

Powerex Raises Alarm Over PacifiCorp's Transmission Proposal

November 14, 2024

Summary

PacifiCorp is expected to file changes to its Open Access Transmission Tariff (OATT) at FERC in the next few weeks to facilitate its participation in the California ISO's Extended Day Ahead Market (EDAM). Unfortunately, PacifiCorp has chosen to use its entry into EDAM to fundamentally re-define what it provides to its transmission customers in exchange for the transmission revenue it collects.

The primary result is that **customers will no longer be able to rely on their transmission rights to schedule their supply to their load**, since they will now face volatile, potentially very large, and unmanageable EDAM congestion charges. These new EDAM charges effectively strip PacifiCorp's customers of the economic value of their transmission rights. And while PacifiCorp provides one alternative for a customer to receive a significant portion of that economic value, it inappropriately requires the customer to effectively sell its rights to the California ISO for use in the organized market preferred by PacifiCorp; that is, EDAM.¹

PacifiCorp's proposal, if approved, will also have two broader harmful consequences:

1. **PacifiCorp will jeopardize over \$135 million per year in revenues from long-term firm transmission service**, with this lost revenue needing to be recovered from PacifiCorp's retail customers through higher rates. Powerex's recent notice to PacifiCorp terminating the vast majority of Powerex's long-term PacifiCorp transmission rights, representing \$42 million per year of transmission revenue, illustrates this risk. The loss of existing third-party transmission revenue comes at a time when expanded investment is needed to help fund transmission upgrades and expansion in the West.
2. **Unmanageable exposure to EDAM congestion charges will be a barrier to cost-effective resource procurement and to participation in other regional programs.** PacifiCorp transmission service will become unworkable for delivering clean and renewable supply to load to meet environmental targets; for delivering baseload and dispatchable supply to load to ensure reliable service; and to participating in regional programs such as WRAP or competing organized markets such as Markets+.

PacifiCorp's tariff changes, if approved, would provide a template for similar changes to be adopted by other transmission providers that join EDAM, further extending the harmful consequences of those changes across the West. Numerous entities have expressed individual and/or joint concerns about PacifiCorp's proposal in PacifiCorp's abbreviated stakeholder process, including Arizona Public Service, Bonneville Power Administration, Chelan County PUD, Grant County PUD, Powerex, Public Power Council, Public Service Company of Colorado, Salt River Project, Snohomish PUD, Tacoma Power, Tri-State Generation and Transmission Association, Utah Associated Municipal Power Systems, and Western Power Trading Forum. Powerex is sharing its perspective on PacifiCorp's proposed tariff changes in

¹ The transmission rights are not formally sold through a transfer of title. Rather, an effective sale will occur as the transmission customer will give up its ability to schedule on its rights, the California ISO will obtain the ability to utilize those rights in EDAM, and the California ISO will provide a financial payment to the transmission customer.

order to encourage all entities in the West to become fully aware of the proposal and its far-reaching implications.

PacifiCorp's Proposal Will Make it Unworkable to Use Firm Transmission Rights, Forcing Customers to Effectively Sell their Rights to the California ISO

A significant portion of the transmission capacity on key delivery paths on the PacifiCorp transmission system has already been sold by PacifiCorp to its transmission customers under long-term transmission service agreements. Customers that invest in PacifiCorp firm transmission service currently receive **both**:

1. **The economic value of the delivery path** they invest in, by capturing locational market price differences through physical deliveries; and
2. **Priority to flow on the delivery path** they invest in when delivering their supply to load.

Under PacifiCorp's proposal, transmission customers will no longer receive both of these benefits. This is because a transmission customer's scheduled deliveries will now be subject to new, highly variable, and potentially very high congestion charges calculated in EDAM, and these congestion charges (collected by the California ISO and delivered to PacifiCorp) will not be returned back to the transmission customer. Instead, they will be spread by PacifiCorp across all of its load and exports. As a result, transmission customers that wish to use their rights to schedule physical deliveries outside of organized markets will not receive the economic value of the path they invested in, but will instead face volatile and potentially large EDAM congestion charges that they cannot manage or hedge. Similarly, customers that wish to use their firm transmission rights in Markets+ will also not receive the economic value of the path they invested in, as they too will face these EDAM congestion charges (that are again allocated largely to PacifiCorp).

To receive the economic value of the delivery path they have invested in, transmission customers will be forced to accept the only option proposed by PacifiCorp that provides a significant portion of this value: by effectively selling their transmission rights to the California ISO for use in EDAM, and receiving congestion value associated with their delivery path in return. It is clear from this proposal that PacifiCorp is not opposed *in principle* to transmission customers continuing to receive the economic value associated with the delivery path they invest in, but that PacifiCorp is willing to withhold this value in order to compel transmission customers to effectively sell their rights to the California ISO for use in PacifiCorp's preferred organized market (*i.e.*, EDAM).

Importantly, there are further far-reaching negative consequences for customers that sell their transmission rights to the California ISO. First, the transmission customer gives up the ability to deliver their owned or contracted generation specifically to their load. Second, without this ability, the transmission customer will likely need to sell its generation output to the California ISO in EDAM (at its generation location); and will also likely need to purchase energy for its load from the California ISO in EDAM (at its load location). Third, the transmission customer's load will no longer have priority access to the transmission customer's own supply, which will now be equally available to serve the load of *all* EDAM participants. Finally, the transmission customer will also no longer have priority to flow on the delivery path on which it purchased firm transmission rights, as all EDAM participants will now have equal priority to use that transmission capacity.

Notably, PacifiCorp is *not* seeking to maximize the transmission capacity available in EDAM by re-purchasing transmission rights from willing customers. Nor is PacifiCorp seeking to somehow terminate existing transmission rights. Instead, PacifiCorp seeks to “have its cake and eat it too” by having its transmission customers continue to pay for transmission rights that PacifiCorp’s proposal will make largely unworkable for any purpose other than to be sold to the California ISO.

PacifiCorp’s Proposal Jeopardizes \$135 Million per Year of Transmission Revenue, Which Will Need to be Recovered Through Higher Retail Rates

PacifiCorp currently earns over \$135 million per year from the sale of firm point-to-point service to unaffiliated transmission customers (based on current transmission rates). PacifiCorp’s proposal will result in a substantial reduction in the incentives to invest in PacifiCorp firm transmission service, including investments necessary to fund transmission upgrades and expansion. Any loss of third-party transmission revenue resulting from PacifiCorp’s proposal will directly increase the revenue that PacifiCorp must recover through higher retail rates. This additional cost to PacifiCorp retail customers has not been considered in any publicly available EDAM benefit study. The risk to long-term transmission revenue is not merely hypothetical. In a November 14th letter, Powerex, PacifiCorp’s largest third-party customer, provided notice to PacifiCorp to terminate the vast majority of Powerex’s long-term firm point-to-point transmission rights on PacifiCorp’s transmission system, for which Powerex currently pays over \$42 million per year to PacifiCorp.²

Other transmission providers expressing a preference for EDAM also currently earn significant revenue from the sale of long-term firm transmission service:

Estimated Annual Long-Term Firm Transmission Revenue at Risk

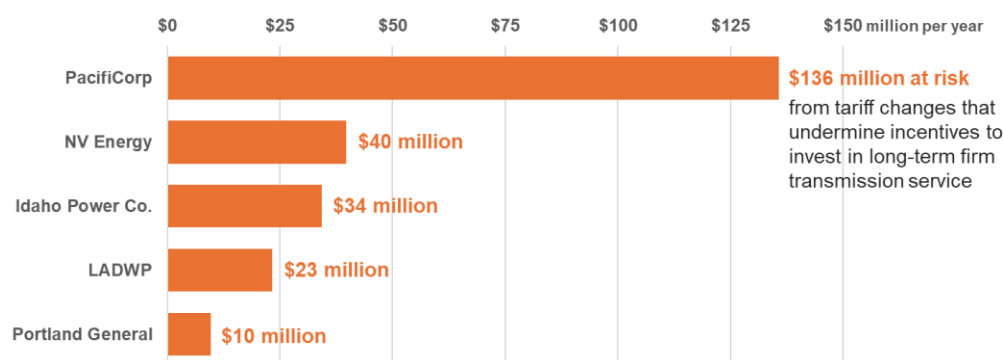


Chart shows estimated annual revenue from sale of long-term firm point-to-point transmission service to unaffiliated customers.

Portland General, NV Energy, Idaho Power, and LADWP, among others, will need to consider whether to follow PacifiCorp’s lead and jeopardize their existing transmission revenue stream, or to instead seek ways to continue to provide the core benefits that are the foundation for transmission customers’ investments in long-term firm transmission service.

² At this time, Powerex will retain only 200 MW of its PacifiCorp rights, which Powerex intends to use as part of providing approximately 1,000 MW of connectivity at go-live in Markets+ between the Northwest and Southwest regions. Powerex is committed to ensuring that these transmission rights are able to be used in Markets+, and Powerex intends to protest PacifiCorp’s tariff changes at FERC and is prepared to pursue any necessary appeals.

PacifiCorp's Proposal Creates Barriers to The Procurement Of Least-Cost, Best Fit Resources and to Participating in Regional Programs

Due to the unmanageable financial risk of using PacifiCorp transmission service to deliver remote supply to load on potentially congested delivery paths, PacifiCorp transmission service will no longer provide transmission customers with a viable transmission product to:

- Deliver new and existing baseload and dispatchable supply to ensure reliable service to a customer's load;
- Deliver new and existing clean and renewable supply to meet a customer's environmental targets and to support the grid's transition; or
- Support participation in regional programs such as WRAP or in a competing regional organized market such as Markets+.

PacifiCorp's Approach is not Necessary to Enable its Participation in EDAM

The proposed Markets+ tariff demonstrates that it is entirely possible to make transmission capacity widely available for all participants in organized markets while continuing to provide the core benefits that are the foundation for transmission customers' investments in long-term firm transmission service. Under the proposed Markets+ tariff, transmission customers that hold firm transmission rights:

- **Receive the congestion revenues on a path-specific basis**, ensuring the economic value continues to be received by the customers investing in each respective path;
- **Keep the ability to schedule on firm transmission rights up to real-time**, with those deliveries continuing to have **priority to flow** ahead of market transfers that are not supported by firm transmission capability; and
- **Can opt-out of having their firm transmission rights included in Markets+** altogether, and instead use those rights to support non-market transactions as occurs today, or to support connectivity in a different organized market such as EDAM.

The absence of a framework in EDAM that similarly protects the core elements of transmission rights in an equitable and consistent manner across the entire EDAM footprint reflects the governance framework of the California ISO, under which the EDAM design was developed. The California ISO's choices enabled PacifiCorp—as an individual utility with its own commercial interests and priorities—to propose to modify the terms of existing and future transmission rights in a manner that benefits PacifiCorp and the California ISO at the expense of others. ***The PacifiCorp proposal illustrates the critical need for every regional program and regional market to be built upon an independent and robust governance framework.***