

Western Public Agencies Group

Comments of Western Public Agencies Group on Network Open Season/Generator Interconnection Reform

The preference utilities that comprise the Western Public Agencies Group¹ (“WPAG”) appreciate the opportunity to participate in and provide comments on the Bonneville Power Administration’s (“BPA”) initiative to reform the Precedent Transmission Service Agreements (“PTSAs”), Network Open Season (“NOS”), and Generation Interconnection (“GI”).

WPAG also appreciates the staff time and effort that it took to develop and implement the NOS transmission queue reform that it first implemented in 2008. NOS facilitated the processing of 11,722 MWs of transmission requests and allowed BPA to offer 10,048 MWs of new transmission service. It also made great strides in clearing BPA’s transmission queue and facilitating BPA’s integration of renewable resources into its Balancing Authority Area. Today, due in large part to NOS, BPA has one of the highest wind penetration rates in the United States, if not the world.² BPA has managed to do this largely at rolled-in rates and, according to some studies, with a relatively small wind integration charge.³

However, it appears that the initial successes of NOS are unraveling. In its July 20, 2011 presentation on NOS and GI reform, BPA identified a number of very serious problems with NOS including that:

- The Cluster Study assumptions used for NOS, such as generation dispatch and deferral rates, are inaccurate;
- BPA expects a large number of NOS customers to defer service once it is offered resulting in a revenue shortfalls and upward rate pressure on transmission rates;
- Some customers awarded transmission service under NOS are now seeking to amend key terms of their PTSAs which, if allowed, would (i) undermine key assumptions that BPA used to make roll-in decisions for

¹ The utilities that comprise the Western Public Agencies Group are Benton Rural Electric Association, the Cities of Port Angeles, Ellensburg and Milton, Washington, the Towns of Eatonville and Steilacoom, Washington, Alder Mutual Light Company, Elmhurst Mutual Power and Light Company, Lakeview Light and Power Company, Ohop Mutual Light Company, Parkland Light and Water Company, Peninsula Light Company, Public Utility Districts No. 1 of Clallam, Clark, Grays Harbor, Kittitas, Lewis, Mason, Skamania and Wahkiakum Counties, Washington, Public Utility District No. 3 of Mason County, Washington and Public Utility District No. 2 of Pacific County, Washington.

² Saturation of wind generation relative to load, <http://www.midcseminar.com/Presentations/Tim.pdf>

³ Id.

certain NOS projects and (ii) would otherwise amount to an entirely new transmission request and subject the customer to a queue restack;

- Some customers awarded transmission service under NOS may now want to terminate their PTSAs;
- BPA will soon experience a shortfall in access to capital necessary to, among other things, construct NOS transmission projects; and
- 41% of NOS participants are from non-investment grade participants creating additional uncertainty that projected NOS revenues may never be realized.

This all calls into question the continued utility of NOS, the strategy used to implement the seven principles outlined by BPA staff, and the completeness of the principles to meet the needs of the regions stakeholders.⁴ A large number of commitments from prospective transmission customers have been produced by NOS. Based on these commitments, BPA is now planning, designing and constructing transmission facilities. However, because a large portion of the NOS commitments are related to speculative renewable resource development projects,⁵ the soundness in the assumptions BPA used in making NOS roll-in decisions related to those projects, e.g., the projected amounts and timing of revenue from constructed projects, is now being called into question as economic conditions and economic incentives for renewable generation change.

This produces significant exposure for BPA in the form of potential revenue shortfalls and/or stranded costs. These risks fall upon BPA's other transmission customers and ultimately on its power customers. This is because, while wind developers may come and go depending on market conditions and the existence or non-existence of economic incentives for renewable resource development, BPA's load serving customers will continue to use the BPA transmission system to move power from source to load. As a consequence, these customers will be accountable as both Network Transmission and Point to Point transmission customers for transmission rate impacts arising from misguided and failed commercial projects.

The WPAG utilities are also concerned that an outgrowth of NOS has been a shift in BPA's focus from developing a transmission system that meets the needs of its load serving customers to one primarily driven by the transmission and related needs of

⁴ These seven principles included preserving system reliability, avoiding cost shifts, ensuring risks and costs follow causation, maintaining sufficient access to capital, continuing to meet BPA's commercial and environmental obligations, developing renewable resources consistent with state and federal policies, integrating renewable resources in a cost-effective manner pursuant to adequate long-term planning.

⁵ According to BPA's July 20, 2011 presentation on NOS reform, since its inception in 2008, BPA's NOS has processed 263 transmission requests (11,722 MW) and allowed BPA to offer 10,048 MW of new transmission service. Of the 11,722 MW of transmission requests processed through NOS, 7,080 MW, or approximately 60%, are associated with wind generation. A large percentage of these requests are related to commercial wind facilities looking to export wind generation outside the Northwest. BPA routinely cites to the NOS as a key reason as to how it has been able to interconnect thousands of megawatts of wind generation onto its system over last several years.

the ever expanding commercial wind fleet. BPA spends a considerable amount of staff time and resources developing policies and programs to integrate renewable resources, e.g., dynamic scheduling, inter-hour scheduling, supplemental service, wind balancing service, etc. This use of BPA's finite resources to solve issues specific to this small subset of transmission customers is coming at the expense of BPA's other transmission customers, including those that serve load in the region.

For instance, the uncertainty surrounding the future of the Network Integration Transmission Service ("NT") product is one example of how NOS has shifted BPA's transmission priorities. The NT product is used by a large segment of BPA's preference customers to move power from their designated network resources to their network load. In its Open Access Transmission Tariff ("OATT"), BPA commits to plan, construct, operate and maintain its transmission system to meet present and future transmission needs of NT customers. OATT ¶ 28.2. However, NOS has the preponderance of BPA's transmission planning staff and resources focused on facilitating additional Point to Point ("PTP") transmission sales for purposes of facilitating commercial wind development. BPA is not committing a similar amount of staff and resources to plan the transmission system to also meet the future needs of NT customers.

Accordingly, although WPAG members have benefited from NOS in the past, they believe that the time has come for BPA to significantly modify its approach to transmission allocation and planning in order to address the risks and concerns identified above. For now, BPA should continue to clear the remainder of the requests in the NOS queue. Meanwhile, BPA and its customers should take this break from future NOS processes to develop BPA's next generation of transmission management policies so that they can better meet the priorities of both renewable resource development and other policies and objectives for the development of transmission facilities for service to load. Given the extent of the problems with the current framework, it will be difficult for BPA and the region to complete the NOS and GI reform process by BPA's proposed December 2011 deadline. Nevertheless, to facilitate the discussion, the WPAG utilities offer the following preliminary comments on NOS and GI reform. As BPA and customers work through the NOS and GI reform process, WPAG intends to provide more detailed and specific comments on reform related issues.

1. NOS and GI Guiding Principles. In the July 20, 2011 presentation identified as *Network Open Season/Generator Interconnection Reform: Initiative Overview*, BPA staff identified seven principles for NOS and GI reform. Based on the above discussion, the WPAG utilities respectfully submit that the following additional principle be added as follows:

NOS should ensure that BPA and its load serving customers can meet the objectives of BPA policies affecting load service, such as the Regional Dialogue Policy, in a responsible and timely manner.

By expressly recognizing this principle at the beginning of its efforts to reform NOS and GI, BPA will set the stage to make certain that future NOS meets not just the commercial needs of wind developers but also the transmission needs of BPA's load

serving customers. After all, at its core, the main purpose of a transmission system is to serve load. Any reform of NOS should be grounded in this principle.

2. PTSA Modifications and/or Termination. BPA has stated that there is considerable risk that commercial developers who made commitments for transmission service through NOS will not take and pay for the full capacity of the service they requested. To alleviate this risk, BPA is considering allowing those customers to modify or terminate their PTSAs. The presumption being that terminating or modifying PTSAs before the final decision to build a project would allow BPA to avoid the risk of future defaults and stranded investments. On the other hand, such modifications or terminations (in the case of multi-user projects) would undermine the revenue assumptions BPA used to justify moving forward with certain NOS projects at rolled-in rates in the first place. This could result in those projects moving forward under modified PTSAs, and in multi-user projects under a termination, having greater upward affect on transmission rates than originally projected by BPA.

BPA has asked customers to provide input on whether it should allow customers to modify or terminate their PTSAs. In the first instance, it should be noted that allowing parties to modify or terminate their PTSAs now could encourage future NOS participants to submit larger and more speculative requests in the future (safe in knowledge that they can always modify or terminate their PTSAs when they have more certainty). Second, with the information currently provided by BPA it is not possible to determine whether permitting modification and/or termination of current PTSAs would create greater problems, in the form of rate impacts and exaggerated future requests, than would be the case if BPA stays the course with the current agreements.

To provide meaningful feedback to BPA regarding the alternatives under consideration, the WPAG utilities need more information. Such information should include the likely scope and extent of the requests in both numbers of individual requests and megawatts affected as well as information as to the likely impacts granting or not granting such requests would have on (i) transmission rates, (ii) likelihood of default if requests are not granted (iii) prior roll in decisions made by BPA for specific projects, and (iv) restacking of the NOS queue. While it is clear that much of this information would have to be based on BPA's best estimates, it would enable the WPAG utilities to make a more informed and useful response to these alternatives.

(3) **Access to Capital.** The WPAG utilities agree with BPA that NOS reform must recognize that BPA will have limited future access to capital and should include alternative methods of funding NOS expansion projects. As part of this effort, BPA should consider expanding the types of costs that are directly assigned to customers consistent with cost causation principles.

(4) **Deferral Rights.** BPA is projecting that, as more NOS related transmission builds are completed and BPA begins to offer transmission service to NOS participants,

large numbers of those participants will defer service. Currently, BPA's OATT authorizes customers to defer transmission service in up to one year increments up to five separate times. Customers must pay the equivalent of the cost of one month of service to obtain each deferral. BPA should consider using an escalating cost scale for exercising deferral rights. For example, the first year of deferral should cost the equivalent of one month of transmission service, the next year of deferral should cost the same as two months, etc. This might encourage customers that are deferring service because of market reasons to do so earlier than they otherwise would.

(5) **Non-Investment Grade Credit Exposure.** Forty-one percent of the Point To Point NOS participants in the current queue are from non-investment grade participants which represent approximately 3,605 MWs worth of transmission requests. BPA projects that more than 4% of these participants will default in the first year of service, 17.5% will default by year five, and over a 25% by year ten. By year fifteen, BPA projects nearly 30% of these non-investment grade participants will default. A business acting within sound business principles would never assume such risks without commensurate protection from such exposure. Neither should BPA. Any reform of NOS must reduce both BPA's exposure and BPA's other transmission customers' rate exposure to defaults by non-investment grade participants. BPA's goal should be to have all participants on the same investment grade credit footing. This could be achieved by requiring non-investment grade participants to provide a guarantee of their obligations from a party with investment grade credit or requiring letters of credit securing those obligations in the event of default.

(6) **Recovery of Costs.** Parties that desire to modify or terminate their PTSAs, or default under their PTSAs, should pay for the full costs associated with such modification, termination, or default. Accordingly, NOS needs to have a mechanism in place that will allow BPA to recover costs arising from modification, termination or default including the full costs of associated with NEPA, engineering, studies and other costs BPA incurred in its performance under PTSAs before such modification, termination or default. Without such a mechanism in place, BPA's other transmission customers will ultimately pay for those costs in their rates. This would be inconsistent with cost causation principles and provides the wrong incentives to NOS participants.

(7) **GI -Transmission Credits.** BPA provides transmission credits to generators that fund network upgrades. As more and more wind interconnects to BPA's system, the amount of transmission credits will likewise increase. These credits can have an upward pressure on transmission rates because they decrease the revenues received by BPA from its transmission rates. Presently, the first request in queue is responsible for paying for network upgrades and, accordingly, they are eligible for a major portion of the transmission credits associated with a particular upgrade. BPA's Standard Large Generator Interconnection Agreement ("LGIA"), however, provides that BPA must repay any remaining credit balance after twenty years. LGIA § 11.4.1. This means that if the customer who pays for a network upgrade does not take sufficient transmission service to exhaust their balance of transmission credits in

twenty years, BPA pays them the balance in the form of a balloon payment at the end of that period.

One proposal to eliminate the risk to BPA of a twenty year balloon payment would be to require shared funding for network upgrades built for multiple customers. This would allow more customers to exhaust the credit balance for a particular facility sooner, reducing the risk of a balloon payment. However, the WPAG utilities are concerned that this alternative would increase the rate impacts of transmission credits in the near term because it would reduce the amount of actual cash BPA receives for providing transmission services, thus requiring BPA to raise transmission rates in order to secure more cash to pay its bills.

Again, this is a situation where virtually no information has been provided regarding the likelihood and size of potential balloon payments for transmission credits, compared to the possible near term rate impacts of having more transmission project users receiving transmission credits. Without some basis for comparing the possible impacts of these two paths, it is not possible to provide meaningful comments on these alternatives. In short, it is impossible to tell if the cure is worse than the problem, or vice versa.

The WPAG utilities suggest that BPA provide some analysis as to how a sharing approach to network upgrades would impact rates in the near, medium and long term, and how that compares to BPA's exposure to balloon transmission credit payments. BPA should also consider scenarios where transmission customers must use a blend of credit and cash to pay for transmission services (e.g., 50% credits and 50% cash). It might be possible that right blend of credits and cash would both exhaust the total credit balance for a given network upgrade so as to eliminate the need for a balloon payment and provide sufficient cash in the near term to reduce the upward pressure on rates, and put correct incentives in place for overall transmission construction and cost recovery. With such analysis, a more reasoned approach to this matter could be formulated.

(8) ***Interest on Transmission Credits.*** Under current LGIAs, BPA pays interest on funds advanced by GI customers to fund network upgrades needed to transmit power from their generation projects. However, in some instances, but for the GI customer's request, BPA would not undertake the network upgrade financed by that customer. BPA and stakeholders should discuss during this process whether it continues to make sense for BPA to pay interest on funds advanced by customers to construct upgrades primarily for the use of such customers, and whether future LGIAs should retain this obligation.

Conclusion

BPA has identified and presented for comment some very important issues that will have long-term impacts on both transmission access and transmission rates. These are two elements that are at the heart of the success of the Regional Dialogue contracts and rate construct. While the opportunity to comment on such matters is appreciated, it is recommended that BPA reconsider the manner in which it approaches such comment processes in the future. BPA and customers should first try to assess, to the extent practicable, the size and rate consequences of the problem, as well as the possible solutions and their rate consequences, before a matter is put out for customer comment. It is not possible to provide BPA with meaningful and useful comments on an issue when the size and cost of the issue, let alone the cost and rate impacts of alternative solutions,

are not known. Doing the analysis first and the comments second will increase the likelihood of BPA receiving useful and constructive comments. Getting the horse in front of the cart does not guarantee progress, but it does make it more likely.