



Northwest & Intermountain Power Producers Coalition

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Elliot Mainzer
Administrator
Bonneville Power Administration
905 NE11th Avenue
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April 6, 2018

Re: Leverage Policy; *Pro Forma* Gap Analysis; South of Alston; Grid Modernization

Dear Elliot:

The Northwest and Intermountain Power Producers Coalition (NIPPC) has been following the multiple BPA stakeholder processes over the past several months. We are increasingly concerned that transmission customers will soon be expected to fund upgrades to BPA's transmission system in order to allow BPA Power to enhance its secondary energy sale revenues.

Grid Modernization

NIPPC's members are transmission customers of BPA. We recognize the value of a safe and reliable transmission system. NIPPC also recognizes that continuous investment is needed to replace aging and outdated infrastructure, including software, in order to maintain Bonneville's transmission system. But increasingly — and in numerous different contexts — BPA staff is signaling the need for investments in “transmission” not to maintain the existing functionality of the system, but to “enhance” it in such a way as to allow BPA's power function to take advantage of new market opportunities.

As BPA stated in its recent Strategic Plan:

[BPA] will improve [its] commercial performance in other ways as well, including strengthening [its] finances and modernizing [its] assets and system operations. Investments in grid modernization will support a more reliable, flexible and efficient system, helping to reduce future costs and create new market opportunities for BPA and others. As California and other Western states increase the amount of variable energy resources on the grid, [BPA] will proactively seek more opportunities to market the valuable flexibility and capacity services that clean hydropower resources can provide.

The reference to “others” also benefiting from new market opportunities does not ameliorate the concern. Not all of BPA’s customers will have access to the “new market opportunities.” Given the existing constraints on BPA’s system — including South of Alston and the Southern Intertie — only BPA Power and a very small subset of BPA customers will actually have access to whatever new market opportunities surface.

While FERC’s standards for direct assignment of costs under the Open Access Transmission Tariff may allow BPA to allocate grid modernization costs for Bonneville’s purposes to all transmission customers, NIPPC urges you not to do so. Instead NIPPC urges you to direct staff to explore mechanisms that will allocate the costs of any grid modernization program to customers who would actually benefit from those investments — specifically customers with access to the advertised “new market opportunities.”

Uncertain New Market Opportunities

NIPPC considers the new market opportunities alluded to and their associated revenue as speculative. California has barely begun to consider whether to allow imports from the Northwest to meet the CAISO’s resource adequacy requirements or to meet its flexible resource adequacy requirements. There is no guarantee that California will recognize the ability of imports from the Northwest to meet either of its needs for capacity. A grid modernization which relies on these new markets as justification for the investment should be delayed until those new markets — and their entrants — are reified.

Leverage Policy

NIPPC is also concerned that the financial impact to transmission customers of a grid modernization investment program will be compounded by staff’s proposal to implement a financial policy designed to address BPA’s debt to asset ratio. Staff reports rating agencies are concerned that BPA’s debt to asset ratio is too high. We fear responsibility for “fixing” BPA’s ratings will fall on transmission customers. By itself, the impact to transmission rates of BPA’s leverage policy will be 4-7% annual rate increases for transmission customers. This level of rate increase will be compounded by the additional borrowing costs associated with modernizing the grid to allow BPA Power to monetize new sources of revenue.

South of Alston/Southern Intertie Equivalency

NIPPC commends your decision to terminate the I-5 Corridor reinforcement project. BPA staff has signaled that transmission customers seeking new service across the South of Alston path may be required to accept service at an incremental cost (through direct assignment of the costs of a redispatch program) or at increased risk (through being offered only a conditional firm product). NIPPC suggests that your treatment of customers seeking service across one path (South of Alston) should be consistent with the treatment of customers seeking enhanced service across the Southern Intertie. If the limited set of customers seeking enhanced service across South of Alston are

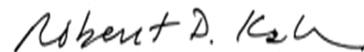
directly assigned costs or risk associated with their requests; then the limited set of customers seeking enhanced service to tap those new market opportunities in California should be directly assigned the costs of the required grid modernization. NIPPC will be watching carefully to ensure that the treatment of both sets of customers is consistent.

Future Developments

NIPPC believes that a well-designed and well-regulated organized market consistent with FERC's Open Access Transmission Tariff will ensure a competitive wholesale market for energy. NIPPC appreciates that BPA is preparing to join the Energy Imbalance Market and is engaged with the CAISO in exploring Day Ahead Market Enhancements. But as noted above, NIPPC strongly believes that the costs of a grid modernization should be allocated to those customers starting with BPA Power that will sell into those markets. Certainly, once BPA formally joins a market, which allows all its transmission customers equal access to the same opportunities, it will be appropriate to broadly assign the costs of grid modernization to all transmission customers. However, in the absence of your formal decision to join a market and its implementation, very few customers will be able to share in the new market opportunities staff describes. All transmission customers should not bear the burden of increased transmission costs that will benefit a select few.

Thank you. Please contact me if you have any questions or would like to discuss the issues raised in this letter.

Sincerely,



Robert Kahn
Executive Director