced generators.

The term of Attachment P shall be from March 6, 2012 to December 31, 2015. As discussed below, however, settlement discussions have centered on both a method of compensation and a proper allocation of those costs. BPA will establish a cost allocation

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<sup>8</sup> *Id.* at P63.

<sup>9</sup> BPA has been working with regional parties for more than a year to define a regionally developed open access transmission tariff. Our expectation is that this could be wrapped up and filed with the Commission by the end of March, but we intend to honor the process to assure issues raised by regional parties are provided adequate time to develop regional solutions. We are hopeful that once the few remaining issues are worked out, the tariff will enjoy widespread regional support from customers and stakeholders

<sup>10</sup> BPA's tariff still uses the term "control area" rather than "balancing authority area." These terms have the same meaning and are interchangeable.

methodology in a rate case under section 7(i) of the Pacific Northwest Electric Power Planning and Conservation Act. If the Commission does not approve the cost allocation methodology BPA establishes, Attachment P will no longer have any force or effect. In such event BPA will facilitate a discussion of how to handle oversupply events.

Under the Oversupply Management Protocol, all non-federal Transmission Customers with generation in BPA's balancing authority area and non-federal generators in BPA's balancing authority area (collectively "generators") will provide BPA Transmission Services with their costs of displacement each year so that BPA can annually construct a Least-Cost Displacement Cost Curve. BPA will displace generation under the cost curve only when the total dissolved gas levels measured by the U.S. Army Corps of Engineers exceed Oregon and Washington water quality standards at projects that are spilling past unloaded turbines.

Because proposed Attachment P will not be filed with the Commission until March 6, for 2012 generators must submit their costs of displacement by April 1. For subsequent years, generators must submit their costs of displacement by February 1. As discussed below, this will allow time for a third-party audit of selected generators' submitted costs before BPA constructs the cost curve for the year. Using the cost curve, BPA will displace generation in its balancing authority area starting with the lowest-cost resource, and continuing up the cost curve to the most expensive resource until the necessary relief is achieved. BPA will compensate displaced generators according to the costs of displacement that they submit to BPA, or the audited costs if they differ from the costs submitted by that generator.

Generators will submit their costs in terms of a \$/MWh number. If a generator does not submit its costs of displacement, its costs of displacement will be deemed to be \$0/MWh. To determine compensation, for each hour in which BPA implements Attachment P BPA will multiply the \$/MWh number by the difference in MWhs between scheduled generation and the generation level that BPA dispatchers directed the generator to achieve.

BPA recognizes that wind generators have various economic models that could include the sale of RECs unbundled from the sale of metered generation, the sale of RECs bundled with metered generation, or have no deal in place at all. Attachment P captures the variability in different generators' economic models. It allows affected generators to include as costs of displacement the value of lost PTCs, if any, and any amounts that the generator would have been entitled to for generating and producing RECs if not for the displacement.

Attachment P recognizes two possibilities for unbundled RECs. A generator could already have a contract in place for the sale of all or a portion of the RECs produced by a facility. For those contracts, the generator will be allowed to claim the amount it was not paid due to its failure to deliver RECs and any penalty for its failure to deliver RECs.

Alternatively, a generator may not have a contract for sale of its RECs, and may be selling its RECs on the market or still seeking contractual arrangements. In that case, BPA will determine a market value for the RECs that are not produced due to the displacement, based on the average of the bid offer price of three brokerage quotes, or as many as BPA can obtain, for RECs associated with electricity generated by a comparable

facility. If BPA is unable to obtain any brokerage quotes, BPA shall value RECs at \$10/MWH.

For 2012, BPA will post the market value for RECs for each facility by March 15, based on quotes obtained between February 1 and March 15. For subsequent years, BPA will post the market value for RECs for each facility by January 15, based on quotes obtained from December 1 to January 15.

BPA shall treat all information submitted by generators to BPA under Attachment P as confidential, and will not use the information for any purposes other than to implement Attachment P. In addition, BPA will not share the information with BPA's Marketing Function Employees, consistent with BPA's Standards of Conduct. BPA understands that this information is sensitive, and will treat it as such.

BPA will randomly select ten generators each year for audit by a third party. BPA will select an audit firm that has electric utility experience and that is ranked in the top five nationally based on annual billings. Each generator must demonstrate with supporting evidence that the costs of displacement submitted are its actual costs. For 2012, since the audit will take place after costs are submitted, compensation to audited generators will be subject to a true-up based on any differences between audited and submitted costs. For subsequent years, the audit will occur prior to construction of the cost curve, so audited costs that differ from submitted costs will be used for the cost curve for those generators selected for audit; otherwise, submitted costs will be used.

In order to incent generators to submit accurate costs, a penalty equal to the difference between the audited and submitted costs, multiplied by a factor of 1,000, will apply to any submitted costs that exceed the audited costs by more than \$5/MWH. Any

penalty revenues will offset future costs of displacement. Disputes that arise over a generator's costs of displacement after the third-party audit will be handled through the dispute resolution procedures under section 12 of BPA's tariff. In addition, generators should be aware that false or fraudulent claims may be subject to the False Claims Act, 37 U.S.C. § 3729, and other applicable law.

BPA recognizes that generators have based their economic models on the risks known when the agreements were made. For generators with a commercial operation date before March 6, 2012, which have contracts for the bundled sale and purchase of both RECs and metered generation, BPA will pay displaced generators the sales revenues the purchaser did not pay because of the displacement, in addition to any penalty that was incurred under the contract due to the generator's failure to generate. However, if BPA's proposed Attachment P is approved by the Commission, future generators will be on notice that they are subject to displacement so that BPA may take reasonable actions to protect endangered fish and other aquatic species by maintaining TDG levels at or below the levels set by states under the Clean Water Act. Generators can structure their agreements to account for the risk of displacement, mitigating the economic harm. Accordingly, BPA proposes to limit the compensation for generators that have a commercial operation date after March 6, 2012.

BPA proposes two options for these generators. They may choose to be redispached without compensation, in which case they will not share in the costs under BPA's proposed cost allocation to wind generators, as discussed below. Alternatively, they may choose partial compensation, in which case they will share in the costs under BPA's proposed cost allocation. BPA is currently considering some level of

compensation under the second option ranging from 0% to 50% of the economic loss incurred for PTCs and RECs. We are seeking comments on what level of compensation is appropriate for new generators that have notice of BPA's proposed tariff provisions.

Attachment P also provides for BPA to establish business practices for communicating its implementation of the Oversupply Management Protocol. The communication protocols will likely be similar to those used under last year's Environmental Redispatch policy, and will be developed with public comment. BPA is planning to convene a meeting of operational representatives from the region's utilities and wind generators in the next few weeks to review last spring's operation and to find ways to ensure that implementation of the protocol results in scheduling and dispatch responses that will support a reliable and least-cost management of oversupply.

In addition, Attachment P provides for generators to establish minimum generation levels and maximum ramp rates based on reliability, safety, or other issues, according to criteria BPA sets in a business practice. Attachment P states that for reliability purposes, generators providing ancillary services (i.e. regulating reserves, load following reserves, and contingency reserves) will be allowed to continue to provide those services as the generator's sole discretion, and to designate them as part of the generator's minimum generation requirements. Attachment P also commits BPA to post on its website an annual report of the MWH of energy displaced, in addition to the costs of displacement.

Attachment P states that generators will not be charged or compensated for generation imbalance when the Oversupply Management Protocol is in effect, as the generator will be required to adjust its generation levels below its schedule to effectuate

the displacement. However, generators will remain responsible for loss return and Operating Reserve obligations.

BPA intends to use Attachment P only as a last resort after BPA has taken all other reasonably practicable actions to mitigate TDG levels. Last year, before implementing Environmental Redispatch, BPA committed to undertaking a number of actions that effectively mitigated TDG levels.<sup>11</sup> BPA remains committed to taking all reasonable actions to reduce excess spill and mitigate TDG levels before invoking Attachment P.

In order to clarify that all generators must follow the Oversupply Management Protocol, BPA will include reference to Attachment P in Appendix C to all existing and new Large Generator Interconnection Agreements.

## **2. Compliance with the Commission's Order**

Last year, BPA determined that its Interim Environmental Redispatch and Negative Pricing Policies were a reasonable balance of BPA's environmental and statutory responsibilities and within BPA's authority under its Large Generator Interconnection Agreements with generators. However, the Commission found that BPA's Environmental Redispatch Policy fails to provide comparable transmission service and ordered BPA to balance its environmental and other statutory responsibilities with the provision of comparable transmission service on a prospective basis.<sup>12</sup> In order to comply with the Commission's order, BPA has decided to compensate generators that are displaced and experience economic harm as a result of the displacement, subject to the cost curve and to the cost allocation described in detail later in this document.

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<sup>11</sup> ER ROD at 14-15.

<sup>12</sup> Order at P65.

The Commission ordered BPA to file “tariff revisions that address the comparability concerns raised in this proceeding in a manner that provides for transmission service on terms and conditions that are comparable to those under which Bonneville provides transmission services to itself and that are not unduly discriminatory or preferential.”<sup>13</sup> The Commission further stated that BPA’s compliance filing should provide for “mutually-agreeable alternatives that provide fair and equitable solutions to address temporary over-generation during high water periods.”<sup>14</sup> The Commission also encouraged “parties to work together to solve these difficult issues.”<sup>15</sup>

BPA’s proposal, including Attachment P, complies with the Commission’s direction to provide comparable transmission service. Although BPA will be displacing the output of generators with Federal hydropower, BPA will compensate those affected. One of the Commission’s main concerns with BPA’s Environmental Redispatch Policy was the economic impacts of displacement.<sup>16</sup> BPA’s proposed Attachment P addresses the Commission’s concern by compensating displaced generators. The Commission has approved similar compensation mechanisms for transmission providers that dispatch generators for infrequent, emergency situations.<sup>17</sup>

As discussed below, in a forthcoming rate case BPA staff will propose a cost allocation methodology that equitably shares the costs of displacement among many customers. This proposal satisfies the Commission’s injunction to provide fair and

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<sup>13</sup> Order at P64.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at P34.

<sup>16</sup> *Id.* at 63.

<sup>17</sup> *See Cal. Indep. Sys. Operator Corp.*, 90 FERC ¶ 61,006 at 61,014-15 (2000) (approving compensation of generators for responding to dispatch order where calling on generators to address reliability problems is “infrequent and temporary”); *see also Texas E. Transmission Corp.*, 64 FERC ¶ 61,305 at \*78 (1993) (approving of a compensation scheme for emergency curtailments of gas supplies); *Florida Gas Transmission Co.*, 63 FERC ¶ 61,160 at \*49-50 (1993) (stating that short-term emergency curtailments should be compensated).

equitable solutions to BPA's oversupply problem, and it alleviates the concerns expressed in BPA's ER ROD regarding runaway cost exposure and undue burdens on power or transmission rates.

In addition, the Oversupply Management Protocol gives BPA the necessary tools to mitigate TDG levels at the federal hydro projects. So far, at least, BPA has been unable to identify another tool that will reasonably allow it to avoid excess spill. The actions BPA took last year before implementing environmental redispatch will be taken again as feasible, but they do not fully resolve the problem. Among current possibilities, only displacement does so.

Therefore, to address the Commission's order, BPA will again resort to displacement, only this time with compensation and allocation of the resulting costs. Use of the cost curve will ensure that displacement is as economically efficient as possible.

Although BPA will compensate generators for displacement under Attachment P, BPA will not pay negative prices outside its balancing authority area. The concern expressed last year about providing marketers and non-Federal generators opportunities to distort the market by holding out for negative prices still exists if BPA pays negative prices outside its balancing authority area.<sup>18</sup> Columbia River streamflows are public information, and parties will know when BPA must dispose of excess water. They could refuse BPA's hydro power until the market turned severely negative. BPA's cost exposure would be volatile and highly uncertain.

Attachment P provides predictable and transparent cost exposure for BPA and its customers. It contains BPA's costs at the generators' actual economic losses. If BPA offered negative prices outside its balancing authority area, it would not have this

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<sup>18</sup> ER ROD at 19.

certainty and could face substantially greater costs, which would ultimately be borne by BPA's ratepayers. As BPA stated last year, this result is inconsistent with BPA's responsibilities under its organic statutes. Moreover, paying negative prices outside BPA's balancing authority area is not necessary to provide comparable transmission service under the Commission's order.

### **C. Cost Allocation**

#### **1. Cost Causation**

The need for displacement arises because there is too much power on the system and BPA has water that must be used to generate power, but insufficient Federal load. BPA must obtain more load so that it can generate more power. Therefore, BPA must displace those generators within its balancing authority that are running at the time it is forced to dispose of the water.

As indicated in the ER ROD, BPA interconnected wind to its system pursuant to Article 4.3 of its LGIAs, which provides that a "Party shall not be deemed to be in Breach of this LGIA" if it is "required or prevented or limited in taking any action" by Applicable Laws and Regulations. BPA concluded in its ER ROD that "if BPA is prevented from continuing to provide interconnection service to a generator in order to meet its environmental and statutory responsibilities, Article 4.3 provides that such actions are not a breach of the LGIA."<sup>19</sup> However, the Commission determined that "on a prospective basis, Bonneville is required under section 4.3 of its LGIA to perform all of its obligations in accordance with applicable laws and regulations, including the

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<sup>19</sup> ER ROD at 35.

requirements set forth in this order under section 211A,”<sup>20</sup> such that it could no longer rely on its Interim Environmental Redispatch and Negative Pricing Policies.

As a consequence, displacement now creates costs. The displacement is caused by the combination of the need for additional hydroelectric generation and the non-Federal generation that is serving load at the time, that is, the wind generators. By assigning the costs to Federal power customers and wind generators, therefore, this proposed allocation aligns with cost-causation principles. In addition, the proposed allocation is consistent with the Northwest Power Act, and provides comparable rates between federal and non-federal customers.

BPA’s innovative transmission subscription policies have led to the location of nearly 4,300 megawatts of wind generation in BPA’s Balancing Authority Area. Prior to the interconnection of wind generation, BPA was able to meet its environmental responsibilities without resorting to the payment of negative prices. In the ROD, BPA stated:

Since the 1970s, BPA and other Northwest hydro producers have routinely sold surplus power produced during times of high flows at very low prices to utilities in the Northwest and California to encourage operators of coal, oil, natural gas, and other power plants to reduce the output of their plants and replace it with surplus hydropower when available. Over the years, however, a number of factors have made it increasingly difficult to manage TDG levels due to high flows. In the 1990s, the wholesale power market was deregulated. In this environment, load and resource balance is no longer managed by utilities alone. Rather, generation has increasingly been developed by private parties independent of load requirements and sold outside the balancing authority area where the generation resides. The source balancing authority is left to deal with balancing loads and resources using the resources available to the balancing authority, such as the FCRPS. In addition, as previously explained, BiOp requirements have resulted in higher flows during fish migration season. Despite these complexities, the system has been managed consistent with all

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<sup>20</sup> Order, at P. 73.

environmental and statutory responsibilities, and system reliability has been maintained.<sup>21</sup>

As noted above, thermal generators respond to offers of low-cost or free Federal hydropower because they save variable production costs and they do not receive PTCs and RECs for generating. In addition, thermal generation generally responds to demand, so that in periods of low loads such as springtime light load hours, if price signals show an excess of energy, thermal generators are incented to shut down. As a result, thermal generation in BPA's balancing authority area does not make a significant contribution to the costs associated with the Oversupply Management Protocol.

Wind generation, however, largely operates independently of load demand and price signals because of the economic incentives wind generation receives through PTCs and RECs. In addition, the operating flexibility required to balance the variability of wind and ensure system reliability consumes a significant portion of the flexibility of the FCRPS that BPA could otherwise use to manage TDG levels.<sup>22</sup> Wind generators in BPA's balancing authority area receive the benefit of BPA's interconnection and open-access policies, in addition to low-cost ancillary services provided by the FCRPS, and should therefore share in the costs of the additional burdens they place on the FCRPS.

## **2. Cost Allocation**

BPA cannot commit to adopt any particular form of cost allocation for the costs associated with the Oversupply Management Protocol, as BPA must establish rates under the rate-setting procedures of the Northwest Power Act.<sup>23</sup> However, because cost

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<sup>21</sup> ROD at 7-8 (footnote omitted).

<sup>22</sup> *Id.* at 9.

<sup>23</sup> 16 U.S.C. § 839e(i).

allocation was an integral part of BPA's discussions with the parties, BPA staff commits to propose the following cost allocation methodology in the next BPA rate case.

BPA does not have time to hold a rate case for fiscal year 2012, so BPA proposes to cover the costs associated with the Oversupply Management Protocol for 2012 through transmission financial reserves.<sup>24</sup> To begin recovering the amount spent from reserves and to set rates for future years, BPA will conduct a rate case under section 7(i) of the Northwest Power Act. In the rate case, BPA will propose a cost allocation methodology through a new control area services rate that allocates approximately 50% of the costs to the users of the Federal Base System and approximately 50% of the costs to wind generation customers in BPA's balancing authority area. Customers with wind generation in BPA's Balancing Authority Area include investor-owned utilities, BPA's power customers, and independent power producers.

BPA's proposed cost allocation methodology represents a reasonable alignment of costs and benefits. Courts and the Commission have recognized that cost causation is not an exact science. The Commission has described its policy on cost causation as follows:

The Commission policy requiring direct charges arises from the principle of cost causation. Under the principle of cost causation, the Commission must ensure that the costs allocated to a beneficiary are at least roughly commensurate with the benefits that are expected to accrue to that entity. \* \* \* However, both the Commission and the U.S. Court of Appeals have made clear that cost allocation is not an exact science. The D.C. Circuit has long recognized that agency ratemaking is "far from an exact science" and involves policy decisions. Moreover, the D.C. Circuit has explained

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<sup>24</sup> If BPA incurs costs for its 2011 actions, they will be paid from transmission reserves and recovery will be addressed in the rate case.

that cost causation “does not require exacting precision in a ratemaking agency's allocation decisions.”<sup>25</sup>

Some may argue that BPA’s proposal does not satisfy the Commission’s standard, asserting that the costs are caused by fish and wildlife obligations that predated the interconnection of wind and that should be borne by power customers. Others will argue that, because BPA adequately managed high water occurrences before open access and the advent of wind, the displacement cost should be borne by wind generators or transmission customers. In fact, the displacement costs are caused both by BPA’s fish and wildlife obligations and BPA’s facilitation of significant amounts of new wind generation onto the system.

### **3. Comparability**

BPA’s proposed cost allocation would provide for transmission service at comparable rates. As discussed above, the proposed cost allocation methodology recognizes that the costs incurred under the Oversupply Management Protocol are caused by both Federal hydropower and wind generation, and thus allocates approximately half the costs to each class. As a result, if BPA adopts the proposal BPA’s power customers and wind generators will bear approximately the same cost burden. BPA’s other customers, who do not contribute to the oversupply issue, would not see any rate increase associated with the Oversupply Management Protocol. Because BPA is proposing to apply the same allocation to both its merchant affiliate and the non-affiliated generators

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<sup>25</sup> *SFPP, L.P.*, 137 FERC ¶ 61,220, P83 (2011) (footnotes omitted). *See also*, Order 890 at P559 (“Allocation of costs is not a matter for the slide-rule. It involves judgment on a myriad of facts. It has no claim to an exact science.”)

that are causing the costs, BPA's proposal satisfies the Commission's comparability standard.<sup>26</sup>

With respect to transmission rates, the Commission also has the authority to ensure that costs are equitably allocated between Federal and non-Federal power.<sup>27</sup> BPA has identified the costs associated with the Oversupply Management Protocol as both a power cost and a cost of integrating renewable resources. Because the costs are caused by both Federal and non-Federal users of the transmission system, BPA's allocation of the costs to a new control area services rate to be borne equally by the Federal Base System and wind generators is an equitable allocation of these costs.

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<sup>26</sup> See *Bonneville Power Admin. v. Puget Sound Energy, Inc.*, 125 FERC ¶ 61,273, P11 (2008) (finding that BPA not charging its merchant affiliate and non-affiliated generators for reactive power applied the same rate and therefore provided comparable transmission service).

<sup>27</sup> 16 U.S.C. § 839e(a)(2)(C).