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January 11, 2013

Bonneville Power Administration
Tech Forum
Electronic Comment Submittal

RE: NOS REFORM

As a developer of wind generation projects in the Pacific Northwest and as a participant in Bonneville's as yet unconcluded 2010 NOS process, Gaelectric has substantial interest in NOS Reform. The reform process has dragged on almost interminably, but suddenly there is apparent urgency on Bonneville's part to bring the reform process to a conclusion before the current administrator retires. So in late November, 2012, Bonneville's Tech Forum provided notice of several meetings to be held in Portland on December 5-6, 2012, in the Rates Hearing Room at Bonneville headquarters, including a meeting to discuss NOS Reform. On the afternoon of December 4th, however, Bonneville postponed the meeting on NOS reform without consideration for attendees from outside of Portland. I learned of the change after arriving in Portland from Montana late in the afternoon on December 4th. The new date, December 14th, conflicted with other meetings on my calendar, thus these comments are based on only the slides posted on the Bonneville website without benefit of any explanation that may have taken place in the meeting on December 14th.

Bonneville created its current NOS process to accomplish a couple of ends: first, to clear its irreparably congested transmission service request queue, and second, to look at all such requests in a holistic manner with respect to its entire transmission system. The current process was effectively implemented during 2008 and 2009. Subsequent to the conclusion of those processes, however, world economic conditions led some PTSA contractors to defer service and even to contemplate termination of their PTSAs. This in turn caused alarm within Bonneville, leading it to question both its existing PTSAs as well as its entire NOS process, which brings us to this point.

The need (or not) for reform

By almost any measure, the NOS processes as conducted in 2008 and 2009 were successful both in building transmission needed within the region and in proving a process clearly superior to the pro forma tariff transmission service request process. Economic conditions ebb and flow as surely as the coordinated Pacific Northwest reservoirs empty and fill. It is the economy that caused PTSA contractors to defer service, and because the economy remained stagnant longer than recent similar dips,

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for some even to contemplate termination of their PTSAs. For that reason, Gaelectric is of the opinion that BPA's urgent push for both PTSA and NOS reform was an alarmist reaction to cyclical economic conditions. It was this same "sky is falling" reactivity that led power companies in the Pacific Northwest to enter into high priced, long term, power purchase contracts in 2001 when wholesale spot market prices spiked and were never going to come down again. Those same parties have spent the last ten years trying to get out of those deals.

Virtually all indicators demonstrate that the economy is on the rebound. It is likely that by the time a reformed NOS process is through its initial cycle, the reasons for engaging in reform will have passed and all this alarm will have been for naught. For the reason cited above, Gaelectric objects to reform of the existing NOS process except as noted in the next 4 sections.

Modification: Timeline: Gaelectric acknowledges that 12 months is too short a time for a transmission provider to complete all of the TSR study work required to make a rate determination, but our experience with other transmission providers indicates that 18 months is certainly achievable. For that reason, Gaelectric would accept a change from the current 12 month process to an 18 month process.

Modification: The right to defer service: It appears that most of the concerns expressed by BPA about the current process were associated with customers exercising their right to defer service for their projects as permitted in the pro forma tariff. Gaelectric acknowledges that the current pro forma deferral rights are less than optimal. The price for a customer to defer service is frequently less than the transmission provider's carrying costs associated with investments required to create requested capacity. On the flip side, however, there is little cost to the transmission provider if a customer defers service that was granted from latent capacity. In that circumstance, the pro forma price of deferral is too great.

Those facts are widely acknowledged across the industry, and aren't limited to the BPA NOS process. Rather than requiring a wholesale reform of the TSR processes, however, the problem simply requires that a balanced alternative be proposed to FERC by a collection of affected stakeholders. While FERC demands that alternatives to pro forma terms and conditions be as good as or better than pro forma, they are willing to consider alternatives. One needs to look no further than NorthWestern Energy's proposal (and FERC's acceptance) to provide network service at a stated rate rather than pursuant to the Load Ratio Share methodology as an example of an alternative that FERC accepted. While BPA is not subject to FERC jurisdiction, comparability is still a concern (or at least should be), which is why Gaelectric suggests this means of resolving the deferral issue. Gaelectric would work in good faith to support a consensus proposal to reform the deferral process for submittal to FERC as a modification to the current NOS process.

Modification: Security for capital expenditures: The obligation to build transmission facilities in response to requests for transmission, including providing the capital to do so, resides with the transmission provider. It is the obligation of the customer to pay the costs of that transmission in rates – either embedded or incremental. The presentation slides would lead one to conclude that BPA is expecting the customer to provide the capital, and that is clearly inappropriate. To insure that the transmission provider's capital investment is protected, under the pro forma tariff, the transmission provider has the right to require the customer to provide security equal to the cost of the investment. The security accrues as the facilities are designed (including environmental permitting) and constructed, and it declines dollar for dollar for revenue received by the transmission provider from the customer. Should the customer default on the transmission service agreement before the transmission provider has received revenue equivalent to its investment in the facilities, then the transmission provider has the right call on the balance of the security. The transmission provider's capital is protected beginning with its first expenditure, but the obligation to provide the capital remains with the transmission provider as FERC intended. Gaelectric would support such a means of securing transmission investment.

Modification: Performance security requirement for BPA: Bonneville must post cash "performance security" equivalent to the Performance Assurance posted by the customer. Just as BPA can call on the customer's Performance Assurance for failure to follow the process to a conclusion according to the tariff and Bonneville's self-established rules for implementation, the customer must be protected from Bonneville's unilateral changes to its self-established rules midway through the process. Such a requirement would likely serve to prevent the kind of discrimination and calamity that occurred (and continues) in the as yet incomplete 2010 NOS process.

Other proposed alternatives for reform are unacceptable to Gaelectric

In general, Alternatives 3-5 were developed to resolve all of Bonneville's issues related to the current NOS process. Missing from those Alternatives, however, is any effort to create something that is clearly superior to the FERC pro forma process for customers. That element was a distinct advantage of the current NOS process, but it is completely missing from Alternatives 3-5. The following are some specific examples of things that benefit Bonneville at the expense of customers. It is not an all-inclusive list.

Bonneville's impact on the market: Despite numerous comments in prior sessions on this matter, BPA continues to fail to recognize its impact on the marketplace. This is one of the most fundamental reasons for FERC's order 888 and the advent of the pro forma tariff almost 20 years ago. Bonneville's failure to understand this most fundamental principle is obvious by its insistence that whether a customer has a PPA or not is a measure of their viability. In the current marketplace as it has existed for at least the last 30 years, the single most important parameter to a potential purchaser of long term supply products is whether the products can be delivered to the purchaser on firm

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transmission. **Bonneville's actions determine the answer to that question.** For BPA to use the existence, or not, of a PPA to determine a customer's viability is either blatant discrimination or a willful attempt to manipulate the market. Either is unacceptable. Bonneville's Transmission Business Line has no place in the market except for providing non-discriminatory, open-access, transmission services.

Ultimate sink requirement: Bonneville's proposed requirement that customers must designate the location where their product ultimately will sink years in advance of service beginning is unacceptable for much the same reasons that BPA's Transmission Business Line should stay out of the marketplace. Bonneville's own Power Business Line routinely makes sales to various locations as the market demands, but they are not required to designate sink points years in advance of that market demand. To require different of other customers is discriminatory.

Credit standards: Bonneville has established credit standards that it applies both in its current NOS process as well as in other aspects of providing transmission service. These current standards provide all the credit protection that Bonneville needs. Indeed, to the best of my knowledge, no one has ever defaulted on their Performance Assurance obligations, which are secured pursuant to BPA's current credit standards. These same standards can provide Bonneville the protection in needs in terms of security for construction of capital facilities or any other purposes for which BPA believes it needs credit protection. A party that puts cash on deposit to secure their obligations must be considered every bit as viable as a multi-billion dollar enterprise with a AAA credit rating that proffers a corporate guarantee, or a network customer that signs a Designated Network Resource Attestation. The weighted rankings proposed by BPA clearly discriminate against small enterprises. Gaelectric's cash or Letter of Credit is every bit as good as anyone's corporate guarantee, maybe even better. Once on deposit in escrow, BPA can call on Gaelectric's security pursuant to the terms of the escrow agreement, but even a multi-billion dollar company can dispute a call on its corporate guarantee.

Study Costs: Under the pro forma tariff, customers are required to pay study costs; however, customers are only required to put up one month's deposit. In the original NOS development process, Bonneville argued that requiring customers to pay deposits equal to 13 months of service (pro forma one-month deposit plus an additional 12 months of Performance Assurance) insured that only legitimate customers would participate in the process, and that it was reasonable for Bonneville to foot the study costs for legitimate customers. Somehow that history is lost in the current alternatives.

In its Alternatives 3-5 BPA charges customers for all planning study costs, and even proposes to charge for the NEPA study work, which is clearly a capital permitting cost, all while continuing to collect the same substantial deposits it always has. This clearly is no better than pro forma for customers.

Conclusion

There is no need for wholesale reform of the NOS process, but rather certain procedural changes, described above, that can be made within the current framework while still maintaining a clear benefit to the pro forma transmission service request process. Alternatives 3-5 do not provide a better alternative from pro forma processes for customers even if they do provide all the protection Bonneville seeks. Bonneville has an obligation to conduct a process that is open, nondiscriminatory and consistent with its own rules going into the process. The current NOS process as implemented in 2008 and 2009, while less than perfect, accomplishes most of what is needed by customers. With the modifications proposed herein, that process can continue to be successful for both Bonneville and its wholesale transmission customers. Bonneville's ad hoc reformation of the NOS process in the 2010 effort has been an unqualified travesty, and customers need to be protected from unilateral process changes imposed by Bonneville that result in discrimination, costly uncertainty, and gridlock (pun intended).

Respectfully submitted;

Ted Williams