Renewable Northwest Project

October 5th, 2012

VIA EMAIL SUBMISSION

TO: BPA TechForum

Submitted via email to: ehcarter@bpa.gov, sregusa@bpa.gov, lnichols@bpa.gov, techforum@bpa.gov, shenyeart@bpa.gov

RE: Comments on BPA's NOS, LGIP, and SGIP reform proposals

Network Open Season Timeline:

RNP supports having the timing of the PTSA earlier rather than later in the process. We recognize that the timing of the PTSA needs to balance concerns about having accurate information (costs and siting issues) with the need to give both BPA and NOS participants binding agreements as early in the process as possible. Previous NOS policy was to have the PTSA at the beginning of the process. We think that deviating significantly from this status quo is an abrupt change and a risky experiment. A good compromise from our perspective is to have the PTSA in the middle of the process, just as soon as BPA can produce an informative rate impact analysis and a fatal flaw siting analysis.

NOS Financial Commitment Alternatives:

RNP supports an initial financial commitment for the study phase of the NOS that is both cost-based and provides a sufficient enough hurdle to ensure that only timely requests participate in the NOS. Accomplishing both these goals simultaneously requires significant balance. We believe that the next NOS will have its greatest impact getting currently existing ATC to those customers that are most ready to use it (but are disadvantaged by the first come first serve queuing policy). Ensuring a meaningful queue restack is critical to achieving this success. As such, we encourage BPA to choose an initial financial commitment that approximates previous NOS policy. We support customer refunds for any financial commitments not expended during the study phase (taking into account the costs of restudy) to ensure the initial financial commitment is cost-based.

With respect to financial commitments for the construction phase of the NOS, RNP's members prefer approaches that rely on security rather than advanced funding. We also prefer a uniform approach to financial commitment. Given the heavy burden on BPA's treasury borrowing authority and the concern over the short-term rate impact transmission credits have, we understand that more creative approaches to financing new large-scale transmission may be necessary. If BPA makes a decision to move in this direction, the concept of co-financing—where BPA finances the components eligible for third party leasing and customers finance the remainder—has some attractive components to it. We would need more details surrounding the estimated percentage of a project's capital costs likely eligible for third party financing in order to move forward with considering this approach.

The concept of a tiered financial commitment based on BPA-established criteria is of particular concern to RNP. We believe that any party that is deemed to be creditworthy should be treated equal in the NOS. We do understand that the creditworthiness determination policy may change in the near future and consider such changes a superior approach to decreasing BPA's risk. Beyond those changes to the creditworthiness determination, we are concerned that a criteria-based approach would be too subjective and fraught with controversy. Specifically, we are opposed to criteria that would require a customer to demonstrate a signed Power Purchase Agreement. We view such a requirement as discriminatory and a barrier to future renewable energy development in the region.

<u>Financial Analysis For NOS Reform:</u>

RNP looks forward to working with BPA and other customers to examine the CIFP and consider improvements to the design of the CIFA, PFA, and REBA. Ideally, BPA would have the time to perform a robust and comprehensive financial analysis. However, we recognize that customers are asking for an efficient NOS timeline and many of the benefits of new transmission are difficult to precisely measure. We believe that all the known benefits of transmission should at the very least be qualitatively factored into the decision to build. Overtime, the quantitative capability to more explicitly value all the benefits of transmission the will have to improve in response to policy directives such as Order 1000.

Transmission benefits that should be considered include:

1. Reductions in production costs generally, and specifically fuel and variable O&M costs, from decreased congestion and more optimal dispatch

2. Reductions in carbon dioxide emissions

3. Decreased path loadings

4. Increased reliability

As we consider improvements to the financial analysis, it is important to understand where the shortcomings were in the past. Our understanding is that the primary shortcoming concerned the modeling of default risk and the assumptions surrounding the exercise of rollover rights. While defaults and early terminations (no rollover) may have similar impacts on rates, they are different issues with different risk profiles and are likely not associated with the same customers. Those customers that have a high risk of default do not also have a high risk of early termination (because their service never started).

We anticipate that the various measures currently under considerations in the NOS reform will significantly reduce the default risk. We would like more information and data related to the exercise of rollover rights. The production economics of renewable energy resources are such that once a project has not defaulted and is up and running they are very likely to exercise rollover rights. We are less familiar with the economics of conventional generators and the rollover decisions of other transmission customers.

We support the PFA providing both the number of MW needed in order to achieve a rolled in rates determination and the preliminary rate pressure of a project with a specified subscription rate. In order to preserve time where we can, it may be possible to structure the analysis such that if one of the metrics is substantially positive it may not be necessary to continue on with additional analysis. Customers could be consulted early in the PFA process and decide whether more information is needed or not. We also support running sensitivities over a range of assumptions so that customers can get a sense of the risk surrounding the expected outcome.

<u>TSR Eligibility Proposal:</u>

BPA is proposing that a TSR need a minimum duration of five years in order to be eligible for NOS. This proposal seems reasonable to us because most of our members have traditionally signed up for an initial five-year term length because of the associated rollover rights.

BPA is considering whether TSRs to market hubs (Mid-C) should be eligible to participate in the NOS. RNP understands that this policy question arises from concerns over how to model transmission flows if you don't know the ultimate sink/load. We are very concerned about any policy that restricts access to markets for certain customers and encourage BPA to exhaust all modeling options before making what we view as a significant policy decision. Thousands of megawatts of energy are traded at the Mid-C on a regular basis from existing generators using existing transmission rights. We encourage BPA to consider a modeling approach that assumes that the generation at the Mid-C will back down in some economic fashion to make room for NOS-enabled TSRs. We think that this assumption aligns with the reality of how the market actually functions. If this assumption did fail, we assume that the standard curtailment provisions would kick in.

It is worth noting that the current market and policy environment suggest that few renewable energy projects will be participating in the next NOS with the intent of delivering to a Northwest market hub on a long-term basis. That said, using the market hub POD as a proxy in the NOS process while the customer finds an off-taker is an important option for a developer to have in order to align the timing of securing both transmission rights and a PPA.

BPA is also considering an option where TSRs to a market hub would need to be associated with another long-term transmission leg that demonstrates delivery from resource to load. RNP also has concerns with this approach. "Load" may be an imprecise term here; wouldn't a transmission leg to another market or another balancing area also relieve BPA of their responsibility to reliability provide service to that TSR? Furthermore, BPA's Network Open Season does not include the interties. How would transmission legs over the intertie be handled in the NOS if such a "pairing" of transmission legs were required?

We note that requiring customers to show a long-term transmission leg to an ultimate "load" may also contribute to the underutilization of existing short-term transmission and may exacerbate oversupply conditions in the Northwest. Consider an existing generator that submits a TSR into the NOS for transmission rights to a market hub with the ultimate goal of utilizing available short-term transmission capacity out of the region, when it is available. Precluding these requests would run counter to other regional and agency objectives related to overgeneration.

Small Generator Interconnection Process:

RNP understands that BPA is considering reforming the SGIP similar to the proposed reforms for the LGIP. RNP has been generally supportive of the LGIP proposals to date, however we would like to reserve judgment on the application of similar changes to the SGIP until we have seen those details in context and have an opportunity to discuss the implications with our members pursuing smaller projects.

Our understanding of the proposed changes to the SGIP include:

1. Adding site permit milestones.
2. Adding a "parking lot" provision for customers that are not ready to move forward as quickly as those customers lower in the queue.
3. Pro rata cost allocation for shared facilities.
4. Insert a "cure provision" consistent with LGIP section 3.6.

Our understanding is that the smaller study deposit for SGIA, compared with the LGIP, will be retained and the timeline will be consistent with the pro forma OATT, although BPA is considering clarifying and decreasing some of the flexibility in the SGIP timeline. BPA is also considering requiring more technical information about the projects, but would retain ability to skip any and all studies if appropriate.

At this point, we need more information in order to take a position one way or another. The initial reaction to the proposal from some of our members is positive, however, other members are skeptical that there are significant shortcomings with the current SGIP and would prefer a more surgical approach to addressing any bottlenecks.

Generation Interconnection Transmission Credit Repayment:

RNP understands BPA's concerns with the near-term rate impacts associated with providing credits to customers' transmission bills for the network infrastructure those customers financed and made possible. Such network upgrades provide benefits to many users of the network, now and into the future. As BPA focuses on the short-term rate impacts of transmission credits, it is important to also consider the larger financial picture. First, customers are financing transmission infrastructure for BPA's network; this is a considerable benefit given the agency's current capital constraints. Second, the network upgrades are facilitating the interconnection of new resources that provide new revenues through the remaining transmission rates paid by the customer (50% with the credit).

The more comprehensive question then becomes, "is the new transmission revenue and the other associated benefits from the new interconnection facility greater than the carrying costs of the owed transmission credits?" Given the capital constraints facing the agency, we think the pro forma model works fairly well for BPA here. We recognize that the interest rate and the compressed repayment period (20-year balloon payment) may decrease the attractiveness of the pro forma model, but we do not consider these policies to be unreasonable and we are not aware of any superior suggestions. More information on these financial details may be useful.

Generation Interconnection Suspension Provision:

RNP would like to use this opportunity to reiterate and stress the importance of our previous comments regarding BPA's proposal to revise the Suspension Provision of the LGIP to one year or less. RNP's members believe that the Suspension Provision is an extremely important provision of the pro forma OATT that provides developers the necessary flexibility to align the timing of their project's transmission and market components. RNP suggests that BPA first explore and gain experience with the "site permit milestone" and "parking lot" concepts before altering the Suspension Provision of the OATT.

Thank you for the opportunity to comment,

/s/ Cameron Yourkowski
Senior Policy Manager