

Bonneville Power Administration
Comments on PacifiCorp and ISO Contract Review Discussion Paper

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OVERVIEW

The Bonneville Power Administration (“Bonneville”) appreciates the opportunity to submit these comments regarding the June 24, 2016, Contract Review Discussion Paper, (“Draft Paper”) prepared by PacifiCorp and the California Independent System Operator Corporation (“ISO”). The Draft Paper provides a good foundation from which to begin a dialogue on the best approaches to the development of a regional market. As explained more fully below, Bonneville is one of PacifiCorp’s largest transmission customers, and in that regard, has relied on PacifiCorp’s transmission system for decades to deliver federal power to Bonneville’s customers located in PacifiCorp’s Balancing Authority Areas (“BAAs”). Bonneville believes the proposals in the Draft Paper can - and should - be modified to protect the transmission access Bonneville and other long-term transmission right holders have historically used to serve loads in PacifiCorp’s system. These protections should include preserving the transmission rights held by long-term transmission customers under PacifiCorp’s Open Access Transmission Tariff (“OATT”). Bonneville believes these changes can be made without jeopardizing the functionality of the ISO market or fundamentally changing PacifiCorp’s proposal to join the ISO as a Participating Transmission Owner (“PTO”).

BACKGROUND – BONNEVILLE’S TRANSMISSION RIGHTS ON PACIFICORP’S SYSTEM

Bonneville is a federal power marketing administration that markets the output from 31 federally owned and operated hydroelectric projects located on the Columbia River and its tributaries, known generally as the Federal Columbia River Power System (“FCRPS”). Bonneville has a statutory obligation to provide power from the FCRPS to over 130 publicly-owned or -run utilities in the Pacific Northwest, including Public Utility Districts (“PUDs”), cooperatives, municipalities, and federal entities. These Bonneville customers, which resell power to retail customers, are referred to as “preference customers” or “requirements customers” because the relevant statutes requires that they receive “preference and priority” in the disposition of federal power.

About half of Bonneville’s preference customers are directly connected to Bonneville’s main transmission system, and can receive power directly from Bonneville without flowing power across intervening transmission systems. The other half of Bonneville’s customers receive all or a portion of their electricity through the transmission systems of other utilities, such as PacifiCorp. To ensure these customers do not pay transmission charges across multiple systems, Bonneville obtains the transmission service from third-party transmission providers to serve Bonneville’s customers. Bonneville then rolls these transmission costs into its general power rates that all preference customers pay.

Bonneville has 25 preference customers with load located inside the PacifiCorp balancing authority, with an average load of 600 MW. Most of Bonneville's generation assets are located within Bonneville's BAA rather than PacifiCorp's BAA. Consequently, Bonneville has historically acquired transmission service to deliver federal power to these customers over the PacifiCorp transmission system. Bonneville has met these obligations for decades through a variety of long-term transmission and exchange agreements with PacifiCorp and its predecessors.

Bonneville's transmission contracts on the PacifiCorp system are a combination of legacy (pre-OATT) contracts and OATT contracts. Most recently, two of Bonneville's legacy agreements on PacifiCorp's system terminated and were replaced with long-term network rights ("NT") under PacifiCorp's OATT. While the conversion of these legacy agreements to OATT service involved changes to the terms of service, it did not fundamentally disrupt the historic access Bonneville had relied on to deliver power to serve its loads.

GENERAL COMMENTS

Eliminating Long-Term OATT Rights Harms Customers That Have Relied on Open Transmission Access to Meet Load Obligations

As PacifiCorp and the ISO consider the next evolution in regional transmission service, they should recognize the long-term transmission access that customers like Bonneville have used to meet load within PacifiCorp's BAAs. The Draft Paper supports this concept in part by allowing all pre-OATT agreements to continue as Existing Transmission Contracts ("ETCs") in the ISO. At the same time, though, the Draft Paper proposes to eliminate all OATT agreements, regardless of their duration or usage, thereby effectively ignoring the decades of transmission service that Bonneville and other long-term transmission holders have historically relied upon to serve load. This proposal disadvantages entities that have positioned themselves on a long-term basis to serve loads within PacifiCorp's system. Bonneville's specific concerns with this proposal are twofold:

First, for many customers, eliminating firm access to PacifiCorp's system fundamentally alters plans of service for loads within PacifiCorp's territory. Bonneville, for instance, has procured long-term power purchases to use as designated network resources under PacifiCorp's OATT for service to Bonneville's loads. In addition, Bonneville has acquired long-term transmission on other providers' transmission systems to wheel federal power to its loads. Both of these actions cost Bonneville hundreds of millions of dollars, but were necessary steps to receive long-term certainty for the delivery of power on a firm basis to Bonneville's customers located on PacifiCorp's system. The OATT provides Bonneville long-term certainty by granting Bonneville firm transmission rights to various interchange points on PacifiCorp's system for the duration of Bonneville's NT agreements, as well as the right of first refusal to renew those rights upon their expiration. The Draft Paper, though, proposes to eliminate these rights (and the right of renewal), and replace them with ISO service. Bonneville understands that the ISO tariff does not recognize long-term firm rights, but grants load serving entities Congestion Revenue Rights ("CRRs"). While CRRs provide some cost protections for existing loads, they do not provide the same long-term certainty of access to resources provided under the OATT. The loss of this access

harms existing transmission customers because it undercuts the value of the long-term arrangements these customers secured to deliver resources to serve load in PacifiCorp's system.

Second, Bonneville is concerned that the operational and cost risk of converting OATT service to ISO service is being placed on OATT customers that are not *choosing* to have their service convert. While all the implications of the conversion of OATT service to ISO service are far from known, it has become clear to Bonneville that the OATT construct does not seamlessly convert to the ISO's tariff. For instance, it is common under an OATT construct in the Pacific Northwest for a utility to rely primarily on imported resources for service to loads. However, many of the ISO Tariff's provisions place restrictions or limitations on the use of external resources for meeting load within the ISO's BAA. As Bonneville understands it, the ISO does not treat external resources the same as resources internal to the ISO in the following areas:

- The ISO's Resource Adequacy ("RA") requirements impose default Local Resource Adequacy requirements on LSEs, whereas under the *pro forma* OATT, reliable long-term service may occur using only external resources.
- RA also imposes a default Flexible Resource Adequacy requirement, but then does not allow this requirement to be met with external resources. Here again, no such requirement exists in the *pro forma* OATT.
- The ISO tariff replaces long-term transmission rights with Resource Adequacy Maximum Import Capability ("MIC") rules that are designed to eliminate firm transmission rights as soon as possible, and to limit or preclude renewal of a LSE power arrangements. The ISO tariff does not allow entities to hold on to Import Capability for RA as power arrangements change through time. In contrast, the OATT permitted changes to long-term resource designations without the loss of transmission rights (provided power flows did not substantially change), and guaranteed future access to interchange points through the right of first refusal provision (section 2.2) of the *pro forma* OATT.
- The ISO tariff does not require provision of ancillary services by the sink BA in the default resource adequacy rules.
- The ISO tariff does not recognize contract resources in the wholesale market, particularly, full requirements relationships established between wholesale suppliers and utilities. Under the OATT, full requirement agreements are commonly used to serve network loads, and function within the OATT construct as a designated network resource.

These and other differences between OATT service and ISO service illustrate the fundamental tension that occurs with the complete elimination of the OATT construct. While some of these issues may be resolved through subsequent ISO tariff revisions, Bonneville is concerned that the risk of these known (and unknown) transition issues will be borne by existing long-term OATT customers. Long-term OATT customers have already received long-term access to serve their loads, in many instances

incurring additional costs to do so. Now, however, these customers will be exposed to even more costs due to incongruities between their former OATT service and the new ISO service. To ensure a successful transition to a regional ISO, the ISO and PacifiCorp should take steps to ensure that OATT customers are not harmed as a result of ISO service expansion. Those steps should provide options for long-term OATT customers and include a thorough review of the ISO tariff for conversion issues for OATT customers. In addition, to the extent the ISO continues to move forward with regionalizing its tariff prior to final determination of the governance construct, the ISO should also consider expanding the scope of its review process to include more components of the ISO tariff. That process should include, but not be limited to, review of the Resource Adequacy requirements and other provisions of the ISO tariff that place limitations or restrictions on imports into the proposed expanded ISO market.

Conversion of OATT Rights to ISO Service Should be Voluntary

In light of these significant conversion issues, Bonneville believes that the better approach is to make the conversion to ISO service voluntary. That is, transmission customers, such as PacifiCorp's merchant, that wish to immediately convert their long-term transmission rights to ISO service, whether they be OATT or legacy rights, may do so on a voluntary basis. All other long-term transmission right holders, however, would have the option of preserving their rights in the ISO as an ETC.

Several reasons support this approach:

First, allowing only voluntary conversion of OATT rights to ISO service should not adversely affect the ability of the ISO to operate or function. As noted in the PacifiCorp presentation on January 27, 2016, PacifiCorp's merchant holds approximately 85% of the transmission rights on the PacifiCorp transmission system. Other parties hold only 15% of the transmission rights. Eliminating short-term and non-firm transmission right holders further expands the transmission available to the market to almost 90%. Voluntary conversion of existing rights, along with the conversion (or non-renewal) of short-term and non-firm OATT rights, should supply the market with more than sufficient transmission rights to operate effectively.

Second, voluntary conversion equitably places the risk of misalignments between OATT service and ISO service on the customers seeking to convert their rights. For instance, since PacifiCorp is the main proponent of the conversion, it makes sense that PacifiCorp (and other voluntary customers) would work through the transition issues associated with converting OATT rights to ISO service. In this way, these transition issues can be addressed through PacifiCorp's experience, thereby holding harmless other customers that have not chosen to convert their rights. If through PacifiCorp's conversion ISO service is shown to be superior to OATT service, other OATT transmission contract holders will be more likely to join PacifiCorp and voluntarily convert their rights to ISO service.

Third, preserving long-term OATT rights as an ETC will also go a long way to mitigating many of the concerns OATT transmission holders have with other provisions of the ISO's tariff. As described above, much of the friction between OATT service and ISO service relates to the limited ability for external resources to gain access to the ISO to serve load. Creating an OATT ETC and associated long-term

rights will preserve the historic access many long-term customers have used and relied on to serve load, thereby alleviating many of the OATT-ISO transitional issues caused by the ISO's tariff requirements. To be clear, Bonneville does not anticipate that preserving OATT rights as an ETC would mean PacifiCorp would have to retain the entire OATT administrative apparatus. Bonneville believes there is an ETC alternative that could preserve the most crucial aspect of OATT service, that is, access to specific points on PacifiCorp's system and the right of first refusal ("rollover rights").

Finally, changing the Draft Paper to permit only voluntary conversion of firm transmission rights to ISO service is consistent with Federal law. Sections 217 and 218 of the Federal Power Act¹ provide specific protections to the physical transmission rights held by entities (including Bonneville) in the Western Interconnection and, more specifically, the Pacific Northwest. Section 217(f) states:

Nothing in this section shall provide a basis for abrogating any contract or service agreement for firm transmission service or rights in effect as of August 8, 2005. If an ISO in the Western Interconnection had allocated financial transmission rights prior to August 8, 2005, but had not done so with respect to one or more load-serving entities' firm transmission rights held under contracts to which the preceding sentence applies (or held by reason of ownership or future ownership of transmission facilities), ***such load-serving entities may not be required, without their consent, to convert such firm transmission rights to tradable or financial rights, except where the load-serving entity has voluntarily joined the ISO as a participating transmission owner (or its successor) in accordance with the ISO tariff.***

(emphasis added).

Section 218 of the Federal Power Act² provides more specific protections to the physical transmission rights held by entities (including Bonneville) in the Pacific Northwest. This provision, which is titled "Protection of Transmission Contracts in the Pacific Northwest," provides as follows:

(a) DEFINITION OF ELECTRIC UTILITY OR PERSON.—In this section, the term 'electric utility or person' means an electric utility or person that—

(1) as of the date of enactment of the Energy Policy Act of 2005 holds firm transmission rights pursuant to contract or by reason of ownership of transmission facilities; and

(2) is located—

(A) in the Pacific Northwest, as that region is defined in section 3 of the Pacific Northwest Electric Power Planning and Conservation Act (16 U.S.C. 839a); or

¹ 16 U.S.C. §§ 824q, 824r.

² 16 U.S.C. §824r.

(B) in that portion of a State included in the geographic area proposed for a regional transmission organization in Commission Docket Number RT01-35 on the date on which that docket was opened.

(b) PROTECTION OF TRANSMISSION CONTRACTS. – Nothing in this chapter confers on the Commission the authority to require an electric utility or person to convert to tradable or financial rights—

(1) firm transmission rights described in subsection (a); or

(2) firm transmission rights obtained by exercising contract or tariff rights associated with the firm transmission rights described in subsection (a).

Together, the above language makes clear that the Federal Energy Regulatory Commission’s authority under the Federal Power Act to require the conversion of physical transmission rights (such as long-term OATT transmission rights) to financial transmission rights (such as Congestion Revenue Rights (CRRs) under the ISO tariff) is limited to voluntary conversions. These provisions apply to all transmission rights that were in effect as of August 2005 (as well as any follow on agreements that were obtained by exercising OATT rights, including rollover rights).³

For these reasons, Bonneville supports modifying the Draft Paper such that conversion of physical OATT transmission rights to ISO service is permitted on a voluntary basis only.

SPECIFIC COMMENTS

Section 4 – Agreements PacifiCorp will Continue to Administer

Section 4 lists the types of agreements PacifiCorp will retain after conversion to a PTO. This includes a number of different agreements, including agreements related to operations and maintenance, construction, engineering, load interconnection agreements and other related contracts.

While recognizing that the list was not intended to be exhaustive, PacifiCorp should include in the list agreements for communications between entities, such as fiber optic agreements and cooperative communications agreements. Bonneville agrees that a critical case-by-case review of the individual agreements is needed and suggests that PacifiCorp coordinate with the transmission owners and providers to determine which agreements should remain with and continue to be administered by PacifiCorp. Bonneville recommends that this be part of a comprehensive joint review process addressing all agreements potentially affected by the proposed integration of PacifiCorp into the ISO.

³ Bonneville recognizes there may be a small subset of long-term transmission customers that did not have a legacy or OATT agreement with PacifiCorp in effect on August 8, 2005. However, Bonneville recommends these customers be afforded the same treatment as other long-term contract holders for simplicity and for the reasons described earlier.

Section 5 – Agreements Transitioning to the ISO

As described above, Bonneville supports conversion of long-term OATT transmission rights to ISO service only when such conversion is voluntary. Long-term OATT transmission right holders should not lose their historic and contractual rights to access PacifiCorp’s transmission system to serve load with external resources. PacifiCorp holds the vast majority of transmission rights on its system, and thus, permits the market to develop based on the benefits it provides without impacting other service arrangements.

In regards to OATT service that voluntary converts to ISO service, the Draft Paper should contain more discussion about what will happen to service split between facilities controlled by PacifiCorp and facilities controlled by the ISO. For example, some NT agreements include “wholesale distribution” service for service over facilities at wholesale distribution voltages (i.e., 34kV and below). For these types of services, will the transmission portion of the service transition to ISO service, while the wholesale distribution portion continues to be PacifiCorp service? If so, how will the terms of the PacifiCorp service be determined? Also, for split service, how will losses be determined? Will the marginal losses cover service all the way to the load, or will the customer be subject to two loss calculations – one on the ISO controlled grid and one for the wholesale distribution system?

Section 6 – Existing Transmission Contracts Under the ISO’s Tariff

- Long-Term OATT Agreements Should be Considered ETCs.

As described above, and for the reasons noted before, Bonneville supports protecting long-term OATT transmission rights as ETCs with associated long-term rights under the ISO tariff. This category could be described as “Long-Term OATT ETC Agreements”. The term “long-term” should include all OATT agreements that qualify for continued service under the current section 2.2 of PacifiCorp’s OATT.

- Comments regarding ETCs that are “Turned over to ISO operation control”

What is the difference between a legacy agreement that is “turned over” to the ISO and a legacy agreement that is not “turned over” to the ISO? Are these treated differently for purposes of the ISO’s tariff? If so, how?

The Draft paper also discusses “Transmission Rights and Transmission Curtailment” (TRTC) instructions. Bonneville would appreciate further discussion on what is included in a TRTC. For example, are TRTC’s amendments to the existing agreement, or only informal instructions? How are TRTCs amended? Are they filed with FERC? A few examples of TRTC would be helpful.

- General Comments about ETC Categories

Bonneville appreciates that the general categories of agreements identified in the Draft Paper were illustrative. However, the categories PacifiCorp chose to identify and explain are confusing and, in some places, raise additional questions and concerns for customers. For instance, there does not appear to be any discernable difference between a “Transmission Service and Operating Agreement” (Section 6.1), a “Transmission Service Agreement (non-OATT)” (Section 6.2), and a “Wheeling and

Transfer Agreement” (Section 6.3). All of these agreements would have to be “non-OATT” agreements to be considered an ETC, in view of PacifiCorp’s position to convert all OATT agreements to ISO service.

The key difference between the categories of agreements appears to be the type of service provided under the pre-OATT agreements. The TSOA and TSA both appear to provide some pre-OATT service, but also require its counterparties to pay some OATT rates (such as ancillary services). In contrast, the counterparties in the Wheeling and Transfer Agreements pay only the rates identified in the pre-OATT agreements. They do not pay any new charges.

Categorizing these ETCs by the type of services provided may be a more useful way of distinguishing these services. Thus, there could be “Legacy Agreements that Reference OATT terms”, and “Pure Legacy Agreements” (which would refer to pre-OATT agreements that do not reference any OATT terms).

- Clarifications regarding Honoring ETCs in the ISO

Page 6 of the Draft Paper references section 16.5 of the ISO tariff, which explains how contracts that qualify for ETC status are preserved in the ISO. Bonneville understands implementation of this provision for specific contracts will be addressed in individual meetings with customers. However, as a general matter, further explanation on the following areas would be helpful for customers to understand the importance of ETC status in the ISO:

- Are ETC rights transmission path specific or tied to specific point of injection and withdrawal? If so, how are these transmission paths or points determined?
- Section 16.5 mentions holding out capacity based on the “contract amount.” How will the “contract amount” be determined for ETCs that do not specify a contract amount, (i.e., contracts that say the transmission service is to meet a customer’s “requirements” without a reference to a specific amount of capacity)?
- The Draft Paper appears to state that all terms of the ETC will be honored in the ISO. Bonneville assumes this includes (1) the rate for the service; (2) billing provisions; (3) scheduling; and (4) losses, among others. Is this assumption correct?
- If the answer to the question above is “yes”, then why in examples 2 and 3 at the end of the Draft Paper do the legacy agreements serving load get assessed a Grid Management charge (GMC) and losses? Is this because the legacy agreements in the example did not specifically mention losses or a grid-related charge?

- Section 6.6 Load/Distribution Company Interconnection Agreements

The Draft Paper notes that loads within PacifiCorp’s BAA will be converted to Utility Distribution Company Operating Agreements (“UDCOA”) if they are connected to the ISO controlled grid. What happens to loads in the PacifiCorp BAA that are *not* connected to the ISO controlled grid? Do these customers sign a UDCOA with the ISO or PacifiCorp? Or are they subject to a different arrangement with the ISO or PacifiCorp?

Section 7 – Transmission Owner Rights under ISO’s Tariff

The Draft Paper indicates that a number of PacifiCorp agreements with other transmission owners may be considered transmission ownership rights under the ISO tariff. Bonneville recommends that PacifiCorp address these agreements on a case-by-case basis in individual meetings with customers.

CONCLUSION

Bonneville again appreciates the opportunity to submit comments in this proceeding and looks forward to the further development of the Draft Paper through future discussions with PacifiCorp and the ISO.

Sincerely,

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