July 18, 2018

Submitted via email to: techforum@bpa.gov

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Re: Comments of the Large Point-to-Point (PTP) Preference Customers on BPA's TC-20 Process and June 26, 2018 Workshop Topics

Seattle City Light (City Light), Public Utility District No. 1 of Snohomish County (Snohomish), and Tacoma Power (Tacoma) (collectively, Large PTP Preference Customers) appreciate the opportunity to provide comments on the subjects presented at the TC-20 customer workshop held on June 26, 2018. Our comments below pertain generally to the TC-20 process and then address Bonneville Power Administration's (BPA) proposal and approach related to the hourly firm product.

Customers almost universally agree with BPA that the unlimited aspect of hourly firm service could present problems and should be addressed. Large PTP Preference Customers and the Group of PTP Customers believe that the appropriate response to this concern is limiting hourly firm service to available transfer capability (ATC), while retaining the hourly firm product's availability when ATC is not constrained.

TC-20 Process

As part of the presentation at the June 26 TC-20 workshop, BPA presented a tentative roadmap for the issues to be addressed as part of the TC-20 process, as well as detailing customer feedback BPA has received thus far.

We are concerned with BPA's response regarding the strategic guidance principles for the new tariff. BPA first presented these principles at the April 23, 2018 workshop and solicited customer feedback. These principles were viewed as vital to the tariff process, as they were to be the measure against which BPA would hold proposed changes to the *pro forma* tariff. BPA received immediate feedback from customers, both verbally and in writing. Snohomish itself proposed an alternative approach to the principles. However, at the June 26 workshop, BPA stated that they would not be addressing the principles until late July.

Because the ongoing TC-20 workshops are addressing contentious issues which may require deviations from *pro forma*, the framework through which BPA is evaluating alternatives is a critical component in these discussions and should be addressed and resolved as soon as possible. The Large PTP Preference Customers strongly encourage BPA to reprioritize this issue, engage with customers and reach a resolution as soon as possible.

Hourly Firm Product

The Large PTP Preference Customers together hold approximately 4,400 MW of long-term PTP on BPA's Network transmission system. The flexibility provided by the ability to schedule transmission on an hourly basis through the hourly firm product, whether for marketing purposes or for serving customers' load service needs, is a key component and value driver for the long-term PTP product. In addition, BPA's hourly product and redirect policies have been foundational to the effective operation of the Northwestern energy bilateral markets. This is particularly relevant given that commercial use of BPA's Network transmission system is very unique in the nation as it consists of approximately 80% long-term PTP and 20% Network Transmission (NT) wholesale transmission service (no retail load service).

These comments are designed to provide context for why the hourly firm product is important to us, explore the guidance provided by FERC regarding hourly firm, and to solicit additional information from BPA on its proposed alternatives, as well as the ultimate decision-making process and criteria.

The Northwestern Bilateral Market

The Large PTP Preference Customers are active participants in the bilateral market serving the Northwest. We, along with many other entities including BPA Power, use the market as a point to sell excess hydro and other resources, as well as for making balancing purchases and sales to help tailor resource to our customers' needs. For example, during winter months, the market can provide capacity resources during hours when Snohomish's own resource supply is constrained. In some summer months, City Light does not receive any preference power from BPA and transmission normally used to move BPA power is redirected to serve customers' needs from non-BPA sources. These activities would be dramatically impacted by the elimination of an hourly firm transmission product with no replacement product.

Because the market transacts on both a firm and an hourly basis, the loss of a firm hourly product would be a fundamental change to the market. Some impacts would include:

- Real time transactions would be limited to hourly non-firm transactions, at the lowest NERC curtailment priority.
- Day ahead planning would need to be performed using flat daily profiles. In the event ATC is unavailable for a single hour on the needed path, daily profile redirects would fail.
- Heavy Load Hour (HLH) and Light Load Hour (LLH) products would be unable to transact efficiently, as 24 hours of transmission would be required to accommodate an 8 or 16 hour block of power.
    - Other non-standard product offerings, which could include products aimed at participation in regional markets, will also be impacted similarly to HLH and LLH products

- Resales of excess transmission capacity, as permitted under the PTP Agreement, would be reduced, as the ability to redirect to that resold transmission would no longer be available.

These are just some of the effects that are immediately apparent; they do not include those unforeseen or unintended consequences which are not yet known but could have severe consequences. And because of these intense consequences, both known and unknown, we believe that BPA should have an equally compelling reason for discontinuing the product, supported by data or other analysis. To date, BPA has not produced such data.

BPA's Problem Statement and Product Conflict

At the core of BPA's problem statement is the concept of a "conflict" between the hourly firm product and curtailment priority. BPA argues that the hourly firm product somehow contributes to inequity between it and other transmission products, undermining the intent of the NERC curtailment priority rankings. To us, there seem to be two major areas of focus in BPA's argument:

1. <u>Conflict between 7F PTP and 7F NT products</u>

With regard to products under the same 7F NERC priority, BPA argues that the conflict arises when a 7F hourly reservation is made on a given path that already has a 7F NT reservation, the path becomes more constrained and increases the likelihood of curtailment. If curtailment then occurs, the two products are curtailed pro rata – the hourly product is cut by the same amount as the long-term NT schedule. BPA considers this a "conflict," and posits that it devalues the long-term rights of NT customers.

We disagree with this assertion. BPA identifies this "conflict" for only hourly firm – but the same "conflict" exists regardless of product duration. If a firm daily reservation is made on the given path previously mentioned, it would also increase the chance of curtailment (in the sense that any increased utilization of a transmission path increases the probability of curtailment), and it would also be curtailed on a *pro rata* basis with any other 7F reservations. The same is true for weekly duration, monthly duration, and longer.

Because this is true for products of all duration, and is the *pro forma* standard for durations daily and longer, we can therefore conclude that this is an intended result by FERC. FERC consistently advocates for the most efficient and complete allocation and usage of transmission capability. If long term service on a particular path is not available due to a constraint during only a handful of hours out of the year, FERC provides customers with shorter duration products to utilize those times during which capacity is available. To the extent monthly service is not available, weekly service could be utilized and so on. For BPA to draw the line at hourly service and claim that there is a product conflict necessitating the product be discontinued runs entirely contrary to the established FERC principles of efficient allocation of transmission capacity, as demonstrated by its other *pro forma* duration offerings.

2. Conflict between 7F PTP and 6NN NT products

We are aware of concerns regarding NT customer usage of secondary network service (6NN) transmission and how it interacts with the hourly firm product on a curtailment priority basis. Typically, 6NN transmission is an "as available" product, to be used when a long term firm reservation is unavailable and NT customers cannot avail themselves of other, shorter term firm options. We understand that an NT firm hourly designation product is available in some cases, but that unique NT customer circumstances may prevent access to that product. The curtailment priority of 6NN transmission is a step lower than that of hourly firm, which is ranked at 7F. In the event of a curtailment, the 6NN product would be curtailed in full before the hourly firm reservation is affected. This is viewed as a "conflict" between the two products due to the perceived negative impact to 6NN service.

We do not believe this represents a conflict. Curtailment priorities are established intentionally – 6NN service is ranked below firm service as it is, by design, not a firm product. Firm PTP products of longer duration would also be curtailed after 6NN service, as dictated by *pro forma* standards, but hourly firm service again seems to be singled out as the source of conflict.

The inability for NT customers to secure long-term firm rights on certain needed transmission paths is concerning and deserves further discussion. We understand the unique challenges facing utilities and their ability to move generation from non-federal resources and serve customers' needs, and are open to working with BPA and NT customers toward meeting the needs of all of BPA's transmission customers' long-term needs. However, neither eliminating the hourly firm product, nor considering 6NN as a "de facto" firm product addresses the underlying issues preventing NT access to long-term firm service. We encourage BPA to engage its preference customers in a collaborative effort to resolve these larger issues.

Ultimately, we disagree with the assertion that the curtailment priority as it exists today generates a product "conflict" or that FERC's intent is being subverted. FERC has indicated through its *pro forma* offerings that firm PTP reservations of any duration should be curtailed on an equivalent basis to other 7F products. BPA has not demonstrated, either in concept or example, that the hourly firm product is substantively different or unique from other duration products in its offering such that it should be eliminated.

Separating Limited Hourly Firm from Unlimited Hourly Firm

In BPA's original proposal to eliminate the hourly firm transmission product, BPA consistently referenced the unlimited nature of the current hourly firm product. Customers almost universally agreed with BPA that the unlimited aspect of hourly firm service could present problems and should be addressed. In order to maintain comparability with firm product offerings of greater duration, BPA should eliminate the unlimited aspect of hourly firm service, limiting the product to available ATC.

It is our belief that a limited hourly product, with a robust hourly ATC methodology, would fully address the concerns with the current unlimited product. Under current practices, unlimited redirects could place undue stress on a constrained path and, as transmission becomes increasingly scarce, would therefore place strain on BPA's transmission system. This strain would likely manifest as curtailment risk for firm and non-firm schedules.

However, to the extent ATC is calculated on an hourly basis and hourly reservations are only allowed up to the available capacity for the given hour, BPA's system would use what was available and nothing more. Hourly firm redirects to a path on which there is no available capacity would be denied. While this may cause some transactions to shift out of the hourly market, the effect would be much less severe than total elimination.

This treatment would hinge on the methodology for calculating ATC – whatever method is chosen would need to be robust and accurate; if ATC is calculated too high, curtailment risk increases. If too low, BPA would have too much unused "buffer," reducing efficiency and value. We encourage BPA to present its current thinking on how ATC would be calculated on an hourly basis and what information customers can provide that would assist BPA staff in making this assessment.

To Be Pro Forma, or Not To Be Pro Forma

BPA has pointed out, on several occasions, that hourly firm service is not a *pro forma* product as described by FERC. This has been used as a potential justification for its elimination as BPA moves through the TC-20 process. The crux of this issue seems to rest in FERC Order No. 890, where FERC declined to mandate the inclusion of an hourly firm product in its *pro forma* tariff.

As other commenters have correctly pointed out, FERC found that a broad, nationwide requirement for all transmission providers to offer hourly firm could cause implementation and complexity issues, when considering that "solution(s) that may be appropriate for resolving scheduling, reservation or other issues resulting from hourly firm service on one transmission system may not be appropriate for another transmission system."[1] However, in the very next paragraph, FERC explicitly allows transmission providers the option of offering an hourly firm product, stating "To the extent they deem it appropriate, transmission providers will continue to have the option to propose offering hourly firm service."[2]

Years later, FERC affirmed its non-opposition to hourly firm service in a different context. Order No. 764 required jurisdictional transmission providers to offer intra-hourly transmission scheduling at 15-minute intervals. When implementing that requirement, FERC found that a transmission provider may retain hourly firm service. FERC explicitly noted that if other transmission providers in the region (*e.g.*, PacifiCorp in our region) offer the service, retaining hourly firm service is beneficial to the region:

> [T]he Commission did not expressly require any changes to transmission service offerings or curtailment priorities to accommodate intra-hour schedules. In addition, the Commission indicated that it views the existence of compatible business practices within a region as beneficial to maintain system continuity. Likewise, recognizing that other transmission providers in the region offer Hourly

[1] FERC Order 890, Paragraph 1212.
[2] FERC Order 890, Paragraph 1213.

> Firm PTP Service, consistency in transmission service offerings within a region is also beneficial.[3] [footnotes omitted]

It is clear from multiple decisions that while FERC declines to broadly require hourly firm service due to the varying nature of transmission systems across the nation, it still allows providers the option of offering the product. In addition to the context provided by these decisions, BPA has stated that they are striving to be *pro forma* where possible, but acknowledge that in some circumstances deviation from *pro forma* is necessary.

Because FERC makes no comment on whether any individual transmission provider should or should not offer hourly firm, and because BPA has allowed itself the latitude to deviate from *pro forma* when necessary, BPA should therefore base its decision regarding hourly firm on the merits of the service itself rather than relying on procedural arguments or a desire to be *pro forma* simply for the sake of being *pro forma*.

BPA's Decision Making Criteria

At the June 26 workshop, BPA presented a set of decision criteria for Hourly Firm that would be *in addition* to the *pro forma* principles that BPA has tentatively established for the TC-20 process. BPA stated that any alternative would be evaluated using these seven criteria in addition to the *pro forma* strategic guidance.

BPA later elaborated upon these principles by establishing a tiered ranking system. The proposed alternatives would be viewed against the status quo, using the lens of the various criteria. However, BPA is starting from a position that the status quo is not a feasible outcome. By taking this initial position, the decision making criteria are skewed towards the overall elimination of the hourly firm product. By default, any proposed alternative should carry the burden that the alternative is equal to or superior to the status quo, rather than BPA justifying why the alternative should not be implemented. As BPA considers each alternative, the onus should be on BPA to articulate their reasoning and justification for each incremental step away from the status quo that alternative takes the region.

We also request that BPA make a clear statement of the data and feedback being solicited or considered to help evaluate each criteria identified. For example, what data will BPA rely on to help consider whether an alternative provides "flexibility to serve regional load at least cost?" And how can customers best contribute meaningful data and feedback to BPA's decision making process?

Proposed Alternatives to Unlimited Hourly Firm

BPA brought forward three possible alternatives at the June 26 workshop:

- Maintain the existing Hourly Firm product, but limit it based on ATC
- Eliminate Hourly Firm but create a shaped Daily product for PTP

[3] *Public Service Company of New Mexico*, 145 FERC ¶ 61,085 at P 13 (2013).

- Eliminate Hourly Firm entirely

These three alternatives lend themselves to being considered in a cascading order: BPA should first consider and evaluate maintaining the Hourly Firm product, but imposing ATC limits. This alternative causes the least amount of impact to current market structures and maintains the existing product while mitigating the negative aspects of unlimited service. If BPA decides that it cannot accommodate limited hourly firm, it would then consider and evaluate a shaped daily product as a secondary option. If BPA cannot accommodate hourly firm nor a shaped daily product, it would move to evaluate the option of elimination with no replacement product.

We believe that BPA's evaluation of these alternatives must be fact-based and data-driven. Many customers predicated their decision to purchase long-term PTP service on its service attributes, including flexibility. When, as in this case, a proposed alternative is to eliminate a core aspect of a transmission product's functionality from the existing offering, BPA must hold itself to the highest standard of proof to establish its problem statement and reasoning. BPA must be able to clearly state any problems or implementation issues which prevent the offering of an alternative, and then justify that these problems outweigh the benefit of offering the product to its customers. We expect that BPA would reflect this justification and supporting data in any decisional document issued.

Preemption and Competition

The Large PTP Preference Customers were surprised to see Preemption and Competition (P&C) as an aspect of consideration in the proposed alternatives during the June 26 workshop. To our knowledge, BPA currently runs long-term P&C, and short term P&C only on monthly and weekly duration for firm and non-firm reservations. We are not aware of any plans to enable P&C on the daily product. BPA indicates in its presentation however that P&C would be enabled for the limited hourly firm product. BPA went on further to state during the meeting that P&C was considered *pro forma*, and that to the extent BPA offers a product, BPA would follow P&C guidelines for that product.

This raises questions for us surrounding the policies and decisions regarding P&C. To our knowledge, BPA has not yet included language regarding P&C in its new tariff (likely to be located in Section 2.2). We also cannot find reference in BPA's posted documentation about where Section 2.2 will be addressed, either in TC-20 or TC-22. We request that BPA clarify its intent regarding P&C and how P&C will apply in the new tariff.

We also disagree with BPA's assertion that BPA would be required to run P&C on the hourly firm product if it is offered. FERC recognized in Order No. 890 that each transmission provider was going have unique circumstances that would dictate whether they wanted to offer an hourly firm product; we believe this open-ended application applies to P&C as well. This is supported by our understanding that transmission providers that offer an hourly firm product are not consistent in their use of P&C. To the extent BPA offers an hourly firm product, it should be up to BPA's discretion whether to run P&C. Given the relatively narrow timeframes associated with hourly firm service, the product characteristics necessary to implement a P&C framework would be significantly different from those of longer duration products.

Because there is no existing guidance from the North American Energy Standards Board for hourly competitions, we have the following questions regarding BPA's proposal:

- What would the Right of First Refusal (ROFR) time frames be for an hourly competition?
- When would the conditional window open and close for an hourly reservation?
- Does BPA plan to apply to hourly firm the same preemption rights as other duration products?
- Can BPA provide example competition scenarios for likely competition events?

Generally speaking, we do not believe that P&C should be enacted on the limited hourly firm product. The potential for market disruption is high, as is the potential costs of implementation, while the benefits appear negligible. Additionally, the timeframes involved for conditional windows and ROFR are likely too short compared to similar product offerings of longer duration. We look forward to receiving a more detailed description of BPA's proposal regarding P&C.

Comments of the Group of PTP Customers

The Large PTP Preference Customers have had the opportunity to review comments from the Group of PTP Customers. While each PTP customer has differing circumstances and may have specific considerations, the Large PTP Preference Customers believe that we are aligned in the belief that BPA's best alternative to the status quo unlimited hourly firm product is to offer instead an hourly firm service limited by ATC.

Conclusion and Next Steps

The Large PTP Preference Customers appreciate the opportunity to comment on these issues. If you have any questions about our positions or proposals, please feel free to contact Joe Fina at gfina@snopud.com or 425-783-8649.

Sincerely,

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