

Renewable Northwest Project

917 SW Oak
Suite 303
Portland, OR 97205

Phone: 503.223.4544
Fax: 503.223.4554
www.RNP.org

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Renewable Northwest Project

January 11, 2008

Nita Burbank
Bonneville Power Administration

Dear Ms. Burbank:

The Renewable Northwest Project (RNP) appreciates the opportunity to comment on Bonneville Power Administration's Discussion Paper on Tiered Rates Methodology (TRM) dated December 21, 2007. RNP is a regional non-profit organization that promotes solar, wind and geothermal resources in the four states of the Northwest. Our members include consumer and environmental organizations as well as energy companies involved in the development of renewable resources. Our comments are primarily limited to the Resource Support Services (RSS) section (8), as this section is most relevant to RNP's interest in fostering renewable energy development in the region.

General Comments:

To the extent that BPA adheres to its commitments under the Regional Dialogue Record of Decision to continue to facilitate renewable energy development in the region, RNP supports the Northwest Power and Conservation Council's (NWPCC) recommendation to BPA¹ and, in general, BPA's diligent effort pursuing a tiered rate methodology. RNP agrees that this approach will provide market stability to the region and send appropriate price signals for the acquisition of new energy resources and cost-effective conservation measures. RNP cannot currently support the policy that all Tier 2 energy resources must be individually flattened into diurnal and yearly blocks.

From our perspective, BPA has not adequately explained the policy goal accomplished by flattening Tier 2 resources. Page 46 of the TRM Discussion Paper simply states, "Tier 2 rates will be based on the cost of providing a flat annual amount of power." This single sentence is insufficient in explaining the reasoning behind this policy decision, which was not previously identified as a goal by the NWPCC. BPA's Long-Term Regional Dialogue Record of Decision only cites the simplicity and lesser administrative costs of implementing a TRM with flat Tier 2 blocks (July, 2007, p. 91).

¹ <http://www.nwcouncil.org/library/2004/2004-5.htm>

The above statements do not justify this policy decision given the potential that high RSS costs will discourage the development of renewable energy resources in the region. We would like to better understand the operational and administrative drawbacks of selling Tier 2 products at incremental rates in flat hourly blocks and are unclear on what additional costs are associated with doing so.

We believe that BPA must embrace the unique operational characteristics associated with managing non-dispatchable resources. Doing so is critical to the important role BPA plays in providing its customers products that meet both their energy and Renewable Portfolio Standard needs in the most cost effective manner.

RNP is concerned that the RSS flattening requirements of Tier 2 products are not consistent with the NWPCC's direction to BPA to facilitate the integration of renewable resources. The NWPCC's comments on BPA's Long-Term Regional Dialogue Policy Proposal (September 14, 2006) states that "Bonneville should continue to aggressively develop and market renewable integration services... [and] ...identify ways to maximize cost-effective regional integration capability."² RNP is concerned that the RSS services outlined in the TRM discussion paper run counter to the NWPCC's direction because unnecessary flattening requirements impose potentially high and discriminatory costs on non-dispatchable resources.

Specific Issues:

- We found the RSS section of the TRM paper somewhat difficult to follow. This is partly because some of the details surrounding this product have yet to be provided and partly because some of the terms used are not well defined. For example, it is unclear what is meant by "energy efficiency losses" (paragraph 3, p. 53) and we do not yet know what the "method for determining the expected generation and forecast operational minimum" (pp. 53-54) will be. It is very difficult to support the TRM and RSS concepts without understanding these critical details.
- Because the TRM and RSS proposals are incomplete and complex, RNP highly recommends that BPA develop a set of examples and show exactly how the charges and true ups would work as applied to different resources and for different customer classes. Concrete examples with realistic (if very approximate) assumptions for market prices and TRM rates would allow customers to better understand the order of magnitude of the RSS costs.

² <http://www.nwcouncil.org/energy/bparole/2006comments.htm>

- The description of how BPA will calculate the amount of support capacity needed for Tier 2 resources (at the bottom of page 53) is not clear to us. RNP is concerned that the proposal calculates the support capacity needed for each resource individually. This method is sure to exaggerate the amount of capacity needed in real-time for resources with partially independent fluctuations and generation variances partially canceling each other out. We suggest that BPA consider lumping together all Tier 2 resources, or at least similar resources, when calculating support capacity requirements.
- We do not currently understand the interaction between the Diurnal Flattening Service (DFS) and the Resource Shaping Charge (RSC). BPA should be careful to ensure that there is no cross-movement required by the interaction of the two services. For example, we suggest that if a resource ends up generating above the forecast for a LLH diurnal period and also above the annual forecast it should not be charged for efficiency losses associated with flattening the resource down to the LLH forecast and then back up again to meet the annual flattening requirement.
- The RSS structure appears to have been designed with wind projects and base-load generators in mind. We suggest that a crucial test of RSS is whether it makes logical sense when applied to generators with different operating characteristics, especially dispatchable thermal, and solar-fueled resources. Normally, gas units generate or are held idle in response to prevailing market conditions. We are concerned that the proposed RSS structure would provide disincentives (additional costs) for displacing such resources with market purchases when market purchases are more economical. If so, it is unclear why BPA implement such a policy given the concern expressed by BPA staff regarding the diminishing flexibility of the federal hydropower system.
- It would seem similarly counterintuitive and counterproductive were the RSS charges to result in undue disincentive for generators with positive load following characteristics, such as solar thermal or photovoltaic resources. Additional charges should not be levied on resources for positive-value attributes. Similarly, it is unclear whether a wind resource that provides more of its generation in the higher load, higher value months or hours should be charged more than a wind project whose output is more uniformly spread over hours and months.

We hope these comments are useful, and encourage staff to contact RNP should they have any questions. Thank you for your attention.

Sincerely,

Ken Dragoon
Research Director

Cameron Yourkowski
Transmission Policy Associate