

November 30, 2012

Bonneville Power Administration
Transmission Services
Via e-mail to techforum@bpa.gov

Re: Comments of Puget Sound Energy, Inc. on Bonneville Power Administration's Short-term Preemption and Competition Implementation Proposal

In an email dated November 16, 2012, from Tech Forum, Bonneville Power Administration ("BPA") described its Short-term Preemption and Competition Implementation Proposal (the "PCM Implementation Proposal") as follows:

The basic premise of the proposal is to implement full preemption and competition functionality using OATi preemption & competition software (Base PCM) for Daily, Weekly, and Monthly PTP and NT service.

In the same email, BPA requested formal comments on its proposed model for implementing automated Short-term Preemption and Competition ("PCM") by April 2013.

Puget Sound Energy, Inc. ("PSE") thanks BPA for the opportunity to comment and to work cooperatively with BPA on the PCM Implementation Proposal. PSE commends BPA for its willingness to involve the region in discussions over the past six months with respect to the PCM Implementation Proposal.

It has been PSE's impression that the discussions within the region over the past six months appropriately settled on a theme that software would not drive policy within the region. Therefore, PSE has been of the impression that BPA would not move forward with implementing the PCM Implementation Proposal until all issues had been resolved with respect to both the policy and the technology. Now, BPA proposes to implement full preemption and competition functionality using the OATi Base PCM for Daily, Weekly, and Monthly PTP and NT service by April 2013. Implementation of the OATi Base PCM in April 2013 could potentially introduce unintended and unnecessary risk into a relatively well-functioning transmission system and resale market.

A. Issues with the OATi Base PCM Identified by BPA

BPA has identified numerous unresolved issues with the OATi Base PCM. Attached as Exhibit A to these Comments is a list of issues with the OATi Base PCM identified by BPA. A few of the more troubling issues identified by BPA are summarized below.

BPA has identified a problem with the current version of OATi Base PCM that prohibits any capacity resold from a TSR to be considered as available for Competition. The current *pro forma* Open Access Transmission Tariff ("OATT"), however, states that resale capacity remains

with the Parent for the purposes of Competition. Therefore, BPA is proposing to implement PCM with software that BPA knows is not compliance with the pro forma OATT. This issue has the potential to disrupt competition by making less capacity available to challengers and could disrupt the market in the region.

Another OATi Base PCM issue identified by BPA involves TSRs (both original and counteroffers) that are pending confirmation. BPA reports that the OATi Base PCM will subject such TSRs to competition and preemption from TSRs with a later queue time. This effectively renders queue time meaningless with respect to TSRs pending confirmation and allows a type of queue jumping. Such an outcome is contrary to the important policy achieved by the queue in promoting open access to transmission.

BPA also reports that the OATi Base PCM will allow a Conditional Parent to remain a defender while a Redirect from that Parent is Pending. Under such a scenario, the Parent could lose a competition, but the Redirect could be Confirmed. This could cause the Provider to oversell transmission on the system. Moreover, BPA intends to implement PCM on a flowgate by flowgate basis as opposed to a direct/similar paths basis. This could lead to issues of larger TSRs competing against and losing to smaller TSRs, particularly when BPA has not indicated what *de minimis* levels would be used on flowgates to institute PCM.

The current version of the OATi Base PCM will recall the AREF number of any TSR that has been flagged as a Defender in competition. This will automatically make all submitted E-Tags with that AREF potential UIC charges. If the transmission provider does not issue curtailments to E-tags using these AREFs, then the customer must manually Withdraw or Terminate those E-tags. If the AREF holder does not have access to make such changes because it is not the E-tag author, the AREF holder could still be subject to potential UIC charges for something over which it has no control.

BPA has not adequately indicated that it will resolve all issues identified with the OATi Base PCM prior to its proposed implementation in April 2013. PSE cannot support the implementation of the OATi Base PCM until all issues associated with the software--including issues currently known to BPA and issues identified during testing--are addressed. The risk to the market of premature implementation of the software is simply too great, and BPA has provided no rational basis that would require implementation by April 2013. Accordingly, PSE respectfully suggests that BPA defer implementation of the OATi Base PCM until such time that NAESB has updated the NAESB Standards.

B. Unresolved Policy Issues Associated with the PCM Implementation Proposal

The PCM Implementation Proposal offers no guarantee that transmission Redirected from a Resale will not be flagged as a Defender and potentially lose its capacity, thereby leaving the Buyer owing the Seller but receiving no transmission. Furthermore, even if the Seller were to refund the amount paid by the Buyer, the Transmission Provider would bill the Seller for the "resold" transmission capacity, but the Seller would be unable to use that capacity resulting in

payment for a service it is unable to use. Implementation of the PCM Implementation Proposal in such a manner in April 2013 could very well upset the robust transmission resale market within the region.

BPA has stated that a transmission Long Term Firm (“LTF”) rights holder should not have to pay for capacity lost from a Redirect that loses in Competition, although BPA has proposed no method to enforce this policy. BPA has also stated that Redirects from LTF rights that Defend using BPA inventory would only have to pay for the additional capacity needed to successfully Defend. However, BPA currently cannot distinguish between the two different Transmission segments (Redirect and Inventory).

BPA has admitted that there are additional billing issues that require resolution but has failed to propose resolutions to such issues. Implementation of the PCM Implementation Proposal in April 2013 prior to the resolution of these billing issues has the real potential of subjecting customers to inaccurate bills that may double or triple charge for the very same issues. BPA must resolve these billing issues prior to the implementation of the PCM Implementation Proposals.

Notwithstanding the issues identified above, PSE approves of several of the issues resolved by BPA to date. For example, PSE approves of BPA’s proposed parameters in the OATi Base PCM that would allow for the commencement of competitions only on a WECC Business Day during the hours between midnight and noon. PSE also supports BPA’s decision to not implement the PCM Implementation Protocol in the hourly market. The hourly market is the most used and is potentially the most complicated market in which to implement competition, and BPA’s decision to not implement any sort of hourly competition in the near term is the right decision.

C. Conclusion

NAESB is currently working on all of the above-listed policy and technical issues. BPA should not rush into the PCM Implementation Protocol in April 2013. Instead, PSE recommends that BPA continue to work with the region, at NAESB, and with OATi to develop solutions to the issues identified above and any other issues identified prior to the implementation of the PCM Implementation Protocol.

The potential for disruption of the market within the region due to a premature implementation of the PCM Implementation Protocol outweighs any benefit potentially achieved by implementing competition by April 2013. The policy and technical issues associated with such a complicated market change require resolutions that are intentional and deliberate, and BPA should allow itself, the region, and OATi with the time to ensure that all of the details are right prior to implementation.

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PSE appreciates BPA's review of these comments and consideration of the recommendations contained herein. By return e-mail, please confirm BPA's receipt of these comments.

Sincerely,

PUGET SOUND ENERGY, INC.

By:

Joseph P.H. 11-30-12

Its:

Manager, Portfolio Hedging

**Exhibit A to the
Comments of Puget Sound Energy, Inc. on
Bonneville Power Administration's
Short-term Preemption and Competition
Implementation Proposal**

Preemption & Competition Issues



Preemption and Competition Issues

Issue Description	Intended Impacts (expected due to nature of P&C)
If a Defender is preempted or chooses not to exercise ROFR, they lose their confirmed capacity.	This is the intended purpose of preemption and competition. Customer must unwind their tags or be subject to a UIC.
If a Defender chooses to exercise a ROFR, they are left with a new Aref on a matching request.	This is how preemption/competition is designed to work. Customer must change their tags to the new Aref or be subject to a UIC. NAESB is considering a better way.
Redirects do not inherit the conditionality of the parent, but are subject to the preemption and competition process like a new request.	Choosing to Redirect outside the unconditional window will put the redirected portion of a parent's unconditional capacity at risk. All other issues apply to Redirects also.
Defender capacity is recalled at the start of the competition. If Challenger is not awarded full capacity, he can decline the counter-offer.	If Defender chooses not to exercise ROFR, he might lose his capacity even though the Challenger walks away from the competition.
A pending ROFR can still be preempted by a higher tier or same tier longer duration request.	Exercising a ROFR is no guarantee it will be granted.
A confirmed TSR can be a Defender even if it does not improve the offer to the Challenger across all constrained flowgates.	More TSR's will be valid Defenders. It could also result in a small mw longer duration request (5m) to take capacity from a shorter duration large mw reservation (100mw). NAESB is considering a better way.
A secondary non-Firm Redirect cannot be relinquished back to a conditional parent reservation that has been displaced.	For 1-NS, the capacity exists on both parent and child. If the parent capacity is lost, you lose the right to relinquish.

Preemption and Competition Issues (Continued)

Issue Description	Intended Impacts (expected due to nature of P&C)
Redirects are currently not billed. This will need to change with preemption and competition.	Need a solution to avoid double-billing for Redirected matching requests and avoid billing for Redirected capacity that is lost via preemption/competition.
A competed Redirect that exercises ROFR uses AFC inventory rather than parent for matching.	Should be no impact as long as billing issues are worked out.
Planned 5-months of testing may not be sufficient.	BPAT will make every effort to meet April timeline, but will not sacrifice quality for schedule.
Issue Description	Unintended Impacts (problems with OATI PCM version)
For a conditional parent reservation with a Resale, PCM only subjects the parent's remaining capacity to competition.	This is not compliant with existing regulations. Resold capacity is expected to reside with the parent for the purpose of preemption and competition.
PCM offers an "auto-match" feature to save time for users in generating matching requests. Compliance requires a customer to be allowed to exceed the Challenger's request if desired. PCM cannot currently do both.	BPAT and customers will need to agree on a trade-off between customer productivity and compliance.
A conditional parent reservation is still a valid Defender while a Redirect request is still Pending.	Can potentially result in an oversold situation if the parent reservation loses capacity via competition and the Redirect request is later Confirmed.
The version of PCM that BPAT will implement is unique in the industry due to use of both MOD29 and MOD30.	This raises the possibility of unforeseen and unintended impacts not discussed above. Such issues are expected to be found during testing.