



Transmission Services

**Customer Comments on the
BPA Stakeholder Meeting
addressing the PAC-CAISO
Energy Imbalance Market
April 15, 2014**

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Comments of Powerex Corp.
PacifiCorp’s Proposed Use of “Interchange Rights” to support EIM Transfers

Company	Date Submitted
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Powerex welcomes the opportunity to provide comments in response to BPA’s April 15, 2014 stakeholder meeting and discussion.

Powerex greatly appreciates BPA’s active engagement with PacifiCorp and the CAISO during their creation of a multi-state EIM in the region. The Memorandum of Understanding (“MOU”) between BPA, PacifiCorp and the CAISO provides the baseline affirmation that all agreements between the parties in furtherance of the CAISO EIM will be consistent with NERC and WECC reliability standards and with open access principles, including the terms and conditions for transmission service provided pursuant to BPA’s OATT. These commitments serve BPA’s dual responsibilities as a balancing authority and an open access transmission service provider.

At this stage, Powerex’s comments focus particularly on the impact of one component of CAISO’s EIM proposal that appears to substantially reshape the contours of the OATT framework in the region. As detailed in their respective FERC filings, CAISO and PacifiCorp propose to create a novel device through which EIM participants can informally transfer transmission rights—including rights on BPA and other third-party transmission systems in the region—to facilitate CAISO’s EIM dispatches through and between EIM BAAs. As proposed by the parties, the first “donation” under this arrangement will involve approximately 100 MW of firm transmission rights held by PacifiCorp Energy on the COI, which is operated by BPA. But importantly, PacifiCorp’s initial “donation” is intended to be only a starting point: PacifiCorp’s filing extends this arrangement to any of its transmission customers, while CAISO’s filing indicates that it intends to facilitate the growth and expansion of its EIM by inviting new EIM participants to make additional donations of transmission reservation rights they hold across the region.

Powerex is concerned that CAISO’s proposed “transmission donation” framework will have a broad impact on BPA transmission customers in violation of the MOU, BPA’s OATT, and potentially BPA’s organic statutes. The donation arrangement—as specifically proposed by the CAISO and PacifiCorp **now** for transmission use on the COI, *and* as generally proposed by the CAISO to permit **future** donations over a broader footprint in the future by any willing EIM Participant—requires substantial scrutiny in a transparent forum.

Powerex supports the creation and implementation of efficient markets for imbalance energy in the West. But as a transmission customer taking service under BPA's OATT, Powerex believes BPA's engagement and involvement is essential to ensure the CAISO/PAC-proposed EIM structure and operations do not undermine BPA's OATT framework or the transmission rights of BPA's customers.

1. Overview of CAISO's "Donation" Framework for EIM Transmission Access

CAISO's EIM filing, along with PacifiCorp's proposed tariff amendments to implement the EIM within its BAA, contain an extremely limited description of how the arrangement will work. But the two parties' filings at FERC indicate the novel arrangement will provide a door to siphon OATT-allocated transmission capacity for exclusive use in the CAISO's EIM.

As proposed by the CAISO and PacifiCorp, EIM participants may "donate" unused firm transmission rights to "the EIM" such that the capacity is set aside exclusively to support CAISO's real-time transfers of energy between EIM-participating BAAs ("EIM Transfers"). Powerex understands the proposal to currently consist of the following core elements:

- An EIM participant with unused firm transmission (an "Interchange Rights Holder") in the region will voluntarily elect to make its reservation available for EIM use without any formal assignment or transfer.
- On an hour by hour basis, the donor will determine the quantity of transmission to be made available to the CAISO for EIM dispatches.
- During real-time EIM dispatch, CAISO (as EIM market operator) may use the donated transmission rights to dispatch *any* EIM participating resources and deliver the output into another EIM BAA.
- EIM resources that flow on this "donated" service in real-time also "borrow" the firm transmission and curtailment priority of the donor, instead of having non-firm priority consistent with the OATT's treatment of unused firm capacity.

As PacifiCorp expressly stated its FERC filing, both it and the CAISO intend that this arrangement will provide a mechanism that will permit the CAISO to engage in "EIM Transfers over *transmission facilities owned or operated by entities other than PacifiCorp.*" This has immediate implications for BPA. Indeed, PacifiCorp's initial donation provides a critical example of the issues that will arise if the CAISO is permitted to utilize transmission customers' "donated" transmission to dispatch EIM flows across COI transmission facilities operated by BPA.

The CAISO proposal goes far beyond merely utilizing transmission that remains available in real-time, and expressly puts the EIM “first in line” to secure unused firm transmission in the region. If EIM participation increases—as CAISO hopes and intends—the framework initially implemented in a limited fashion by CAISO and PacifiCorp will also permit the CAISO to effectively expand its EIM reach by taking over BPA and other regional transmission providers’ role and responsibilities for re-allocation and use of unused firm transmission. As applied to BPA, this is inevitably and unjustifiably obtained at the expense of all customers’ access to non-firm service under the OATT.

2. The Proposed Customer “Donation” of Transmission Rights on Third Party Facilities, for CAISO’s Exclusive Redistribution to EIM Participants, Abrogates Existing Open Access Principles and Requirements

The arrangement proposed by the CAISO, as explained in more detail by PacifiCorp, appears to compromise core principles of open access. Under FERC’s open access policy, firm transmission reservations that are not used by the original rights-holders are made available by transmission providers as non-firm service to all eligible customers on a non-discriminatory basis. In orders over the past two decades, FERC has relied on the OATT release mechanism as a primary means to ensure that unused transmission capacity could not be hoarded, re-allocated in a discriminatory manner, or left unused. CAISO’s EIM “donation” framework short-circuits this process.

a. PacifiCorp’s initial proposed donation provides a clear example of how CAISO’s overall “donation” framework circumvents FERC’s open access policy and the OATT’s historical approach

It is Powerex’s understanding that PacifiCorp Energy’s initial “donation” will involve its assigned Scheduling Rights under a grandfathered agreement over BPA-administered facilities on the AC Intertie. An examination of how this “priority” donation will apply at the start of the EIM, with PacifiCorp Energy’s transmission rights on the COI, reveals the potential for detrimental impacts on BPA’s existing transmission customers.

First, the arrangement effectively permits PacifiCorp Energy to withhold its unused firm capacity for selective release to EIM participants:

- PacifiCorp Energy’s unused firm transmission rights on the COI will not be made available to all eligible customers as non-firm service, but instead will be made available for use by EIM participants only.
- The allocation of PacifiCorp Energy’s unused firm transmission on the COI will not be performed by BPA, as the recipient under the AC Intertie Agreement of any of PacifiCorp’s unused Scheduling Rights. Instead, these unused rights will

be allocated by the CAISO, who as EIM market operator will dispatch EIM resources across the BPA-operated facilities in real-time.

- EIM Participants who “borrow” PacifiCorp Energy’s COI transmission rights are not required to be “Eligible Customers” under BPA’s OATT, and may thus be otherwise unqualified to obtain non-firm transmission service over those facilities.

Second, in striking contrast to the OATT system of release and use, the EIM Participants who obtain PacifiCorp Energy’s “donated” service will also “borrow” PacifiCorp Energy’s firm transmission and curtailment priority, instead of having non-firm priority consistent with the OATT’s treatment of unused firm capacity:

- Real-time EIM dispatches by the CAISO on PacifiCorp Energy’s “donated” COI capacity will have curtailment priority over BPA’s (and all other transmission providers’) non-firm OATT schedules on the same transmission path;
- “Donated” capacity set aside for CAISO’s EIM use will be able to trigger the curtailment of existing non-firm schedules, and the pro rata curtailment of firm schedules.

As a starting point, only PacifiCorp Energy’s intended donation of 100 MW will enjoy the preferential treatment outlined above. But when the quantity of rights donated by PacifiCorp Energy increases, or as the framework is applied to other EIM participants, as CAISO intends, the harmful impact on BPA’s existing OATT customers can be expected to increase.

b. CAISO and PacifiCorp’s Proposed Donation Framework Has Potential Far-Reaching Consequences, and Deviates From the Current Understanding of Transmission Rights and Transmission Use

Based on what can be gleaned from the relevant FERC filings, the CAISO’s proposed EIM arrangement would create a mechanism for a firm transmission rights-holder to claim to “use” reserved capacity that it neither schedules for its own use nor transfers or re-assigns to another eligible customer.¹ Such a change has no precedent and requires substantial scrutiny:

- The OATT framework does not appear to permit a Transmission Customer the authority to unilaterally apportion a right to flow on its reservation to some limited group of entities (who may or may not be Eligible Customers under the underlying transmission provider’s OATT).

¹ PacifiCorp’s proposed tariff amendments make clear that the above transmission donation will not be a re-assignment or transfer of PacifiCorp Energy’s transmission rights.

- The OATT framework does not appear to permit Transmission Customers to “use” their transmission rights to deliver energy to which a third party has title.

PacifiCorp claims that the arrangement merely “represents an alternative means for the PacifiCorp Interchange Rights Holder to utilize the previously-reserved capacity.”² But PacifiCorp does not dispute that “donated” firm rights will not necessarily be “utilized” by the donating Interchange Rights Holder at all. Indeed, PacifiCorp has stated that “the firm transmission rights [donated] for EIM Transfers will be made available for any EIM Transfers and not just for PacifiCorp Energy’s own resources.”³

More details and clarification are necessary at this juncture.

3. CAISO’s Proposed Framework May Permit Donor Actions that Otherwise Violate the Terms and Conditions of the Donor’s Underlying Transmission Service Agreements with BPA or other Third Party Transmission Providers

CAISO does not propose any framework for ensuring that PacifiCorp Energy’s immediate donation, or future donations by other EIM participants, will be consistent with the terms and conditions of the underlying transmission rights. This lack of detail is of great concern. As explained below, the initial donation by PacifiCorp Energy illustrates how such donations can easily go beyond what is permitted under the donor’s underlying transmission rights.

a. PacifiCorp Energy’s initial donation appears to violate the limitations set out in PacifiCorp’s Grandfathered Agreement with BPA

Without providing any details, PacifiCorp’s FERC filing summarily asserts that its merchant’s donation arrangement is appropriate. This lack of detail obscures any serious review of this threshold issue.

It is Powerex’s understanding that PacifiCorp Energy’s “donation” is derived from PacifiCorp’s grandfathered Amended and Restated AC Intertie Agreement with Bonneville. But PacifiCorp has neither confirmed this, nor explained how its COI scheduling rights under the grandfathered AC Intertie Agreement permit the proposed dynamically-scheduled donation at all.

An initial review indicates PacifiCorp Energy’s proposed “donation” may violate both the spirit and the letter of the underlying agreement between PacifiCorp and BPA. Notably, Section 5(e)(1) of the Agreement provides at least four significant impediments to the arrangement that CAISO and PacifiCorp propose:

² PacifiCorp EIM Filing, Att. E (testimony of Sarah E. Edmonds) at 22:19-20.

³ PacifiCorp Answer to Protests to CAISO Filing, at 7 (April 15, 2014) (emphasis in original).

- *PacifiCorp Energy's donation will lead to precisely the opposite result of the parties' intent, as expressly stated in the Agreement, to "preserve Bonneville's rights to use PacifiCorp's unused Scheduling Rights in a manner that allows third-party access to such rights in any hour"*
- *The Agreement appears to preclude the hour-by-hour "donations" CAISO and PacifiCorp propose; the Agreement permits "PacifiCorp or any successive assignee" to make Scheduling Rights under the Agreement "available on a firm basis to all parties under the provisions of PacifiCorp's open access tariff" but it expressly prohibits making such rights "available for periods [] shorter than daily"*
- *The Agreement appears to preclude the intra-hour schedule changes inherent to dynamic scheduling: it instead provides that "[a]fter thirty minutes prior to the hour for service to be provided pursuant to [PacifiCorp or its successive assignee's] preschedule, these unused scheduling rights shall be relinquished to Bonneville."*
- *The Agreement appears to transfer the right to award third party OATT access to BPA at the close of the preschedule window. "To the extent PacifiCorp or any successive assignee has unused Scheduling Rights available in any hour under this [Agreement] as of the close of the normal preschedule deadline for firm point-to point-transmission service . . . Bonneville shall add such unused Scheduling Rights to its available nonfirm transmission capacity for AC Intertie transactions, which shall be posted on Bonneville's [OASIS] and made available pursuant to the provisions of Bonneville's [OATT]."*

These express restrictions on Scheduling Rights under the AC Intertie Agreement raise questions PacifiCorp has neither acknowledged nor answered.

As a transmission customer of Bonneville, Powerex is very concerned that it, and other Bonneville customers, could be negatively impacted if PacifiCorp Energy does not adhere to the terms of its agreement with Bonneville. As a result, Powerex suggests that, if the applicable agreement contains provisions that could affect Bonneville's other transmission customers, Bonneville take appropriate actions to protect those interests. Powerex believes it would be helpful for Bonneville to consider conducting a transparent review of the donation arrangement in order to provide its transmission customers with the opportunity to comment.

- b. CAISO's proposed expansion of this donation framework in the future, using transmission rights held by PacifiCorp Energy or other EIM Participants, may violate other TSAs with BPA*

In addition to specific questions related to the AC Intertie Agreement and PacifiCorp Energy's proposed initial donation, critical details regarding CAISO and PacifiCorp's broader proposed arrangement are lacking and must be evaluated, including:

- Will PacifiCorp Energy's donations be limited to the COI rights now contemplated, or may it donate rights on third-party transmission providers' systems as explained in PacifiCorp's FERC filings?
- Is the arrangement limited only to the rights currently held by PacifiCorp Energy, or could PacifiCorp Energy obtain additional transmission on affiliate or third-party OASIS sites for the purpose of subsequently "donating" it for EIM use?
- Will the framework be limited only to the single proposed donation of rights on the COI, or could there be additional donations of any firm rights held on any path in the WECC?
- Will CAISO's proposed arrangement permit "donation" and use inconsistent with contract-based or OATT requirements that would otherwise be applicable to the reservation and scheduling of those facilities?
- Will the CAISO's procedure permit dynamic schedules across the region to be used to "reallocate" BPA OATT transmission for the CAISO's EIM use?
- Will BPA's transmission rates rise as non-firm revenues are eroded?
- For each new "donation," who will ensure the firm transmission customer actually has the authority to grant use of those rights to the EIM?
- Have the transmission provider's other eligible customers had an opportunity to evaluate how the proposed arrangement will impact their access to transmission service on the same paths as the "donated" rights?

Powerex believes BPA—as a neighboring BAA and transmission provider who will be directly impacted by the first donation to the CAISO EIM—has an obligation to evaluate the scope and breadth of the CAISO's proposal at the outset. Powerex, as a BPA transmission customer, expects BPA to reject any incursion on its transmission

operations and facilities that would affect Powerex's rights or ability to use transmission services pursuant to BPA's OATT.

B. Other Aspects of the EIM May Impact BPA Transmission Customers and Require Further Evaluation

Powerex notes that it does not object to:

- BPA firm transmission customers using their transmission rights for their own use, which may include day-ahead or real-time energy or capacity schedules, potential intra-hour flows on dynamic schedules, ... etc.
- BPA firm transmission customers explicitly transferring or assigning their rights to an eligible transmission customer, as may be permitted under the OATT.

Powerex therefore supports PacifiCorp's use of firm PTP OATT transmission on BPA facilities as pseudo-ties for its resources to be moved to its own BAAs. This is an appropriate use of its BPA transmission rights to facilitate EIM participation.

At the same time, certain implementation details remain that merit BPA's scrutiny. For example, the use of dynamic schedules to effect EIM Transfers will exceed BPA's current dynamic capability on the COI, and will trigger restrictions on dynamic scheduling by other COI rights-holders. Further dialogue is necessary to ensure that existing customers' rights are preserved in keeping with open access policy.