



February 15, 2011

VIA EMAIL

Tech Forum
Bonneville Power Administration
PO Box 491
Vancouver, WA 98666
techforum@bpa.gov

Re: 2011 NOS Modification Options

Dear Tech Forum,

PPC submits the following comments on the issues Transmission Services' staff raised at its meeting on January 27, 2011 and at its October 2010 Customer Forum, regarding the 2011 Network Open Season (NOS) process. BPA Staff explained that, while the prior NOS processes spurred necessary transmission construction within the BPA balancing authority area, BPA is considering a delay in the 2011 NOS to permit modifications to the process that would more accurately model the transmission system with an excess of wind generation and would better balance the risks and benefits to network customers of those build decisions.

Overall, PPC supports a reasonable delay that would permit BPA to achieve these goals and other goals as we discuss below. PPC has supported NOS since its beginning and continues to support NOS as a method for the study and evaluation of transmission service requests for which there is no transmission capacity already available. Public power utilities remain committed to working with BPA managers and staff to develop solutions that further strengthen the NOS process going forward.

Delay of 2011 NOS

PPC supports delaying the start of the 2011 NOS only to the extent a delay is necessary to implement changes to NOS to better the process and correct the problems discussed below. These are significant issues that influence long-term transmission investments, generation investment, and delivered power prices. PPC prefers, however, that any delay be minimized as much as possible. We recommend that BPA can reduce the overall length of the delay by organizing the work so that parts of the NOS process can be begun while decisions involving later parts of NOS are still being made. That said, we agree that BPA needs time to address

issues regarding the NOS process and its decision metrics and will need to take the time to complete this work.

2011 NOS Study Issues

We concur with BPA staff that aspects of the NOS process need to be carefully examined and revised. Because proposed generation greatly exceeds the current and longer-term needs of regional loads and the region's export capability, BPA is presented with a tremendous challenge in planning and building out its transmission system. Wind plant interconnection has become the overwhelming motivator for new transmission facilities as well as the primary driver of the transmission planning challenge. Excess generation requires planners to make assumptions about regional plant dispatch and source and sink information. Assumptions based on faulty information will always be flawed and make the creation of power flow analyses that correctly model realistic system conditions. This in turn makes identification of the "right" transmission expansions difficult.

The physical sink should be required in Exhibit B of the PTSA.

This information is needed to assist system planners in understanding where power will be consumed in their power flow studies. Generation developers in prior NOS processes have made transmission requests to "virtual" sinks, points of delivery that are not specific loads because developers were unsure which load party will purchase their generation once it is developed. This lack of information about the physical sink seems to be impeding BPA's ability to run valid power flow studies and thus BPA should require information on the physical sink.

We recognize that pinpointing the sink and source of power can be difficult several years (possibly 10 years) in advance. BPA, however, cannot plan the physical expansion of its transmission system to accommodate "infinite" flexibility to reach markets. BPA should require concrete information on the physical sink in order to make good decisions about expansion of its transmission system.

BPA should consult customers regarding thermal dispatch assumptions.

With regard to the Cluster Study assumptions on which thermal generating plants might be displaced on a forecast basis by wind energy, PPC wishes to reiterate the concerns that it expressed during the 2010 NOS process. In the 2010 NOS BPA chose to use a theoretical economic-dispatch model to select the regional thermal generation that would be displaced by proposed, interconnecting generation. The economic model used in the 2010 NOS does not mirror reality either in companies' economic dispatches or constraints placed on the plants.

Thermal plant operators use their plants to support more than just commercial sales and must consider the use of the plants to provide balancing and other reserves for their Balancing Authority Areas (BAs), the need to meet peak loads, and other considerations.

PPC wishes to emphasize its very strong support for BPA staff's decision to look at the whole of the regional system in running its power flow studies. The operations of adjacent systems impact the operations of the federal transmission system and must be accounted for to avoid creating problems on any of those systems. BPA and its customers need to work together to develop a solution to this problem so that BPA can use mutually understood and agreed upon assumptions that are reasonable and are grounded in reality. One option is to develop dispatch assumptions through ColumbiaGrid. Other options may be available as well.

Sensitivity Studies are Needed

A weakness in the current study approach is the lack of a spectrum of sensitivity analyses to test an array of generation dispatches and assumptions. Firm transmission needs to be available in a broad range of power system operations; the ability of the federal power system to redispatch around other parties generation dispatches is finite. How these sensitivity analyses are reflected in the ATC calculation is another issues that we would like to discuss with BPA staff.

Changes to 2011 NOS Risk Mitigation Mechanisms

Another set of issues discussed at BPA's October customer forum, and touched on at the January 27th meeting, is the need to reexamine the allocation of risks and benefits between NOS participants and BPA. These potential changes include –

- Increasing the performance assurance amount required for NOS participants. This may reduce BPA's financial risk for undertaking transmission infrastructure builds, because parties with a higher performance assurance would be more likely to follow through with contracts associated with transmission infrastructure builds.
- Changing the NOS business model, by requiring payment for studies (either directly or through larger application fees), making changes to the Commercial Infrastructure Financial Analysis (CIFA), and requiring parties contribute capital towards infrastructure development. This would better align the costs and benefits of NOS with cost-causation principles. For example, BPA currently pays for the studies (including NEPA work) of the NOS process, which spreads the costs of such studies among all network customers.

BPA may also want to consider measures similar to those adopted by MISO in reforming its generation interconnection queue; these include longer-term transmission service commitments and demonstration of capital commitment to generation projects.

PPC believes that BPA and its customers should pursue these and similar concepts to reduce BPA's exposure to stranded investments. A larger performance assurance, application fee, or payment for studies directly assigns those costs to specific parties. Regarding potential revisions to the CIFA and increased customer participation in capital funding, PPC supports development and consideration of such modifications because they will help prevent the costs of transmission infrastructure built for the benefit of specific customers (and which would not have been built but for those customers' needs) from being socialized across all network customers.

Use of BPA Borrowing Authority

PPC is very interested in pursuing with BPA the issue of BPA's use of borrowing authority to finance FCRTS expansion projects that are overwhelmingly commercial in nature. BPA currently uses its Borrowing Authority for all projects from NOS that go forward at rolled-in rates. The *pro forma* OATT, on the other hand, requires that the customers triggering the need for new facilities pay for facilities. As a starting place for discussion (and without making a proposal), PPC asks BPA to consider the following –

- In its base case BPA currently includes construction that is needed for system reliability requirements and NT transmission customers future load growth and resource needs. The base case also includes the load growth of PTP customers serving load in the BPA BA and adjacent BAs. These transmission capital replacements and expansions represent the fulfillment of BPA's core mission to serve the needs of regional load.
- NOS makes a very good mechanism for planning commercial expansions but the core obligations of load service and reliability should be considered and accommodate in that base case development.
- As a step in the direction of the *pro forma* OATT, BPA should consider using its limited Treasury funds first on those projects used principally for load service and reliability obligations within the BPA balancing authority area, as distinct from those needed for exports or short-term trading.

Coordination with Other Transmission Planning Processes

We note that BPA has processes for generation interconnection and construction of transmission facilities interconnecting with other transmission providers that are separate from, but interrelated with, NOS. These processes reside both within BPA (the generation interconnection queue process) and with regional partners (transmission planning through ColumbiaGrid). These processes need to run synchronously. The internal BPA processes in particular need to be consistent and coordinated. These are additional issues that should be addressed as we move forward with NOS.

Engagement of Customers in Developing the Solutions

Lastly, running throughout these comments are requests for BPA management and staff to engage customers directly and develop solutions with customers. Over the past few years, we feel there has been a trend for management and staff to listen to customers, huddle and then present a few narrow options to customers for comment. We often iterate in this pattern over the course of several months.

We are concerned that the process is not advancing understanding and buy-in on the part of customers and is impeding progress within Transmission Services. BPA staff works very hard to clearly convey the information and problems that they are facing. We greatly appreciate their efforts and find them valuable. Nonetheless, we would like to find a way to have more open and robust discussions of alternatives (give and take on *both* sides) that would go farther to developing and advancing solutions.

Conclusion

As is evident by the comments above on NOS, we believe that the NOS process is an extremely valuable tool for clearing the long-term request queue. We also emphasize, however, that policy issues that exceed simple tweaking must be resolved before the 2011 NOS goes forward. We encourage BPA to develop a process with interested parties in which (a) customers and BPA staff together will consider these issues in detail and develop solutions and

(b) BPA management will make timely, final decisions on these policy issues. We look forward to discussing these issues with you in the coming weeks.

Sincerely,

/s/

Nancy Baker

Senior Policy Analyst

Kayce Spear

Policy Analyst

cc: PPC Executive Committee
PPC Rates & Contracts