AWEC

Alliance of Western Energy Consumers ◆ 818 SW 3rd Avenue, #266 ◆ Portland, OR 97204 ◆ 971-544-7169 ◆ nwenergyusers.org

October 13, 2020

Via Electronic Submission

John Hairston
Interim Administrator and Chief Executive Officer
Bonneville Power Administration
911 NE 11th Avenue
Portland, OR 97232

Re: September 29, 2020 TC-22/BP-22/EIM Phase III Workshop

Dear Administrator Hairston:

The Alliance of Western Energy Consumers ("AWEC") appreciates the opportunity to provide feedback regarding Bonneville Power Administration's ("BPA or "Agency") September 29, 2020 TC-22/BP-22/EIM Phase III workshop presentation. Below, AWEC addresses the following September 29th workshop topics: Transmission Losses, Real Power Losses on EIM Transfers, Financial Planning, Power Regulatory Assets, and the Powerex Presentation regarding EIM Cost Allocations.

Transmission Losses

Loss Factor

During the August workshop BPA Staff presented on the appropriate granularity of Loss Factor to apply. According to the September 29th workshop, BPA Staff's leaning is to propose Monthly Loss Factors in the initial Tariff. AWEC agrees with BPA's initial conclusion that an update on the Loss Factor is appropriate and tentatively supports BPA Staff's leaning towards a monthly approach. Although a monthly approach may present implementation challenges, at this time it does not appear that such concerns are insurmountable.

Pricing: Capacity Costs, Transmission Cost Recovery and Financial For Inaccuracy ("FFI")

According to BPA Staff, "the charging of a capacity cost for wheeling loss service is appropriate and [BPA Staff] intend[s] to propose inclusion of a capacity cost in the initial proposal of the Rate Schedule…[and] [c]oncurrent loss returns continue to be under evaluation as [BPA Staff] work towards future rate periods."[1/] AWEC appreciates BPA's attempt to recover capacity costs associated with providing loss services. It is concerning that from the

[1/] Bonneville Power Administration, TC-22, BP-22 and EIM Phase III Customer Workshop, at slide 26 (Sep. 29, 2020).

information known at this time, it appears that no other transmission providers have been identified that explicitly charge for capacity in their losses provision. After discussion among stakeholders at the past workshop, it became clear that other transmission providers who were in attendance believe that they currently capture capacity costs without an additional capacity charge. AWEC urges BPA to set forth a path to explore the development of a concurrent loss return structure so that capacity use and charges can be avoided. In addition, BPA should work with customers to provide a common understanding of the difference between how other providers are recovering these costs, and how BPA proposes to do so. AWEC looks forward to additional analysis and discussion of this proposed charge.

Real Power Losses on EIM Transfers

BPA Staff has reaffirmed its proposal from the August 25-26th workshops of Alternative 1: Do Not Charge Losses on EIM Transfers. Alternative 1 results in "[c]ustomers with load, exports and wheeling customers would be allocated a share of RTIEO, assuming Export Schedules are defined to include wheels…[c]reates an incentive to donate transmission for EIM…[and] [a]voids the potential for double-recovery of losses."[2/] BPA Staff further clarified during the September 29th workshop that "[i]f the Settlement Team determines that Measured Demand will not include exports associated with wheels, BPA will reevaluate the recommendation on losses on EIM transfers."[3/] After the August workshops, the Settlement team determined that BPA intends to propose to exclude exports associated with wheels in its calculation of Measured Demand. BPA reevaluated its position on losses associated with EIM Transfers and proposes to keep it unchanged despite the adjustment to the Measured Demand calculation. At this time, AWEC does not see a reason to oppose implementation of Alternative 1. Based on the information so far presented, this alternative appears to alleviate concerns about double recovery for losses and removes disincentives to donating transmission for EIM.

Financial Planning

During the September 29th workshop, BPA presented extensive new information addressing two specific and monumental issues related to the Agency's long-term strategic financial issues. AWEC notes that the Agency, with customer support, has made great strides towards meeting its goals for long-term financial health. While "bending the curve" of BPA's rates and costs has benefitted customers in the short term, it is critical to remember that these efforts were explicitly meant to ensure BPA's long-term competitiveness as the provider of choice in the region.[4/] As a result, any discussions about debt and leverage management should *not* be framed as a shift from pursuing short-term benefits to pursuing long-term benefits. BPA and the region have worked diligently for several years to institute structural changes that have led to meaningful cost management progress. From the customer perspective, the goal of these

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2/ Bonneville Power Administration, TC-22, BP-22 and EIM Phase III Customer Workshop, at slide 36 (Aug. 25, 2020).

3/ Bonneville Power Administration, TC-22, BP-22 and EIM Phase III Customer Workshop, at slide 43 (Sep. 29, 2020).

4/ See Bonneville Power Administration, BPA 2018-2023 Strategic Plan (Jan. 2018).

efforts was not to achieve Power rates that escalate at the rate of inflation, but rather to arrive at a rate that escalates *less than* inflation and that is more attractive than competitive alternatives as we approach 2028.

AWEC is sympathetic to the challenges BPA has faced over the past decade as markets changed trajectory and BPA found itself facing significant reductions in financial reserves and an increase in borrowing. BPA's multifaceted response has put the Agency on better footing; indeed, it appears that all else equal, an improved net secondary forecast could result in a rate *decrease* for Power in BP-22. The sudden re-emergence of the borrowing authority issue, which was not presented until the final scheduled workshop, is highly concerning. While we appreciate the brief spreadsheet that BPA subsequently posted, AWEC does not believe that enough analysis, modeling, or transparency has been provided to form an opinion as to whether any of the four possible paths for Transmission revenue financing presented at the September 29th workshop on a single PowerPoint slide are appropriate, necessary, or will properly meet quantifiable objectives while protecting customers in the region. Until such a time as stakeholders are able to fully assess this issue, AWEC offers a few general observations around Transmission Borrowing and Power Repayment below.

Transmission Borrowing

BPA states that it is not on track to meet its borrowing authority goal of maintaining $1.5b of available borrowing authority. BPA Staff maintains that this result will occur despite achieving the near-term Leverage Policy target due to the net borrowing practices of Transmission.[5/] AWEC did not oppose the Leverage Policy under the impression that it was designed to prevent either business line from exhausting the Agency's borrowing authority. Now, BPA claims that Transmission is rapidly borrowing and will extinguish available borrowing authority over the next few rate periods.

In order to "move toward a more net neutral borrowing position and declining debt position" and remediate the issue of less than $1.5b of remaining borrowing authority in 2024, BPA describes four approaches for Transmission BP-22, each of which, presumably, includes rate pressure caused solely by including revenue financing in rates at various levels in BP-22, BP-24, and at least BP-26 according to the note on slide 63 of the September 29th workshop:

1. 2018 Leverage Policy Workshop, resulting in $134m/year and approximately 13.4% rate pressure in BP-22 and $188m/year and approximately 5.4% rate pressure in BP-24;

2. Even Ramp Up Start at 25% of Replacements, resulting in $75m/year and approximately 7.5% rate pressure in BP-22 and $150m/year and approximately 7.5% rate pressure in BP-24;

5/ Id. at slide 53.

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3. Slower Ramp #1 Start at 15% of Replacements, resulting in \$45m/year and approximately 4.5% rate pressure in BP-22 and \$171m/year and approximately 12.5% rate pressure in BP-24; and

4. Slower Ramp #2 Start at 10% of Replacements, resulting in \$30m/year and approximately 3% rate pressure in BP-22 and \$186m/year and approximately 15.5% rate pressure in BP-24.[6/]

AWEC understands these broad-brush metrics to simply be different combinations of revenue financing that would reach roughly a similar result by the end of BP-24; however, additional details have not been provided to confirm this understanding. Because AWEC has not previously been made aware of this issue nor seen any substantial studies or analyses addressing this issue, we are unable to comment beyond generally agreeing that if Transmission continues to be a net borrower at an unsustainable rate, it is appropriate to address this in the Transmission rate case with a thorough analysis that critically examines all pathways to reduced borrowing. AWEC—and likely other parties—will have extensive questions regarding the modeling and studies BPA has done to set the goals that these four scenarios appear to be set to achieve. Further, it is important to understand how Transmission's historic capital underspend has been modeled, as well as engage in an additional discussion around assumptions of future Transmission capital spend. Substantial time during IPR 2 should be scheduled for BPA and customers to have discussions regarding the assumptions of future Transmission capital spend. AWEC requests that BPA present alternatives reflecting different assumptions and their relative costs, benefits, and risks.

If BPA can provide additional information around this newly raised issue, perhaps in the form of additional customer-led workshops prior to the filing of the Federal Register notice, parties will be able to use the time before the ex parte period to better understand BPA's new concerns. However, it is likely that a full and rigorous Transmission rate case is the proper forum to address Transmission's net borrowing practices. AWEC encourages BPA to explore a full array of creative approaches to address these issues.

Power Repayment

BPA acknowledges in its recent workshop materials that Power has been and continues to be a net repayer of debt. As BPA Staff noted, this is in part due to early actions taken with customer support, such as expensing of Energy Efficiency costs. In addition, BPA and its partners, including the U.S. Army Corps of Engineers and Energy Northwest, have done good work to control costs and preserve the value of the assets.

[6/] Id. at slide 62.

Nonetheless, given the reduced rate pressure (indeed, negative rate pressure) facing Power as BP-22 approaches, BPA Staff has proposed two mechanisms that would, in effect, leverage an improved net secondary revenue forecast to either: 1) reduce the risk of the Cost Recovery Adjustment Clause or Financial Reserves Policy ("FRP") triggers in the future by bolstering BPA's reserves even further; or 2) use net secondary revenue to pay down BPA debt at a rate even faster than Power Services, a net repayer, is already retiring debt. This second proposal would be accomplished through either or both early amortization of existing debt and revenue financing new debt.

The first proposal, referred to as the "lower of" proposal, was unveiled by BPA in the June 23-24th workshops. AWEC and other public power groups expressed a willingness to consider proposals to improve the Agency's long-term outlook, but ultimately, there was overwhelming opposition among customers to this proposal, which would have fundamentally changed the way that BPA traditionally sets rates without an accompanying comprehensive revision to BPA's existing financial risk management programs. AWEC was particularly concerned that any proposal to divert forecasted net secondary revenue away from a rate offset should include a mechanism to programmatically return such funds to ratepayers should they be realized, rather than relying on a discretionary Reserves Distribution Clause ("RDC"). AWEC continues to maintain that this proposal is deficient unless it is accompanied by actions such as waiving the FRP Surcharge and/or implementing a modification to the RDC such that better-than-forecast secondary revenues are guaranteed to be returned to Power customers.

On September 29th BPA introduced a second proposal to redirect net secondary revenue away from rates, but this time toward revenue financing of new debt and/or early amortization of existing debt. AWEC appreciates that this proposal would apparently only operate during the BP-22 rate period and not trigger unless sufficient net secondary revenue was actually collected to keep rates steady while additionally paying down debt. However, we have not seen rate studies or sufficient analysis to demonstrate the costs and benefits of the proposal. In particular, customers want to understand what benefits accrue when BPA retains customer dollars in its accounts and empowers customers to put those dollars to work in their communities, rather than keeping rates at the "lowest possible levels, consistent with sound business principles."

Fundamental to understanding this new proposal would be a transparent presentation of a baseline rate proposal absent any of these alternative proposals so that a more informed comparison can be made. It is unclear how BPA will evaluate what "sufficient" net secondary revenue is to determine if the Agency would move forward with revenue financing of new debt and/or early amortization of existing debt. It is further unknown how BPA will determine which and how much of either of these tools to use if sufficient net secondary revenue is determined to be available. Although, according to BPA Staff, this framework would be viable with a 1% rate increase, AWEC requests that BPA provide information addressing whether the framework is possible with a zero percent rate increase.

Generally, AWEC continues to support BPA's goal to decrease debt load and looks forward to working with BPA Staff in order to meet both Agency goals and customer needs. However, as is the case with many other customers and customer groups, AWEC is highly cautious about any proposal that fundamentally changes BPA's longstanding ratemaking mechanisms around net secondary revenue. Ultimately, more specific details and analysis are needed before AWEC can endorse an approach.

Power Regulatory Assets

AWEC advocated that the Agency use the current Minimum Required Net Revenue ("MRNR") environment as an opportunity to accelerate depreciation and potentially reduce long-term liabilities. This idea, first proposed in AWEC's BP-20 testimony, is consistent with the goal of improving BPA's long-term debt load. We are encouraged to see a similar proposal for the Columbia River Fish Mitigation ("CRFM") Program studies in the September 29th workshop.[7/] AWEC is supportive of BPA's proposal to 1) discontinue its regulatory asset treatment of future CRFM Program studies and 2) shorten the amortization period of existing amortization expense to 50 years.

Powerex Presentation regarding EIM Cost Allocations

According to Powerex, there are three key problems with BPA's proposed approach for EIM congestion. Specifically, the proposed approach: 1) results in a new transmission charge after T-57 for Firm customers simply using the rights they already paid for, 2) results in a significant over-collection of congestion at a BAA level because these charges are applied to all schedule changes after T-57, not just the amount of redispatch to resolve any congestion, and 3) charges are applied to the wrong customers. To address these problems Powerex proposes an approach to EIM congestion that includes running an initial OATT-based curtailment prior to T-40 to ensure base schedules are feasible and applying EIM imbalance charges with two adjustments: 1) reserve congestion charges paid by Firm NT and PTP schedules submitted after T-57, and 2) apply congestion charges to NF schedules submitted prior to T-57.

Powerex's proposal and discussion is interesting and worth further investigation. However, AWEC recommends that BPA consider what adjustments it can make to the Agency's current proposal to address Powerex's concerns while simultaneously moving forward with an approach that is aligned with the existing CAISO structure. Such a measured approach will provide BPA, other EIM Entities, CAISO, and regional stakeholders the ability to utilize the next two years to learn more about Powerex's proposal and gain valuable experience in the EIM market. Subsequently, BPA and its customers may develop an approach for BP-24 that is well informed and properly supports the Agency and its customers.

[7/] Bonneville Power Administration, TC-22, BP-22 and EIM Phase III Customer Workshop, at slide 77 (Sep. 29, 2020).

/s/ John Carr
Executive Director
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