



# **Section 23.1**

## **Price Cap and Financial Middleman**

# Discussion Items

- FERC recognizes the need for secondary capacity reassignments (resales)
- BPA's history
- Price Cap
- Financial Middleman (two components)
  - Contracts
  - Settlements
- Resales 'on' vs. Resales 'off' OASIS
- Tariff language considerations

# Background on FERC Pricing Reforms

- Pricing reform is necessary to incentivize transmission upgrades and address transmission congestion and the cost of delivered power (Orders 679 and 890).
- Recognized that the industry needed incentives to invest in long term transmission (Orders 679, 890, 890A, 739, 739A).
- Recognized that long term transmission was key to address congestion (See Orders listed above).
- In Order 890, FERC reversed its previous position and removed price cap.
- In Order 739 and 739A FERC reaffirmed the adoption of the ‘financial intermediary’ as a way to address industry concerns of ‘market manipulation’ and ‘price gouging’.
  - FERC adopts the market monitor role.
  - Transmission Providers (TP) to monitor pricing signals as a means to understand where potential transmission upgrades may be needed.

# BPA History

- BPA participated in the FERC 2-year pilot which studied price cap removal and market manipulation.
  - BPA temporarily removed price cap, and
  - BPA reinstated price cap at the end of the pilot period.
- BPA studied the cost of moving to the financial middleman role using the Order 890 prescribed process and determined that the costs were significant (e.g., the 2013 study had an estimated \$13 million project cost).
  - The study considered:
    - Use of the A-1 agreement;
    - BPA conducts the bi-lateral agreement settlement; and
    - Option to use Resales 'off' OASIS (Resales 'on' OASIS had implementation costs at that time).

# History (cont'd)

- FERC Order 890-A gave the TP an alternative to the contractual process via the use a blanket service agreement.
- OATi functionality progressed with industry standards supporting Resales 'on' OASIS.
- FERC denied BPA reciprocity due to BPA's unwillingness to remove the price cap and become a financial middleman.
- BPA files EQR on resales transaction to support the FERC market monitoring role.

# Section 23 Price Cap

- BPA's deviation from the *pro forma* was identified in the in the Pro Forma Gap Analysis (PFGA).
- As a part of the TC-20 process, BPA is evaluating to remove the price cap.

# Section 23.1 Financial Middleman

- BPA's deviation from the *pro forma* was identified in the in the Pro Forma Gap Analysis (PFGA).
- Financial Middleman has two components:
  - Contracts
  - Settlements
- BPA will address the tariff deviation for the financial middleman in the TC-22 process.

# Tariff language considerations for TC-20

## Current Tariff language for Price Cap: (BPA additional language is in red)

"(a) **A Subject to Commission approval of any necessary filings, a** Transmission Customer may sell, assign, or transfer all or a portion of its rights under its Service Agreement, but only to another Eligible Customer (the Assignee). The Transmission Customer that sells, assigns or transfers its rights under its Service Agreement is hereafter referred to as the Reseller. **Compensation to the Reseller shall not exceed the higher of (i) the original rate paid by the Reseller, (ii) the Transmission Provider's maximum rate on file at the time of the assignment, or (iii) the Reseller's opportunity cost capped at the Transmission Provider's cost of expansion; provided that, for service prior to October 1, 2010, compensation** to Resellers shall be at rates established by agreement between the Reseller and the Assignee.

## Price Cap language being evaluated for TC-20

"(a) A Transmission Customer may sell, assign, or transfer all or a portion of its rights under its Service Agreement, but only to another Eligible Customer (the Assignee). The Transmission Customer that sells, assigns or transfers its rights under its Service Agreement is hereafter referred to as the Reseller. Compensation to Resellers shall be at rates established by agreement between the Reseller and the Assignee.