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| **Subject:** | "PTSA Reform" and "NOS Reform" Comments by NRU and PNGC |
| **Date:** | Thursday, December 22, 2011 1:16:00 PM |

## Northwest Requirements Utilities and PNGC Power

NRU and PNGC Power submit the following comments on the Precedent Transmission Service Agreement (PTSA) and Network Open Season (NOS) Reform Initiative presented at the December 6th customer meeting. NRU represents the interests of 50 load following NT customers of BPA. PNGC Power is a generation and transmission cooperative with 14 rural electric cooperative members whose combined load is served by an NT transmission contract with BPA.

### PTSA Reform Initiative

As load serving NT customers of BPA, we will continue to pay BPA's transmission rates for the foreseeable future. BPA has a responsibility to enter into transmission contracts prudently to protect its core load serving NT customers. BPA's relationship with its core customers cannot be sustained over time if firm transmission agreements can be breached simply due to changing economic conditions. The PTSA holders signed binding legal contracts, the risks of which should not be borne by other BPA customers.
Load serving transmission customers, particularly NT customers, will bear the costs of allowing PTSA holders to abandon these agreements, and BPA should do everything it can to enforce these contracts and mitigate the expense to its core, load serving transmission customers.

At the December 6th meeting, BPA stated that its objectives for the PTSA Reform Process are to (1) give customers seeking termination the opportunity to demonstrate value to other BPA ratepayers, (2) ensure that BPA's other ratepayers are neutral or better off compared to not terminating or modifying the PTSAs, (3) consider the impacts to PTSA holders awaiting or anticipating NOS builds, and (4) provide a transparent and expedited process.

In pursuit of these goals, BPA stated it will consider proposals from customers who are interested in terminating or modifying their PTSAs and that BPA will not be conducting a process to allow PTSA terminations based on a common template. As we understand the BPA proposal, the customers who propose modification or termination must demonstrate that their proposed terms will keep BPA ratepayers

at least rate neutral for each deal to be considered. Assuming that BPA follows this approach please consider the following aspects that are important to us:

- **Need For A Common Information Base for Comparison**

While the BPA staff has rejected the application of a "common template" for the review of all proposals, we strongly encourage BPA to apply a common approach to the financial evaluation of all proposals. These include such factors as assumed inflation rates and discount rates for evaluating the impacts of those proposals over time. Furthermore, all assumptions used in the evaluation need to be explicitly stated so that all interested parties can review the basis, validity, and implications of the assumptions.

- **Full Performance of Contract as a Base Case**

The base case for any analysis needs to be full performance of the contract. That provides all parties with one common benchmark for comparative analysis. It is also a benchmark from which all parties can evaluate the financial impact of any alternative approaches that may be mutually agreeable to BPA and the PTSA holder. This base case should reflect the amount of revenue BPA expects to receive if the customer fully performs under the terms and megawatt amounts stated in their PTSA.

- **Application of Consistent Evaluation Criteria**

BPA may have non-financial criteria that go into the evaluation of a termination proposal. Such criteria need to be applied on a consistent basis.

- **Flexibility within Framework to Accommodate Other Business Models**

We recognize that the different PTSA holders may have different business models, and that it may be beneficial for BPA to incorporate an element of flexibility into the design of individual solutions. This flexibility should be applied where the result is that the NT customers

will most likely be better off than following the course of action where the flexibility is not applied. However, BPA should not deviate from using the "common information base" approach (such as common interest and inflation rates) described above.

- **Public Review of Termination Proposals**

  BPA's other customers should be given the opportunity, and sufficient time, to review and comment on any proposals to terminate or modify the PTSAs before a final decision is made by the Agency, as they will ultimately bear any cost of doing so. We are not asking to participate in bi-lateral discussions between BPA and PTSA holders, nor are we seeking access to any information that needs to remain confidential.

- **Alternatives from the Base Case of Full Contract Performance**

  We understand that on a case by case basis BPA may intend to consider PTSA termination proposals which the Agency believes will achieve the best economic value over time for NT customers, but that may be of less value than full contract performance under the base case. In those circumstances, BPA will need to assess what impact any such terminations may have on other PTSA customers, as well as current and future contract holders.

NRU and PNGC Power hope this process will mitigate any cost born by its core, load serving transmission customers, particularly the NT customers. However, it is just as important for BPA to demonstrate that it will remain committed to its contracts and expects customers to do the same.

**NOS Reform**

Our primary concern at this point is that BPA needs to develop a NOS structure that appropriately assigns cost and risk to those causing such cost and risk. We request that BPA first focus on the issue of financial risk and creditworthiness before addressing the timeline and other issues in NOS reform. The current situation with the PTSA reform (see above) highlights the need to focus on this topic before addressing others, such as the NOS timeline or duration.

BPA's core, load serving transmission customers should not bear the risk that

customers requesting transmission service will default. The risk should be assigned to those commercial customers that are requesting service. To that end, we suggest, as a start of the conversation on the NOS reform process, the following:

- BPA needs to require customers who sign PTSAs to provide *significantly* greater performance assurance than is being currently requested. The current PTSAs allow customers to receive their performance assurance (equal to one year of service) back after taking service for only six months. This does not appropriately assign risk. By failing to establish adequate performance assurance, BPA is assigning risk to its current transmission ratepayers, namely its load serving customers.

- Customers who sign new PTSAs must demonstrate an adequate level of creditworthiness. A number of the customers that signed PTSAs are limited liability corporations (LLCs), which are legally and financially separated from their parent company. As a result, the ramifications for the LLC of default or termination of their agreements with BPA may be minimal to the LLC because they are not concerned with their credit ratings and have few assets for BPA to pursue for damages. This poses great risk and cost exposure to BPA's core load serving transmission customers who will be left to foot the bill for whatever costs remain.

- As BPA proceeds through the NOS process (such as cluster studies, NEPA analysis, etc.), the PTSA holders should provide greater amounts of performance assurance at each step. As BPA exposes itself to more risk, that incremental risk should be assigned to the PTSA holder requesting the transmission service.

- BPA should require a fee to participate in NOS. For example, the PTSA signers could jointly fund the Cluster Studies. FERC's *pro forma* tariff says that system impact studies costs should be directly assigned to the individual customer. This should be the case in NOS as well. Performing studies as a cluster instead of individually may result in cost savings, but those customers participating in the study should proportionately share all of those costs.

- Non-reliability builds should not be financed with BPA's capital borrowing authority. PTSA holders should provide their own financing.

Thank you for the opportunity to comment.

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