

## Stakeholder Comments Template

### Subject: Regional Resource Adequacy Initiative

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the Draft Regional Framework Proposal for the Regional Resource Adequacy initiative that was posted on December 1, 2016. Upon completion of this template, please submit it to [initiativecomments@caiso.com](mailto:initiativecomments@caiso.com). Submissions are requested by close of business on **January 11, 2017**.

Please provide feedback on the Regional RA Draft Regional Framework Proposal below.

The ISO is especially interested in receiving feedback that indicates if your organization supports particular aspects of the proposal. Alternatively, if your organization does not support particular aspects of the proposal, please indicate why your organization does not support those aspects.

#### **Background**

Bonneville Power Administration (Bonneville) appreciates the opportunity to be a stakeholder in the Regional Resource Adequacy (RA) process, and to provide comments on the Draft Regional Framework Proposal.

Bonneville is a federal power marketing agency within the United States of America, Department of Energy, which markets electric power from 31 federal hydroelectric projects and some non-federal projects in the Pacific Northwest. Whenever requested, Bonneville is required to offer contracts to supply wholesale electric power to meet the firm power requirements of utilities in the Pacific Northwest, including public body and cooperative utilities that have preference to Federal power and investor-owned utilities. 16 U.S.C. § 832c (2014); 16 U.S.C. § 839c(b) (2014). Bonneville is governed by and must operate according to various federal statutes, including the Bonneville Project Act, 16 U.S.C. §§ 832-832l (2014), the Pacific Northwest Consumer Power Preference Act, 16 U.S.C. §§ 837-837h (2014), the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. §§ 839-839h (2014), and the Federal Columbia River Transmission System Act of 1974, 16 U.S.C. §§ 838-838k (2014), among others.

Bonneville supplies federal power to several preference customers located in PacifiCorp's East and West Balancing Authority Areas. Bonneville supplies power to these customers to meet about 650 MW of annual average load. To assure it is able to meet its supply obligation at the estimated time of PacifiCorp's transition to a PTO, Bonneville will rely on either transmission over PacifiCorp's system secured by Network Integration Transmission Service Agreements with PacifiCorp for Network Transmission, or by Legacy Transmission Agreements. As such, the outcome of the Regional RA process is of direct importance to Bonneville and the public utility customers Bonneville serves.

### Comments

Bonneville has previously suggested that this stakeholder initiative should be suspended until after the governance structure for a regional ISO is finalized and implemented. As such, Bonneville appreciates that CAISO has no imminent plans to submit the Regional RA proposal to its board. However, CAISO has indicated that the Draft Regional Framework Proposal should be viewed as "close to final", and that it represents something similar to what a final proposal would include. This is problematic for Bonneville because the issues Bonneville has identified remain unresolved. Bonneville has participated as a stakeholder in the Regional RA process from its inception, and has raised significant issues and concerns with the proposal. CAISO has not adjusted its proposal to respond to these concerns. Therefore, Bonneville does not support the current Regional RA proposal.

### Abrogation of Contracts

Bonneville remains concerned the CAISO is developing a Regional RA requirement that ignores power supply and utility obligations and relationships that exist in regions outside of California. For example, Bonneville relies on pro-forma OATT service provided by transmission providers throughout the Pacific Northwest that does not require Bonneville to secure additional capacity to meet resource adequacy requirements. Bonneville alone determines what it needs to be resource adequate to meet its statutory power obligations under contract. Because the proposal seeks to change only an absolute minimum amount of provisions necessary to make the current CAISO RA system work outside of California it will result in parties opposing, resisting, and perhaps challenging CAISO efforts.

Any new participating transmission owners in a Western ISO will have provided many years of transmission in accordance with the pro-forma tariff established by FERC under Orders 888 and 890 ("OATT contracts"). Many LSEs receiving service on transmission provided throughout the contemplated footprint of the Western ISO have established relationships with external generation using long term transmission and associated rollover rights. The current CAISO proposal to abrogate these historic relationships in a non-voluntary manner demonstrates the need for a new governance structure that is more sensitive to the needs of the area the CAISO proposes to serve.

Bonneville maintains that the CAISO has not developed a set of Regional RA standards that are compatible with existing practices in the broader region. Reliable load service is not a new

concept to the Pacific Northwest, but the current RA proposal ignores the fact that loads have been, and continue to be, served reliably under the existing contractual and resource paradigm.

Under the CAISO and PacifiCorp proposal, all existing OATT contracts would be abrogated. Other established electricity markets have not taken such a draconian approach to existing contracts. For example, SPP did not require involuntary abrogation of grandfathered contracts<sup>1</sup>; rather, SPP allowed the contract-holder to choose whether or not to convert its transmission service. *See Southwest Power Pool, Inc.*, 106 FERC ¶ 61,110 at P. 99 (February 10, 2004). Some parties argued that SPP should require all existing contracts to be converted, but FERC upheld SPP's proposal. *Id.* at P. 108. FERC stated, "We encourage transmission customers with grandfathered contracts to convert to direct service under the SPP OATT. However, we are not requiring such conversion nor are we abrogating any contracts." *Southwest Power Pool, Inc., Id.* Like SPP, CAISO should allow contract conversion to be voluntary.

Further, neither CAISO nor PacifiCorp has shown how forced abrogation of contracts complies with sections 217 and 218 of the Federal Power Act, which provide specific protections to the physical transmission rights held by entities (including Bonneville) in the Western Interconnection and, more specifically, the Pacific Northwest. 16 U.S.C. §§ 824q, 824r. 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.**

16 U.S.C. §824q (emphasis added).

Section 218 of the Federal Power Act 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—

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<sup>1</sup> SPP's grandfathered agreements "include (1) agreements providing long-term firm transmission service executed prior to April 1, 1999 and Network Integration Transmission Service executed prior to February 1, 2000, and (2) bundled wholesale contracts (that reserve transmission as part of the contract)." *Southwest Power Pool, Inc.*, 106 FERC ¶ 61,110 at P. 99 (February 10, 2004).

(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

(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).

16 U.S.C. §824r.

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). The CAISO/PacifiCorp proposal to abrogate all OATT contracts seems to blatantly violate these statutes. Bonneville has raised this issue in the past and neither CAISO nor PacifiCorp have addressed it.

### Requirements Contracts

As mentioned in previous comments, Bonneville serves the full requirements of many of its preference customers under long-term wholesale power sales contracts. Depending on the type of power product and/or service BPA supplies under these requirements contracts, which Bonneville is required by federal law to offer, Bonneville can be obligated to meet the full load needs of its customers, including the hour-to-hour variations of the utility’s total retail load and any load growth. For its load following customers, Bonneville also serves the moment-to-moment variations of customer loads located in its BAA, and has contracted for ancillary services from the local transmission provider for its loads in other BAAs for more than 50 years.

In meeting these full load service obligations, Bonneville plans deliveries from its system to meet unexpectedly high peak loads, as well as to provide ancillary services such as contingency reserves for exports from its BAA. The proposed uniform counting rules do not reflect contingency reserves provided with external resources or the planning reserves or load following and generation imbalance reserves Bonneville holds to ensure the reliable delivery of obligations from its system. For example, Bonneville reduces the forecast output of its 22,000 MW of resources by an average 4300 MW per month of forecast outages. These outages are the equivalent of planning reserves in the CAISO BAA supporting BPA system deliveries. Bonneville also holds 1200 MW of capacity providing ancillary services in its BAA, contingency reserves for generation used in, and exported from, its BAA, and load following and generation imbalance reserves for loads in, and exports from, its BAA.<sup>2</sup> None of these reserves are considered by the uniform counting rules included in the current CAISO proposal. To reiterate, Bonneville has served loads in neighboring BAAs using external resources reliably for decades under such contracts. Having a Bonneville preference customer that is located within a BAA that chooses to join a Regional ISO does not change the terms of BPA's obligation to serve and cannot compel Bonneville to hold out any more reserves than is required by its contractual obligations.

Bonneville again suggests that the CAISO create language in its Tariff that gives an LSE the ability to use a contract for full requirements load service to meet its RA obligations to the ISO. For example, under such a system, an LSE that has contracted out the full needs of its loads (including load following and ancillary services) would be able to show that contract to its LRA for RA compliance, much in the same way current LSEs can show a contract for the output of a generating resource for RA. These contracts meet the full non-coincidental loads of this LSE. In developing business rules for such a Tariff provision, the CAISO needs to address the treatment of ancillary services, load diversity, and reserves provided by external resources.

#### LRA Autonomy

Bonneville maintains its position that the Draft Regional Framework Proposal removes a great deal of the flexibility and autonomy afforded to the Local Regulatory Authority (LRA) that is currently in the ISO Tariff, and has been in place for at least 10 years. Bonneville has submitted this comment repeatedly during this Stakeholder Initiative, both in writing and in person at stakeholder meetings, however the issue has not been addressed by the CAISO.

Specifically, under the current proposal, LRAs will no longer have the ability to plan for and meet load service obligations within the policy guidelines and statutory frameworks of their jurisdictions. Jurisdictions will no longer set their own Planning Reserve Margins ("PRM"), or set their own rules for counting the capacity from their own resources. Bonneville and its customers should not be placed in a worse position than we are in today simply because some BPA customers and their loads reside in a BAA controlled by an entity that chooses to become a PTO, and that BAA establishes uniform counting rules that fail to consider the actual resources serving those loads.

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<sup>2</sup> Exhibit 4-3, 2016 Pacific Northwest Loads and Resources Study at p. 50, lines 35-38.

Further, FERC specifically rejected CAISO's original attempt to establish a standard PRM requirement. *Cal. Independent System Operator Corp.*, 116 FERC ¶ 61,274 at P. 1153-1155 (Sept. 21, 2006). When CAISO proposed its tariff changes in the Market Redesign and Technology Upgrade ("MRTU") process, CAISO included a standard 15% minimum reserve margin for all LSEs. Parties raised several concerns with a fifteen percent reserve margin, including: 1) 15% is an arbitrary amount; 2) the reserve margin imposes an extreme burden on entities that have not already acquired 15% reserves; and 3) the restrictions on imports and qualifying facilities make it difficult for LSEs to satisfy the reserve requirement. *Id.* at P. 1147. FERC rejected CAISO's proposal to set a mandatory 15% reserve margin and required CAISO to allow LRAs to establish the reserve margin for their own LSEs. *Id.* at P. 1153-1155. FERC stated it is okay for CAISO to establish a default reserve margin of 15% for entities that had not set their own, but required CAISO to allow LRAs to determine their own reserve margins:

We believe that setting a 15 percent reserve requirement for non-CPUC LSEs is inconsistent with MRTU's purported deference to the RA programs of Local Regulatory Authorities. . . . However, we believe that if a Local Regulatory Authority fails to implement a reserve margin, then the CAISO should continue to implement the 15 percent default reserve margin included in IRRP in order to ensure the reliable supply of energy at reasonable prices.

*Id.* at 1153 (Emphasis added). In addition, the Commission acknowledged that the planning reserve margin of an LRA may be below CAISO's 15 percent default, provided that it remained within levels acceptable to the Western Electricity Coordinating Council (WECC):

Though not an explicit planning reserve margin, WECC has also adopted Minimum Operating Reliability Criteria (MORC) requirements that range between five to seven percent. Any planning reserve margin adopted by a Local Regulatory Authority must equal or exceed these MORC requirements.

*Id.* at 1154. The Commission affirmed *both* of these points – ensure flexibility to LRAs to set their own reserve margin and use of the WECC MORC standard as a minimum level – in its rehearing order on MRTU:

As we stated in the September 2006 Order, we believe that setting a minimum reserve requirement for non-CPUC jurisdictional LSEs is inconsistent with MRTU's deference to the RA programs of LRAs. While the Commission takes the CPUC's concern that LRAs could set unrealistically low reliability standards seriously, we note that any planning reserve margin adopted by LRAs must meet or exceed WECC's minimum operating reliability criteria, or MORC. The Commission believes that this will be a sufficient safeguard against the problem identified by the CPUC. The Commission continues to find that sections 40.2.1 and 40.2.2 of the MRTU tariff are consistent with our prior orders, and we believe that these sections appropriately balance proper deference to LRAs and the need for adequate reliability. The CPUC's protest is accordingly rejected.

*California Indep. Sys. Operator Corp.*, 122 FERC ¶ 61017, P. 25 (Jan. 9, 2008).

Thus, FERC's acceptance of CAISO's MRTU market design was founded on LRAs having the flexibility to establish their own reserve margins, and the Commission gave direct guidance on what an acceptable alternative reserve margin may be. The CAISO's proposal removes that flexibility and supplants the Commission's guidance with its own reserve margin standard, which is directly contrary to the conditions the Commission imposed on the CAISO when it approved MRTU.

Accounting for different PRM levels is not a new process for the CAISO, and presumably the CAISO has built systems and processes to manage these differences. A universal PRM could be seen as an effort by the CAISO to assert jurisdiction over equity issues and to force other regions into adopting the CAISO's planning assumptions, when in fact LRAs have been taking responsibly for their load service and operating reliably under different "PRMs" for many years. Bonneville believes that the CAISO can and should maintain reliability within its BAA and it already has the backstop acquisition authority to do so.

Maintaining the flexibility provided to LRAs currently in the Tariff is critically important, as it allows recognition and accounting for policy and statutory differences among the group of entities that are LRAs now, or could be LRAs within the broader region. Those specific flexibilities mentioned above in the current ISO Tariff are extremely important to Bonneville in its obligation to provide load service within the bounds of its statutory and contractual construct.

Furthermore, Bonneville cannot take an action contrary to its statutory authorities. For instance, being unable to set its own PRM and resource counting rules will mean that Bonneville may be subject to the CAISO's backstop procurement mechanism, even when Bonneville has all the resources it needs to serve its loads reliably under its own standards. CAISO has maintained that uniform PRM and resource counting rules serve the interest of preventing leaning between LSEs. This may indeed be the case, however, in its current proposal the ISO has created a system that now exposes entities that serve loads reliably, and do not lean on neighboring LSEs, to the possibility of backstop procurement.