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Submitted via email to: techforum@bpa.gov

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Re: Comments of the Large Point-to-Point (PTP) Preference Customers on BPA's TC-20 Process and August 21, 2018 Workshop Topics

Seattle City Light (City Light), Public Utility District No. 1 of Snohomish County (Snohomish), and Tacoma Power (Tacoma) (collectively, Large PTP Preference Customers) appreciate the opportunity to provide comments on the Bonneville Power Administration's (BPA's) TC-20 process and related topics from the August 21 workshop. Our comments will broadly address the public TC-20 process itself, including BPA's vision for one or two tariffs, and will then discuss the specific topics covered in the August 21 workshop, including the hourly firm product. While these comments are primarily directed at materials presented at the August 21 workshop, BPA should continue to consider the comments submitted by the Large Point to Point (PTP) Preference Customers, dated July 18 as many of the themes and observations remain relevant.

The TC-20 Process

One or Two Tariffs?

When BPA began the TC-20 process, BPA indicated that its goal with TC-20 was to establish a new tariff that would align with BPA's newly established strategic plan. This new tariff would broadly attempt to conform with FERC's pro forma tariff in an attempt to offer customers "consistent" product offerings and align with industry best practices. BPA stated that the new tariff would apply only to new transmission service, which meant that BPA would be operating two tariffs simultaneously: the current tariff for customers under existing service agreements, and the new tariff for any transmission service entered into after the TC-20 process.[1] BPA also expressed the precedential importance of the new tariff change process, a Section 212 proceeding, both for establishing a durable tariff change process moving forward, but also to develop a detailed and thorough record.

However, as BPA and customers worked through the process, customers raised several questions about how the two tariffs would work together. Questions about administering two tariffs, such as how products would interact, how reservations would be tracked between tariffs on OASIS, and what constitutes "new service" went unanswered.

[1] For purposes of clarity, these comments will refer to the tariff under discussion in the TC-20 process as the "new tariff" and the tariff currently in force under existing service agreements as the "current tariff."

As the end of workshops approached BPA changed direction. BPA would now be focusing its efforts on a settlement, with the fallback position of continuing toward a 212 process. BPA made it clear that one of its primary goals in settlement was to bring all customers under a single new tariff. This was another significant departure from previous positions.

The shifts in policy direction and process have left the Large PTP Preference Customers confused towards BPA's ultimate goals and policy objectives. BPA has not sufficiently explained the sudden policy shift away from a robust record of development, especially when establishing a tariff that represents substantial changes to BPA's transmission business model. BPA's desire to operate under a single tariff seems to have overtaken a number of other pressing policy goals.

It is the Large PTP Preference Customers' hope that BPA will explicitly address this change in policy and process as the settlement discussions move forward. As the settlement process begins, the Large PTP Preference Customers believe that BPA needs to adopt an open stance on its policy goals and a willingness to receive and respond to customer feedback, which has been lacking in the TC-20 process.

<u>Customer Communication and Feedback through the TC-20 Process</u>

The Large PTP Preference Customers do not feel that BPA has demonstrated open and clear communication with customers during the TC-20 workshop process, and has not clearly responded to many customer comments and concerns on a variety of issues.

While we believe this topic is particularly applicable to the hourly firm product, issues pertaining to hourly firm will be addressed in a later section of these comments, and the Large PTP Preference Customers will instead use the "Strategic guidance as principles" for deviations from pro forma as the primary example.

At the April 23 workshop, BPA presented its four principles that it would apply to any potential deviations from pro forma tariff language. BPA specifically asked customers for feedback on these principles, given their relative importance to the process of developing the new tariff. A majority of customers expressed, both verbally and through written comments, a number of concerns and potential solutions to help BPA re-craft the principles in a way that would be beneficial for the development process and that would promote long-term tariff durability through future changes.

In response, BPA took no action and seemed to avoid discussion of the principles altogether. The principles remain unchanged throughout the TC-20 process. This is not the only example of customer feedback going unaddressed. On many topics, customers would provide detailed feedback, only to have that feedback distilled into a handful of bullet points on a "What We Heard" slide in a subsequent presentation. Further, despite reiterating what BPA heard from customers, the feedback would go unstudied and unaddressed.

As the workshop phase of TC-20 comes to a close, the Large PTP Preference Customers raise these issues because we feel unprepared for the TC-20 Section 212 proceeding. Settlement is uncertain, and if unsuccessful, parties will go into the 212 proceeding without the benefit of a robust workshop process around fundamental issues. Below are our comments on the hourly firm topic which serve to further highlight this point.

Hourly Firm

Overview

The Large PTP Preference Customers have significant concerns with BPA's proposal to eliminate the hourly firm product from its new tariff. The concerns include:

- The public process leading up to BPA's initial proposal decision was insufficient and did not transparently describe BPA's analysis or decision-making process
- The cost impacts to customers were not explored
- BPA's proposal decision is not supported by operational data or analysis
- Alternatives proposed by BPA in the public process were not evaluated, or if they were evaluated, the results were not shared with customers
- The policy objectives identified by BPA are not met or have not been proven

While the Large PTP Preference Customers plan to address each of these issues individually, the overarching concern is that BPA has a responsibility to its customers to adequately evaluate and justify changes that BPA proposes making to the products it offers. The Large PTP Preference Customers have made economic decisions and investments based on the characteristics of the product when it was purchased. For BPA to propose a fundamental change to those characteristics, BPA must be held to the highest standard of justification and proof of need. Based on the information provided at the rollout of BPA's initial position, the Large PTP Preference Customers do not believe BPA has met this standard. Further, BPA has not presented sufficient information for us to evaluate its claims.

The Hourly Firm Public Process

The discussion surrounding the hourly firm product began in July 2017, when BPA presented its Gap Analysis document and kicked off the PFGA process. As part of these workshops, BPA took the initial position that BPA should transition away from hourly firm. Based on feedback received from customers, BPA stated that more work and analysis was needed and that BPA would seek customer input on developing alternatives to the status quo, unlimited hourly firm. BPA's PFGA FY18 Roadmap from its February 21, 2018 presentation[2] states that the work performed between February and the end of Q2 2018 would "analyze customer usage, power market impacts & posting accurate ATC." BPA would then "develop alternatives with customer input."

[2] https://www.bpa.gov/transmission/CustomerInvolvement/TransmissionBusinessModel/Documents/Strategic-Plan-PFGA-022118.pdf

The public facing side of discussions and analysis regarding hourly firm seemed then to cease. As the TC-20 process began in April, BPA assured customers that the development of alternatives and in-depth discussion would occur on Hourly Firm.

Since April, BPA has discussed hourly firm only twice in public meetings:

- Two months after the TC-20 kickoff, the first substantive discussion of hourly firm was scheduled; 40 minutes were allocated on the June 26 agenda to describe BPA's evaluation criteria and the proposed alternatives BPA had crafted
- After another two months, 45 minutes were allocated in the August 21 workshop to present BPA's decision regarding hourly firm

BPA allocated a total of one hour and twenty five minutes of public meeting time to discuss hourly firm, with the latter meeting specifically scheduled to present BPA's decision. The Large PTP Preference Customers do not believe the described process was sufficient to provide adequate discussion or evaluation of the issues surrounding hourly firm. Shifting away from the unlimited status quo product represents a substantial change in operations; eliminating the product entirely represents an even more drastic result. Less than an hour and a half of public discussion is not nearly sufficient to capture the nuance, complexity, and impacts of making broad changes to a fundamental transmission product such as hourly firm. The public meetings were scheduled late into the TC-20 process, and provided little opportunity to have the detailed discussions necessary to properly address the issues involved.

<u>Cost Impacts to Customers</u>

A core element of any BPA proposal should be how the proposal affects costs for both the agency and its customers. While BPA's presentation from the August 21 meeting states that BPA does not expect a cost impact to the agency, it is notably silent on the cost impacts to its longer term transmission contract holders. While the removal of a product may not cause a direct rate impact, there are other cost and product viability implications that BPA appears to have not considered. And these considerations can vary significantly from utility to utility. Each entity contributing to these comments has different concerns about how the elimination of hourly firm will most affect their individual utility, which underscores the importance of evaluating these possible outcomes before enacting a significant shift in policy.

For Snohomish, the most striking example is the potential effect upon surplus transmission sales. When Snohomish made the original decision to purchase long term firm PTP, the contractual ability to resell transmission that was surplus to Snohomish's need helped to offset the overall investment being made. Because BPA then offered an hourly firm product, Snohomish made assumptions about both availability of transmission surplus and its viability as a product to other customers in the hourly resale market. BPA now proposes to fundamentally change this calculus, and has not presented any evidence or data on how the transmission resale market may be affected.

As BPA has stated, presumably customers will either rely on non-firm transmission or will utilize a daily firm product. Both of these options will affect the resale value of a long term contract holder's surplus transmission; in the case of non-firm, surplus hourly transmission will be lower value as it is now a non-firm product rather than firm. This may be apparent through lower resale prices, or through a lower quantity of transactions. In today's market, the most common transactions are based on 16-hour heavy load (HLH) blocks or 8-hour light load (LLH) blocks. Daily firm transmission, however, must be reserved on a 24 hour minimum basis. A customer seeking to transact for 8 or 16 hours would therefore likely not purchase a 24 hour block of surplus transmission to accommodate a shorter duration need. This will further reduce the quantity of surplus transmission sold.

This could result in a significant economic impact to Snohomish. Summarizing the above, the reduction in the value of surplus transmission revenues could manifest in two ways:

1. The price of surplus transmission decreases, due to the now non-firm nature of that transmission, or;
2. The quantity of surplus transmission sold decreases, due to its non-firm nature and reduction of flexibility

If through a combination of these two factors, surplus sale revenues are reduced by 50%, that would translate to an effective 9.5% increase in cost for Snohomish (netting total PTP transmission costs against surplus revenues). If the market for surplus transmission is eliminated entirely, Snohomish could see an effective 19% increase in overall transmission cost. When added to the currently forecasted 10% transmission rate increase from the BP-20 rate case, Snohomish could see an almost 30% spike in transmission costs in 2020.

Such large rate impacts are serious issue for Snohomish. As such, the lack of analysis or data from BPA regarding cost and market function under its proposal to remove hourly firm is extremely concerning. While the above example is theoretical, it underscores the need for rigorous analysis of the proposed policy. Further, surplus transmission sales are only one aspect of overall market function that would be impacted. Snohomish urges BPA to fully explore this aspect of its proposal, as well as comparing the relative impacts of the other alternatives to BPA's proposal before making a final determination.

For Tacoma, the elimination of hourly firm transmission service will greatly impair the utility's ability to transact energy in the bilateral wholesale market on a firm basis. This is consequential because Tacoma uses the bilateral wholesale market to maintain the reliability of its balancing authority as Tacoma's generation and load vary across the year. Additionally, and as matter of potential significant financial cost to Tacoma, the utility sells surplus energy and capacity into the wholesale market where it has traditionally been valued as a firm product. If Tacoma's wholesale counterparties begin to demand discounts for energy and capacity delivered over non-firm transmission service, or decline to deal with Tacoma altogether, then Tacoma would have to make substantial increases to its retail rates to offset the decreases in wholesale revenues.

For Seattle, acting as both a load serving entity (LSE) purchasing wholesale energy to serve its retail customers, and a seller of excess hydro providing service to others' firm loads, removing flexibility to shape delivery of firm generation using firm transmission has an impact. In an environment in which (a) retail loads are flat or declining, and (b) wholesale power prices are weak and increasingly volatile, there is pressure on LSEs to have flexibility, which provides benefit though marginal opportunities to reduce the costs to serve.

When the transmission provider determines that firm transmission is available in the short term, both sellers and buyers are generally benefitted by the temporary modification of the point of delivery and point of receipt. Further, in today's environment of declining loads with weak and volatile wholesale power prices, flexibility is even more valuable. Therefore, to Seattle it is imperative that BPA fully engage with customers to consider alternatives to the removal of hourly firm that preserve flexibility, such as an hourly firm product limited to ATC.

BPA's Justification for Eliminating Hourly Firm - Overview

BPA presented several justifications for the removal of hourly firm in support of its initial position at the August 21 workshop. To summarize, BPA stated that removing hourly firm:

- Best supported BPA's strategic direction
- Best supported the Transmission Business Model
- Reduced conflict among the products within BPA's product portfolio
- Provides the most appropriate product differentiation, and
- Promotes better planning by more closely aligning reservations and expected usage patterns and incenting customers to secure transmission further in advance

The Large PTP Preference Customers feel that these bullets can be roughly condensed to two overarching categories: policy objectives and operational objectives. Supporting BPA's strategic direction and transmission business model would be considered policy justifications while reducing product conflict (which relates to curtailment priority and frequency), product differentiation, and system planning could be broadly considered to be operational justifications.

First, the Large PTP Preference Customers will discuss the operational justifications made by BPA in support of its position, and lack of analytical support. Next, we will discuss the lack of analysis surrounding the proposed alternatives, and will follow with an examination of BPA's policy reasons supporting the removal of hourly firm.

Operational Justification for Removal of Hourly Firm

The Large PTP Preference Customers do not believe BPA has presented sufficient evidence, data, or analysis to support its assertions regarding the supposed operational impacts of the hourly firm product. We will address each issue individually, summarize our understanding of BPA's position, identify gaps in the supporting analysis, and then request that BPA provide additional data or analysis to the claims being made.

Based on the discussion at the August 21 workshop, and the accompanying slide deck, BPA's position seems to center around the hourly firm product increasing firm curtailments (both now and in the future), curtailment priority conflict between products, the ability to properly forecast ATC on a short-term basis, and the ability to better plan for expected usage.

Hourly Firm currently increases Curtailment Risk

BPA seems to make the assertion that the hourly firm product *currently* has a detrimental effect on curtailment risk. BPA used the graph and information on Slide 50 of their presentation as justification that the percentage of firm curtailments has increased over time. BPA links this increasing percentage to the hourly firm product, claiming that "removal of hourly firm from our product portfolio will be the most effective in enabling curtailment priority." This statement indicates that BPA believes that an imbalance in curtailment priority exists, that it is driven by hourly firm, and that it is increasing the ratio of firm curtailments to all curtailments.

These claims seem to narrowly examine a single aspect of the data and fail to account for the data as a whole. Firm curtailments are not increasing over time. Since 2014, firm curtailments have been on the decline, with 2017 seeing only a single firm curtailment. However, *all* curtailments have also been on the decline, with non-firm curtailments declining at a faster rate than firm curtailments. This is likely because firm curtailments started in single digit annual numbers and are typically caused by unforeseeable events, such as physical line outages.

With both firm and non-firm curtailments decreasing to historically low annual rates, BPA's claim that there is a curtailment risk problem at present, based on this information, appears to be unproven. The Large PTP Preference Customers also point out that the data presented on this slide is under the status quo, unlimited product. BPA did not present any data on what curtailments may look like with a limited hourly firm product or a shaped daily product. Further, BPA did not present background detail about the curtailments themselves. In the single firm curtailment in 2017, what percentage of the curtailed schedules were hourly firm? Were there any hourly firm reservations on the curtailed path at all? This information could have a material impact on the conclusions being drawn from the data presented, but these details are missing. The Large PTP Preference Customers request that this information be gathered, evaluated, and presented to customers by BPA prior to a final determination being made.

Hourly Firm will Increase Curtailment Risk in the Future

BPA continues its line of reasoning that if hourly firm is having an effect on firm curtailments now, its effect will increase in the future. If that happens, then with an unlimited hourly firm product, NT schedules will be curtailed at a higher rate than they would if an unlimited product did not exist. This is the root of BPA's "product conflict" justification for elimination of hourly firm. However, this argument has three problems:

1. BPA has not performed any analysis or forecasting to support its claim that hourly firm would increase future curtailment risk;
2. Product duration is not linked to curtailment; and
3. The problem statement assumes that the product going forward is unlimited.

As described above, the supplied graph and data do not appear to show an increasing trend in firm curtailments over time. BPA has not presented any additional data, forecasts, or modeling of the transmission system to justify the claim that firm curtailments will increase, or that hourly firm reservations would be a driver behind those curtailments.

BPA Cannot Accommodate Hourly Requests due to Inadequate Ability to Forecast Hourly ATC

At the August 21 meeting, the claim was made that the duration of the hourly firm product contributed to BPA's decision to eliminate the product. Customers commented that a limited hourly firm product is not significantly different from the daily firm product, which is pro forma and is proposed as a product in BPA's new tariff. The staff response was that the ability to forecast ATC on an hourly basis is inadequate and not robust enough to support scheduling operations without either being too restrictive (no ATC ever available) or significantly increase curtailment risk (forecast more ATC than is actually free).

The Large PTP Preference Customers are unsure whether BPA's ATC calculation is as inaccurate as stated. The ability to schedule a firm daily reservation is available up until 11:59 PM on the preceding day. If a customer requests a firm daily redirect at 11:45 PM, BPA's ATC evaluation will calculate the ATC available in *each hour* of the next day. Sufficient capacity must be available in *each hour* for the redirect request to be granted and the customer to receive a firm reservation; if even a single hour does not have sufficient ATC, the request would be denied. However, BPA is making the claim that if the same customer then attempted a firm hourly redirect at 12:15 AM for the 1:00 – 2:00 AM time period, the same ATC calculation and forecast methodology used to acquire firm service just thirty minutes prior would be too inaccurate. Again, BPA does not provide examples, supporting data, or analysis to support their claim that the ATC forecast would be insufficient.

The Large PTP Preference Customers are also aware of significant dollars being invested through the Grid Modernization project to help BPA raise its visibility on the transmission system and increase the accuracy of those kinds of near-term ATC calculations. We would be interested to know whether BPA staff took these investments and potential accuracy improvements into account when evaluating the future of the hourly firm product.

Eliminating Hourly Firm Promotes Better Planning and Better Reflects Usage

BPA states that the hourly product undermines planning and does not properly allow BPA to plan for system usage. However, BPA did not provide adequate analysis or data to support its claims. The Large PTP Preference Customers would like BPA to address four underlying questions to this assertion:

1. The Large PTP Preference Customers understand that BPA is shifting its long term ATC planning to a power-flow basis, and away from reservation based planning. What effect would hourly firm reservations have on long term planning?
2. Because daily firm reservations will continue to be scheduled, what effect does daily firm have on planning and why is the hourly timing increment detrimental to the planning horizon, while daily is not?
3. What existing negative impacts to BPA's system planning process have occurred due to the hourly firm product, if any? Has BPA analyzed how this may have been different if the hourly firm product had been limited to ATC?

4. BPA has proposed to address ATC in the TC-22 process. Because ATC is an important aspect of potential hourly firm service, does pushing analysis to TC-22 introduce uncertainty surrounding ATC calculation and have a detrimental effect on hourly firm analysis?

Unlimited Hourly Firm causes Curtailment Priority Conflict between PTP and NT

While the Large PTP Preference Customers have not seen definitive evidence that this claim is true, we agree that an unlimited firm product is not a viable solution moving forward. The Large PTP Preference Customers also understand the reasoning behind BPA's claim that a curtailment priority conflict could exist when an unlimited amount of hourly firm can be sold, especially on congested paths.

However, customers have expressed both during workshops and in comments that the unlimited aspect of hourly firm service is no longer a viable solution. Despite this, BPA continued its efforts to demonstrate that unlimited hourly firm was unworkable. As discussed in the TC-20 process section, the workshop sessions were used to evaluate the status quo, rather than any potential conflict with possible alternatives. That opportunity was lost, and resulted in no analysis of alternatives being provided by BPA.

Lack of Analysis on Proposed Alternatives

One of the most troubling aspects of the materials presented at the August 21 workshop was the complete lack of information regarding the limited hourly firm and shaped daily product alternatives.

Many of BPA's supporting positions for elimination of hourly firm seem to be evaluated compared to an unlimited hourly firm product, which is an improper comparison. The alternatives must be evaluated against *each other* for a meaningful comparison. In its comments dated July 18, 2018, the Large PTP Preference Customers stated that BPA should take a cascading approach to the evaluation, looking first at the lowest impact alternative (a limited hourly firm product). In its August 21 presentation, BPA seems to have skipped over these options to the most disruptive and impactful alternative, without giving due process to the other alternatives.

The Large PTP Preference Customers urge BPA to publish any analyses it performed, including underlying data, on the alternatives and allow customers to provide feedback. The Large PTP Preference Customers believe that before any alternative is selected or endorsed, a thorough analysis must be performed comparing each option and their respective impacts.

Policy Justification for Removal of Hourly Firm

BPA's stated policy objectives for removing hourly firm seem to be tied to supporting BPA's strategic direction and the transmission business model. BPA stated in its presentation materials for the August 21 meeting that "there is value … in adopting the FERC *pro forma* tariff for our transmission services to the extent possible." BPA goes on further to use Objective 4d of its Strategic Plan to justify elimination of hourly firm by "better aligning BPA's Open Access Transmission Tariff with *pro forma* and industry best practices."

Eliminating Hourly Firm Best Supports BPA's Strategic Direction

Because of the significant questions raised regarding the operational value of elimination, the Large PTP Preference Customers further question the benefits behind the policy position. With regard to hourly firm, what is the specific value derived by BPA and its customers of adopting pro forma language strictly from a policy standpoint? And at what point is that policy goal, on its own merits, outweighed by the potential impacts to customers?

BPA has already made several determinations that a pro forma approach is not always best, and has proposed deviations in the case of Loss Factor calculation, NT Redispatch, and being the Financial Middleman. In the cases of NT Redispatch and acting as the Financial Middleman, BPA performed analysis on the effects of changing to a pro forma approach and determined that the best course of action was to deviate. This seems to indicate that each issue should be decided on its own merits; evaluating the costs and benefits of being pro forma against *each potential alternative*. Proposing pro forma language simply for the sake of being pro forma conveys no benefit to BPA or its customers.

Eliminating Hourly Firm Aligns with Industry Best Practices

Conforming with industry best practices does not necessarily mean elimination of hourly firm. In a cursory examination of transmission provider tariffs in the west, the Large PTP Preference Customers found at least five[3] other transmission providers, many with significant transmission capacity, that offer an hourly firm product. This would seem to indicate that there is no established industry standard in the west with regard to the offering of hourly firm.

Furthermore, BPA should elaborate upon its clarification on Slide 44 of the August 21 Presentation where it states that "Hourly firm is not superior to *pro forma*." First, our understanding is that BPA had previously clarified that it had not taken a position on this issue. Second, it is clear that although FERC does not require hourly firm in the *pro forma*, it has accepted hourly firm in tariffs (*see e.g.*, footnote 3 listing jurisdictional utilities that offer an hourly firm product). This would have required a finding by FERC that the hourly firm product was consistent with or superior to the *pro forma*.

Eliminating Hourly Firm will Ensure Business Certainty and Stability

BPA states on slide 49 of its August 21 presentation that the proposal will "ensure business certainty and stability for our customers." The Large PTP Preference Customers believe that BPA's proposal in fact ensures the opposite; for BPA to offer a product, then change a core aspect of that product after-the-fact does not create certainty or stability for the customers who purchased that product. Elimination of hourly firm will fundamentally change the economic proposition of the PTP product to its purchasers, and may have a disruptive impact on the bilateral market. BPA has not yet provided adequate justification or analysis to prove an offsetting benefit, or that the proposal will in fact be "stable" moving forward.

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[3] Pacificorp, BC Hydro, Arizona Public Service Company, Salt River Project, Los Angeles Department of Water and Power all offer an hourly firm product in their OATTs filed on OASIS as of 8/23/18.

Conclusion

As the Large PTP Preference Customers reflect on the TC-20 workshops and these comments, we find a consistent theme is a lack of supporting analysis for customers to evaluate, and the lack of opportunity to provide substantive feedback. Customers cannot provide useful feedback to BPA if there is nothing for customers to analyze or examine. Moving forward, the Large PTP Preference Customers hope that customers and BPA can work more collaboratively to solve the complex issues surrounding hourly firm.

The Large PTP Preference Customers appreciate the opportunity to provide comments on these issues. We hope that BPA carefully considers the gaps in analysis identified and provides further data and information to customers as discussions continue. If BPA has any questions about these comments or the information being requested, please do not hesitate to contact Joe Fina at gfina@snopud.com or (425) 783-8649.

Sincerely,

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