

PPC

August 10, 2011

VIA EMAIL

Tech Forum
Bonneville Power Administration
PO Box 491
Vancouver, WA 98666
techforum@bpa.gov

Re: Network Open Season and Generation Interconnection Reform Comments

Dear Tech Forum,

PPC submits the following comments on potential modification to the BPA Network Open Season (NOS) and Generation Interconnection (GI) processes, presented at the July 20th, 2011 NOS/GI Stakeholder Meeting. While these comments are intended to address those topics presented at the meeting and the NOS and GI in general, PPC has also submitted related comments on the specific questions BPA posted regarding modification or termination of existing NOS PTSA's.

PPC appreciates that BPA paused the NOS process to allow for appropriate reforms to be considered and implemented to the NOS. The timeline set-out for potential reforms to be discussed and developed, though, may not permit sufficient time to carefully consider the options and appropriate reforms. BPA plans for stakeholder involvement to end by December 2011 and conclusions and implementation to end shortly thereafter. The issues underlying NOS reforms are complex, and they are interwoven with other ongoing policy and legal processes that may not end by December. PPC supports moving the process forward with dispatch and does not support unneeded delays but BPA should allow sufficient time to get the process right. We urge BPA to be flexible in the deadline and to not cut off debate in this important process.

General Comments

Overall, the concept of NOS is sound and prior NOS processes have successfully addressed requests in the queue and identified needed transmission system upgrades. BPA has offered more than 10,000 MW of firm transmission service, and has committed to investing more than \$1 Billion in new transmission infrastructure.

Reform, however, is needed. BPA has taken on significant financial and business risk in prior NOS processes. In particular, BPA has allowed PTSA customers many flexibilities, including the ability to defer transmission service commencement dates and some ability to modify PODs and PORs associated with transmission service requests. Flexibilities have caused problems with BPA's NOS Cluster Study and its underlying powerflow modeling, increasing BPA's transmission customers' stranded investment risk. Additionally, BPA has also seen a large rate of deferrals and is concerned that there will be a large increase in the rate of deferrals for future builds. These risks are not BPA's risks: they are the risks of BPA's customers as the parties responsible for paying BPA's costs.

Reforms to NOS and GI must reduce BPA's, and ultimately its existing Network customers', exposure to risk of stranded investment, revenue insufficiency and commitment of capital to unneeded or wrongly-sized transmission projects. BPA needs to examine the current NOS and GI processes and significantly improve its risk position in each of these areas. Examples of measures BPA should take include: increasing the performance assurance amount required for NOS participants; changing the NOS business model by requiring payment for studies and NEPA work; limiting permissible deferrals; and other suggestions outlined in comments below.

Comments on Specific Issues Identified by BPA

At its July 20th meeting, BPA identified a series of issues with the NOS and GI processes. PPC submits comments on each of those issues identified as follows.

NOS Precedent Transmission Service Agreement (PTSA) Commitment Changes

Originally, PTSAs were intended to reduce BPA's exposure to the risk of stranded investment and revenue shortfalls by requiring customers to take transmission service for the term of the PTSA. Deposits are also required and are not refundable; in the event of default, the deposits are kept by BPA. There may be reasons that BPA would prefer that customers modify their existing PTSA commitments instead of allowing the customer to default and retain the deposit. How BPA would handle the remaining ATC after modifications should be discussed in future forums. However, BPA should not allow customers to modify their existing PTSA commitments unless modifications **reduce** the amount of risk exposure BPA faces.

With these general comments in mind, PPC notes that BPA has not provided sufficient information to make an informed judgment on particular changes that comport with those general comments. PPC would like an additional chance to comment after further information is provided from BPA on this issue. In order for customers to make informed comments, BPA should provide customers with information related to the potential financial risks associated with modifications to PTSAs and hold technical meetings to discuss the potential impacts. The information

that BPA provides should address the following at a minimum:

- The number of PTSAs potentially impacted, including the number of MW represented, which transmission expansion projects would potentially be affected by modifications and the amount of transmission capacity that would be freed up at each flowgate.
- Information about the current Long-Term Firm Transmission queue, including the number of requests BPA suspects are no longer valid, how many requests may overlap with those customers asking for termination of their PTSAs, and the creditworthiness of customers in the queue.
- Information about the amount of money and the value of staff resources already expended on studies and construction on the NOS projects to which those PTSAs contributed to the decisions to construct or study.

Deferral Rights, Stranded Cost and Performance Risk

In regard to new PTSAs in future NOS processes, PTSA holders should provide additional assurances to BPA of performance that will decrease BPA's potential financial risk. In order to decrease its risk, BPA should:

- Require that PTSA holders pay for NEPA, engineering and other study costs.
- Modify the deferral rights of all PTSA holders by increasing reservation fees, implementing an increasing fee for multiple deferrals, limiting permissible reasons for deferrals, and limiting the number of allowed deferrals;
- Require that deferrals be for a minimum of 2 years to permit BPA greater leeway in granting shorter-term requests within the period of the deferral, thus mitigating the potential loss of revenue.

In addition, the underlying creditworthiness of customers requesting transmission service should impact required performance assurance amounts as well as the determination of whether a project should move forward at embedded cost rates. BPA has stated that 41% of the potential revenues from current PTSAs are from non-investment grade participants. In the future, non-investment grade NOS participants or limited liability corporations or partnerships, that are subsidiaries or affiliates of other corporations or entities, should be required to provide a letter of credit or guarantees from parent corporations or affiliated entities before their request should be considered in making rate decisions. Also, if the default of a single PTSA or group of PTSAs held by one customer would have a significant impact on the rate determination for a particular build, BPA should increase the required performance assurance amount for that project

to limit “single-shaft risk.”

Lastly, in order to provide more informed comment in the upcoming reform process, PPC requests additional and more detailed information on the level of stranded investment and default risk than was provided at the July 20th meeting. BPA should provide the following information at a minimum:

- Any underlying data, spreadsheets and models used to produce their analysis presented on July 20th, 2011.
- The number of PTSAs that BPA suspects are subject to a high risk of deferral or default, including the number of MW represented, the criteria BPA used to assess risk, and which transmission expansion projects would potentially be affected by default.
- The revenue stream information that accounts for transmission credits for generation interconnection facilities to develop an accurate picture of actually expected revenues and potential rate impacts.

NOS Planning and Cluster Study Assumptions

Another key element of the NOS in need of reform is the Cluster Study and its underlying powerflow analysis. This model uses information collected from customers in their service requests, as well as current transmission reservations, to determine which builds are necessary to support new requests. Because the region has more generation than load, BPA must make assumptions about which generation should be reduced in its modeling. It is also important that the assumptions made in the Cluster Study sync with Federal Dispatch Assumptions and those in other processes, such as ATC calculations.

To allow for informed customer comment on this issue, BPA should provide information on how it currently models flows in its Cluster Study. Specifically, BPA should hold a public meeting with customers to demonstrate the way the powerflow works and how assumptions are fed into and impact the model. After holding this workshop, BPA should work with customers to revise its assumptions to ensure that modeled flows match actual behavior. For example, thermal dispatch assumptions should be based on actual operations rather than relying heavily on a security constrained economic dispatch model. The economic dispatch model does not accurately depict the use of resources. Customer input is also critical to developing accurate and useful scenarios and sensitivities underlying the Cluster Study analyses.

Lastly, BPA should require additional information in Transmission Service Requests so that it may accurately model flows in future planning studies. The lack of information seems to be impeding BPA’s ability to run valid powerflow models. It increases the risk that BPA will not identify the correct builds necessary to support requests. For example, BPA should not allow customers to cite virtual sinks as viable

PODs. NOS participants should be required to cite real PODs, so that BPA does not run the risk of overselling its transmission system or mistakenly building infrastructure for which there is no need.

Generation Interconnection Queue Reform

PPC recognizes that significant reform is necessary to the Generator Interconnection process. There are many thousands of MWs of service requests in the GI queue, some of which are fictitious or speculative requests. As a result, some customers are left waiting for less ready, but higher queued, requests. In general, PPC is supportive of BPA moving from a system of “First in line, first served” to “First ready, first served.” BPA should cluster electro-geographically related GI requests during established study cycles, similar to clustering in the NOS queue, in which latecomers may enter a cluster, past less ready or unrelated projects in the queue. BPA should also adopt reforms that would allow for pro-rata funding for shared facilities so that a single customer does not bear the brunt of all of the costs of a shared facility, and BPA does not hold the risk of rate impacts due to associated transmission credits.

In conjunction with these methods for easing the movement of generation through the queue that is ready for interconnection, however, BPA should adopt measures to protect itself from undue risk in this reformed process. BPA should require each customer wishing to participate in a cluster to meet significant milestones before BPA completes studies or begins construction of new facilities. BPA has identified other possible milestones, such as proof of site control, evaluation for deliverability (*e.g.* through a coordinated commitment in NOS), execution of a power purchase agreement, and substantial commitment of funding for upgrades. Others BPA might include are commitment of funding for studies, including NEPA work, and proof of purchase of generation facilities. In parallel with the recommended NOS reforms above, BPA should also reform the requirements for the creditworthiness of customers submitting requests in the queue in their milestone process; to the extent that interconnection requests come from customers with non-investment grade credit or which are limited liability corporations or partnerships, BPA should require additional funding or guarantees of payment as noted above.

We thank you for this opportunity to comment.

Sincerely,
Kayce Spear
Policy Analyst
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Senior Policy Analyst

cc: PPC Executive Committee
PPC Rates & Contracts