

M-S-R¹ Summary of ACS Balancing Reserves –
Considerations for Additional Discussion

At the December 5, 2013 Ancillary and Control Area Services (“ACS”) stakeholder meeting there was a very constructive open dialogue regarding various approaches to the acquisition of balancing reserves from third parties. One of the options identified was holding less Federal Columbia River Power System (“FCRPS”) capacity as reserves, at least during certain times of the year or day, and obtaining any additional necessary reserves through short-term purchases from third parties. BPA Staff requested that M-S-R provide a written summary of the discussion of that construct. This memo responds to that request by attempting to briefly summarize the prior discussion, and frame the issues for further development. M-S-R is not making a proposal, as that would be premature at this stage.

Iberdrola Renewables, Inc. shared a glimpse of how it uses market purchases to support its self-supply of balancing reserves. It appears that Iberdrola relies on short-term purchases for some portion of its balancing reserves, with the possibility of curtailing some generation if economical reserves are not available to support its generation in some time interval(s). Iberdrola noted short-term markets may provide greater liquidity that could improve reliability. That is, more generators may be willing to provide reserves on a short-term basis, rather than being committed for longer terms, making more reserves available to support reliable operations in a greater number of hours than the current structure.

By comparison, BPA power customers serving load emphasized the need for certainty and reliable service. That is, unlike merchant generation, load serving entities cannot risk curtailment. LSEs have obligations that require sufficient reserves in all hours to ensure reliable service, and markets may not provide that certainty. In addition, LSEs want to ensure market purchase costs are allocated appropriately.

The two positions may benefit from a hybrid approach, with a mixed portfolio of balancing reserves sources that maintains a sufficient quantity of reserves for load in all hours to ensure reliability. That is, some level of reserves supplied from BPA generation on a year round basis, and additional quantities supplied from a mix of BPA and third party suppliers, with different volumes secured for different seasons and times of day. Considerations for the ACS group to explore include the threshold reserve levels necessary to ensure BPA power customer reliability, market liquidity for balancing reserves by time frame, scheduling capabilities, costs and cost allocation, the relationship between changes to procurement of balancing reserves and other reserves, and any other considerations that are of importance to the stakeholders. BPA staff also indicated the discussion may benefit from a further explanation of Iberdrola’s approach.

¹ The M-S-R Public Power Agency is a joint powers agency formed by the Modesto Irrigation District, and the Cities of Santa Clara and Redding, California. Beginning with a 2005 contract, M-S-R obtained contractual rights to the output from some of the first large scale wind resources developed in Washington State. M-S-R and its members currently have rights to 350 MW of wind generation in Washington and Oregon, which its members use to serve their load.