COMMENTS
OF THE
BALANCING AUTHORITY OF NORTHERN CALIFORNIA
ON THE JOINT OUTREACH TEAM DRAFT RECOMMENDATIONS

I. INTRODUCTION AND SUMMARY

The Balancing Authority of Northern California (BANC) appreciates the opportunity to provide comments on the Draft Recommendations from the Joint Outreach Team (JOT) (Draft Recommendations) for possible consideration by the Secretary of Energy. BANC supports the guiding principles outlined in the Introduction of the Draft Recommendations. However, with respect to implementation of any recommendations, it is important to emphasize that the Western Area Power Administration's (Western) marketing activities and rate designs are determined via extensive public processes, and cannot be altered by unilateral implementation of JOT Recommendations. Appropriately, the Draft Recommendations call for study or analysis -- the results of which could be considered as preliminary work for consideration in future Project specific Marketing Plans or Rate Designs. BANC also appreciates the fact that the JOT did not pursue recommendations on activities such as energy efficiency, demand response, and electric vehicles that are better managed by retail Load Serving Entities in conformance with state and local policies.

BANC is a North American Electric Reliability Corporation (NERC)-registered and certified Balancing Authority (BA). BANC is a joint powers authority under California law that was formed to, among other things, perform BA obligations within its electrical footprint. As such, BANC is responsible for balancing resources and loads within its Balancing Authority Area and compliance with NERC Reliability Standards applicable to Balancing Authority functions. These services are performed for its constituent members, which include the Cities of Redding and Roseville, California, the Modesto Irrigation District, and the Sacramento Municipal Utility District. Each BANC member receives power from Western-Sierra Nevada Region (SNR) under existing contracts developed pursuant to a formal Western marketing plan and takes transmission service from SNR. In addition to its load serving entity members, BANC's BA Area includes the federal hydroelectric generation facilities of the Central Valley Project (CVP), operated by the United States Department of the Interior, Bureau of Reclamation, and the transmission facilities of the SNR. As such, the initiatives of the Department Of Energy with respect to reforms of Western are critical to BANC and its member agencies. Important to note, however, is that each of the Western regions, and specific to BANC, SNR, have their own unique sets of operational and statutory elements that must be maintained and considered. This includes SNR's unique status as a sub-BA operating in conjunction with and within the BANC BA. Thus, *one-size fits all* approaches are not suited to Western generally and SNR particularly.

BANC has refrained from comment on issues that are not of direct relevance to its BA operations, or are best addressed by SNR customers specifically.

BANC's primary contact for the purpose of these comments is:

James C. Feider
General Manager
6201 S Street, M.S. B408
Sacramento, CA 95817
Phone: (530) 410-5695
Email: jimcfeider@gmail.com

II. INCREASING OPERATIONAL EFFECIENCIES

Determining regulation reserve capability requirements

BANC supports the notion of periodically reassessing the level of reserve capacity needed for regulation. We would point out that SNR just recently revised their regulation reserve requirements, but it was done in recognition of the unique BA operating arrangements, operating characteristics of the CVP hydroelectric system and load characteristics of those LSEs served within the SNR sub-BA footprint. Thus, the operating characteristics of the region shaped the regulation level assessment. BANC is concerned that forcing a "consistent methodology"[1] Western-wide may not fully accommodate the needs of individual regions, including the SNR. We would also point out that the Reliability Based Control (RBC) is still in a trial mode, and it would be premature to determine regulation reserve levels using RBC as a baseline for such an analysis. Lastly, it must be recognized that any surplus capacity identified in this analysis must be first marketed to Preference Customers consistent with the existing SNR Marketing Plan and statutory requirements, before it can be used for other purposes.

Consolidating Western's four OASIS sites into a single site

Given that SNR's transmission is not connected to the rest of the Western system, but is instead connected to BANC members and the Pacific Northwest, the benefits from including SNR on a single site with the other Western Regions seem limited. SNR should be afforded the flexibility to partner with the Transmission Agency of Northern California, the Sacramento Municipal Utility District, or others for OASIS postings.

Revising Western's Large Generator Interconnection Procedures

BANC does not oppose examination of possible improvements to the Western generator interconnection process. However, to date, the SNR has not seen a significant influx of applications to interconnect to its transmission system from renewable or other resources. Nevertheless, BANC recognizes that this is an industry-wide issue, and that transmission owners have struggled to balance prudent study requirements necessary to ensure grid reliability, study timing, and costs. We would note that to date no one, to our knowledge, has found a panacea that resolves the concerns expressed by certain renewable developers

[1] Draft Recommendations at 8.

that the interconnection process is too expensive, lengthy, and uncertain. Issues such as cluster studies, deposit requirements, default by developers in the interconnection queue necessitating restudy, and other issues, continue to frustrate both developers and transmission owners alike.

BANC would be concerned if revisions to interconnection procedures led to expectations that transmission cost responsibility for upgrades necessitated by interconnecting generators were shifted to transmission customers. In addition to concerns that this runs counter to principles of "beneficiary pays," entities that have implemented that policy change have reversed course because of resulting perverse investment incentives. [2]

> **Study transmission rates & ancillary services rates and determine feasibility of consolidating rates within a Region, across one or more Regions, or Western-wide.**

Again, given the several hundred miles of separation of the SNR transmission from the rest of Western, it makes no sense for SNR's transmission rates to be consolidated with any other part of Western.

III. TRANSMISSION PRODUCTS AND SERVICES OPPORTUNITIES

> **Initiate a collaborative process with Western regional offices, customers, tribes, and stakeholders to identify the best rate-setting methodologies..[and] explore the potential to harmonize transmission and ancillary service rate setting methodologies across Western.**

BANC appreciates a collaborative approach process that would include Western customers, to assess possible rate methodology changes. In addition to any collaborative process, BANC notes that any proposed rate methodology changes would have to be on the front end of a specific rate process to be considered in the normal rule making before changes could be implemented.

> **Perform a Western-wide infrastructure investment study (IIS). The IIS would determine the state of Western's infrastructure and the commercial value of transmission paths…and to maximize return on investment, prioritize grid capital investments…in Western's 10-year transmission plan…**

BANC is concerned that, taken in isolation, some of the wording in this recommendation could be interpreted to shift Western focus towards "maximizing the return on investment," rather than a long-term focus on cost-based rates. Upon further dialog with the JOT leaders, we understand that the intent is to develop a more business-like approach for assessing the need for infrastructure improvements, to better evaluate and prioritize those improvements among the Regions, and to better optimize the funding mechanisms available for capital improvements. We support a recommendation

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[2] *See, e.g.,* Order Conditionally Accepting Tariff Revisions, *California Independent System Operator Corp.*, 140 FERC P 61,070 (July 24, 2012), FERC Docket No. ER12-1855-000.

consistent with these goals. However, we remain cautious that terms such as "the relative commercial value"[3] of the system may be used as the basis for the study. This is problematic. Market or "commercial" value of transmission facilities fluctuates due to market conditions. Transmission rates, even those regulated by the Federal Energy Regulatory Commission (FERC), are cost-based. FERC ratemaking is based on the embedded costs of the transmission system. Indeed, FERC precedent rejects principles that include "acquisition adjustments" when transfer of facilities occurs from one transmission provider to another. Cost-basis is the appropriate methodology for determining revenue requirements for transmission usage, whether they be for Western or FERC-regulated public utility transmission providers.

Conduct a study across Western's DSW, CRSP, and RMR service areas to identify combined transmission system (CTS) opportunities; while encouraging continued CTS efforts in Western's SNR and UGP service areas.

BANC has no comment on this recommendation other than to point out that there is no CTS effort *per se* ongoing in SNR. We do, however, encourage Western to maximize its flexibility for joint ownership transmission projects with Western customers for mutual benefits.

Conduct a study to explore potential options for moving to a flow-based environment in Western's footprint in the Western Interconnection and away from a contract-path environment.

BANC considers this recommendation as simply not ready for prime time. Indeed, the JOT appropriately recognizes that "it is desirable for all or most members in a regional footprint to implement a flow-based environment **together.**"[4] Neither BANC nor its Members would support Western moving forward with such a study at this time.

Western should not waste any time or resources to initiate a study at least for the next two years until the impacts of the numerous initiatives already in process are implemented and evaluated. These initiatives include: (1) RBC; (2) Ace Diversity Interchange; (3) Dynamic Scheduling System; (4) Intra-hour Transaction Accelerator Platform; and (5) 15-minute scheduling and the other efforts to comply with FERC Order No. 764. Indeed, the draft recommendations rightly acknowledge that these initiatives "could be used by Western to efficiently and effectively operate and optimize transmission services."[5] We agree with the Draft Recommendations that these initiatives may in fact fully resolve matters of BA flexibility by providing the necessary tools to "fully meet load demands, generation changes, and disturbances and enable integration and aggregation of variable energy products that could provide cost effective alternatives to customers, tribes, and stakeholders," and moreover do so "in a systematic manner minimizing the impacts on reliability."[6] Even if this were later determined to not be the case, Western should also

[3] Draft Recommendations at 16.
[4] *Id.* at 19 (emphasis added).
[5] *Id.* at 21.
[6] *Id.*

do extensive outreach to its customers to determine if there is a critical mass to support the initiation of a study effort on flow-based operations.

Finally, BANC does not agree that "[e]merging market mechanisms and the implementation of intra-hour scheduling requirements in the Western Interconnection *would drive* the use of locational marginal pricing algorithms."[7] In the West, only California uses locational marginal pricing (LMP) and proposals to implement LMP in other major areas of the West are preliminary at best.

> **Study the feasibility of transitioning the Electric Power Training Center (EPTC) to the National Renewable Energy Laboratory's (NREL) Energy Systems Integration Facility (ESIF) in Golden, Colorado.**

If the primary goal of the EPTC is to provide training to power system operations type personnel, then it does not seem like NREL is a good fit for the EPTC. Western should not retain backstop-funding responsibility if the ETPC is transferred to NREL.

IV. VARIABLE ENERGY INTEGRATION

> **Pursuant to FERC Order No 764, Western should…coordinate implementation of intra-hour scheduling consistent with neighboring utilities, including the implementation of 15-minute scheduling.**

BANC supports this recommendation and we are pleased to see that JOT recognizes the need to coordinate any shift to 15 minute scheduling with neighboring utilities.

> **Western . . . should evaluate the benefits and costs of ADI, RBC, and DSS, and if appropriate, proceed with implementation.**

This recommendation should only be pursued in collaboration with neighboring utilities consistent with the pace of either WECC-wide efforts or with any sub-regional efforts within the Western Interconnection. Western must also take into account the reliability and unscheduled power flow implications of these initiatives.

> **Undertake a study to evaluate the benefits and costs to Western and its customers, tribes, and stakeholders in participating in either regional or sub-regional initiatives investigating energy imbalance markets…**

BANC understands that the intent of this recommendation is for Western to continue participation in ongoing study efforts that include the potential for an EIM, such as the effort under way by the Northwest Power Pool, and not to launch an independent study effort. BANC agrees with the JOT Recommendation list of concerns or business objectives that must be addressed prior to participation in an EIM. We request that protecting Preference Customer rights be added to that list. We also appreciate the acknowledgement that "it may not be practical to implement an energy imbalance

[7] *Id.* at 19 (emphasis added).

initiative prior to a detailed evaluation of RBC, ADI, DSS and implementation of intra-hour scheduling initiatives."[8] As noted above in BANC's comments related to exploring potential options for Western to move to a flow-based environment, we agree that it might not be practical. Certainly it is premature. Moreover, BANC would point out that the WECC-wide EIM studies performed to date by NREL have serious modeling problems and the results are far from adequate to make a business quality decision on EIM.

> **Establish a position within Western's Renewable Resource Program office to be a Renewable Energy Liaison for facilitating renewable energy interconnection to Western's transmission system for Native American tribes and other customers and stakeholders. Undertake proactive measures to facilitate and encourage the interconnection and integration of renewable energy projects into the Federal transmission system.**

BANC notes that the list of activities under this recommendation seems quite extensive for one position to handle. BANC does not support what could be the start of a centralized planning function at Western, and we are concerned about mission creep based upon the way this recommendation is characterized. We believe that renewable generation developers should work with the individual Regional Offices within Western. The sub-paragraph to "[f]acilitate the evaluation of the benefits of thermal integration with Federal hydropower…." should be removed from this recommendation as it is a power marketing function that does not belong in the Renewable Resource Program and would have to be considered in future power marketing plan rule making processes. This recommendation would be much more acceptable if it were limited to facilitation of potential renewable energy development with the Native American tribes.

[8] *Id.* at 25. *See also, id.* at 21 (stating that: "energy imbalance market initiatives would continue to be studied, but their potential implementation would *not be undertaken before the benefits of the other initiatives*, such as ADI, RBC, DSS and intra-hour scheduling *have been fully evaluated*") (emphasis added).