

**UNITED STATE OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Iberdrola Renewables, Inc.;)	
)	
PacifiCorp;)	
)	
NextEra Energy Resources, LLC;)	
)	
Invenergy Wind North America LLC;)	
)	Docket No. EL11-44-___
Horizon Wind Energy LLC,)	
)	
Complainants,)	
)	
Bonneville Power Administration,)	
)	
_____ Respondent.)	

United States Department of Energy)	
Bonneville Power Administration)	
<u>Transmission Service Terms and Conditions</u>)	Docket No. NJ12-7-___

**BONNEVILLE POWER ADMINISTRATION’S
REQUEST FOR APPROVAL OF
REVISED OVERSUPPLY MANAGEMENT PROTOCOL**

Pursuant to section 211A of the Federal Power Act,¹ the Bonneville Power Administration (“Bonneville”) requests that the Commission accept Bonneville’s revised Oversupply Management Protocol tariff amendment for filing effective March 31, 2013 through September 30, 2015 and approve the tariff filing as providing comparable transmission service. Bonneville’s current Oversupply Management Protocol, recently approved by the Commission on a conditional basis,² terminates on March 30, 2013. Bonneville also submits the proposed tariff amendment as a revision to its Open Access Transmission Tariff currently pending before the Commission for reciprocity approval in Docket No. NJ12-7.

¹ 16 U.S.C. §824j-1 (2009).

² *Iberdrola, Inc. v. Bonneville Power Admin.*, 141 FERC ¶ 61,234 (2012).

TABLE OF CONTENTS

I. BACKGROUND2

A. December 7, 2012 Order..... 2

B. March 2012 Compliance Filing 3

C. Reciprocity Filing..... 4

D. Experience with Prior Oversupply Protocol. 5

E. Regional Efforts Towards Long-Term Solutions..... 10

F. The December 20, 2012 Order..... 10

II. PROPOSED OVERSUPPLY MANAGEMENT PROTOCOL.....12

A. Similarities to 2012 Oversupply Protocol 13

B. Differences from 2012 Oversupply Protocol 16

C. Other Issues 20

**III. THE PROTOCOL CONTINUES TO PROVIDE A BALANCED
RESOLUTION TO THE OVERSUPPLY PROBLEM22**

IV. REQUEST FOR COMMISSION APPROVAL OF THE 2013 - 2015 OMP24

Exhibit A: Bonneville Letter to Stakeholders

Exhibit B: Bonneville Response to Customer Comments

I. BACKGROUND

A. December 7, 2012 Order

During certain spring and summer high water conditions, the reservoirs behind the Federal dams on the Columbia River reach their capacity. Bonneville must dispose of excess water either by generating electricity or by spilling water over the dams. The preferred course is to generate electricity. Excessive spill creates gas bubbles in the water that endanger salmon and other aquatic species, some of which are listed as threatened or endangered under the Endangered Species Act. If Bonneville has insufficient load to consume the electricity, however, it must spill.

To protect aquatic species, the states of Oregon and Washington have established spill limitations under the Clean Water Act. In order to adhere to these limitations and avoid harm to aquatic species, at times of high water Bonneville must secure additional load so that it can generate electricity with the excess water and avoid spill. Under its Environmental Redispatch and Negative Pricing Policy (“ER Policy”), Bonneville secured additional load by displacing nonfederal generation in Bonneville’s balancing authority area with free federal hydroelectric generation after taking other reasonable actions to reduce water flow. In a December 7, 2011 order, the Commission found that the ER Policy, implemented during the spring and summer of 2011, failed to provide comparable transmission service.³ Pursuant to Section 211A of the Federal Power Act, the Commission directed Bonneville to file within 90 days of the order 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.”⁴

B. March 2012 Compliance Filing

On March 6, 2012, after regional discussions, the posting of a draft protocol and consideration of public comment, Bonneville filed its oversupply management protocol in response to the Commission’s order.⁵ The filing requested Commission approval of the protocol for one year (March 31, 2012 through March 30, 2013). Bonneville proposed to incorporate the protocol into a new Attachment P to its tariff and, through unilateral amendments, into new Large Generator Interconnection Agreements.

³ *Iberdrola, Inc. v. Bonneville Power Admin.*, 137 FERC ¶ 61,185 (2011), *order denying reh’g*, 141 FERC ¶ 61,233 (2012).

⁴ 137 FERC ¶ 61,185 at P 64.

⁵ Compliance Filing of the Bonneville Power Administration (Mar. 6, 2012).

Whereas Bonneville did not compensate displaced generators under the ER Policy, Bonneville pays for displacement costs under the oversupply protocol, including lost Production Tax Credits (“PTC”), lost sales of Renewable Energy Credits (“REC”) and penalties and lost revenues under power sales contracts in effect on March 6, 2012 because of the generator’s failure to supply wind energy during displacement hours. Under the protocol, generators submit their displacement costs to an independent evaluator and Bonneville displaces those generators in order from the lowest-cost to the highest-cost.⁶

The displacement cost for generators not eligible for RECs or PTCs (*i.e.*, most thermal and hydroelectric generation) is deemed to be \$0/MW-hour. Although most thermal generators do not receive PTCs and RECs, and therefore are not eligible for compensation, Bonneville’s experience in the past is that they voluntarily displace in high-water conditions because they receive free Federal hydropower and save fuel costs. That is, Bonneville’s experience is that thermal generators do not suffer net losses from displacement. In addition, under the oversupply protocol they may establish minimum generation levels and maximum ramp rates to protect themselves from any losses they might incur

C. Reciprocity Filing

On March 29, 2012, after collaborative and open discussions with its customers concerning the Bonneville transmission tariff and related topics, Bonneville filed its revised Open Access Transmission Tariff, including the oversupply protocol as Attachment P, with the Commission for reciprocity approval.⁷ The Commission has not yet acted on Bonneville’s filing. The filing

⁶ The December 7, 2011 order declined to direct Bonneville to pay negative prices as a means of resolving its over-generation problem. 137 FERC ¶ 61,185 at P 66.

⁷ *Bonneville Power Admin.*, Bonneville Power Administration Petition For Declaratory Order Granting Reciprocity Approval And For Exemption From Filing Fee, Docket No. NJ12-7 (Mar. 29, 2012),.

being made today revises the proposed tariff by replacing the previous oversupply protocol with a revised protocol.

D. Experience with Prior Oversupply Protocol.

In the absence of Commission action on its March 6, 2012, compliance filing, Bonneville implemented the oversupply protocol during spring and summer of 2012. As in 2011, a combination of factors again created a reliability problem in Bonneville's balancing authority area. Bonneville again had too much power and not enough demand at certain times, particularly during low-load hours. Though lower than the 2011 volume of 142.7 million acre feet (MAF), the Columbia River runoff at The Dalles Dam from January to July 2012 was 129.4 MAF, significantly higher than the approximately 103 MAF average of all water years since 1929. Periods of strong spring winds also drove significant generation via the approximately 4400 MW⁸ fleet of wind projects in Bonneville's balancing authority area. Thermal generation was also greater in 2012 than it was in 2011, largely because of generation from the 1,100-MW Columbia Generating Station, the region's only nuclear plant.⁹ Consequently, in addition to spilling approximately 641,300 MW-hour worth of water over federal dams before reaching spill limitations, Bonneville took the following actions to reduce flows and increase federal generation before implementing the oversupply protocol:

- 1. Rescheduling Non-Essential Outages.** Bonneville rescheduled non-essential maintenance and construction on transmission lines and federal generators so that its facilities were available to generate and transmit large amounts of electricity to local and distant markets, from Canada to California.

⁸ 4267 MW in April, 4369 MW in May, and 4459 MW in June of 2012.

⁹ The nuclear plant was down in 2011 for a scheduled refueling outage. Though operating in 2012, generation at the Columbia Generating Station was reduced to minimum reliability levels (85% of capacity) when Bonneville faced oversupply conditions. The plant was also shut down completely for 10 days to perform transformer maintenance.

2. Coordinated Spill at the Willamette Basin Dams. Bonneville worked closely with the U.S. Army Corps of Engineers to shift generation from Willamette River dams to dams on the Columbia River, thereby increasing the amount of Columbia River water that could be run through the generators rather than being spilled. This operation was possible when spilling water at Willamette Basin dams would not violate operational constraints such as water quality standards.

3. Voluntary Displacement. As it did in 2011, Bonneville encouraged voluntary displacement of regional generation with federal hydroelectric generation as a way of increasing federal generation at the dams and thereby reducing or avoiding the need to implement the oversupply protocol. Bonneville offered free federal hydroelectric power into the Northwest wholesale market during heavy load hours. This arrangement is generally of interest to thermal owners who save the cost of fuel by voluntarily displacing their generation with federal hydroelectric power. In 2012, Bonneville provided more than 1,000,000 MW-hours of free energy.

4. Exports of Power. Significantly more exports occurred in late April and early May of 2012 from the Northwest to California, Idaho, Nevada, Wyoming and Utah than occurred in the same months of 2011. Below-average hydro conditions in northern California and an extended outage at the San Onofre nuclear power plant in southern California were the prime drivers of this additional demand. The nuclear plant's two units, with a combined capacity of 2,200 MW, were down for the entire oversupply season. Although intertie transmission to California was limited in 2011, in 2012 Bonneville was able to purchase additional intertie capacity for power deliveries to

California. In July and August 2012, Bonneville purchased and used an additional 7,596 MW-hours of inertie transmission capacity.

5. New Sources for Non-spinning Reserves. In 2012 Bonneville was able to find sources of non-spinning reserves that were not available in 2011. These new sources reduced the amount of water that federal hydroelectric generators had to hold in readiness for incremental balancing reserves, thereby making the water available for generation in heavy load hours and reducing generation or spill in light load hours. Bonneville began selling a new product called capacity-recallable energy, which Bonneville has the right to interrupt during a contingency event. This product is sold at a discount and generates minimal revenue, but it is a source of non-spinning reserves because it allows Bonneville to interrupt the schedule and use the energy to supply incremental balancing reserves when necessary. Bonneville offered up to 150 MW of recallable energy for 16 hours a day (during heavy load hours) and sold approximately 135,000 MW-hours between April and July.

Bonneville was also able to acquire non-spinning reserves by maximizing the flexibility at Banks Lake. Banks Lake is an irrigation resource that uses water pumped from the reservoir behind Grand Coulee Dam. Pump generators at Banks Lake can provide non-spinning incremental and decremental reserves. These pumps act as a load when pumping water into the lake, and they can also generate power by reversing the flow of water from the lake and running it through generators as it flows back into the Grand Coulee reservoir. In 2011, numerous pump unit outages limited the pumping load available, and decremental reserves were limited to 200 MW for most of the spring. During 2012 oversupply periods, these pump generators were kept in standby mode to

provide non-spinning incremental reserves; however, the capability of the pumps was also limited to about 200 MW due to flood control requirements at Grand Coulee Dam.

6. Early End of Reservoir Draft. During flood control season, the U.S. Army Corps of Engineers drafts the reservoir behind Grand Coulee Dam. The Corps is responsible for declaring the end of the draft, allowing river operators to refill the reservoir. The Corps can make this determination when unregulated flows measured at The Dalles Dam reach the initial control flow, an estimate of the flow that could be sustained while refilling reservoirs through the spring. It is unusual for the Corps to end the flood control draft before April 30, but in 2012 the Corps was able to end the reservoir draft on April 25. This enabled nearly 17 feet of Grand Coulee draft to be moved from late April into May and June, thereby reducing oversupply.

7. Spill Exchanges. A spill exchange is an agreement between Bonneville and a non-federal hydropower generator and is similar to voluntary thermal displacement. Under the agreement, when Bonneville must generate hydroelectric power to avoid water spill and the non-federal generator is able to spill water without operational concerns, Bonneville delivers federal hydroelectric generation to replace the energy the non-federal generator would have generated with the water that it spills. This exchange helps manage spill at Grand Coulee and Chief Joseph dams when they approach Clean Water Act spill limits by moving the spill to non-federal dams that can increase spill without reaching their own spill limits. Through the Mid-Columbia Spill Exchange Agreement, Bonneville and non-federal hydroelectric generators implemented more than 66,000

MW-hours of spill exchanges in April 2012¹⁰ compared to 13,200 MW-hours from May to mid-June 2011.

8. Non-Treaty Storage. Bonneville and BC Hydro routinely coordinate non-treaty storage, which is storage space in the Canadian portion of the Columbia River Basin in excess of storage operated according to the Columbia River Treaty. In 2012, the parties cleared a significant amount of non-treaty storage space before the spring run-off period to allow for management of spring flows. Bonneville used this storage space to capture the runoff that resulted from an extremely wet spring in portions of the basin, including Canada, allowing for a significant amount— of water – 2.8 million acre feet – to be stored in Canada. That is roughly equivalent to 35 feet of storage at Grand Coulee. Bonneville and Canada shared the water equally and agreed to release it in the summer and early fall of 2012. This storage moved about 2000 MW-months of regional hydroelectric generation out of the spring and into August and September when oversupply was not a problem.

For a number of reasons Bonneville displaced less generation in its balancing authority area in 2012 than in 2011. In 2012, Bonneville displaced approximately 70 MW-months (49,744 MW-hours) of generation, compared to the 135 MW-months (97,500 MW-hours) of generation Bonneville displaced in 2011 under the ER Policy. In 2012, Bonneville paid \$2,702,018 to displaced generators under the oversupply protocol's compensation provisions. Displacement amounts in 2012 were influenced not only by the runoff volume and shape but also by increased demand for federal energy and the implementation of various Bonneville strategies to shift hydroelectric generation from light load hours (10 p.m. to 6 a.m.) to heavy load hours.

¹⁰ After April 2012, spill exchanges were no longer useful because additional spill at mid-Columbia projects would have led to total dissolved gas levels above the Clean Water Act standards.

E. Regional Efforts Towards Long-Term Solutions

Bonneville continues to work with stakeholders on long-term solutions to the oversupply problem. In the summer of 2011, the Northwest Power and Conservation Council (“Council”) established the Oversupply Technical Oversight Committee to investigate long-term solutions to the oversupply challenge. The committee includes representatives from the Public Power Council, Northwest Requirements Utilities, investor-owned utilities, the Northwest Power and Conservation Council, the U.S. Corps of Engineers, BC Hydro, the Oregon Department of Energy, the Washington Utility and Transportation Commission, and the wind community. The committee has five workgroups: (1) generation displacement; (2) market mechanisms; (3) hydro system; (4) transmission; and (5) wholesale market mechanisms. It prepared an initial report in the spring of 2012 and a supplemental report in the fall of 2012. The reports are available on the Northwest Power and Conservation Council’s [OTOC website](#). Work is also continuing in such forums such as Pacific Northwest Utilities Conference Committee and the Northwest Power Pool Market Committee and Joint Initiative.

F. The December 20, 2012 Order.

On December 20, 2012, the Commission issued its Order Conditionally Accepting Compliance Filing in Docket No. EL11-44-002.¹¹ The Order accepted the oversupply protocol as an interim remedy conditioned upon Bonneville’s filing of a proposed methodology for allocating displacement costs “in a manner that results in comparability in the provision of transmission service for all resources.”¹² The Order also directed Bonneville to “identify those specific actions it will take prior to displacing generation in any future proposal submitted to the

¹¹ 141 FERC ¶ 61,234.

¹² *Id.* at ordering paragraph (B).

Commission to address oversupply situations”¹³ and to “consider [thermal resource] displacement costs, to the extent thermal resources or any other resource can demonstrate such costs.”¹⁴ Finally, the order encouraged Bonneville to continue to work with its stakeholders on certain issues that the Commission found to be “not related to the central question before us here.”¹⁵

On January 22, 2013, Bonneville filed its Request for Rehearing and Request for Stay and Expedited Consideration. The request asked the Commission to reconsider both its condition that Bonneville file a cost allocation methodology before the Commission would fully accept the oversupply protocol and its directive that Bonneville file a new cost allocation methodology within 90 days of the order. Bonneville explained that, although it had described a proposed cost allocation methodology in its tariff filing, it had not submitted the cost allocation methodology or a rate case record for Commission approval. Instead, as Bonneville noted in the tariff filing, Bonneville described the cost allocation methodology only to advise the Commission of the initial proposal Bonneville intended to submit in its oversupply rate proceeding. Bonneville added that, at the end of the rate case, it would submit a final methodology to the Commission for approval under the rates provisions of the Northwest Power Act.

Bonneville also committed to filing the final cost allocation methodology with the Commission for approval under section 211A of the Federal Power Act. Finally, Bonneville requested a stay of the 90-day compliance filing deadline. On February 19, 2013, the Commission issued an Order Granting Extension of Time¹⁶ in which the Commission extended

¹³ *Id.* at P 56.

¹⁴ *Id.* at P 53.

¹⁵ *Id.* at P 59.

¹⁶ 142 FERC ¶ 61,116.

the compliance filing date to 30 days after Bonneville files its OS-14 (oversupply) rate decision with the Commission under section 7(i) of the Northwest Power Act.

II. PROPOSED OVERSUPPLY MANAGEMENT PROTOCOL

The existing oversupply protocol terminates by its own terms on March 30, 2013, but the problem of high river flows, high wind generation and low load during light load spring and summer hours persists. Bonneville has found no solution that eliminates the need for the protocol. The revised protocol will remain as Attachment P to Bonneville's tariff and is referenced in section 38 of the tariff.¹⁷ Bonneville also plans to incorporate it into existing and new Large Generation Interconnection Agreements so that it applies to generators in Bonneville's balancing authority area that are not parties to transmission agreements under the tariff.

Bonneville continues its commitment to reduce or avoid the need to implement the protocol. This commitment includes offering low-cost federal hydroelectric power to increase exports as well as low-cost or free power to induce voluntary displacement of scheduled generation; scheduling of non-essential transmission and hydroelectric generation maintenance into other periods of the year to maximize Bonneville's ability to generate and deliver power during spring and summer; utilizing spill exchange opportunities with other regional hydroelectric generators; working with the U.S. Army Corps of Engineers to shift load from Willamette River generators to Columbia River generators; continuing Bonneville's offers of interruptible energy; utilizing the Banks Lake pump generators; and seeking other ways to reduce the need to hold water for incremental reserves and to increase federal generation during heavy load hours.

¹⁷ See the tariff sheets filed with this Request.

On April 18, 2012, Bonneville and BC Hydro executed a new Non-Treaty Storage Agreement that will continue until September 15, 2024, unless either party terminates it under the early termination provisions. Among other benefits, the agreement puts in place a long-term arrangement that, compared to previous agreements, provides additional flexibility for the parties to reduce flows and spill when dissolved gas levels caused by spill exceed state standards. Bonneville and BC Hydro will each have continuing access to 1.5 MAF of active storage, and the parties have increased flexibility to shape water from high-flow years and periods into lower-flow years and periods. This can help reduce dissolved gas levels in very high flow conditions.

On December 7, 2012, Bonneville and Alcoa, Inc. signed a 10-year power sales agreement under which Bonneville will sell Alcoa 300 average megawatts an hour from 2013 to September 2022. This sale will provide Bonneville with a flat, continuously operating load, which will help limit the variability of Bonneville's overall load. Adding load (particularly during light load hours) is another way to help bring the system into balance during oversupply events. Alcoa is also able to shift aluminum production from heavy-load to light-load hours when called upon, thereby providing Bonneville valuable operational flexibility.

A. Similarities to 2012 Oversupply Protocol

In the following ways, the revised protocol is similar to the existing oversupply protocol that the Commission conditionally approved:¹⁸

1. Bonneville will implement the protocol when Bonneville determines that (1) it is probable that the total dissolved gas levels measured by the U.S. Army Corps of Engineers will exceed, or when they do exceed, Clean Water Act water quality standards at projects that are spilling past unloaded turbines, and (2) other actions are unavailable or insufficient to avoid spill that exceeds the standards.

¹⁸ The proposed 2013 – 2015 Oversupply Management Protocol Attachment P is included with this Request filing.

2. All transmission customers and other entities that own or operate generating facilities¹⁹ of 3 MW or more of nameplate capacity in Bonneville's control area²⁰ are subject to displacement, including generating facilities that are dynamically scheduled out of Bonneville's control area but not including generating facilities that are transferred out of the control area by pseudo-tie.
3. If a generator is displaced, Bonneville will deliver free federal hydroelectric power to replace the reduced generation and meet transmission customers' schedules.
4. Each year an independent evaluator selected by Bonneville will construct a least-cost displacement cost curve based on displacement cost data submitted by generators that receive Production Tax Credits or Renewable Energy Credits. The independent evaluator will provide the cost curve and the total costs of displacement for each facility to Bonneville, but will not provide the costs by category. Bonneville will not disclose this information outside the organization or to any of its marketing function employees.
5. Bonneville will displace generating facilities in order of their individual displacement costs, from lowest cost to highest cost on the cost curve. Bonneville has not been able to identify any costs of displacement incurred by generators that do not receive Production Tax Credits or Renewable Energy Credits. Therefore, these generators are deemed to have \$0/MW-hour displacement cost. (This issue is addressed further below, section D.1.)

¹⁹ These facilities include federal hydroelectric generators the output of which may be reduced when generation is not required to avoid spill violations.

²⁰ Bonneville's tariff uses the term "control area" rather than "balancing authority area." These terms have the same meaning.

6. To ensure that they can meet all of their legal and reliability requirements, generators may submit minimum generation levels or maximum ramp rates based on one or more of the factors listed below. (Although some thermal generators have told Bonneville that they incur costs from displacement, all the costs they have identified can be avoided by the establishment of appropriate minimum generation levels and maximum ramp rates.) Bonneville will not direct a generator to reduce generation below its minimum generation level or at a ramp rate that exceeds the maximum ramp rate.
 - a. Generation levels required for self- or third-party supply of Ancillary Services such as operating reserves, regulating and load following reserves, or for supply of Ancillary Services to another control area;
 - b. Generation levels needed for local reactive power support;
 - c. Generation levels that can be achieved within 60 minutes or that allow return to normal operation within 60 minutes;
 - d. Generation levels required for compliance with environmental laws and regulations;
 - e. Minimum stable and safe generation levels;
 - f. Minimum fuel take obligations;
 - g. Maximum 10-minute ramp rates;
 - h. Maximum duration for reduced generation levels;
 - i. Generation levels and duration for testing requirements after generator maintenance; and

- j. Generation level needed to support plant operations associated with co-generation facilities
7. Generators that receive Production Tax Credits or Renewable Energy Credits will be compensated for: (i) lost Production Tax Credits; (ii) lost revenue from the inability to deliver unbundled Renewable Energy Credits; and (iii) with respect to power sales contracts for the bundled sale and purchase of both Renewable Energy Credits and energy for a single price executed on or before March 6, 2012, lost revenues and contract penalties resulting from the failure to deliver wind energy during hours of displacement.

B. Differences from 2012 Oversupply Protocol

The revised protocol differs from the existing protocol as follows:

- 1. Expiration Date.** The revised protocol has a multi-year term, expiring on September 30, 2015. This expiration date coincides with the expiration of the rate Bonneville is developing in its regional rate proceeding to allocate oversupply costs. This multi-year approach avoids annual filings with the Commission, takes the battles over new filings off the table as regional discussions over longer-term oversupply solutions ensue, and provides certainty to customers and Bonneville regarding the default mechanism Bonneville will use until the region develops a long-term solution.

In a letter to stakeholders asking for comment on the proposed revisions to the protocol, Bonneville originally proposed to eliminate an expiration date:

The purpose is to avoid having to repeat this effort if we continue to use the protocol. The absence of an expiration date will not stop us from seeking alternatives for managing seasonal electricity oversupply. We will

continue working with our stakeholders to seek a durable, long-term solution.²¹

This proposal garnered no support, and customers suggested various expiration dates (Portland General Electric – December 31, 2015; Renewable Northwest Project – end of fiscal year 2014; Public Power Council – September 30, 2017). Other customers objected to the elimination of an expiration date but did not propose a specific term (Iberdrola, Northwest Requirements Utilities). One customer supported a one-year term, to March 2014 (TransAlta). Bonneville has incorporated an expiration date that falls within the range of customer comments and has a reasonable nexus to the timing of the rate case.

- 2. Commitment to Take Specified Actions.** The Commission’s Order Conditionally Accepting Compliance Filing directed Bonneville “to identify those specific actions it will take prior to displacing generation in any future proposal submitted to the Commission to address oversupply situations.”²² The revised protocol includes a list of actions that Bonneville commits to take if (1) they are available, and (2) Bonneville determines that they will reduce or avoid the need for displacement. Although the Commission ordered Bonneville to include actions it “will” take before displacing generation, the availability and effectiveness of the various actions depend on system conditions. For example, additional reservoir storage space (section 2.i of Attachment P) is primarily used by the U.S. Army Corps of Engineers for flood control, and the availability of reservoir storage for mitigating oversupply situations depends on how much space is left after flood control needs are met. As another

²¹ Exhibit A at 1 – 2.

²² 141 FERC ¶ 61,234 at P 56.

example, Bonneville cannot use spill exchange agreements (section 2.h of Attachment P) if spill by the non-federal hydroelectric projects on the Columbia River would cause them to violate their own total dissolved gas restrictions.

Therefore, if Bonneville committed without qualification to a list of actions it will take in each case, it would either violate the terms of the protocol (when an action is unavailable) or take action that would increase cost with little or no benefit (if an action would be ineffective). Additionally, the listing of actions is not intended to limit Bonneville from taking other actions that may be developed or become available to reduce or eliminate displacement.

- 3. Elimination of Cost Allocation References.** Bonneville has eliminated all references to allocation of oversupply costs. Allocation of costs is a rate case issue that is being addressed in Bonneville's OS-14 rate proceeding and that will be considered by the Commission in its review of Bonneville's final decision in the rate case.
- 4. Deadline for Submitting Cost Curve Data.** The revised protocol includes a new deadline of March 15 (instead of March 31) for generators eligible for compensation to submit their cost data to the independent evaluator and have their costs included in the cost curve immediately. This schedule gives the independent evaluator 15 days before the revised protocol takes effect to assess whether the data are sufficient and to construct the cost curve. As explained in section B.5 below, generators that fail to provide data and documentation to support their costs will be deemed to have displacement costs of \$0/MW-hour. It is important that the independent evaluator have sufficient time to verify that each generator has submitted sufficient data to be

included in the cost curve. In addition, the existing protocol had a deadline of March 31 because generators had relatively little notice before they had to submit cost information. The revised deadline better balances the burden on generators with the need to construct the cost curve. The protocol also provides that eligible generators may rely on the cost data and documentation they submitted the previous year. Finally, generators may submit cost data at any time and be included in the cost curve as of the first day of the second month after they submit the data.

- 5. Compensation Dependent on Cost Data.** Under the revised protocol, generators will be compensated only if they submit the required cost data and documentation. Thus, generators that receive Production Tax Credits or Renewable Energy Credits but fail to provide required cost data or supporting information will be deemed to have displacement costs of \$0/MW-hour. Bonneville added this provision because, in 2012, the independent evaluator conducted a random validation of costs submitted by ten generators, and reported that it had difficulty obtaining cost information from four of them. Two of the generators eventually provided supporting data, but one generator provided insufficient data to support its costs for the Production Tax Credit, and one generator refused to provide any data and documentation at all. All four were large generating companies, and three of them were at the high end of the cost curve. (Again, generators can submit cost information at any time to be added to the cost curve.)

Because of the need to implement the 2012 oversupply protocol quickly, and because Bonneville failed to specify consequences if generators did not provide supporting data and documentation, Bonneville paid these generators. The revised

protocol ensures that the costs will be supported by evidence. In this respect, it also provides that the “supporting data and documentation must be sufficient to allow the independent evaluator to verify the costs.”²³

C. Other Issues

1. Thermal Displacement Costs. In response to protests by a number of Bonneville’s customers, in its December 20, 2012 order, the Commission directed Bonneville to consider thermal displacement costs for compensation “to the extent thermal resources or any other resource can demonstrate such costs.”²⁴ When Bonneville posted the revised protocol for comments, one of the issues on which it requested comments was whether to include compensation for thermal generation costs and, if so, what the costs were.²⁵ Only one commenter, TransAlta, identified any costs.²⁶ However, all of the costs TransAlta identified can be avoided if the generator specifies a minimum generation level. For example, TransAlta commented that it should be compensated for “[p]enalties for violating self- or third-party supply agreements for Ancillary Services such as operating reserves, regulating and load following reserves, or Ancillary Services to other [balancing authority areas],” and “[p]enalties or financial losses from failing to provide local reactive power support[.]”²⁷ However, under Attachment P, thermal generators can set minimum generation levels to avoid these penalties (sections 8.i and ii of Attachment P). Therefore, Bonneville has not added any cost categories to the protocol for thermal generators.

²³ Revised Attachment P, section 4.a.

²⁴ 141 FERC ¶ 61,234 at P 53.

²⁵ See Exhibit A at 2.

²⁶ Available at <http://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=185>.

²⁷ *Id.*

2. Changes to E-Tags. In its order, the Commission agreed with Bonneville that displacement transactions that occur during the operating hour do not necessitate a change in e-Tags.²⁸ In its comments on Bonneville’s revised protocol, Portland General Electric asked that Bonneville include “a process by which it will determine if multiple consecutive hours of Oversupply Management Protocol operations are required” and how Bonneville will comply with the Commission’s direction to make changes to e-Tags for an oversupply event that lasts longer than one hour.²⁹ Because Bonneville implements the protocol only for the operating hour, it will not change e-Tags for displaced generation and thus does not need to establish such a process.

Bonneville cannot implement the protocol for more than one hour at a time. 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 scheduled generation available for displacement. The demand for power is constantly changing. If demand increases the next hour, less displacement is required. If demand decreases, 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 the amount of generation that would be scheduled in a later hour, Bonneville would displace either too much or not enough generation.

Displacing the incorrect amount of generation has economic and environmental consequences. Overestimating the amount of displacement required results in

²⁸ 141 FERC ¶ 61,234 at P 65.

²⁹ Available at <http://www.bpa.gov/applications/publiccomments/CommentList.aspx?ID=185>.

payments to generators for generation they never would have produced in the first place, thus raising oversupply costs with no corresponding benefit. Underestimating the amount of displacement required puts Bonneville at risk of exceeding total dissolved gas limits. Therefore, Bonneville must make an hour-to-hour determination of the amount of displacement required to ensure that costs are kept as low as possible and that Bonneville's environmental responsibilities are met.

III. THE PROTOCOL CONTINUES TO PROVIDE A BALANCED RESOLUTION TO THE OVERSUPPLY PROBLEM

The revised protocol uses the same mechanism to address oversupply situations as the existing oversupply protocol that the Commission conditionally accepted as providing comparable transmission service.³⁰ It also incorporates a number of refinements and a limited, multi-year term. The protocol continues a “balanced”³¹ approach by reconciling the requirement to provide comparable transmission service with Bonneville's other statutory responsibilities. It preserves the generation displacement tool by which Bonneville avoids violating spill limitations that were established under the Clean Water Act; maintains the transmission schedules of displaced generators by providing federal hydroelectric power at no cost; permits generators to submit minimum generation levels and maximum ramp rates to ensure that they meet their legal and reliability obligations; and compensates displaced generators for unavoidable displacement costs. As was the case under the existing protocol, generators that receive Production Tax Credits or Renewable Energy Credits, such as wind generators, are displaced *after* generators with \$0/MW-hour displacement costs such as nonrenewable thermal generators and hydroelectric generators, including federal hydroelectric generators not subject to spill limitations.

³⁰ *Id.* at P 77.

³¹ *Id.* at P 46.

The protocol continues to limit compensation to the individual generator displacement costs pre-established under the least-cost displacement cost curve and thereby provides a level of certainty with respect to Bonneville’s cost exposure. If it did not do so, generators that now voluntarily displace their generation with low-cost or free federal power might refuse to do so and wait until power prices turned negative. The combination of a large amount of publicly available data regarding when and how long Bonneville will be facing a high-water event and Bonneville’s need to generate power when spill limitations are reached would vest generators with significant market power to demand negative prices higher than their displacement costs. Restricting compensable costs to actual costs supports Bonneville’s statutory responsibility to provide power and transmission services “at the lowest possible rates to consumers consistent with sound business principles.”³²

Bonneville will continue to seek additional mechanisms for managing seasonal electricity oversupply in order to reduce the need to implement the protocol. Bonneville will also continue working with its stakeholders to seek a durable, long-term solution to the oversupply problem.

³² 16 U.S.C. § 838g (2009); *see also id.* § 839e(a)(1).

IV. REQUEST FOR COMMISSION APPROVAL OF THE 2013 - 2015 OMP

Bonneville requests that the Commission accept its proposed tariff amendment for filing effective March 31, 2013 and approve the tariff filing as providing comparable transmission service.

DATED this 1st day of March, 2013.

Respectfully submitted,

/s/ Steve Larson

Steve Larson – Attorney

Barry Bennett – Attorney

Bonneville Power Administration

Office of General Counsel – LC-7

905 NE 11th Avenue

Portland, OR 97232

Phone: (503) 230-4201

Fax: (503) 230-7405

raroach@bpa.gov

srlarson@bpa.gov

bbennett@bpa.gov

Exhibit A

Bonneville Letter to Stakeholders



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

CORPORATE STRATEGY

January 23, 2013

In reply refer to: SR-7

Dear Interested Parties,

This letter is to inform you of the Bonneville Power Administration's response to the Federal Energy Regulatory Commission's Dec. 20 order conditionally accepting our Oversupply Management Protocol. Under the protocol, BPA displaces generation when necessary to balance energy supply and demand and reduce the amount of total dissolved gas in the Columbia River.

We are also seeking comments on proposed revisions to the protocol, established in Attachment P of BPA's Open Access Transmission Tariff. We plan to re-file the tariff attachment with FERC in March.

Response to FERC's Dec. 20 order

Yesterday, BPA filed a request with FERC for rehearing on the requirement to submit, within 90 days of the order, a new methodology to allocate Oversupply Management Protocol costs. Because BPA had not completed its rate-setting process, the issue was not before FERC, and FERC did not have a record on which to make a ruling. BPA is currently conducting the OS-14 rate case to develop a cost allocation methodology, which we will then submit to FERC for approval.

BPA also requested a stay of the compliance filing requirement until FERC rules favorably on the request for rehearing, in which case a compliance filing would not be required, or until BPA files its final OS-14 rate proposal with FERC. BPA has requested expedited review of its request for a stay.

Revisions to the Oversupply Management Protocol

Before FERC issued the orders on Dec. 20, BPA announced it would re-file the tariff attachment on the Oversupply Management Protocol with FERC after taking comment on proposed revisions. After receiving the Dec. 20 orders, we put the effort to re-file on hold while we reviewed the orders. BPA is re-filing the protocol because it expires on March 30.

Consistent with FERC's orders and its conditional approval to use the protocol, we will re-file the tariff attachment with the following proposed revisions:

- The revised tariff does not specify an expiration date. The purpose is to avoid having to repeat this effort if we continue to use the protocol. The absence of an expiration date

will not stop us from seeking alternatives for managing seasonal electricity oversupply. We will continue working with our stakeholders to seek a durable, long-term solution.

- We have included consequences for generators that fail to submit supporting cost data. The purpose is to assure ratepayers that all future costs are correct and reasonable.
- The tariff includes a non-exclusive list of actions BPA may take to reduce or avoid the need for displacement, per FERC's direction.
- The tariff does not reference cost allocation, an issue that must be resolved in the current OS-14 rate case.
- We changed the deadline for generators to submit displacement costs from March 31 to March 15 to give the independent evaluator more time to verify that generators have submitted supporting data.

Per FERC's direction, BPA will also seek public comment on whether to include compensation for thermal generation under Attachment P. The Commission noted that thermal generators have not identified specific uncompensated costs caused by displacement and should be afforded the opportunity to demonstrate such costs.

BPA's revised tariff and background information are available at www.bpa.gov/goto/oversupply. We will host a conference call to discuss the revisions on Jan. 29, from 9 to 11 a.m., and we will accept comments on the revisions through Feb. 6. To participate in the conference call, dial 888-830-6260 and enter participant code 374093. You may submit comments online at www.bpa.gov/comment; by mail to Bonneville Power Administration, Public Involvement – DKE-7, P.O. Box 14428, Portland, OR 97293-4428; or by fax to 503-230-4019.

All comments will be posted in their entirety, including the author's name and affiliation, at www.bpa.gov/comment. Following the comment period, BPA will draft a response to comments and revise the filing. BPA plans to submit the filing on March 1.

If you have questions about BPA's proposal or need more information, please contact Nita Burbank, Oversupply Project Manager, at nmburbank@bpa.gov or 503-230-3935, or call the general information line toll free at 800-622-4520.

Sincerely,

/s/ Elliot E. Mainzer, January 23, 2013

Elliot E. Mainzer
Executive Vice President
Corporate Strategy

Exhibit B

Bonneville Response to Customer Comments

**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.



CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Request for Approval of Revised Oversupply Management Protocol of the Bonneville Power Administration upon each person designated on the official service lists compiled by the Secretary in Docket Nos. EL11-44 and NJ12-7 by electronic mail or by United States Postal Service where requested.

Dated this 1st day of March, 2013.

/s/ Barry Bennett

Barry Bennett

Attorney

Office of General Counsel - LC-7

Bonneville Power Administration

P.O. Box 3621

Portland, Oregon 97208-3621

Phone: (503) 230-4053

Fax: (503) 230-7405

bbennett@bpa.gov