

**BPA's response to comment on Attachment P redline
Issued March 1, 2013**

Expiration Date

Proposed Change:

Bonneville proposed to not specify an expiration date in Attachment P.

Comments:

Bonneville received a number of comments opposing its proposal to eliminate an expiration date from Attachment P. Bonneville received no comments in support of the proposal. Some commenters were concerned that failure to specify a termination date would signal that Bonneville was unwilling to work with the region on alternative solutions. Other commenters were concerned about extending Attachment P indefinitely without knowing whether Attachment P ensures that the costs submitted by the generators are accurate. Other commenters stated that because the Commission approved Attachment P only on an interim basis, failure to include an expiration date is inconsistent with the Commission's order.

Response:

Bonneville will include an expiration date of September 30, 2015, the end of the 2014-2015 rate period. Bonneville recognizes that Attachment P is an interim solution and that the region will continue to work to find a long-term solution to oversupply. At the same time, extending Attachment P through the 2015 oversupply season provides Bonneville a level of certainty for the next three years, affords the region time to devise an alternative, and avoids the need for continued refile of Attachment P with the Commission.

E-Tags

Proposed Change:

Bonneville did not propose to make any changes to Attachment P regarding e-Tags.

Comments:

Portland General Electric (PGE) commented that Attachment P should include e-Tagging requirements associated with the substitution of federal hydropower for nonfederal power during oversupply situations. PGE also states that Bonneville should specify in Attachment P how it intends to comply with the Commission's direction to update e-Tags when Bonneville changes the sources of a point-to-point transaction and to make appropriate changes to e-Tags when oversupply events last longer than one hour. PGE also commented that Bonneville should provide a process in Attachment P for determining if multiple consecutive hours of displacement under the Oversupply Management Protocol are required.

Powerex also commented that BPA should explain how it intends to comply with the Commission's order to make appropriate changes to e-Tags for oversupply events that last longer than one hour.



Response:

Bonneville will not specify e-Tagging requirements in Attachment P, as no e-Tag changes are required. Bonneville explained to the Commission that displacement under Attachment P occurred after the operating hour, so it was not necessary to change any e-Tag information, such as the generation source. The Commission agreed with Bonneville, stating that Bonneville's actions were "consistent with applicable NERC and NAESB standards." *Iberdrola Renewables, Inc. v. Bonneville Power Admin.*, 141 FERC ¶ 61,234, P65 (2012).

The Commission did state that Bonneville should make appropriate changes to e-Tags for oversupply events lasting longer than one hour. *Id.* However, the need to use the Oversupply Management Protocol is an hour-to-hour determination, and Bonneville cannot determine the need for the Oversupply Management Protocol until after the operating hour has started. The amount of displacement required depends on two factors that can vary significantly from hour to hour: 1) the demand for power from the Federal Columbia River Power System; and 2) the amount of generation scheduled in Bonneville's balancing authority area that is available for displacement. The demand for power is constantly changing, and if demand goes up the next hour, less displacement is required. Conversely, if demand goes down for the next hour, more displacement is required. The amount of scheduled generation in Bonneville's balancing authority area also varies from hour to hour, especially in the case of wind generation, which can experience high hourly fluctuations in generation. Thus, if Bonneville over or underestimated a certain amount of generation to be scheduled, Bonneville would displace more generation than necessary or not displace enough generation.

Displacing the incorrect amount of generation has economic and environmental consequences. Overestimating the amount of displacement required results in payments to generators for generation that they would never have produced in the first place, thus raising costs incurred under the Oversupply Management Protocol with no corresponding benefit. Underestimating the amount of displacement required puts Bonneville at risk of exceeding TDG limits. As a result, Bonneville must make an hour-to-hour determination of the amount of displacement required to keep costs as low as possible and meet its environmental responsibilities.

March 15 Due Date for Data

Proposed Change:

Bonneville proposed to change the due date for submitting costs and supporting data and documentation from March 31 to March 15.

Comments:

Portland General Electric commented that a deadline of March 15 for submission of data will be difficult to meet given the other regional processes occurring at this time. Specifically, PGE states that the data sets and calculations for determining costs under Attachment P and for selecting a scheduling commitment are similar, and PGE's



scheduling selection is not due until April 1. The Public Power Council supports the change so that the independent evaluator has more time to ensure that costs are accurate.

Response:

The independent evaluator must have enough time to ensure that generators have submitted sufficient supporting data and documentation for their costs. Since the current version of Attachment P expires on March 31, 2013, Bonneville must have a cost curve in place to implement the protocol, if necessary, by that date. The March 31 deadline used in 2012 was feasible because, at that time, there were no consequences specified in Attachment P for generators that failed to submit supporting data and documentation. However, Bonneville is now proposing to set a generator's costs at zero if the generator does not submit supporting data and documentation. To ensure that all generators submit supporting data and documentation before being included in the cost curve, the independent evaluator needs sufficient time to verify that such supporting data and documentation has been submitted.

Bonneville disagrees with PGE that calculating displacement costs utilizes similar data sets as selecting a scheduling commitment. Determining a scheduling commitment should not involve cost information related to power purchase agreements, production tax credits or renewable energy credits.

Cost Allocation

Proposed Change:

Attachment P currently specifies that generators that do not submit costs will not be subject to cost allocation. Bonneville proposes to remove cost allocation from Attachment P so that issues related to cost allocation can be determined in the OS-14 rate proceeding.

Comments:

Iberdrola commented that section 7(g) of the Northwest Power Act mandates that oversupply costs be allocated to power rates. MSR also commented that the costs should be allocated to power rates. RNP commented that Bonneville should state in Attachment P that cost allocation will be determined in the OS-14 rate case and submitted to the Commission for approval. NRU and PPC support Bonneville's proposal to remove references to cost allocation from Attachment P.

Response:

Bonneville will remove references to cost allocation from Attachment P, as the Northwest Power Act requires that cost allocation issues be determined in a rate case.

Bonneville does not read Iberdrola's and MSR's comments as disagreeing with its conclusion. Instead, Iberdrola and MSR propose a particular cost allocation. They can make their arguments in the OS-14 rate case. Cost allocation is beyond the scope of this filing.



In response to RNP, it is not necessary to include a statement in Attachment P that cost allocation will be decided in the OS-14 rate case. The OS-14 rate case is underway, and Bonneville will adopt a cost allocation method in that case.

Environmental Issues

Proposed Change:

Bonneville did not propose any changes to Attachment P related to environmental issues, as such issues are beyond the scope of Attachment P.

Comment:

Charles Pace states that BPA has failed to consult with NOAA Fisheries and the U.S. Fish and Wildlife Service under the Endangered Species Act regarding impacts on listed species caused by its approach to integrating wind-powered generation, managing oversupply, meeting peak power demands, and providing load following, ancillary and control area services.

Response:

The merits of the Oversupply Management Protocol's compliance with the Endangered Species Act are not at issue here. Nevertheless, Bonneville notes that with respect to the integration of wind power into the FCRPS, the primary impact of potential concern for listed species is the level of total dissolved gas (TDG). Bonneville and other federal agencies consulted with the U.S. Fish and Wildlife Service and NOAA Fisheries to ensure that the operation and maintenance of the FCRPS would not jeopardize the continued existence of species in the Columbia River Basin that are listed as endangered or threatened. The Fish and Wildlife Service and NOAA Fisheries issued Biological Opinions (BiOps) that addressed state and federal water quality standards and waivers issued under the Clean Water Act. See NOAA's 2008/2010 FCRPS Supplemental BiOps and the U.S. Fish & Wildlife Service's 2000 Bull Trout BiOp.

Comment:

Mr. Pace commented that Bonneville has failed to comply with the National Environmental Policy Act with respect to the integration of wind power.

Response:

Bonneville believes it has complied with NEPA with respect to the integration of wind power into its transmission system. Bonneville examines the environmental effects of integrating wind projects into the transmission grid in project-specific NEPA analyses. See, for example, *Whistling Ridge Environmental Impact Statement*, (August 2011) and *Record of Decision for the Electrical Interconnection of the Juniper Canyon I Wind Project* (May 2010). These NEPA documents evaluate the reasonably foreseeable high wind/high water effects on fish and water quality due to the integration of wind power, as well as measures to reduce or avoid those impacts.



Dispute Resolution Provisions of Bonneville's Tariff

Proposed Change:

Bonneville did not propose any changes related to incorporating section 12 of Bonneville's tariff.

Comment:

Iberdrola commented that disputes under Attachment P should be resolved consistent with the dispute resolution procedures contained in section 12 of Bonneville's tariff.

Response:

Bonneville has amended sections 6.a and 6.b of Attachment P to require Bonneville and the generator to follow the dispute resolution procedures in section 12 of Bonneville's tariff prior to filing a complaint or other request with the Commission.

Actions Taken to Avoid using the Oversupply Management Protocol

Proposed Changes:

Bonneville proposed to add a non-exclusive list of reasonable actions that it may take to reduce or avoid the need for displacement.

Comments:

A number of commenters stated that, because Bonneville listed actions it "may" take before each oversupply event, Bonneville failed to comply with the Commission's direction to include actions that it *will* take. These commenters said that Bonneville should include a list of actions that it commits to take before implementing the Oversupply Management Protocol.

PPC supported Bonneville's proposal, commenting that not all actions will be feasible in every situation. MSR commented that Bonneville included four actions in its 2011 Record of Decision on Interim Environmental Redispatch and Negative Pricing Policies that are not included in Attachment P.

Response:

Bonneville has amended section 2 of Attachment P to commit Bonneville to taking the listed actions when those actions are available. PPC is correct that not all actions will be available in each case. Whether a given action is available depends heavily on the conditions at the time. Therefore, Bonneville cannot commit to performing a set list of actions in all cases. The list included in Attachment P is representative of the actions that are often available before Bonneville implements the oversupply protocol.

MSR listed four actions that Bonneville included in the 2011 record of decision that are not included in Attachment P. The first was generation reductions at Columbia Generating Station. Bonneville does not control Columbia Generating Station, which submits a minimum generation level just like any other thermal generator on the system. Thus, there is no need to specifically list this as an action.



The second provision, requesting agreements to mutually agreeable transactions, is captured by 2.a (sales through bilateral marketing) and 2.b (waiving real power loss return obligations). Bonneville is always seeking other ways to moderate TDG levels through mutual agreements without using the Oversupply Management Protocol, and those are two examples of mutual agreements that Bonneville has utilized.

The third provision is “operating hydro projects inefficiently and at speed-no-load within BiOp parameters.” This is not one of the primary tools that Bonneville utilizes to avoid using the Oversupply Management Protocol. As a result, Bonneville will not include this provision in Attachment P. Attachment P does not, however, preclude Bonneville from performing this action.

The fourth provision is “implementing additional spill at FCRPS projects per the Corps’ spill priority list within prevailing water quality standards.” Bonneville has also included similar language in Attachment P to capture this concept.

Thermal Costs

Proposed Change:

Bonneville did not propose to change the compensation for generators in Attachment P to include costs for thermal generators.

Comments:

TransAlta commented that displacement costs for thermal generators should not be restricted to a predetermined list of eligible costs. Because thermal costs vary widely, thermal generators should be permitted to submit any costs they incur without being limited to set categories. TransAlta commented that if Bonneville does adopt a set list of allowable costs, it should be broadly based, similar to the minimum generation standards. TransAlta submitted a list of potential costs.

PGE commented that thermal generators have not yet been afforded an opportunity to identify costs.

Response:

Bonneville will not include any costs for thermal generators in Attachment P. The list of potential costs for thermal generators provided by TransAlta mirrors the factors that thermal generators are allowed to account for in setting their minimum generation levels. TransAlta has not identified any cost that cannot be avoided through the establishment of an appropriate minimum generation level. Therefore, Bonneville is unable to identify any costs that thermal generators would incur from implementation of the Oversupply Management Protocol.

With respect to PGE’s comment, Bonneville made clear that this comment period was the opportunity to demonstrate any costs that thermals may incur due to displacement. In its



posting, Bonneville asked thermal generators to identify any such costs. None have done so.

Additional Contract Costs for Generators

Proposed Change:

Bonneville did not propose to change the compensation for generators in Attachment P.

Comments:

Windy Flats commented that Bonneville's listing of reimbursable costs does not address two circumstances: one, where Bonneville curtails a generator but does not provide replacement energy; and two, where Bonneville provides replacement energy but the energy does not qualify under the power purchase agreement.

Response:

Bonneville will not make Windy Flats' proposed changes. First, Attachment P requires Bonneville to provide replacement energy when it curtails nonfederal generation. Therefore, there is no need to address the situation where Bonneville fails to do so.

Second, Attachment P already provides for payment of the contract price and penalties if the generator suffers losses because federal power is not an acceptable substitute for renewable energy under the generator's power purchase agreement. In the edited version of Attachment P that Windy Flats submitted with its comments, Windy Flats added language to section 4.c.i.2 that was already in section 4.c.i.3, apparently in the belief that the absence of the language from section 4.c.i.2 left a gap.

However, as stated at the beginning of section 4.c.i.2, that section applies to the sale of renewable energy credits unbundled from the sale of power. Therefore, a generator cannot suffer losses under that section because its energy does not qualify under its power purchase agreement. Section 4.c.i.3 covers this situation.

Supporting Data

Proposed Change:

Bonneville proposed to specify in Attachment P that generators failing to submit supporting data and documentation would not be compensated for displacement.

Comments:

NRU and PPC supported Bonneville's proposal not to compensate generators that fail to submit supporting data and documentation. RNP commented that the reasonableness of Bonneville's proposal depends on what constitutes sufficient supporting data and documentation.

Response:

Bonneville will not compensate generators that fail to submit supporting data and documentation until they submit supporting data and documentation. The validation



report received from the independent evaluator identified the difficulties the evaluator had in obtaining supporting data and documentation. In one case, a generator never submitted any data or documentation to justify its costs. A generator should not be allowed to claim costs that the independent evaluator cannot determine are reasonable.

To address RNP's concern that Attachment P is unclear as to what constitutes sufficient supporting data and documentation, Bonneville has added language in section 4.a providing that the "supporting data and documentation must be sufficient to allow the independent evaluator to verify the costs." Bonneville recognizes that this is a general standard. However, there may be many ways to support a generator's claimed costs. Bonneville does not want to risk foreclosing the recovery of legitimate costs by specifying the precise documentation that a generator must submit.

New Entrants

Proposed Change:

Bonneville did not propose any changes to Attachment P regarding compensation for power sales agreements executed after March 6, 2012.

Comment:

Iberdrola commented that Attachment P's exclusion of a generator with a power sales agreement for the bundled sale and purchase of both renewable energy credits and energy executed after March 6, 2012, from recovering costs related to the contract under section 3.c.i.3 constitutes non-comparable and unduly discriminatory transmission service.

Response:

This provision of Attachment P is unchanged from last year, and the Commission did not find that it resulted in non-comparable or unduly discriminatory transmission service. Generators that have not yet entered into power sales agreements for the bundled sale and purchase of both renewable energy credits and energy can structure their contracts to account for the possibility of displacement under the Oversupply Management Protocol without incurring additional costs. Therefore, Bonneville will continue to include this provision in Attachment P.

Filing Attachment P

Proposed Change:

Bonneville proposes to make changes to Attachment P in response to the Commission's order and re-file Attachment P with the Commission.

Comments:

Snohomish commented that Bonneville is confusing the Commission's order to file a cost allocation methodology with the need for an Oversupply Management Protocol for the 2013 season. According to Snohomish, since the Commission only ordered Bonneville to submit a cost allocation methodology for the existing Oversupply Management Protocol, Bonneville should make a filing that extends the existing Attachment P for one year



without making any changes to respond to the Commission's order on the non-rate terms and conditions. Snohomish then suggests Bonneville should file amendments to Attachment P when it files the oversupply rate provisions with the Commission. Snohomish also suggests applying the Attachment P amendments retroactively to 2013. Snohomish suggests that the Commission will then be able to review a complete package of terms and conditions and rates.

Iberdrola also commented that it is unclear why Bonneville is proposing changes to Attachment P without a cost allocation methodology, as the Commission found that the two were "intrinsically linked."

Response:

Bonneville finds that Snohomish's proposal to extend the existing Attachment P, make changes later and file such changes when the rate case is completed, and apply such changes retroactively is more complicated than simply incorporating the Commission's direction on the non-rate terms and conditions of Attachment P into Bonneville's proposed filing. Bonneville does not believe there are any drawbacks to immediately incorporating the Commission's direction on the non-rate terms and conditions of Attachment P. Bonneville expects to finish the OS-14 rate case at the end of August and file a cost allocation methodology with the Commission at that time. The Commission can always conditionally accept the non-rate terms and conditions until an acceptable cost allocation methodology is filed, as it did in its December 20, 2012 order.

In response to Iberdrola's comments, Bonneville must renew the Oversupply Management Protocol because the current version expires on March 30, 2013. As stated above, there is no reason not to incorporate the Commission's direction on future Oversupply Management Protocol filings, and the Commission can conditionally accept Bonneville's filing contingent upon an acceptable cost allocation methodology.

Alternative Solutions

Proposed Change:

Bonneville did not make any proposal to take another approach in lieu of using the Oversupply Management Protocol.

Comments:

MSR comments that oversupply is a result of Bonneville's purchases of non-hydro resources to support its secondary sales and not environmental requirements or transmission use by Bonneville's transmission customers. As a solution, MSR suggests Bonneville limit non-hydro acquisitions during May and June, more aggressively contract in the forward market for additional load, and sell hydro in day-ahead and hourly markets, even at negative prices. Powerex and Iberdrola also comment that Bonneville should enter into mutually agreeable transactions and pay negative prices rather than use the Oversupply Management Protocol.



Mr. Pace comments that Bonneville's Oversupply Management Protocol is not aimed at protecting fish, but aimed at discouraging the development of wind resources. Mr. Pace also comments that Bonneville is manipulating energy markets and need only spill up to flood control limits to manage oversupply conditions, as salmon and steelhead are able to avoid the impacts of high flows. As a result, Mr. Pace seems to recommend that Bonneville continue to spill in excess of TDG levels rather than use the Oversupply Management Protocol.

Response:

Bonneville will re-file Attachment P with the Commission. As stated in Bonneville's 2011 Record of Decision on Interim Environmental Redispatch and Negative Pricing Policies, the payment of negative prices during times when Bonneville *must* generate would force Bonneville to accept the demands of the buyer. Bonneville is always willing to enter into mutual agreements with other parties, but in this case, Bonneville cannot make a rational economic choice as it must generate to comply with its environmental responsibilities. The Oversupply Management Protocol both limits Bonneville's financial exposure in these situations and compensates displaced generators for their losses.

MSR's comment that Bonneville is creating oversupply situations through purchases of non-hydro power to support secondary sales is incorrect. MSR selectively cites portions of Bonneville's Power Loads and Resources Study Documentation (BP-14-E-BPA-03A, pp. 128-39) to suggest that Bonneville is creating a surplus of energy. Specifically, MSR points to Tables 4.1.1 through 4.1.3, and states that because Bonneville has a projected resource surplus in May and June, Bonneville is creating an oversupply of energy to support secondary sales. This simplistic assertion ignores operational planning principles set forth in our ratemaking process. For the rate case period, Bonneville must have the firm energy resources to ensure the annual load and resource balance of the federal system under critical water conditions. (BP-14-E-BPA-03, p. 35). Thus, the annual average energy surplus/deficit is zero, as shown in Table 4.4.1, p. 129, line 36. This is further clarified in BPA-14-E-03, page 35.

BPA's surplus and deficit projections do vary month to month and depend on the forecasts of load obligations, non-hydro resources, hydro resources and contract purchases and sales. The biggest contributor to generation is the hydro system, which is mainly driven by non-power requirements. Water flows in the months of May and June drive the higher generation values in those months. Bonneville has the rights to generation from certain non-hydro projects, of which the biggest is Columbia Generating Station (CGS). CGS has its own generation and maintenance schedule. Bonneville does not control CGS generation forecasts used in this analysis. All of this generation, however, is obtained to meet Bonneville's loads, not to support secondary sales.

The Oversupply Management Protocol is not aimed at discouraging the development of wind resources, as Mr. Pace suggests. To date, Bonneville has interconnected more than 4,700 MW of wind generation to its system. At the same time, however, Bonneville must follow the Biological Opinions issued by the Fish and Wildlife Service and NOAA Fisheries that incorporate state and federal water quality standards issued under the Clean



Water Act. The parameters set in the BiOps have been adopted by court order, and cannot be ignored. As a result, Bonneville cannot continue to spill in excess of TDG limits.

Bonneville is committed to working with regional parties to find a durable, long-term solution to manage oversupply events. Following completion of implementation efforts for spring 2013, Bonneville will pursue efforts to engage regional parties in further discussions.

