Comments on Self-Supply of Balancing Services Business Practice, Version 1

Company	Date Submitted
Powerex Corp.	March 19, 2014

Powerex appreciates the opportunity to review and comment on the new Business Practice titled "Self-Supply of Balancing Services (Version 1)" (Self-Supply BP) proposed by BPA.

Powerex commends BPA for the significant time and effort it has expended to integrate a growing amount of Variable Energy Resources (VERs) in the region, and for its continuing search for regional solutions. BPA's proposed Self-Supply BP represents a further initiative that has the potential to increase the efficiency and effectiveness of VER integration.

POWEREX COMMENTS

Powerex supports BPA's efforts to integrate VERs, and believes that BPA's efforts towards allowing self-supply and third-party supply options for ancillary services are moving the region overall to a better position. Powerex hopes that BPA through measures such as the Self-Supply BP will continue to encourage customers to self-supply at the level they are capable of reliably maintaining. Powerex believes several modifications in the Self-Supply BP should be considered to effectively advance this objective.

For example, Powerex is concerned that certain restrictions within the Self-Supply BP may have the unintentional effect of erecting barriers to more robust wind integration in the region. Modifying the proposal to eliminate these restrictions could increase effective self-supply by VERs, reduce the burden of wind integration on BPA, and make the program more consistent with FERC's self-supply policies.

A. Suggested Modifications to the Self-Supply BP

The Self-Supply BP requires customers to self-supply either all or none of the Balancing Services (albeit with the option of obtaining Generation Imbalance Reserves through the Customer Supplied Generation Imbalance (CSGI) program). Powerex suggests that this all-or-nothing approach is too restrictive. If this restriction is lifted, and VERs are allowed to self-supply the unbundled components of Balancing Services, then the program would be more useful to VERs, and the program would be in line with FERC comparability requirements. Powerex therefore suggests that BPA expand the Self-Supply BP to allow for unbundled Balancing Services.

BPA's Balancing Services can be separated into essentially six different products: INC-only and DEC-only products for each of the following services: regulation, load

following, and generation imbalance services. BPA has, in effect, acknowledged that these are separate products. For example, in the CSGI program, participants are allowed to acquire just generation imbalance service. And most notably, BPA itself is procuring from third-parties INC-only imbalance capacity through its Request for Offer process. FERC too has recognized that INC-only and DEC-only products are distinguishable and separate products. *See California Independent System Operator Corp.*, 140 FERC ¶ 61,206 at P 7 (2012); *California Independent System Operator Corp.*, at n.3, Docket Nos. ER13-995-000 and ER13-1055-000 (Apr. 26, 2013) (unpublished letter order) (stating that regulation service includes both an incremental or decremental component, and the two are "distinct capacity products").

Powerex has had extensive experience in providing these types of unbundled products to other balancing authority areas and, as evidenced by the two examples above, Powerex believes that there are no operational considerations that would prevent BPA from allowing customers to self-supply INC-only and DEC-only products. In Powerex's experience, INC-only services are a viable commercial product that can be reliably traded and reliably delivered, and Powerex believes that it can offer high quality, INC-only services year-round at attractive prices.

Powerex also notes that different resources are capable of providing different Balancing Services. Load curtailment, for example, is a potential INC resource, but likely cannot provide a DEC-only product. Unbundling Balancing Services into six different products would allow for broader competition to provide these services; benefit BPA's customers; and would result in the VERs' integration challenges in the region not being borne solely by the BPA federal system.

B. Consistency with FERC Precedent

Powerex believes that the unbundled approach of providing Balancing Services is consistent with FERC's current policies and existing precedent regarding self-supply offerings, and will satisfy BPA's reciprocity obligation and further BPA's overall objective to efficiently integrate VERs.

In Order No. 888, FERC divided ancillary services into two groups: one group which had to be supplied by the transmission provider, and a second group that could be self-supplied by transmission customers. FERC noted that this second group is comprised of "(i) Regulation and Frequency Response, (ii) Energy Imbalance, (iii) Operating Reserve—Spinning, and (iv) Operating Reserve—Supplemental." FERC required transmission providers to both offer this second group of ancillary services themselves and to extend a self-supply option to their transmission customers. FERC made it clear that these ancillary services were separate and distinct services that could be purchased and/or self-supplied separately, stating, "a transmission provider must offer and price the individual ancillary services separately," and "[i]t may not tie the purchase of one to the purchase of another."

FERC has recently gone further and clarified that an "all or nothing" approach to self-supply is in conflict with its precedent and policy. In Order No. 784-A regarding the

Third-Party Provision of Ancillary Services, FERC ruled that it was not permissible for transmission providers to impose charges on customers who seek to self-supply; or for transmission providers to adopt an all-or-nothing approach that requires customers to self-supply 100 percent of their reserve obligations or to procure all reserves from the transmission provider. Specifically, FERC stated that "[n]othing in Order No. 784 is intended to permit transmission providers to limit the quantity or percentage of total reserve obligations that a customer may self-supply, absent verifiable operational reasons for doing so." FERC also stated that "there is nothing in the OATT limiting the quantity or percentage of total reserve obligation that a transmission customer may self-supply."

Powerex believes that any operational or reliability concerns by BPA should be satisfied by: (1) BPA's proposed pre-qualification screening of Self-Supply Balancing Resources and their owners and operators; (2) BPA's proposed firm transmission reservation requirements; (3) BPA's proposed sanctions if a Self-Supply Customer does not meet its obligations; and (4) BPA's backstop supply arrangement with provision for direct assignment of the costs incurred. These measures should continue to provide adequate protection to BPA if it expands its Self-Supply BP to allow for unbundled election of Balancing Services self-supply options by VERs.

CONCLUSION

Powerex views the modifications it has outlined in these comments as being consistent with BPA's overall objectives and specific efforts to integrate VERs in the region. We ask that BPA consider these comments and modify the Business Practice to allow customers to self-supply any or all of the incremental and/or decremental components for regulation, following, and generation imbalance. A business practice that permits flexible options for self-supply would be a major step towards realizing BPA's goal of a region-wide solution to the challenges of wind integration, and would also serve to put BPA's proposal on-side with FERC self-supply policies.