

To: Tech Forum/ BPA Transmission Services

Fr: M-S-R

Re: Comments on GI Reform-October 2012

M-S-R appreciates the opportunity to offer comments regarding BPA's GI Reform Proposals. M-S-R appreciates the effort of BPA staff to develop an understanding of the issues and for their thoughtful efforts to reform the GI process based on stakeholder comments and their own internal evaluation.

M-S-R's comments focus primarily on the need for an integrated-interdependent approach to the effective integration of variable resources. It will also make a few specific recommendations in reference to the NOS process itself.

#### An Overview

M-S-R understands that the fundamental issues currently in front of BPA and its stakeholders.

- Timely evaluation and response to LGIA requests
- Timely response to TSR requests
- Equitable application of cost causation principles
- Sound credit policies

To these issues M-S-R respectfully would like to add 4 additional criteria:

- Consistency with prudent utility operating practices
- Avoidance of unnecessary redundancy
- Reasonable contract\cost durability
- Consistency with regional capabilities and system imitations

Under the current paradigm, the various issues and criteria referenced above are addressed in multiple limited scope forums with limited exchange of information among the forums. There are discrete forums regarding LGIAs, NOS, GI Reform, Transmission policy, Credit policy, Balancing Reserves and Capital Priorities.

The potential for inconsistent and conflicting decisions is significant. As system conditions become more constrained, the potential for adverse unintended consequences increases.

#### Some examples

The most salient, and of most concern to M-S-R, is the inconsistency between GI Reform\NOS and Balancing Reserves Initiative (BOATT2). In the BOATT2 process the focus is on how to manage a "shortage" of balancing reserves for, among other things, the existing wind fleet. In the GI\NOS forums the focus is on how to integrate additional resources of every ilk including wind. Thus in one forum the focus is on expansion and in another forum the focus is largely on how to manage the status quo.

A second example is the inconsistency between the transmission access policy and the need for scheduling accuracy. The transmission access policy sets limits upon firm access rights when schedules are changed within the operating day, especially when redirects are required. The emphasis on scheduling accuracy encourages customers to make frequent intraday changes to have schedules better reflect actual resource activity, particularly with respect to variable resources and peaking plants. The dilemma is that frequent schedule changes can result in the loss of firm transmission.

A third example is specific to wind. There is a disincentive for wind diversity. Studies consistently suggest that wind diversity can reduce the need for wind reserves. However, the LGIA\TSR processes do not take into account the impact of location of the proposed project on the need for additional reserves, nor do the current LGIA\TSR processes consider the availability of or location of reserves and the transmission necessary to deliver them. The current process will likely increase the cost of transmission for potential projects located more distant from the Columbia Gorge area with no economic offset for greater system diversity they provide. Higher transmission costs without an offset for diversity provide the perverse incentive to further concentrate variable resource within the gorge area exacerbating the need for reserves.

A fourth example is the nature of the TSR studies. Wind projects have little if any capacity value. Therefore when the wind blows it effectively results in the displacement of another resource. The location of the “other” resource determines whether there is or is not a need for additional transmission (since load and flow to load remains unchanged). To the extent that the TSR is a PTP customer attempting to schedule to the Mid C, (e.g. project (POR)-Mid C(POD), BPA has no information regarding where the actual flows will occur since there is little load at the Mid C itself.

M-S-R supports BPA in not accepting schedules to the Mid C when there is no designated POR and POD. To allow schedules at Mid C makes it likely that the TSR study will not have sufficient information to determine flows or need for transmission since the displaced resource will not actually be at the mid C. This could result in either requiring an unneeded upgrade or worse, a failure to identify an upgrade that is necessary. In either case there is a significant potential for a mismatch between what is needed and what is available, and an insufficient understanding of cost causation.

#### Suggested changes

These examples strongly suggest that the current fragmented approach which assumes independence among the various forums needs to be revised to directly address the interdependencies among the various contract and tariff processes. Once the interdependencies are well understood, BPA could assign implementation efforts among its functions to accomplish the integrated decisions. A great deal of good work has occurred in trying to develop a process and a procedure in this forum without a complete understanding of the interdependence of the issues being discussed in other forums. The issue, for instance, may not be how many “ripcords” there should be in the process as much whether all of the issues related to PORs, PODs, balancing reserves, costs, and other constraints are understood.

GI Reform cannot be separated from balancing reserve issues. Transmission access cannot be separated from scheduling accuracy. LGIAs, TSR, and balancing reserves are inseparable from the perspective of

the customer. In the absence of load growth, new generation should be viewed as a displacement of existing resources, not a new/additional flow to load. How transmission is managed to serve existing transmission customers should be part of the equation.

The BOATT2 process has been both a success and a disappointment (not a failure). It has been successful in that it has clarified the complexity, severity, and urgency of the issues associated with the integration of significant penetration levels of new variable resources. It is a disappointment (to this point) in that good faith efforts of very capable people have yet to find an acceptable solution.

What is clear is that more effort is needed to effectively and economically integrate existing resources including wind. BPA must find a way to first serve the needs of the existing NT and PTP customers before adding additional complications to an already constrained system.

#### Credit Policy- A special Issue

M-S-R is concerned that the current fragmented approach to LGIAs, TSRs, balancing reserves, Capital Priorities, and credit policy is likely to place existing customers at severe financial risk. The current approach has an increasing risk of significant capital expenditures with limited prospects of full cost recovery. For instance, building new transmission based upon limited information regarding the actual POD and POR of the displaced resource places existing transmission customers at considerable financial risk, both in terms of future use of the transmission system and how possible upgrades will be financed. Relying upon 5 year contracts with counterparties of less than strong investment grade increases both the risk of non-payment and the potential for contract expirations without renewal.

Therefore, M-S-R strongly encourages BPA to require longer term transmission contracts (15 years+ unless there is an identified off taker who will take over an initial shorter term arrangement for the full 15+ years). BPA should use agreements consistent with industry standards in terms of allocation of risk, creditworthiness, and performance assurances. The use of these agreements will reduce the potential for economic damages having to be picked up by existing transmission customers. Of course, BPA should also develop a realistic assessment of potential financial damages as part of developing these arrangements and to fully understand the impact on future rates by the use of various financing strategies.

#### Summary

M-S-R appreciates the level of effort made by BPA staff to date. M-S-R's comments are directed not so much at the specifics of the individual efforts but more at the excessive fragmentation within BPA that results in a lack of consistency among the interdependent parts. This inconsistency could easily lead to higher costs and a less robust and efficient transmission system and may limit market solutions.

As stated above, this and other BPA processes should reflect consistency with prudent utility operating practices, avoidance of unnecessary redundancy, reasonable contract\cost durability, and consistency with regional capabilities and system imitations. As the BPA system becomes more constrained, the

need for integration and consistency becomes more urgent. It is this sense of urgency and the escalating risk of adverse unintended consequences that prompts M-S-R to make these comments.

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On behalf of M-S-R.