Northwest & Intermountain Power Producers Coalition and Renewable Northwest Comments on BP-26 Workshop of September 25-26, 2024

The Northwest & Intermountain Power Producers Coalition ("NIPPC") and Renewable Northwest ("RNW") submit the following comments in response to topics raised at the September 25-26 BP-26 workshop. NIPPC is a membership-based advocacy group representing competitive electricity market participants in the Pacific Northwest and Intermountain region. NIPPC has a diverse membership including independent power producers and developers, electricity service suppliers, transmission companies, marketers, storage providers, and others. Nearly all NIPPC's thirty members purchase transmission service from BPA. Renewable Northwest is a non-profit advocacy organization that works to decarbonize the region by accelerating the transition to renewable electricity. Renewable Northwest has more than 80 member organizations that include renewable energy developers and manufacturers, as well as consumer advocates, environmental groups, and other industry advisers. Many of Renewable Northwest's members are also current or prospective BPA customers.

NIPPC and RNW appreciate the opportunity to provide initial comments in response to BPA Staff's presentation. We reserve the right to provide additional comments on these topics as new information becomes available and as discussions evolve.

General Comments and Requests

We repeat our request from comments on earlier workshops that BPA provide projections regarding the proposed transmission rate increase that is expected based on updates from BPA's Integrated Program Review ("IPR") process. We seek to better understand the magnitude of the capital and expense increases announced in the IPR ahead of the formal BP/TC-26 process. We also request additional detail regarding the forecasts BPA uses in proposing rates for BP-26. Specifically, the Integrated Program Review ("IPR") provided only annual estimates of capital expenditure. The IPR does not break down the specific transmission projects that BPA has forecasted it will complete and energize during the upcoming rate period. Since these issues were not addressed during the BP-26 workshops, we would expect to see these details as part of the record supporting BPA Staff's Initial Proposal.

BP-26 NR Energy Shaping Service ("ESS")

NIPPC and RNW support BPA in its adoption of many of the features described by the New Large Single Load ("NLSL") Group's "Market-Enabled NLSL Service." NIPPC and RNW encourage BPA to consider how BPA could make elements of its proposed ESS capacity purchasing obligation and penalty charges apply to the largely similar capacity procurement obligations and penalty charges under BPA's Variable Energy Balancing Services ("VERBS") and Dispatchable Energy Balancing Services ("DERBS") rates.

Power and Transmission Risk

During the workshop, BPA explained its commitment to distribute any Reserves Distribution Clause ("RDC") amounts that would be triggered to power customers, at least up to the amount of Planned Net Revenues for Risk ("PNRR") included in power rates. When asked whether BPA would make the same RDC commitment to return funds collected to transmission customers, BPA indicated it would not because it does not plan to include PNRR in transmission rates. However, BPA proposes to include significant amounts of revenue financing in transmission customer rates. This revenue financing proposal can be viewed as a risk mitigation tool to meet BPA's self-imposed leverage target. While we continue to oppose BPA's proposed revenue financing amounts for the rate period, to the extent that BPA moves forward with imposing revenue financing on transmission customers during the rate period, BPA should commit to using any RDC amounts to reduce transmission customer rates at least up to the amount of any revenue financing included in transmission customer rates.

Generation Inputs – Variable Costs

We appreciate BPA's effort to respond to our questions about the differences between BPA's GARD and RiverWare models used for calculating the generation inputs variable costs. We continue to seek to better understand the changes. To this end, we look forward to the additional details provided in BPA's Initial Proposal.

Balancing Reserves Shortfall/Ratemaking for Balancing Reserves Shortfall

BPA is proposing major increases to VERBS and DERBS rates for BP-26 and is also anticipating that BPA will reach the limits of its ability to provide balancing reserves sourced from the federal system. To address the latter, BPA has outlined options for allocating the costs of procuring non-federal reserves, discussed further below.

In the past, BPA and its VERBS and DERBS customers were able to work collaboratively to identify and implement creative solutions that allowed VERBS and DERBS customers to mitigate their exposure to high balancing services rates while also meeting the goal those customers share with BPA to maintain a safe and reliable electricity grid. Among the concepts that were successfully implemented in the past to reduce the amount of capacity that BPA needed to meet its balancing reserve obligations and reduce the VERBS and DERBS rates were:

- Implementing the Self-Supply Pilot, which eventually became a permanent option that allows some customers to self-supply balancing reserves;
- Setting the planning standard at 99.5%, and accepting increased curtailments to reduce the deployment of balancing reserves when they are scarce in exchange for lower rates; and

- Enabling dynamic scheduling, sub-hourly scheduling, and committed scheduling, all of which reduced the capacity required to meet the forecast need for balancing reserves.

In an effort to continue this spirit of collaboration during the BP-26 workshops, NIPPC and RNW have encouraged BPA to consider mechanisms that, if adopted, would tend to put downward pressure on BPA's balancing reserves rates for energy and capacity – both VERBS and DERBS. Our suggestions include (but are not limited to):

- Relying on price signals in the Energy Imbalance Market ("EIM"), rather than penalties, to incentivize accurate scheduling;
- Allowing customers to minimize their exposure to EIM charges and their use of balancing reserves by scheduling to the California Independent System Operator ("CAISO") forecast, not BPA's; and
- Establishing a pilot where BPA would allow a small number of generators to engage with the EIM without facing penalties for Intentional Deviation or Persistent Deviation.

This time, however, BPA simply rejected all our suggestions. To the extent there was any explanation, it was effectively that each of the proposals was not consistent with either EIM rules or North American Electric Reliability Corporation ("NERC") standards. We find this position disappointing.

Though participation in the EIM was widely expected to significantly reduce integration costs for BPA's VERBS and DERBS customers, BPA's policy decisions around EIM implementation to date have caused significant net harm to BPA's VERBS and DERBS customers. BPA Staff's position is that BPA's decision to join the EIM now prevents customers from using intra-hour scheduling. Without the improved scheduling accuracy associated with customers who previously participated in intra-hour scheduling and elected committed scheduling, BPA must now provide a higher amount of capacity to meet the demand for balancing reserves. This less accurate scheduling contributes to customers' growing needs for balancing reserves, which BPA now predicts will exceed the quantity available from the federal system. (As discussed further below, we acknowledge that projected increases to BPA's installed capacity forecast also affect the need for balancing reserves).

The harm from BPA's decisions related to implementing the EIM is exacerbated by BPA's failure to upgrade its Automatic Generation Control ("AGC") system sufficiently to allow non-federal generation to participate in the EIM. As part of its Grid Modernization program (which BPA undertook largely to modernize its systems so that it could join the EIM), BPA executed its AGC Modernization project, which it completed in September 2023. The purpose of the project was to:

> [E]nable Power Services to market new products and services, and improve communication with BPA as well as between BPA, neighboring balancing authorities and Federal Columbia River Power System plant operators.[1]

Notably, the scope of that project did not extend to upgrading the AGC system sufficiently to allow non-federal generation to participate in the EIM. This spring, BPA imposed a moratorium on processing any customer-driven changes to BPA's AGC system just as non-federal generation began to express interest in becoming participating resources in the EIM. This moratorium includes prohibiting any non-federal generation from becoming a participating resource in the EIM. Regardless of how this situation arose, BPA now finds itself with systems that allow only its own generation to participate in the EIM, and BPA claims it cannot make that same market opportunity available to generation BPA does not control.

Not only are VERBS and DERBS customers unable to register as EIM participating resources, they also have not been allocated other benefits of EIM participation, despite having been allocated significant implementation costs.

To recap:

- BPA cannot process customer requests to participate directly in the EIM but has enabled EIM participation by its own generation;
- BPA's decision to join the EIM eliminated the ability of VERBS customers to participate in sub-hourly scheduling and committed scheduling options that previously had the benefit of significantly reducing their reliance on BPA balancing reserves;
- BPA is not willing to consider changes to its penalty structures as they relate to EIM participation; and
- BPA has imposed significant EIM implementation costs on VERBS and DERBS customers without passing along the attendant benefits.

The end result is that BPA now predicts the quantity of reserves it will need to meet its reliability obligations will exceed the quantity of reserves available from the federal system. Accordingly, BPA is proposing a variety of mechanisms to cover the costs of acquiring non-federal capacity to supply balancing reserves. Furthermore, BPA proposes to recover these costs only from VERBS and DERBS customers; BPA's federal power customers using capacity to balance deviations between their scheduled and actual loads will not share in the costs of these additional balancing reserves.

BPA's power customers, however, should not be entitled to all the benefits without sharing in these costs. The most recent EIM Quarterly Benefit shows that between 2022 and July of 2024, BPA received $84.6 million in total benefits attributable to its

[1] Bonneville Power Administration, "35+ Grid Modernization Project Summaries" at 6, (May 2022), https://www.bpa.gov/-/media/Aep/projects/grid-modernization/current-grid-modernization-project-summaries-20220608.pdf.

participation in the EIM.[2] BPA's power customers would not have accrued these benefits but for BPA's decision to join the EIM. As a direct result of that very same decision, however, BPA's VERBS and DERBS customers face significant upward rate pressure because many of the options they previously had to mitigate their costs of balancing reserves are no longer available. The effect of these decisions is an inequitable cross-subsidization of BPA's power customers by BPA's VERBS and DERBS customers.

Accordingly, we propose that BPA deploy a portion of its EIM benefits to mitigate the upward rate pressure (and rate shock) that has resulted at least in part from BPA's EIM implementation. BPA should continue to use EIM revenues for this purpose until such time as BPA joins a day-ahead market, BPA implements other reforms that will allow VERBS and DERBS customers more market options to control their exposure to energy imbalance charges, or BPA's total need for balancing reserve capacity no longer exceeds what is available from the federal system.

NIPPC and RNW recommend that BPA deploy EIM revenues to meet the costs of acquiring that additional capacity because BPA's EIM implementation is a primary reason BPA must acquire additional sources of capacity to meet its balancing reserve requirements. BPA Staff, however, has proposed to allocate the costs of those reserves only to VERBS and DERBS customers. BPA Staff is leaning toward charging a formula rate to recover the costs of any reserves BPA procures.

NIPPC and RNW propose an additional alternative to those outlined by BPA for procuring reserves not sourced from the federal system. We recommend that BPA set the VERBS and DERBS rates as if BPA would provide the limit of its balancing reserve capacity. The costs of any additional balancing reserves needed during the rate period would be paid for out of BPA's EIM revenues.

If BPA Staff declines to both (1) make any changes in the way it implements the EIM, and (2) deploy any portion of EIM revenues to offset the harm to VERBS and DERBS customers, NIPPC and RNW would support BPA adopting a formula rate beginning in FY 2027 based on updated capacity needs calculated closer to when those needs are expected to materialize. As forecast generation additions come online (or not), BPA would be able to refine its forecast for additional balancing reserve capacity prior to imposing a formula rate. BPA would then forecast the purchase costs of additional reserves based on this refined forecast and calculate a rate that determines the costs of projected purchases of balancing reserves for the remainder of the rate period. BPA should calculate the additional charges for VERBS customers on a monthly basis (and incorporate a surcharge for DERBS customers, consistent with the current DERBS rate structure). At the end of each fiscal year, BPA would conduct a true-up to credit or surcharge customers if the actual purchases of capacity differ from the forecasts used in calculating the formula rate.

[2] CAISO, Quarterly Benefits Summary, (July 30,2024), https://www.westerneim.com/Pages/About/QuarterlyBenefits.aspx.

Separately, we note that the market operator of the EIM calculates a geographic diversity benefit, which is intended to allow participating balancing areas to benefit from a greater geographic diversity of forecast error and variability by reducing the quantity of flexibility reserves that they require. In the record developed for the BP-26 Initial Proposal, please explain (1) how BPA uses the geographic diversity benefit calculated by the CAISO to reduce the quantity of flexibility reserves that BPA must carry, and (2) how BPA uses the geographic diversity benefit to reduce specific rates or charges allocated to transmission customers.

Additional Comments on VERBS and DERBS

Installed Generation Capacity Forecast

Thank you for the information in Appendix A to the "Summary of Written Comments Received and BPA Staff's Responses" document. This information confirms what we suspected – BPA Staff's proposal generally overestimates the amount of new generation in BPA's balancing area that will achieve energization during the BP-26 rate period, especially with regard to solar generation. We encourage BPA to consider its past track record in forecasting future generation additions as it develops its Initial Proposal for BP-26. BPA should also consider that customers have options; by signaling a 500% increase in the solar VERBS rate, BPA has increased the likelihood that those generation projects will – like many other GW of renewable energy generation over the years – find ways to receive balancing area services from entities other than BPA or install equipment necessary for them to participate in alternative programs such as BPA's new technology pilot. We would expect these efforts of projects to reduce or eliminate their need for BPA balancing reserves to bring down the overall quantity of BPA-supplied balancing reserves needed for the BP-26 rate period.

The likelihood that BPA has over-forecast the number of new generation projects that will take balancing service from BPA in the next rate period should inform BPA's exploration of solutions to meet a shortfall in the forecast need for balancing reserves. Depending upon how far off BPA's forecast is, BPA's need for balancing reserves may not exceed the capacity available from the federal system.

Balancing Reserve Methodology

NIPPC and RNW share BPA's focus on operating a safe and reliable system. We also want to ensure that BPA has sufficient capacity to call upon to meet its balancing reserve needs, as established by NERC standards and BPA's open access transmission tariff requirements. Staff described the 99.7% planning standard as "virtually ensuring" that BPA will meet its balancing area obligations under the relevant NERC standards. The relevant NERC standards, however, do not require a specific quantity of balancing reserves or set forth a formula to establish a specific quantity of balancing reserves. We accept BPA Staff's representation that the 99.7% planning standard "virtually ensures" that BPA will satisfy the requirements of the NERC standards. What is not clear, however, is whether the planning standard of 99.7% is the lowest planning standard that

would allow BPA to remain in compliance with the NERC standards. We ask that BPA explain in detail, as part of the record for the BP-26 Initial Proposal and with reference to the formulas in the NERC standards, whether and how the 99.7% planning standard is the lowest standard that would allow BPA to meet the NERC requirements.

Non-EIM Balancing

NIPPC and RNW agree that in the event of communication or system failures, neither BPA nor its customers should receive a windfall. Customers who contribute to an imbalance of load and generation on BPA's system should pay their share of those costs. We do not object to BPA including general language in its tariff to ensure that customers pay the charges and receive the credits they are entitled to under the market rules.

We ask that BPA collect data regarding the frequency, duration, and magnitude (in both energy and dollars) of its need to intervene after the market runs in order to properly allocate EIM charges and credits. BPA should be prepared to share this data with customers in a workshop prior to the next rate case.

BPA Segmentation

At the workshop, BPA described its proposal to roll the Utility Delivery Segment into the Network. In support of its proposal, BPA argues that rolling in this segment would encourage the widest possible diversified use of BPA's system at the lowest possible rates and would remove a pancaked rate imposed on a small group of customers. BPA notes it is also looking ahead to increased regional coordination. These same arguments and rationales would support rolling the Montana Intertie into the Network segment, as RNW has articulated in several prior rate cases. We encourage BPA to revisit its proposed segmentation of the Montana Intertie in light of its proposal on the Utility Delivery Segment.

Thank you for the opportunity to comment.