

Comment and Response for BPA's Proposal to sell Frequency Response Reserves Nov. 19, 2015

Proposal

FERC recently approved NERC standard BAL-003-1 on frequency response reserves. The standard requires balancing authorities to provide frequency response capability sufficient to meet the standard. The frequency response standard goes into effect Dec. 1, 2016.

In response to this new standard, BPA intends to offer its surplus frequency response reserves to balancing authorities within WECC. This offer is subject to BPA's Pacific Northwest regional preference obligations under its organic statutes.

Under the standard, each balancing authority or reserve sharing group must respond to a drop in frequency with a response greater than or equal to its frequency response obligation, or FRO. The FRO must be met for the majority (median) of the NERC-selected frequency drop events occurring over the specified measurement year.

BPA has more frequency response reserves than it needs to meet its own obligations under the new standard, however many balancing authorities in WECC do not have sufficient capability to meet their NERC frequency response obligations. BAs with insufficient capability to provide frequency response must adjust generator settings, build new generating resources or purchase frequency response reserves.

BPA held a public comment period on our proposal that opened on Oct. 30, 2015 and closed on Nov. 13, 2015.

On Nov. 2, 2015, a request for offers to potential counterparties was issued.

One comment was received on this proposal. The comment and BPA's response to the comment is below.

Public comment

PFRR15 0001 - Adcock/self, an electrical engineer: BPA states as condition of sale: "Note that BPA must satisfy the needs of the Pacific Northwest prior to selling surplus capacity and energy outside of the Pacific Northwest. Therefore, if Pacific Northwest Balancing Authorities submit offers whose prices match or exceed offers from outside the Pacific Northwest, BPA must first sell to Pacific Northwest counterparties." I disagree that these terms of sale meet the requirements for PNW preference. Under these terms of sale ANY price superiority of non-PNW bids are sufficient to negate the PNW preference requirement. Such terms do not in practice mean that PNW needs are being met. It only means that alternative means (presumably natural gas peakers) are more expensive in non-PNW regions than in PNW regions.



For example, I would expect Cal peakers to be more expensive to run than PNW peakers due to more stringent Cal environmental requirements. Contrariwise, if Washington State I-732 passes, then perhaps running peakers in Washington State will become more expensive. BPA procedures do not correctly account for issues of current and future environmental compliance, including Clean Power Plan, in the terms of sale. The PNW preference should actually be given to the PNW to meet future Clean Power Plan, I-732, or other PNW environmental requirements, when such requirements become due. PNW utilities should not be required to try to guess today what environmental requirements may become due in the next few years. BPA needs to adjust their procedures to actually give PNW utilities their preference required under law, including new federal and state environmental regulations, rather than continue to try to come up with procedures, such as this bidding procedure, which do not in fact, in practice, give the PNW utilities their statutory preference. And BPA needs to realize that "tie goes to the PNW" is not a sufficient criteria to guarantee that the PNW preference is actually being met. As an alternative procedure, for example, BPA could hold separate and simultaneous bids for PNW and non-PNW utilities, and analyze those bids in comparison to each other. I agree that if the non-PNW bids come in MUCH higher than the PNW bids, then it would indicate that the PNW bids do not have much needs for the BPA resources. But if the bids come in somewhat similar -- even if the PNW bids come in somewhat lower -- then if BPA were to fill the bids outside the PNW, I believe that would indicate that BPA is not meeting the PNW preference mandate.

BPA's response to comment

Response to Mr. Adcock:

BPA posed a proposal for the sale of Frequency Response Reserves (FRR) on its website and invited public comment through Friday November 13, 2015. BPA received a single comment from a Mr. Adcock who stated he was an electrical engineer and was making the comment on behalf of himself. BPA received no comments from any public interest group, tribe or any utility customer or direct service industrial customer of BPA. BPA did receive a response from one Pacific Northwest utility inquiring about a purchase of FRR and BPA is contacting that utility.

Mr. Adcock stated several concerns in his comment about BPA meeting its obligations under the Pacific Northwest Preference Act, P.L.88-552 and the Northwest Power Act to provide preference to Pacific Northwest utilities in the purchase of a FRR product. Mr. Adcock stated he did not think the terms of the sale meet PNW preference because 1) any price superiority of non-PNW bids are sufficient to negate the PNW preference requirement; 2) BPA procedures do not account for issue of current and future environmental compliance in the terms of the sale because utilities cannot guess today what environmental requirements may become due in the future; and 3) BPA's policy criteria on preference that a "tie goes to the PNW" customer is not sufficient to guarantee that preference is being met. Mr. Adcock does agree that if PNW utility bids do come in higher than PNW bids then there may not be much need for the product in the PNW and that if the bids are substantially the same and BPA were to not accept PNW bids, then BPA preference to the PNW utilities under P.L. 88-552 would not be met.

As to Mr. Adcock's first issue, Mr. Adcock assumes that BPA must sell to the PSW customer if it bids in a price higher than any PNW customer. Preference is not about the price at which BPA sells the product or service. Preference is making the product available to the PNW utilities first before concluding any sale to an out of region party. As the U.S. Supreme Court has stated, preference is giving a class of customers the first right to purchase the product when administratively offered by BPA. *Cf. Aluminum Company of America v. Central Lincoln PUD*, 476 U.S. 380 (1984). BPA sells its surplus power products and service consistent with section 9(c) of the Northwest Power Act, P.L. 96-501, which provides that BPA can sell its products "at the rate established for the disposition of" such products. Basically, BPA has discretion to sets its pricing for its product and doing so is not an issue of preference. That is why Mr. Adcock's third point that preference criteria of a tie going to the PNW being not sufficient to meet preference is simply wrong. As the Supreme Court has acknowledged that preference is a tie breaker for who is able to purchase the product or service. *Id.* As Mr. Adcock states if both PNW and PSW utilities bid and BPA were to sell only to PSW then preference would not be met. But BPA's policy and practice is to sell to PNW utilities first if they are willing to purchase at the price that BPA sets for the sale.

As to the second issue on BPA procedures not considering future environmental compliance needs in the PNW, BPA is only offering this FRR product at this time on an annual basis. PNW customers who are qualified Balancing Authorities will have an opportunity to purchase FRR in the future and BPA expects that they will consider all of their needs when they review any future offers by BPA of FRR. BPA cannot anticipate or as Mr. Adcock says, "guess" a specific future need of a potential customer for FRR and simply lacks a capability to determine their needs. We expect that the customer itself will have to make those decisions and that it will include a reasonable evaluation of its own future environmental compliance. Although such compliance may be a motivation for buying the product, BPA would not include terms regarding such future planning in the contract as that is the purview of the customer.