

**BP-2014 Workshop on BPA's
Acquisition Framework for Imbalance Capacity
March 5, 2013**

John Wellschlager

&

Preston Michie



Underlying Principles in our Acquisition Process

- Minimize the total cost of supplying imbalance capacity to support customer elections while meeting FERC requirements for a BA.
- Create a single process to use as a framework for acquiring all reserves required across the rate period, regardless of what products customers elect to sign up for.
- Quantity purchased will be a TS operations decision, executed through Power Services.
- Any purchases of Imbalance Capacity would be made a by a Power Services Employee using a process that addresses any SOC concerns.
- Communication with customers in the product pool on our success (or failure) in procuring imbalance capacity would be done in a timeframe that allows them to ascertain their level of DSO 216 exposure prior to the operating hour or sooner.
- Costs of any acquisitions will be allocated back to ACS customers according to the cost allocation defined in the rate case.



Acquisition Goals and Timelines

- Both the need and type of acquisitions BPA will be defined by customer elections and customer resource management decisions.
- Acquisitions will be broadly broken into three categories:
 - Long-term – reserves purchased for several consecutive months or more
 - Mid-term – reserves purchased in individual monthly amounts
 - Short-term – reserves purchased in less than monthly amounts
- At a minimum, the amount of BPA required acquisitions would be defined monthly.
- Initially, it is recommended that acquisitions are NOT made in finer increments than the WECC pre-schedule period (1-5 days) as defined by the WECC scheduling guidelines. As we move forward we will explore buying in smaller increments.



Types of Within-hour Reserve Acquisitions in 2014 Rate Case

- **Planned Acquisitions* (Type 1)** – Monthly purchases required to cover the shortfall, if any, between the planned FCRPS balancing reserve capacity (900 MW INC, 1100 MW DEC) and the rate case planned balancing needs of base service (99.5% after adjusting for any self-supply of generation imbalance). Costs are allocated to the base service pool
- **Operational Acquisitions* (Type 2)** – Purchases needed when BPA is either operationally unable or at risk of being unable to provide the planned FCRPS INC balancing reserve capacity necessary to meet the 99.5% reliability standard. Costs are allocated to the base service pool
- **Full Service (Type 3)** – Purchases required to provide reserves for customer electing the VERB's Full Service balancing service plan. These will be made in smaller increments. Costs are allocated to the full service pool
- **Unplanned Service* (Type 4)** – Monthly purchases required to support an unplanned increase in balancing services required by the BPA BA. These costs are directly assigned to the customers that create the unanticipated increase.
- **VERBS Supplemental Service (Type 5)** – Optional monthly service where BPA purchases reserves on behalf of customers requesting an amount they define. This service would be in addition to the base service. Customers may also acquire their own Supplemental Service with less notice for shorter periods. Costs are allocated to the SS pool.

*these acquisitions are for meeting or maintaining our base level service with the 99.5% reliability standard.



Process & Pricing Guidelines for Purchases

- Monthly, within month and up to pre-schedule would be handled by a Power Services employee via an RFP process.
- Acceptable bids should balance deployment costs against capacity costs in a way that doesn't create cost shifts between within-hour Imbalance Capacity customers and other BPA customers.

Several potential examples follow for discussion purposes only:

- For non-thermal plants, the evaluation would consider capacity costs in conjunction with energy pricing. Energy pricing would be referenced to an approved energy index for deployed energy.
- For thermal plants, the evaluation would consider the total value offered based on the capacity charge and the heat rate bid in conjunction with approved gas indexes.
- We would also consider doing solicitations using defined energy pricing where only the capacity component of the bid is variable.



Pre-Qualifying Suppliers

- BPA would start by issuing a regional notification that we intended to purchase within hour imbalance capacity reserves in the coming rate period.
- We would specify any known projected needs and acquisition time frames and ask for a submission of interest from prospective suppliers.
- An open season would be stipulated for any pre-qualification process.
- Once received, we would work to pre-qualify potential bidders from both an operational and financial perspective in accordance with Agency business practices.
- Transmission Operations would be responsible for operationally pre-qualifying potential suppliers.
- Pre-qualification would establish parameters for each resource ensuring energy costs are reasonable.



Contract types

- Standardized Capacity Term Sheets could be developed providing both boiler plate language for options and operational performance standards. These one to two page confirms could then be used for any shorter term offers taken (one month or less).
- In addition to a capacity charge, any dispatched energy for any individual agreements would be indexed in a standard way to either a energy index or to a gas index.
- Valuation would be done based on $\text{Total Cost} = \text{capacity cost} + \text{energy cost/estimated deployments}$



Modeling Inputs Required for Defining Acquisitions

- Monthly blocks of acquisition need (Type 1, 4 & 5) will be defined by Transmission operations.
- Smaller blocks of acquisition need (Type 2 & 3) will require close coordination between T & P operations.
- An “as needed” daily meeting would need to be established to utilize all available real-time inputs to define any short term purchasing needs (if any).
- Transmission Operations, Power Operations and the Weather & Streamflow employee’s would be included in these meetings.



System Test Pilot Program

- BPA is considering doing several very short term system test pilots.
- These pilots will allow us to test the various system modifications being put in place prior to the start of the Rate Period to accommodate the integration of outside reserves.
- Bi-lateral negotiations would occur with 1-4 selected counter parties to test the various features of the internal system development.
- Capacity purchased would only be large enough to allow testing of deployment, resource stacking, billing etc rather than supply any meaningful additional reserves capacity.



■ Questions?

