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Renewable Northwest Project

July 18, 2012

VIA EMAIL SUBMISSION

TO: Tech Forum

RE: BPA Network Open Season Reform Request For Comments

General Comments:

Renewable Northwest Project (RNP) appreciates BPA restarting the Network Open Season (NOS) policy discussions. The BPA NOS staff has done a good job fleshing out the issues in question and getting the process off to a collaborative start. It is imperative that BPA and the region have a workable process to serve customer transmission requests as soon as possible. From a planning perspective, the next Renewable Portfolio Standard (RPS) requirements are right around the corner.[1] We look forward to working with the agency to craft a functional open season process.

The NOS is a successful policy for reducing the risks and rate impacts associated with building new transmission lines, and has also succeeded in bringing online new renewable energy resources. The NOS process is not perfect, however, and can be improved upon, but its future success could also be greatly diminished if BPA overcorrects for past imperfections.

RNP encourages BPA to view the current shortcomings of the NOS as primarily a function of the massive changes in economic conditions and separate but related policies during the past five years in which the NOS has been designed and implemented. We do not believe that the current PTSA issues signal a fundamental problem with the NOS design itself. The fact that the NOS and three of the associated transmission projects survived this market turmoil with a minimal rate impact is a testament to the strength of this policy. The fact that some of the NOS projects are delayed demonstrates the flexibility BPA currently has to adapt its investment decisions to changing market conditions. This viewpoint suggests that small tweaks to the NOS terms and conditions are more appropriate than a wholesale NOS redesign.

[1] The next RPS threshold requirements are in 2015 and 2016 in Oregon and Washington, respectively; currently, we estimate that between 300 and 700 aMW of qualifying renewable energy (or RECs) will be required to meet the next set of targets.

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As BPA is aware, new transmission lines are a long-lead-time, capital intensive, long-term investment that are difficult to perfectly subscribe given the changing economic and policy conditions over this long time horizon.

That said, very few bulk transmission lines go underutilized in the long-term. BPA's NOS reform proposal focuses on how to mitigate the risk that the region's transmission infrastructure program temporarily exceeds the demand. However, less attention is given to mitigating the risk that the transmission expansion plan might not be sufficient to meet future demand for transmission. It may be that by shifting more risk to NOS participants, BPA and its power customers are taking on a greater share of the risk associated with an under-investment in transmission infrastructure. The NOS reform process should endeavor to quantify and mitigate not only the risks of temporary overinvestment in transmission, but the risks of underinvestment in transmission as well.

Ultimately, transmission investments and the success of the NOS in mitigating risk should be weighed against the cost of not building new transmission and limiting resource portfolio options and market access that would otherwise benefit ratepayers. In the end, transmission costs make up a relatively small portion of the delivered cost of energy. BPA should be comprehensive and realistic about the measures that will be used to judge the success of a NOS design and the merits of specific transmission investments.

The next NOS will likely have a much different purpose and level of interest than previous Network Open Seasons. The focus will likely be more on subscribing existing capacity than building significant new capacity. This fact should buy BPA some time to gain experience with certain limited changes to the NOS design and to focus efforts on the "front end" of the NOS (deposits, restack, cluster study, etc.) rather than the "back end" (plan of service, economic analysis, NEPA, construction, etc.).

We understand that BPA seeks to better protect itself and its existing transmission customers (many of which are renewable energy generators) against defaulting NOS transmission agreements. We recommend that BPA make limited, targeted changes to the NOS process and terms and conditions in order to address this risk. Making too many changes all at once will make it difficult to judge what is working and what is not.

If BPA wants to reduce its risk by reassessing market conditions prior to making permanent financial decisions, BPA should simply write that flexibility into its PTSAs and work with customers on how best to define the conditions under which transmission project delays are warranted. If those market conditions do exist, it is likely that many or all parties will find delay to be beneficial. A targeted approach aimed strategically at BPA's primary risks may be a more effective policy reform with less unintended consequences than the more complicated and wholesale reforms BPA is currently considering.

RNP believes that BPA should be asking what changes to the NOS process and terms and conditions are absolutely needed now and what are the issues that need to be addressed given the current market conditions. Solving last year's risks when we face different market conditions today will only create new problems, such as a NOS process that forecloses customer participation, given depressed and/or highly competitive markets.

At this point, based on BPA's proposed options and all the moving parts, we have significant worry that renewable energy developers will have a difficult time participating in future Network Open Seasons. One of the fundamental issues with BPA's draft

proposal is that a five-year waiting period—before customers are given any contractual rights and before a decision to begin construction is even made—is unworkable for project developers.

Specific Comments:

Related Terms and Conditions:

BPA's current NOS reform proposal creates many moving parts all at once, making it hard for customers to weigh the different tradeoffs simultaneously. There are also additional key policies that will have a significant influence on a renewable energy developer's ability to participate in the NOS (redirect rights, deferral rights, minimum term length, rollover rights, Conditional Firm service). It is unclear what the proposed status is of many of these terms and conditions and it is also unclear what forum some of them will be decided in. We believe it would be beneficial to the process if BPA clarifies these issues as a part of the NOS process.

BPA should also be mindful of the interaction between the proposed changes in the NOS process and the proposed changes in the Large Generator Interconnection Agreement (LGIA) process. Shortening the timeline in the LGIA process while lengthening the NOS process timeline puts customers in a difficult position with respect to lining up both of those services.

Many of the key questions here are linked together. For example, if you increase the deposit requirements, it is important to shorten the time period BPA holds customers' money in limbo. If you increase the time it takes to run a NOS, it is important to maintain the pro forma deferral rights. Customers need to see a total cost/risk/timeline proposal in order to decide if the package is workable. Deferral rights are a critical flexibility that allows a customer to align the timing of their transmission needs with market conditions.

Timeline:

BPA is proposing a significant increase in the amount of time between the point at which a customer gives BPA a deposit to participate in the NOS process and the point at which BPA provides the customer even a rough estimate of the transmission rate required to provide the requested transmission service. BPA's current proposal is for two years, with possible additional delays due to dropouts and restudies.

In addition to lengthening the study phase of the NOS process, BPA is also proposing to move the PTSA execution point to the end of the NOS process, meaning customers will not have any binding commitments from BPA until after the environmental work is completed (another three years). In total, it could be five years (or even more) from the time a customer makes a significant deposit to participate in a NOS until the time that BPA provides a firm cost estimate for providing the service.

This longer and more uncertain timeline, without the appropriate performance assurances from BPA, is not workable for renewable energy developers. Such a timeline makes it more difficult for developers to match up their LGIA timeline and their marketing and development timelines. BPA's NOS process should endeavor to provide more certainty to developers, not less.

The longer timeline also exposes BPA to more risk from changing market and policy conditions. The more time that goes by between a customer submitting and committing to a Transmission Service Request (TSR), the less fresh it becomes and the more it is subject to changing market conditions. BPA is proposing significant increases in performance assurance and deposits to mitigate BPA's risk associated with this longer timeline, but this approach merely transfers the risk to customers and makes it more difficult for renewable generators to participate.

The additional off-ramps (referred to as "rip cords") that BPA is proposing are good for customer optionality, but BPA needs to be careful of getting into an endless restudy loop if customers drop out of the NOS due to higher-than-expected costs of service. BPA should be more specific upfront about the allowable justifications for dropping out of the NOS process.

RNP is also concerned that the proposal to move the PTSA execution date to the end of the process will complicate transmission planning and queue management. For example, if BPA were to decide not to construct a NOS transmission project for whatever reason, but at least one customer had met all the terms and conditions of the NOS process, that customer would presumably retain its queue position (if it didn't this, would likely deter participation in the NOS on the front end). This means that a TSR that moves through the NOS process will retain its queue position for five years without any firm commitments on the customer side to take that service or on the BPA side to construct the facilities to provide that service. If this is the case, BPA will have a difficult time knowing the status of its queue over the entire five-year period and will have a difficult time accurately restacking the queue every two years to deliver Available Transmission Capacity (ATC). BPA would also not be able to start meaningful transmission planning on any new upgrades that are dependent upon an earlier NOS upgrade until those earlier PTSAs are signed and BPA makes a firm commitment to build. Effectively, this could result in transmission planning that begins only once every five years.

We recommend that BPA provide a "PTSA like" contractual agreement at the end of the study phase that commits BPA and the customer to clearly defined next steps, timelines, and terms and conditions for off-ramps. Such an interim agreement will decrease risk on both sides. It could work to limit BPA's need to conduct restudies and give BPA more certainty that customers will remain through the three-year siting process. It also would give customers a contractual asset with clear milestones to plan project development around.

One of the fundamental values of the NOS is to release encumbered ATC in the queue and get ATC to those customers that are most ready to use it. As BPA considers lengthening the timeline of the NOS process and providing customers more opportunities for off-ramps, the probability of customers leaving the NOS cluster and changing the queue priority will increase. First and foremost, we encourage BPA to consider all possible ways to minimize the length of the NOS process. We also encourage BPA to restack the queue and reassess the number of offers that can be made with existing ATC as frequently as is practicable. Ideally, customers would not have to wait in the queue for up to two years in advance of finding out whether their request can be met with existing ATC.

Financial Commitment and Creditworthiness—Study Deposit:

BPA is proposing three options for how customers can make their financial commitment for the study phase.[2] At this point, we prefer Option B. BPA is also considering a proposal to require or provide different terms and conditions to those customers that have a power purchase agreement (PPA). RNP believes that this proposal is patently discriminatory and, as such, cannot support it.

It is our understanding that BPA is proposing one-year's worth of transmission service as the initial "deposit" or "letter of credit" required to participate in the NOS. This deposit has two potential purposes: 1) it covers the pro rata share of BPA's study and environmental costs, and 2) it seeks to ensure that only serious and timely requests move forward into the cluster study. Some portion of this deposit may be refunded (minus restudy fees) if a customer drops out of the NOS, and some portion may be rolled forward as part of the financial commitment for a new upgrade.

RNP proposes that BPA continue to pay for the study costs associated with those TSRs that result in new transmission service and new revenues. It would be inappropriate for NOS customers to pay for the planning work associated with reliability and NT load growth needs. Disentangling those needs and parsing out those study costs may be difficult. If BPA asks NOS customers to pay for their study costs upfront, then there will need to be some assurance that all customers are paying for their study costs consistently.

If BPA decides to require NOS customers to pay for their study costs, it will be important for BPA to clarify exactly what the pro rata costs are for the study and environmental phase. The pro rata cost of actually conducting these studies is likely much less than the full deposit (one year's worth of transmission service) We recognize that there are variable factors that determine the true pro-rata study costs (such as the number of customers and the plan of service), but BPA should make an explicit commitment to provide these studies at cost and find a way to put a reasonable cap on the total study costs customers may be exposed to.

BPA is also proposing to require customers to pay for any restudy costs, should a customer decide to not move forward with the NOS process after the initial cluster study has been completed. This proposal is not consistent with and may not be superior to the pro forma OATT, depending on the balance of the other NOS terms and conditions in question.

Financial Commitment and Creditworthiness—Construction Phase:

BPA is considering several different options for a new financial commitment just prior to the construction phase of a NOS project.[3] Asking customers to pay 25% of the pro rata construction costs upfront, coupled with the proposed increase in study costs (assuming

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[2] **Option A**: Pro Forma (customers pay for studies). **Option B**: Customers securitize pro rata share of studies (BPA funds some/all steps of the study phase; if customer proceeds to construction phase, all security rolls forward towards its constructions phase financial requirement; if customer ejects from NOS prior to construction phase, BPA returns and deposit amount remaining after deducting pro rata costs incurred until ejection point plus restudy costs). **Option C**: Customer provides security based on financial evaluation

[3] **Option A:** Pro Forma uniform level of security up to 100%. **Option B:** Uniform advance funding requirement. **Option C:** Uniform advance funding requirement with additional securitization. **Option D:** Tiered security/funding requirement correlated to customer financial assessment and commitment to service.

one-year's worth of service), represents a doubling of the cost of participating in a NOS. This is a significant and abrupt change that will be unworkable for many renewable energy developers.

Assuming that a customer meets creditworthiness standards, RNP believes that the signing of a long-term transmission service agreement is the assurance that a transmission provider will have sufficient revenues to recover the cost of a transmission upgrade. RNP encourages BPA to focus on establishing a more robust creditworthiness determination to mitigate against default risk, as opposed to passing on significant portions of capital costs to project developers that face higher costs of capital than BPA.

If BPA does require upfront funding, we have the following preferences:

1. With respect to the options for providing upfront payment, at this time, we prefer Option C and are open to reasonable variations of Option D.
2. With respect to the amount of upfront payment that customers should provide, we believe customers should be required to provide no more than 25% of the pro rata construction costs and only if customers would receive transmission credits back until their upfront payment is exhausted. Otherwise, customers would be part owners of the transmission upgrade.
3. RNP also asks that BPA clarify that their proposal is to have customers pay their pro-rata share of the *subscribed* capacity—not the *total* capacity.
4. RNP suggests that it would be helpful to have a known upfront cap on a customer's total possible financial requirements, per MW, prior to a customer electing to participate in the NOS or not. BPA should not ask customers to sign up for a five-year process with open-ended financial commitments.
5. BPA is also proposing to tier the options for the construction phase financial requirement based on a TSR's affiliation with a PPA or other load attestation. This proposal is discriminatory and we cannot support it.

Non-NOS Track:

RNP appreciates the direction BPA is going with developing the non-NOS track and endeavoring to keep a window open for submitting TSRs and moving forward with individual studies at all times. We recognize and support BPA's careful attention to ensuring that these timelines and study results do not overlap in a manner that would produce conflicting studies or queue priority conflicts.

We believe that customers should be given flexibility to choose which track, NOS or non-NOS, they wish to participate in up to the time that the NOS submittal window opens. Customers should not have to make this election at the time they submit their request.

It is possible that a situation would occur where it would make sense for a non-NOS plan of service and NOS plan of service to be studied together and joined into the same project. BPA should consider if there are efficiencies to be gained by allowing non-NOS requests to be pooled back together with a NOS cluster and what policies would need to be in place in order to ensure that all customers have made commensurate levels of upfront commitments regardless of which track they were originally on.

NT Planning:

It is still unclear to RNP how exactly the planning for NT load growth and reliability will overlap with the planning for NOS subscriptions. Our understanding is that reliability benefits are accounted for in the preliminary economic analysis but it is unclear how much detail is provided here and if this fully accounts for the benefits of serving future NT load growth. More detail on these questions would be helpful.

Thank you for the opportunity to comment,

Cameron Yourkowski
Senior Policy Manager