AWEC

Alliance of Western Energy Consumers ◆ 818 SW 3rd Avenue, #266 ◆ Portland, OR 97204 ◆ 971-544-7169 ◆ nwenergyusers.org

July 8, 2020

Via Electronic Submission

Elliot Mainzer
Administrator and Chief Executive Officer
Bonneville Power Administration
911 NE 11th Avenue
Portland, OR 97232

Re: June 23-24, 2020 TC-22/BP-22/EIM Phase III Workshops

Dear Administrator Mainzer:

The Alliance of Western Energy Consumers ("AWEC") appreciates the opportunity to provide feedback regarding Bonneville Power Administration's ("BPA or "Agency") June 23-24, 2020 TC-22/BP-22/EIM Phase III workshops. Below, AWEC addresses the following June 23-24th workshop topics: Generation Inputs, Transmission Losses, and Power Rates.

Generation Inputs

BPA is proposing changes to the regulation/non-regulation framework. As a result, the amount of reserves necessary for distributed energy resources ("DERs") increases. In addition, the new framework shifts all of DERs reserves needs to the new regulation reserves, which are the higher value/cost, faster acting reserves. It is unclear at this time whether this proposed approach will be adopted if BPA ultimately does not join the EIM. As such, AWEC requests further clarification on this matter. Moreover, Staff has not sufficiently explained why the new regulation/non-regulation framework produces a bigger reserve requirement for a smaller DER installed capacity level associated with BP-22. As such, AWEC requests further clarification on this matter as well.

Staff's proposed new pricing method along with the other adjustments noted above and detailed at the June 23rd workshop result in a revenue requirement increase of 40% and corresponding 44% increase to the DERBS INC rate charged to DERs customers. This massive increase in an already punitive rate is a highly troubling outcome, and thus we request that BPA work with customers to prevent such rate shock. AWEC has long contested the appropriateness of this rate as applied to industrial facilities that are also being charged separately for balancing services associated with their load. Notably, we have more recently focused our efforts on minimizing the impact of the rate on these facilities. Although there is a perception that the DERs can manage their resources to mitigate the rate impact, this is only true within certain limitations as AWEC member cogeneration levels correspond to commercial production. AWEC is aware that members already devote a great deal of staff time and operational effort to avoiding the DERs rate because it is already highly punitive. Adopting a new pricing methodology that contributes to the proposed drastic rate impact to DERs is problematic. AWEC is prepared to work with Staff to refine the methodology or discuss other creative solutions that would mitigate this extreme result.

According to the June 23rd presentation, "[d]ue to the significant miss-alignment between BPA's current allocation method and market values, staff is proposing a new method to allocate the capacity costs between products."1/ Specifically, Staff is proposing two new pricing methods. Method A applies "the ratio between the cost of running a fast turbine at min gen to maximize Spinning INCs to the cost of building a slow turbine to maximize Non-Spinning INCs,"2/ producing a 135% customer impact to thermals. Alternatively, Method B applies "the delta between the fixed costs of building a fast turbine and a slow turbine"3/ and produces a 123% customer impact to thermals relative to today's approach.

At this time, Staff's leaning is in favor of Method B due to its simplicity, however this results in a DERBS INC rate of 21.76 mills/kW (compared to 15.11 mills/kW today) and a DERBS DEC rate of 1.95 mills/kW (compared to 1.59 mills/kW). According to the June 23rd presentation, multiple elements contribute to the potential significant increase to the DERC INC that include installed capacity forecast update and other small changes; Wind Forecast Update; Reg/NonReg Reserve Categorization; EIM Increased Reserve Requirement; CRSO Hydro Capability Changes Capacity; CRSO Hydro Capability Changes Energy; Reg/NonReg Pricing; IPR Costs; and GARD Spin Requirements Increase.

AWEC appreciates BPA's willingness to address how the system is valued and acknowledges Staff's work on this matter. Nonetheless, it is important that such value not be disproportionally allocated to a single class, namely DERs. This may also be the appropriate time to explore a pricing methodology that uses the EIM market prices.

Transmission Losses

According to the June 24th workshop materials, "Power Services is currently providing services which it isn't being compensated for except for customers which elect financial losses."4/ In order to mitigate this issue, Staff proposes the following three options: 1) 168-Hour Delayed Physical Returns with compensation to Power Services for managing 168 hour delay and the difference between the average annual loss factor and the actual loss factor (or add a shape to the applied loss factor), 2) Concurrent Physical Returns with compensation to Power Services for managing the difference between the average annual loss factor and the actual loss factor (or add a shape to the applied loss factor), or 3) Updated Financial Returns.

1/ Bonneville Power Administration, TC-22, BP-22 and EIM Phase III Customer Workshop, at 134 (June 23, 2020).
2/ Id. at 140.
3/ Id.
4/ Bonneville Power Administration, TC-22, BP-22 and EIM Phase III Customer Workshop, at 57 (June 24, 2020).

AWEC

Alliance of Western Energy Consumers ◆ 818 SW 3rd Avenue, #266 ◆ Portland, OR 97204 ◆ 971-544-7169 ◆ nwenergyusers.org

Further, the current Network Loss Factor does not accurately reflect the current network transmission systems due to the addition of new lines on the system and an increase to regional loads over the past twenty years. As such, BPA is considering changing the accuracy and the granularity of the Loss Factor. There appears to be merit in option two, monetizing the value of the capacity provided by Power Services, if BPA ultimately decides to stay with the 168-hour delay and if the Network Loss Factor is maintained at 1.9%. However, more discussion of these options is likely necessary.

Power Rates

BPA's efforts to explore reducing the reliance on secondary revenue in setting base power rates is appreciated. AWEC sees this process as intrinsically connected to other initiatives focused on the Agency's long-term health, such as the Financial Reserves Policy ("FRP"). However, in order for AWEC to support a new approach regarding how net secondary revenues are treated in Power rates, it is necessary that the approach adhere to the following principles: 1) ensure an automatic redistribution of actual net secondary revenues above the level assumed in rates; 2) reconsideration and reset of BPA's risk management methods including the FRP; 3) result in zero percent rate increase in BP-22; 4) ensure that BPA retains every incentive to continue the highly successful cost management efforts it has engaged in over the past few years if BPA were to have a "good" secondary revenue year relative to conservative forecasts assumed in rates; and 5) create measures of success for the Trading Floor that are based on the rate case forecast instead of the secondary revenues assumed if the forecast was higher.

/s/ John Carr
Executive Director
Alliance of Western Energy Consumers