NAESB OS STCP Project Transition Motion vs. Business Practice Standard Development

February 5th, 2014

Drafting Regulatory Standards

- Approaches
  1. Using the Motion Language
     a) However, does not translate well into a Business Practice Standard format
     b) Used to clarify a technical issue and document a consensus subcommittee position
     c) Can be used to establish a placement of new BPs or note BPs that need to be modified
  2. Draft BPs that recognize TP regional differences
     a) recognize existing commercial models
     b) support TP optionality,
  3. Remain Silent
     a) Include as a guide (e.g. Example)
     b) Include as an example (e.g. Appendix)

Key Topics

- What have we accomplished?
  - Project Kick-Off January 2012
  - TranServ Request
  - ‘Parking Lot’Development
  - Motion Development
- Where are we going next?
  - Convert Technical concepts to a regulatory framework

Project Initiated -TranServ Request to NAESB

"…**This standard request is for the development of business practice standards and any necessary revisions in the OASIS S&CP to clearly document the procedure to be used by Transmission Providers and Transmission Customers to implement the displacement/interruption terms of the Pro Forma tariff. The following guidelines should be considered in the standard recommendation:**

- **must address both Firm and Non-Firm Point-to-Point transmission services**
- **must account for displacement of service in-whole or in-part**
- **must minimize the potential for any "gaming" opportunities between competing customers**
- **should recognize existing standards from Order 638 re: competing requests and negotiations**
- **should specify exactly what constitutes a "matching" request with regard to term, service, and capacity necessary to retain transmission service right"**

Parking Lot List Development

- February and April 2012
  - Many comments were submitted to the NAESB OS which were captured into a ‘Parking Lot’
  - Parking Lot refined the scope of the project
  - The NAESB C&P project runs concurrently with the implementation of the BPA PCM automation project
  - Results of technical discussions leading to clarification of general and design specifics of the C&P process have been captured in a ‘Motions’ document

Motions

- Drafted as a part of the technical discussion
  - Created to document the subcommittee's decision on a technical issue
  - Provided the mechanism for valuable debate on technical C&P items
  - Provided response to Parking Lot Issues
  - BUT, Not a Business Practice Standard
    - Provide guidance to drafting of standard language
    - Provide guidance to the placement of standard language

Project Transition – Motion Language to Regulatory Standards

- Key BPA Concepts for the transition
  - Test the implications of the Motion
    - Does it utilize or is it complementary to FERC's guidance to the TP
    - Does it create adverse results OR, is the predicted outcome good (or not good) for the region
    - Does the language argue for adopting a specific approach
    - Does it 'honor' the process thus far but respects the regional variations
    - Is the Motion clear or is it open to interpretation
- Evaluation Example – Simultaneous Matching

BPA Considers Simultaneous Matching

- Motion 30
  - Does not allow for TP Discretion that FERC intended
    - Establishing Defenders
    - Establishing Defenders in Complex Scenarios
  - Leads to Creates more complex competition scenarios
    - FERC does not say it is valid to refuse a ROFR
    - Diminishes the value of ROFR
    - FERC declined to respond to industry complex competition scenarios but describes these scenarios as ‘rare’, ‘infrequent’ and ‘relatively limited’.
  - Goes beyond FERC’s intent for commercial standard development
    - FERC does not say ***how*** it is possible to have more defenders than what is available to grant in a ROFR application
    - FERC does not believe ROFR policies should be changed to address ‘complex hypotheticals’.

Order 890-A, FERC Industry Guidance, ¶ 815

We disagree with Duke and TranServ that the ***right of first refusal policies should be revised based on complex hypotheticals involving the preemption of multiple short-term reservations***. The complexities pointed to by these commenters do not by themselves warrant changing the right of first refusal rule. Even though we recognize the potential for complexities to arise under the right of first refusal rule, we believe them to be relatively limited. In the off-chance that multiple eligible customers with short-term reservations choose to exercise their right of first refusal for the same capacity simultaneously, the Commission believes that they should have a right to do so.

Take Away: Current Motion language guarantees that complex scenarios would be common when these should be 'relatively limited'.

Order 890-A, FERC Industry Guidance, ¶ 816

We therefore decline to expand upon the language of the pro forma OATT to account for every factual scenario that could arise under sections 13.2 and 14.2 of the pro forma OATT. Sections 13.2 and 14.2 of the pro forma OATT set forth adequate guidance for transmission providers to fairly administer competing requests, including the priorities for determining which reservations or requests trump one another as well as the timeframes for eligible customers to respond to competing requests. As noted above, we recognize that certain unique cases can present difficult allocation issues, but conclude that these extreme cases arise infrequently in the normal course of business. In the vast majority of cases, we believe the right of first refusal rules are efficient and easy to administer without further amending the governing tariff language, as Bonneville and Southern suggest.

Take Away: FERC recognizes TPs as the administrator of competition (including ROFR) using the policy guidance set out in OATT Sections 13.2 and 14.2 for the 'vast majority of cases'. Industry BPs should recognize FERC's guidance allowing for TP discretion.

Order 890-B, FERC NAESB Guidance, ¶ 161

The Commission declines to address in this rulemaking proceeding how transmission providers should resolve complicated and fact-specific scenarios such as the cascading rights of first refusal described by Duke. Sections 13.2 and 14.2 of the pro forma OATT provide adequate guidance for transmission providers to fairly administer the vast majority of competing requests, including priorities for determining which reservations or requests trump one another as well as the timeframes for eligible customers to respond to competing requests. As the Commission explained in Order No. 890-A, we expect that more complex circumstances such as those suggested by Duke will be relatively limited and, therefore, are best addressed on a case-by-case basis. Transmission providers remain free, however, to develop through the NAESB process standard procedures for processing complicated request scenarios. See Order No. 890-A at P 816.

Take away: FERC reaffirms the TP use of Sections 13.2 and 14.2 to administrate competition that would apply to the 'vast majority of competing requests.

Order 890-B, FERC Guidance, ¶ 159

The Commission affirmed in Order No. 890-A the decision not to change the first-come, first-served nature of the reservation process and the right of first refusal. In response to comments that administration of the right of first refusal has the potential to create complicated scenarios, such as when scarce capacity exists, the Commission declined to expand upon the language of the pro forma OATT to account for every factual scenario that could arise. The Commission recognized that certain unique cases can present difficult allocation issues, but concluded that such cases arise infrequently and that sections 13.2 and 14.2 of the pro forma OATT provide adequate guidance for the vast majority of requests.

Take Away: FERC reaffirms that 'unique cases' for allocation are 'infrequent'. Current OS Motion language guarantees that complex scenarios would be common if used in BPA commercial operations when these should be 'infrequent'.

FERC provides the TP design flexibility

- The TP has the optionality to:
  - allocate it's transmission capacity for Defenders it deems to participate in a ROFR exercise
  - use Simultaneous Feasibility as its method of transmission allocation in determining valid Defenders for the ROFR process
  - Address complex scenarios through the NAESB process (it is not mandated that they do so)

Options for BPS Drafting

1. Draft Motion language into BPS (close copy of Motion language)
2. Draft BPS that considers TP Optionality – carry the principle of the Motion but allow for TP variances*
3. Remain Silent – agree that the Motion language provides clarity but include as a guidance statement in example or appendix

*TP may have obligation to develop their own Business Practice Standards

Other NAESB Motion Examples

- Motion 20 - If capacity must be taken from Defenders in order to accommodate a Challenger, that capacity will only be taken from Defenders once the Challenger has reached a final state. (Interpretation issues)

- Motion 30 - When evaluating a given potential defender with ROFR for its ability to exercise ROFR to preserve their reservation priority, that evaluation will be on its own merits and not consider the impacts of any other potential defender's exercising of their ROFR. That is, the set of defenders preempted and extended ROFR will all be granted simultaneous opportunities to exercise their ROFR even though it is not simultaneously feasible to grant all defenders to exercise their ROFR. (Design specific)

- Motion 47 -When a Challenger cannot be accommodated because AFC is not available on one or more flowgates, the Transmission Provider must identify potential Defenders. A potential Defender must provide relief on all of the flowgates where AFC is not available for the Challenger. The capacity taken away from the Defender shall not be more than 105% (rounded to the nearest MW) of the capacity made available to the Challenger. (Repeated using ATC) (In the BPA case, may not be FERC compliant)