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### **Comments on BPA's May and June 2024 Public Rate Design Methodology (PRDM) Workshops**

Thank you for hosting BPA's PRDM working groups on May 23<sup>rd</sup> and June 11<sup>th</sup> and PRDM workshops on May 28<sup>th</sup> and June 21<sup>st</sup>. BPA's workshops offer a platform for parties to voice their positions. Below, City Light provides its feedback on select topics discussed during the workshops.

#### *Rate Impact Credit (RIC), Mitigation*

BPA has now split the previous RIC into two components, a RIC for collecting embedded rather than marginal costs for capacity ( $RIC_c$ ), and a RIC for rate impact mitigation from the switch from the Tiered Rate Methodology (TRM) to PDM ( $RIC_m$ ). City Light finds BPA's new  $RIC_m$  proposal to mitigate all rate impacts from the switch from TRM to PRDM at the start of the contract excessive. City Light recommends that BPA instead retain its previous proposal mitigate rate impacts above 5%.

It was City Light's understanding that the  $RIC_c$  and  $RIC_m$  were meant to be fractions of the previous RIC in order to separate out its previously dual roles of capacity charges and rate impact mitigation. Yet as proposed, the  $RIC_c$  and  $RIC_m$  are each *larger* than the previous RIC. City Light calculates that the RIC under rate design Alternative 1 would be approximately \$20 M for the rate period, while the  $RIC_c$  and  $RIC_m$  as calculated by BPA are approximately \$80 M, and \$90 M per rate period, respectively.<sup>1</sup> Given that the  $RIC_c$  already mitigates a significant amount of the rate impacts from PRDM, and the sole purpose of  $RIC_m$  is to mitigate rate impacts,  $RIC_m$  should be smaller than the previous RIC, not greater.

Furthermore, BPA has not provided rationale for mitigating all rate impacts from the shift to PRDM, rather than just impacts beyond a significant amount. Making the  $RIC_m$  unnecessarily large creates cost shifts between customers. While City Light believes a 5% rate impact threshold is reasonable, City Light's analysis in a previous version of the rates impact model is that even a very low threshold of rate

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<sup>1</sup>The original RIC's dollar value was calculated by subtracting 105% of the Status Quo Effective Rate from the Alternative 1 Effective Rate in v17 of the Rates Impact Model by their Tier 1 Energy for each customer, and then multiplying the incremental rate if non-negative by a customer's Tier 1 load, per the values in the Rates Impact Model v17.

impact of 1% before RIC<sub>m</sub> cost recovery, would allow the RIC<sub>m</sub> to halve total revenue requirement.<sup>2</sup> City Light encourages BPA to test this 1% rates impact threshold for RIC<sub>m</sub> in its most recent version of the model as well.

During the June 11<sup>th</sup> work group, BPA asked for feedback on whether the RIC<sub>m</sub> should be iterated and thus reapplied multiple times for the same rate period, what should be the RIC<sub>m</sub> taper rate, what should be the start and end mitigation amount. City Light does not see value in iterating the RIC<sub>m</sub> multiple times. As indicated by BPA's preliminary results in the June 11<sup>th</sup> workshop, a single iteration of the RIC<sub>m</sub> already mitigates rate impacts below 4% for the vast majority of customers, lower than the previous RIC's threshold of 5%. Customers would additionally still have rate impacts below 5% if BPA implemented City Light's recommendation to raise the rate impact threshold prior to RIC<sub>m</sub> cost recovery to 1%, since less than 4% + 1% rate impacts threshold is still less than 5%.<sup>3</sup> Repeated iteration of RIC<sub>m</sub> can start creating cost shifts between customers who receive RIC<sub>m</sub>, because a customer who receives a small RIC<sub>m</sub> may have to, on the last RIC<sub>m</sub> iteration, pay more to mitigate other customers than they themselves receive from the RIC<sub>m</sub>. For the few customers that have rate impacts above 5%, City Light believes a targeted approach for these few outlier customers would better serve their needs.

On the RIC<sub>m</sub> taper rate, City Light views the RIC<sub>m</sub> as a transition to implement PRDM rate design. The RIC<sub>m</sub> should therefore taper as fast as possible while maintaining a reasonable rate of transition. During the work group, there was discussion that within a rate design 3% rate impact change per rate period is reasonable, which City Light supports. It appears that only three customers have rate impacts greater than 1.5% per rate period if BPA's May 23<sup>rd</sup> proposal to taper the RIC<sub>m</sub> from 100% to 0% by the last rate period is implemented.<sup>4</sup> This means that for all but the 3 exceptions, customers would have "headroom" to stay within a 3% rate impact or lower per rate period when considering all Provider of Choice changes. For the three customers who have greater than 1.5% rate period impact, City Light believes targeted approaches for these customers would better serve their needs.

On the starting RIC<sub>m</sub> percentage, City Light believes that raising the RIC mitigation pre-RIC<sub>m</sub> cost recovery threshold, for example to 1% as described above, is a superior method to reducing the revenue requirement of the RIC<sub>m</sub> compared to reducing the starting RIC<sub>m</sub> percentage. For example, assume there are 51 customers each with an annual BPA bill under TRM of \$1 million, 50 of which would have a 4% rate increase under PRDM (to \$1.04 M), and one that would have a 50% rate increase under PRDM (to \$1.5 M), before RIC<sub>m</sub>. If BPA raised the RIC mitigation threshold to 1% but kept a starting RIC mitigation percentage of 100%, all customers would now have a PRDM rate impact of 1%, or a \$1.01 million annual bill including the previously 50% rate impacted customer. This would be prior

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<sup>2</sup> The RIC<sub>m</sub> in v17 of the model was calculated by toggling on RIC<sub>c</sub> and subtracting out the Status Quo rate or 101% of the Status Quo rate from the Alternative 1 Effective Rate, respectively. This \$/MWh rate impact from RIC<sub>m</sub> was then multiplied by if non-negative by a customer's Tier 1 load

<sup>3</sup> By definition, customers would see an up to 1% rate impact increase prior to RIC<sub>m</sub> rate recovery, from at most below 4% to below 5%. Additionally because RIC<sub>m</sub>'s rate recovery would be smaller, this would partially offset the rate impact increase of raising the rate impacts threshold to 1%.

<sup>4</sup> Calculated by dividing the taper rate per rate period, which is 1/7 of the Rate Credit, by the Status Quo rate.

to recovering the cost of the RIC<sub>m</sub> itself which would have a total revenue requirement of \$1.99 million.<sup>5</sup> In comparison, if BPA instead has a RIC mitigation threshold of 0% an 80% RIC starting percentage would achieve a similar revenue requirement for RIC<sub>m</sub> of \$2 M.<sup>6</sup> However, while for 50 of the customers their 4% rate impact would be reduced to 0.8%, the previous 50% rate impacted customer would still have a relatively large rate impact of 10%, prior to recovering the cost of the RIC<sub>m</sub> revenue requirement (50% impact - 50% impact \* 80% mitigated). That is, raising the mitigation threshold allows BPA to reduce the size of the RIC<sub>m</sub> while still targeting outlier customers with the greatest rate impacts, which is not necessarily the case if BPA instead reduces the starting RIC percentage.

On the end RIC<sub>m</sub> percentage, more than any of its other recommendations on the RIC<sub>m</sub> City Light believes the most important aspect is that the RIC<sub>m</sub> taper to zero by the end of the contract, excepting potentially a few small outlier customers. City Light is concerned that if the RIC<sub>m</sub> does not taper to zero it would be perpetuated in the following contract, and PRDM rate design would not be fully implemented until well into the next contract period. Some customers who would receive the RIC<sub>m</sub> have advocated for potentially maintaining a non-zero RIC<sub>m</sub> at the end of the contract on the ground that PRDM has too large a rate impact to them. City Light sees things differently. From City Light's perspective, the rate impacts of PRDM are impacts these customers should have been paying in the first place in Regional Dialogue. While City Light understands there is need to make change gradual and we may not be at the place to have fully cost-based rates at this time, the 16-year length of Provider of Choice rates is a long enough time period for customers to transition to at least the PRDM rate constructs.

#### *Alternative RIC*

BPA presented an alternative RIC<sub>c</sub> that would add an additional load diversity credit to customers' demand charges, in exchange for potentially being subject to costs caused by these customers during tail events. During the May 28<sup>th</sup> workshop, BPA clarified that if implemented, the alternative RIC<sub>c</sub> would provide certainty of the additional credit, while not providing certainty of whether such customers would be charged based on cost causation during tail events. BPA characterized this as a fair tradeoff due to the risk of subjecting these customers to tail event costs.

City Light conceptually supports an alternative RIC<sub>c</sub> that would provide customers credit for most months in exchange to exposing them to their cost causation during tail events. However, City Light opposes the alternative RIC<sub>c</sub> as proposed by BPA. As discussed during the workshop, even if tail events occur over short time periods, BPA does not have to recover tail event costs in the month they occur, as doing so creates unnecessary bill volatility. Additionally, City Light does not believe it is fair for customers to receive the alternative RIC<sub>c</sub> credit if there is a possibility that they would not be charged for the counteracting tail events that they are receiving the credit for.

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<sup>5</sup> The RIC<sub>m</sub> has to mitigate  $(\$1.04 - \$1.01)M * 50 + (\$1.5 M - \$1.01 M) = \$1.99 M$ .

<sup>6</sup> For 50 of the customers, their bill would increase by  $4% * \$1 M = \$40,000$ , and for the single 50% impacted customer their bill would increase by \$500,000. An 80% RIC starting percent would therefore mitigate  $(\$40,000 * 80%) * 50 + (\$500,000 * 80%) = \$2 M$ .

City Light sees there are four potential pathways BPA could take with dealing with costs caused by tail events, listed from City Light's most to least preferred:

1. Implement both an additional RIC<sub>c</sub> load diversity credit, as well a tail event surcharge to start at the same time. We acknowledge that BPA and customers do not have an agreed upon structure for the credit and surcharge, and so this may not be feasible on day 1 of the POC contract. However, this rate design change does not necessarily have to be implemented on day 1 of the contract. If implemented, the credit and surcharge should only be forwards looking and not backwards looking. Therefore, even if a tail event caused BPA to decide to implement the credit and surcharge customers would not be retroactively charged for that tail event. Only tail events that occur after the start date during the period customers would have a load diversity credit would be allocated to the surcharge, and would be collected over an extended (e.g., rate period) period of time to reduce bill volatility. Implementing both the credit and surcharge at the same time is equitable because it assigns the same time period for when customers bear both the potential benefits and risks.
2. Do not implement any rates changes in this contract, but study the additional revenues collected by customer demand charges above cost causation in most hours, compared to the costs to BPA caused by these customers during tail events. The study could inform BPA whether the issue is significant and therefore whether to implement a load diversity credit and tail event surcharge in the subsequent contract.
3. Do nothing.
4. Implement the load diversity RIC<sub>c</sub> credit but cast uncertainty of whether there would be a tail event surcharge.

Thank you again for hosting the workshop. We look forward to continuing the discussion on rate design and other topics as BPA continues its POC process.

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