Short-term Preemption and Competition Automation

Background

- **Business Drivers**:
  - Compliance with sections 13.2 and 14.2 of BPA's OATT.
  - Fulfill obligation set forth in March 2012 reciprocity filing regarding implementation of preemption and competition.
- **Project History**:
  - Started in February 2011 as a Tariff compliance effort.
  - In March 2012, BPA filed a new Tariff with FERC seeking reciprocity. The project was moved under the BOATT effort with a target implementation of April 2013. Extensive customer engagement started at that time.
- **Principles of Preemption and Competition**:

Short-term capacity is awarded on the basis of reservation priority rather than first-come, first-served based only on queue time.

  - An NT request of any duration has reservation priority over a short-term PTP request or reservation.
  - A longer-duration PTP request has reservation priority over a shorter duration PTP request or reservation.

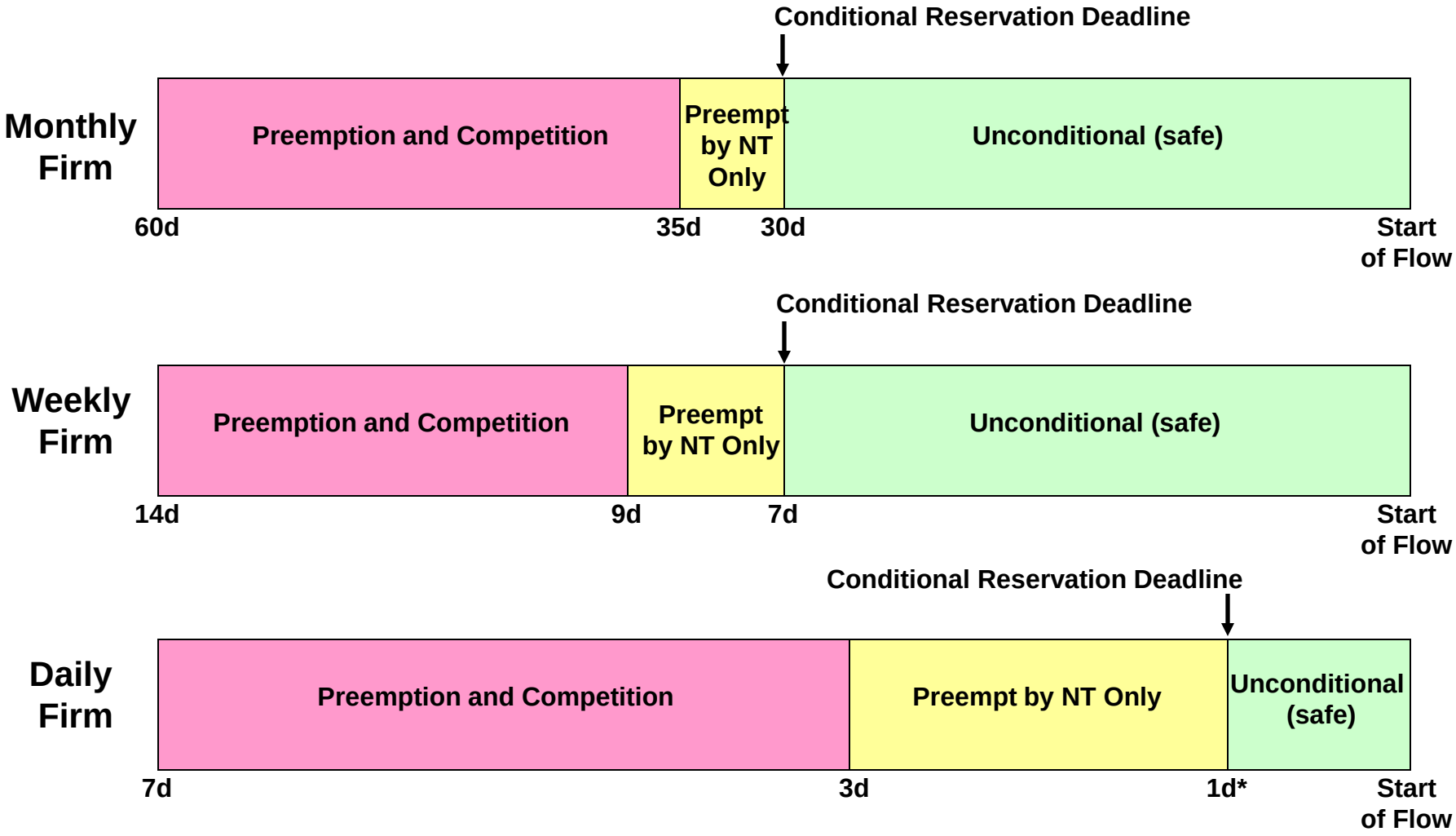
Industry Landscape

- In Orders 888 and 890, FERC gave broad outlines for preemption and competition to promote longer-term use of the transmission system.
- NAESB has established some policies in the current S&CPs. In March 2012, the OASIS subcommittee launched an industry-wide process to expand those policies.
  - BPA and the region have been actively engaged in this process.
  - This effort has been extended several times. Expected completion April 2014.
  - Once approved by NAESB, the policies must then be approved by FERC.
- OATi offers an industry standard solution: Preemption/Competition Module (PCM).
  - It is a “work in progress”, as are the industry standards themselves.
  - Once new NAESB standards are approved, OATi will begin to incorporate the changes into PCM. Expected availability to BPA is 2016-2017.
- Many in the industry are moving forward now with implementing preemption and competition where possible, despite the fact that NAESB policy and automated solutions are still in flux. Several are either currently using or planning to use PCM.
- BPA has adopted the same approach: move forward where we can with PCM, knowing that policy and software capabilities will continue to be developed.
  - Enables progress toward OATT compliance and FERC commitment prior to 2016.

Preemption and Competition Process

- The process is initiated when a request (challenger) is not able to be offered full service due to a path or flowgate constraint. Instead of being immediately refused or given a partial offer, the preemption and competition process is triggered.
- PCM searches for one or more earlier submitted requests or reservations (defenders) of lower priority which (if preempted) would provide capacity needed by the challenger.
- Defenders can be challenged by higher priority requests until a conditional reservation deadline, after which their reservation is safe.
- Within the conditional period, defenders holding a confirmed PTP reservation can exercise a Right of First Refusal (ROFR) by agreeing to match the duration of a PTP challenger.
- Defenders have no ROFR if challenged by an NT request or if their request is still pending. Capacity is superseded or recalled as necessary to meet the needs of the challenger.

BPA Conditional Windows for Firm



* Unconditional window is 1 WECC Pre-schedule day for Daily firm

Potential Customer Impacts

- Greater uncertainty in the market for short-term PTP transmission:
  - Reservations are confirmed but conditional for a period of time.
  - Reservations can be preempted without ROFR by NT requests, or can be competed with ROFR by other PTP requests.
- Incentive for reserving longer-duration transmission service.
  - On constrained paths, PTP customers can challenge shorter-duration PTP requests/reservations if necessary, rather than immediately being refused or given a partial offer.
  - As PTP defenders, customers will need to match the terms of the longer-duration challenger to retain their confirmed capacity.
- Increased ability by NT customers to obtain short-term firm NT service.
  - NT requests can challenge for constrained firm capacity with no ROFR opportunity by PTP defenders.
  - NT requests or reservations are never defenders.

Implementation Considerations

- BPA is ready to implement short-term preemption/competition.
  - PCM software is fully tested. Installed in Production on June 4, but disabled.
  - Business Practice is ready to post.
  - Original schedule was 6/17/2013. BPA has promised customers a “2 week notice”.
- Implementation Approach:
  - Phased implementation starting with monthly, then weekly, then daily.
  - The hourly market will be addressed via an active customer engagement process starting <u>after</u> PCM is implemented for the daily market, considering the managed hourly firm sales process.
  - Resales are not competed by PCM. Redirects may also be excluded from scope on an interim basis (next slide).
- Timing Considerations:
  - All preemption/competition activity for monthly, weekly, and daily service will be done by 1AM of the Pre-schedule day prior to the challenger or defender’s start of flow. This ensures that reservations are unconditional at the start of the Pre-schedule day for tagging.
  - Competitions will only start on a WECC business day. This ensures that a defender has at least part of a WECC business day to exercise their ROFR.

Redirect Considerations

- There have been several FERC rulings with respect to this question: At what point does a customer lose rights to their original path when they submit a redirect request?
  - 2002 *Dynegy* case: a customer loses rights to the original path once the redirect is confirmed by the customer <u>and</u> reaches the conditional reservation deadline.
  - Order 676, 890 and S&CP 001-9.5 say only when the redirect is confirmed.
  - 2013 *Entergy* case: FERC overruled its previous order and upheld its ruling in *Dynegy* that a customer loses rights to the original path only after the request is confirmed and becomes unconditional. Entergy has requested rehearing.
- Major Implications:
  - The current *Entergy* ruling is inconsistent with NAESB policy, industry norms, and PCM.
  - Will require a TP to tie up capacity on both the original and redirected paths.
  - The necessary changes to OATi software would be complex and time-intensive.
- BPA Proposed Approach: Exclude redirects from PCM scope on an interim basis.
  - Subjects original requests to preemption and competition as per FERC policy.
  - More consistent with the most recent FERC ruling than competing redirects in full. Would potentially violate the *Entergy* ruling if a defender loses both original and redirect capacity.
  - Makes progress towards OATT compliance where there is certainty (original requests), while side-stepping areas of uncertainty (redirects) until further FERC/NAESB guidance.
  - This is an <u>interim</u> solution that does not reflect a long-term BPAT position on the matter.

Interaction with other Projects

- Impacted by Managing Hourly Firm Sales (MHFS):
  - Historical data shows very little impact of preemption and competition expected in the daily, weekly, monthly horizons (less than 0.3%). However, this data is for an hourly firm market where network sales are not actively managed.
  - The MHFS effort may change market behavior resulting in a greater reliance on the daily horizon (and perhaps the weekly and monthly). This may increase preemption/competition activity. How much is the key uncertainty.
  - May add pressure to implement PCM for the hourly firm market earlier than planned.
- Impact to 3rd Party Balancing Reserves (3PR):
  - Delivery of 3PR will be subject to preemption/competition on MOD-29 paths. This adds uncertainty to the ability to secure needed transmission. The initial reservations will be unconditional prior to PCM implementation.
  - Need to determine how a “no charge 3PR” reservation impacts potential preemption and competition beyond the initial reservations.
- Impacted by Short-term ATC Method Automation:
  - May change how ATC/AFC is calculated, which can impact path constraints.
  - May result in more or less preemption and competition activity.

Proposed Timeline

- Implement PCM for monthly firm and non-firm: ~ Sept 2013
  - Monitor system performance. Hold weekly customer conference calls.
  - Evaluate technical and customer impacts for at least 30 days before moving to the next phase.
- Implement PCM for weekly firm and non-firm: ~ Oct 2013
  - Continue monitoring system and holding weekly conference calls.
- By Nov 2013 determine whether to implement PCM for daily service <u>before</u> or <u>after</u> the MHFS project.
  - Decision will made following further customer engagement.
  - Projects will be phased allowing several months of evaluation.
  - By then, both BPA and the customers will know more about key areas of uncertainty that preclude us from making a decision today:
    - How is PCM working in the monthly and weekly markets?
    - What limits and impacts are expected in the hourly firm market?
    - What is the committed schedule for the MHFS project?