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Submitted via email: prdm@bpa.gov

Comments on BPA's July 22, 2024 Public Rate Design Methodology (PRDM) Work Group

Thank you for hosting BPA's PRDM work group on July 22nd. BPA's workshops offer a platform for parties to voice their positions. Below, City Light provides its feedback on BPA's redesign of its Rate Impact Credit, Mitigation (RIC_m).

In the July 9th work group, BPA proposed a redesigned RIC_m that would 1) now set the threshold for impact mitigation at 2% rather than 0%, 2) taper at a rate of $0.50/MWh each rate period, and 3) recover costs first from customers who receive the greatest rate decrease due to PRDM changes. City Light supported these changes, as they reduce rate recovery necessary for RIC_m while keeping the rate impact to a reasonable level. City Light also supported the changes because City Light's key tenet is that 16 years is a long enough time to transition in PRDM rate design changes, and so the RIC_m should taper to zero or near zero by the end of the contract.

In the July 22nd work group, BPA has now put as a "starting point" a taper rate of $0.10/MWh in its new Rate Discount Model. BPA stated that while it is not necessarily endorsing $0.10/MWh the reason for the reduced starting point is due to customer feedback that the $0.50/MWh taper rate makes the potential rate impact of PRDM over the contract length greater than what they consider to be a reasonable 5%. City Light calculates that such a slow taper rate, if tapered linearly, would leave an approximately $18.2 M RIC_m at the end of the contract, compared to its $51.2 M initial value.[1]

There is no reason to use a $0.10/MWh taper rate even if BPA's priorities lie solely in keeping PRDM rate design impacts at or below 5% over the contract period. A $0.15/MWh taper rate would manage to maintain rate design impacts at or below 5%, while reducing the final RIC_m from approximately $18.2 M to $8.3 M. This is because a customer could have their RIC_m taper down by an amount equal to 3% of their status quo $/MWh rate prior to having a rate impact greater than 5% (5% minus 2% initial rate impact threshold). As BPA's median $/MWh for a customer is approximately $35/MWh, $35/MWh*3% = $1.05/MWh over the contract, or divided over the 7 rate periods $0.15/MWh. Yet City Light urges BPA to maintain its previous $0.50/MWh taper rate and not merely a $0.10 or $0.15/MWh per rate period taper rate.

[1] Calculated by multiplying each customer's final BP-43 RIC_m credit by the rate period sum of their Tier 1 energy.

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First, while City Light considers BPA's July 9th proposal with a $0.50/MWh taper rate to be responsive to City Light's July 2nd comments on the RIC_m, the proposal with a lowered taper rate is not. The RIC_m represents a subsidy and cost shift from primarily Planned Product customers to primarily Load Following customers. Prior July 9th, BPA's starting point for RIC_m appeared to mitigate all rate impacts caused by rate design changes, charge all customers the cost to provide the RIC_m, and phase out the RIC_m linearly by the last rate period in the contract. This would have a contract length RIC_m total revenue requirement of approximately $286.9 M, of which Planned Product customers would pay approximately $134.5 M[2] while receiving credits of approximately $28.3 M.[3] Under BPA's new proposal with an altered $0.10/MWh taper rate, RIC_m contract length revenue requirement is reduced slightly to $270.7 M ($217.1 M for $0.15/MWh taper). However, due to the shift of cost impacts from all customers to those who receive the most rate decrease from rate design changes, Planned Product customers would now pay an increased share of $269.4 M ($216.0 M) while seeing reduced credits to $24.3 M ($17.4 M). That is, BPA's new proposal if using a lower ramp rate leaves Planned Product customers *worse off* than BPA's pre-July 9th proposal rather than being responsive to City Light's concerns of cost shifts between products.[4] In comparison, a $0.50/MWh taper rate would have a contract length RIC_m revenue requirement of approximately $90.7 M, of which Planned Products would pay $90.3 M and receive $7.2 M of credits.

Secondly, it is City Light's perspective that the rate impacts of PRDM are impacts these customers should have been paying in the first place in Regional Dialogue. Therefore, there is no need to keep PRDM rate impacts under 5% by the end of the contract as long as the rate impacts of PRDM are phased in at a gradual enough rate to avoid rate shock.

Thirdly, City Light stated in its July 2nd comments that the most important rate design of the RIC_m is that it taper to zero or near zero by the end of the contract. 16 years is long enough to phase in PRDM rate design. To the extent RIC_m is non-zero at the end of the contract it would mean PRDM rate design would not be fully implemented by the end of the contract, and cost shifts could perpetuate into future contracts. As stated above, both a $0.10 and $0.15/MWh leave sizeable RIC_m remainders, whereas a $0.50/MWh taper rate would reduce the RIC_m to $72,936 by the end of the contract. For this and the above stated reasons, City Light urges BPA to maintain a $0.50/MWh per rate period taper rate.

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[2] Calculated by calculating the RIC_m times sum of rate period Tier 1 energy to calculate revenue requirement each rate period, dividing by total customer Tier 1 energy to calculate RIC_m cost allocation by $/MWh (initially about $0.80/MWh), and then multiplying that by individual customer sum of rate period Tier 1 energy to calculate charges to them.

[3] Calculated by setting the initial RIC_m mitigation to mitigate rate impacts to 0%, finding the initial RIC_m, decrementing it by 1/7 each rate period, and multiplying each customer's RIC_m each rate period by the sum of their rate period Tier 1 energy.

[4] City Light notes that as it has a smaller rate decrease than most other Planned Product customers due to PRDM it is better off under the new proposal, at least during the contract length, regardless of taper rate. Yet, City Light's point still stands that from a product to product perspective the new RIC_m proposal leaves Planned Products worse off.

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

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