AWEC

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Via electronic submission

Re: AWEC's Comments on Draft Interim Average System Cost Methodology

The Alliance of Western Energy Consumers ("AWEC") appreciates the opportunity to submit comments on Bonneville Power Administration's ("BPA" or "Agency") informal, incremental draft Average System Cost Methodology ("ASCM"). AWEC is a trade organization representing the interests of its members that include large energy consumers located within the Region. AWEC members represent industries such as agriculture, aeronautics, air products, pulp and paper, food processing, information technology, healthcare, technology, and more. AWEC's members are directly affected by BPA's rates, terms, and conditions of service in a manner similar to the Agency's preference customers and, thus, are also affected by costs associated with the Residential Exchange Program ("REP"). Over the life of the 2012 REP Settlement, benefits to the region's Investor-Owned Utilities ("IOUs") are likely to exceed $4 billion – meaning roughly 10 cents of every dollar that Consumer-Owned Utility ("COU") end-use customers, such as AWEC's members, pay goes to residential and small farm customers served by IOUs. As such, given the potential magnitude of costs to COUs from the REP, AWEC is interested in an ASCM that is structured discern prudent costs incurred by IOUs in providing service via a process that is transparent and allows for stakeholder engagement.

As AWEC has indicated in prior comments, it understands that determination of Average System Cost ("ASC") has been resource-intensive in the past and that BPA Staff resources must be utilized efficiently. However, given the magnitude of potential REP benefits, which come at a cost to preference customers and their end-use consumers, the ASCM must strike an appropriate balance between efficiency and ensuring that ASC determinations are consistent with applicable legal requirements and sound policy. Generally speaking, AWEC supports additional staffing BPA determines necessary to ensure sound implementation of the REP. AWEC has also reviewed the comments offered from other stakeholders to this process and continues to support comments and concepts offered by the COUs to date.

<u>Disallowed Costs</u>. AWEC continues to support removal of costs disallowed by a state commission from each IOU's Base Period ASC Filing inputs submitted for ASC purposes. Doing so is consistent with the Northwest Power Act, which is to place residential and small farm customers of IOUs and COUs on comparable footing. FERC Form 1 data is a financial accounting record that does not otherwise reflect disallowed costs which, by definition, have been determined to be unreasonable and imprudent and inconsistent with the public interest. As AWEC previously commented, a decision to allow into a utility's ASC disallowed costs would create disproportionate benefits for IOU ratepayers at the expense of COU ratepayers.

The problem with relying solely on FERC Form 1 data as a basis for ASC filings is that it does not reflect the ratemaking treatment afforded to each IOU by state Commissions. AWEC understands the desire for a streamlined approach to evaluating each utility's ASC and the hesitance to return to the more resource-intensive jurisdictional approach. However, reliance on FERC Form 1 data with updates to incorporate adjustments already included in state reporting requirements can serve as a reasonable basis for verification of disallowed costs.[1] In circumstances where annual reports do not include variances between FERC Form 1 data and ratemaking treatment (i.e. disallowed costs), then the IOU should be required to attach to its annual ASC filing relevant commission orders if costs have been disallowed.[2] In addition to these filing requirements, an attestation from a Senior Financial Officer should be required, as discussed in AWEC's previous comments and again below. Together, these filing requirements would mitigate demands on BPA Staff time while promoting parity between IOU ratepayers and COU ratepayers responsible for shouldering ASC costs.

Oregon and Washington have annual reporting requirements for investor-owned utilities that:

- *Oregon*
  - Pursuant to OAR 860-027-0070, utilities are required to submit annual Results of Operations ("ROO") filings by May 1st. These filings include both FERC Form 1 (including Oregon supplement) as well as a Results of Operations report that includes the utility's regulated adjusted results of operations, which reflects disallowances and adjustments ordered in general rate cases and other regulatory proceedings.
  - Examples of Portland General Electric's, PacifiCorp's, and Idaho Power's 2024 filings, the most recent available to date, are available on the Oregon Public Utility Commission's website (and linked herein).
- *Washington*
  - Pursuant to WAC 480-100-257, Washington utilities are required to file Commission basis reports within four months of the end of each utility's fiscal year, which must include "all the necessary adjustments as accepted by the commission in the utility's most recent general rate case or subsequent orders."[3]
  - Examples of Avista's, Puget Sound Energy's and PacifiCorp's 2024 filings, the most recent available to date, are available on the Washington Utilities and Transportation Commission's website here.

Idaho[4] and Montana[5] also have annual reporting requirements for IOUs, though the reports filed do not appear to contain standardized adjustments similar to those required in Oregon and Washington. As such, FERC Form 1 data should be adjusted to reflect disallowed costs, if any,

[1] This appears to be the case for Oregon utilities, who must file annual Results of Operations reports by May 1st of each year that include Type 1 and Type 2 adjustment to reflect regulatory decisions that impacts earnings.
[2] This may be the case for IOUs in Idaho and Montana.
[3] WAC 480-100-257(2)(a).
[4] Montana Code Annotated § 69-3-203. NorthWestern Energy's Annual Report for Year Ending 2024 can be found here.
[5] Idaho Code § 61-405. Annual reports filed by Idaho investor-owned utilities can be accessed here.

as demonstrated by commission orders and supported by Senior Financial Office Attestations. Relatedly, AWEC continues to support public power's recommendation to amend the "Senior Financial Officer Attestation" in Attachment A, paragraph 2 to include a new subsection (d) stating "any costs or like costs reported in a utility[y's] FERC Form 1 filing that were disallowed by any Regulatory Body(ies) with jurisdiction to approve retail or wholesale rates in the region."

As a lesser-preferred alternative, AWEC supports public power's alternative recommendation to reexamine the rate of return allowed on IOU capital consistent with the language in footnote d/ of the 1984 ASCM.

Energy Storage Devices. AWEC agrees with previous comments that questioned whether functionalization at PTD was appropriate or durable for Energy Storage Devices. However, it is unclear to AWEC at this time whether BPA's updated proposal to allow for Direct functionalization of Energy Storage Devices, as a default, with the PTD ratio as an option, better supports principled functionalization for Energy Storage Devices. Regardless of the path that BPA Staff takes, IOUs should be directed to provide substantial documentation to support their proposed functionalization. Direct functionalization should not provide for an opportunity to over-allocate costs to Production when an Energy Storage Device also provides significant operational benefits for transmission-related functions (i.e. by mitigating transmission constraints during system peaks). As part of the documentation required by 18 C.F.R. § 301.4(f), utilities should be required to include commission orders approving ratemaking treatment, including how such Energy Storage Device costs are functionalized for retail ratemaking purposes and contemporaneous documentation of how these assets have *actually* operated over the Base Period. It may be that, regardless of functionalization for purposes of setting retail rates, actual operations dictate a different outcome for purposes of calculating a utility's ASC.

FERC Account 925 – Injuries and Damages. As indicated in AWEC's previous comments, AWEC supports BPA Staff's initial proposal to functionalize FERC Account 925 to Distribution/Other, and to only allow FERC Account 925 costs approved by state commissions functionalized using the Labor Ratio, with the exception that wildfire liability costs should be fully excluded. In the incremental draft, BPA Staff have updated the proposal to allow FERC Account 925 costs functionalized to Production using the Labor Ratio, and to cap such costs at 1% absent a state commission order that allows costs in excess of 1% during the Base Period. AWEC would like to better understand the basis for choosing 1% as the threshold, but generally speaking, views this as a step backward that results in increased risk that imprudent or unreasonable costs and/or costs that have not been scrutinized by state commissions will drive increases to IOU ASCs. AWEC's biggest concern is that wildfire liability costs, which may constitute gross negligence on the part of the utility, could significantly impact ASC calculations as described in its January 21, 2026 comments. If BPA is inclined to move forward with its updated proposal, which again AWEC does not find sufficient to ensure that only reasonable and prudent costs are considered in calculating a utility's ASC, then IOUs should not be permitted to include costs above the threshold in their ASC absent provision of a commission order that explicitly details the commission's review and rate recovery determinations for amounts included in FERC Account 925, and wildfire liability costs should be excluded altogether.

New Large Single Loads. AWEC supports treatment of New Large Single Loads ("NLSLs") that does not allow for an IOU to choose to arbitrarily dedicate lower cost resources to NLSLs and supports the principle of cost causation for determining the costs of resources used to serve NLSL loads. As such, BPA's proposed approach in § 301.4(p) is directionally consistent and may serve as a streamlined, reasonable basis to effectuate these principles. However, AWEC notes that ratemaking treatment for new large loads in region – particularly for data centers – is evolving. For example, in 2025, Oregon passed HB 3546,[6] called the POWER Act, which contemplates both special contracts for dedicated resources for data centers as well as establishment of a dedicated rate class for data center customers. The Oregon Commission is in the midst of HB 3546 implementation,[7] the outcome of which could shed light on whether BPA Staff's current proposal remains a reasonable approach. The Washington legislature is considering similar legislation in the current short session,[8] which may also drive resource decisions in Washington in the future. At this time, AWEC notes that it may be reasonable to allow for dedication of specific, new resources in the limited circumstance where there is a clear nexus (via a customer service agreement or special contract) between the NLSL load and the new resources procured to serve that load.

Distribution Losses. AWEC supports an approach to distribution losses that removes the opportunity for cherry-picking, but does not have a final position on the best methodology for calculating distribution losses at this time.

Transmission. AWEC supports removal of transmission costs from the ASC, except for third-party wheeling transmission costs and transmission associated with sales for resale. AWEC agrees that REP benefits should be determined based on actual generating resource costs rather than increased transmission costs.

Variance Analysis. AWEC supports BPA Staff's inclusion of variance analysis in the incremental draft ASCM as well as public power's proposal to expand the use of such variance analysis on all Appendix 1 inputs as described in their January 21, 2026 comments. Variance analysis is a fundamental tenet of ratemaking and is necessary to determine reasonable costs for inclusion in a utility's ASC. Additional years provide additional data points that ensure more accurate averages.

Review Process – Initial Workshop. AWEC continues to support the recommendation made by Public Power Council ("PPC"), Northwest Requirements Utilities ("NRU"), Western Public Agencies Group ("WPAG") and Pacific Northwest Generating Cooperative ("PNGC") to enhance transparency of the ASC review process by beginning the process with a *publicly* noticed workshop to be held at least two weeks before the review process formally begins. AWEC understands that formal participation requires a stakeholder to submit a formal request in accordance with Section 3 of the ASC Rules of Procedure but nevertheless finds that an informal

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[6] https://olis.oregonlegislature.gov/liz/2025R1/Downloads/MeasureDocument/HB3546/Enrolled.

[7] *See e.g.* Oregon Public Utility Commission Docket Nos. UM 2377 (PGE) and UE 463 (PacifiCorp).

[8] https://app.leg.wa.gov/BillSummary/?BillNumber=6171&Year=2025&Initiative=false.

workshop ahead of the formal process, again publicly noticed, would ensure that interested stakeholders are notified and able to efficiently participate, if desired.

AWEC appreciates BPA Staff's consideration of these comments and looks forward to continued engagement in the development of the ASCM.

/s/ Bill Gaines
Executive Director
Alliance of Western Energy Consumers