



February 11, 2020

Via Electronic Submission

Elliot Mainzer
Administrator and Chief Executive Officer
Bonneville Power Administration
911 NE 11th Avenue
Portland, OR 97232

Re: January 28, 2020 TC-22, BP-22 and EIM Phase III Workshop

Dear Administrator Mainzer:

The Alliance of Western Energy Consumers (“AWEC”) appreciates the opportunity to provide feedback on the January 28, 2020 TC-22, BP-22 and EIM Phase III Workshop. The following comments provide feedback on the Bonneville Power Administration (“BPA”) presentations titled “Long Term Financial Planning”, “BP-20 Settlement Update – Gen Inputs (BP-20 Solar Study), and “TC-22, BP-22 and EIM Phase III Customer Workshop”. AWEC’s members receive electrical services from BPA and from BPA’s wholesale customers. Accordingly, AWEC is interested in the policies and ratemaking issues discussed in the January 28, 2020 workshop. AWEC appreciates that BPA is discussing these issues now, early in the year, as BPA Staff begins to develop its initial proposal in the BP-22 rate proceeding.

Long-Term Financial Planning

At the January 28 workshop, BPA discussed the potential for accelerating amortization of regulatory assets for the purpose of minimizing Minimum Required Net Revenues (“MRNR”). BPA questioned whether it should change any of its approaches for regulatory asset accounting. BPA also questioned which regulatory assets would provide the best opportunity for a long-term benefit, if BPA were to accelerate regulatory asset amortization schedules.

In BP-20, AWEC filed Direct Testimony outlining the justification and the reasoning for accelerating amortization of BPA’s regulatory assets on BPA’s income statement. AWEC noted that it was possible to accelerate amortization of two key regulatory assets—the Conservation Acquisition regulatory asset and the Fish and Wildlife regulatory asset—without impacting rates. While it is counter-intuitive to think that amortization expenses will produce no rate impacts, the reason has to do with MRNR. In discovery, BPA had described why such a result was possible in the context of the proceeding:

[C]hanging amortization expense will not increase the total revenue requirement because of offsetting reductions to MRNR. This is true to the extent the increase [in] amortization expense is not greater than the otherwise expected MRNR. If the increase in amortization expense is greater than the expected MRNR, the total revenue requirement would increase by the amount that exceeds the MRNR.^{1/}

MRNR is a part of BPA's repayment theory, which was discussed in AWEC's Direct Testimony. As a result of BPA's repayment theory, BPA has developed a dual system of revenue requirement accounting, based on the higher of accrual revenue requirement or cash revenue requirement. In the BP-20 rate proceeding, AWEC discussed BPA's repayment theory:

From AWEC's perspective, BPA's repayment theory results in ratepayers overpaying for the cost of the Federal system. This is because the standard is based on the higher of accrual revenue requirement or cash revenue requirement. Viewed in isolation, either account[ing] system would result in cost recovery equal to 100% of BPA's expenditures over time. Yet, when both accounting systems are used in conjunction, it follows that such a dual system will lead to more than 100% of an investment being repaid.^{2/}

By accelerating regulatory asset amortization, MRNR can be minimized, avoiding the concern that AWEC raised about the long-term impacts of a dual accounting system. In other words, the accelerated amortization would cause the accrual-based revenue requirement to equal the cash-based revenue requirement, eliminating further long-term differences between the dual accounting systems.

In Rebuttal Testimony, BPA agreed that it was possible to begin accelerating regulatory assets without impacting revenue requirement. BPA also agreed generally that it was appropriate to do so. Notwithstanding, BPA subsequently decided not to accelerate amortization of the Conservation Acquisition regulatory asset within the context of the rate case, over concerns it was not able to make a customized amortization schedule to accomplish the objective.^{3/}

AWEC also understands BPA's concerns about developing a "customized" amortization schedule. As AWEC understands it, however, BPA's concerns have more to do with the uncertainty about how the additional amortization might impact BPA's financial statements, rather than the precise amount of amortization to include in rate case revenue

^{1/} BP-20-E-AW-01 at 6:10-16.

^{2/} BP-20-E-AW-01 at 10:16-21.

^{3/} Bonneville Power Administration, BP-20 Rate Proceeding Administrators Final Record of Decision, BP 20-A-03 at 11 (July 2019).

requirement. In Table 1 of BP-20-E-AW-01, AWEC detailed how to calculate the amount of amortization to include in revenue requirement based on the level of MRNR.

BPA collects revenues for MRNR from ratepayers, while incurring no associated accrual cost on its financial statements. This has resulted in a financial perspective that has shown positive net revenues for many years. For example, in the 2019 Q4 QBR, BPA reported positive net revenues for power services of \$257,800,000 in its accrual based financial statements. Part of these positive earnings resulted from the \$144,118,000 in average annual MRNR that was included in Table 3 of the BP-18 Final Proposal Revenue Requirement Study. Thus, MRNR has contributed to BPA's history of reporting positive net revenues.

Adopting accelerated amortization effectively eliminates the revenues associated with MRNR by offsetting the revenues with additional cost, and accordingly will make it more likely for BPA to recognize a loss on its financial statements. The loss associated with the additional amortization, however, is a paper one only because the additional amortization does not impact BPA's cashflows or financial reserves. In fact, perhaps showing a financial loss in such circumstances is more appropriate. Perhaps an accounting baseline, where MRNR revenues are zeroed-out, is a better indicator of BPA's financial condition than BPA's current financial statements, which do not consider the regulatory effects of the revenues paid in connection with MRNR.

From the perspective of BPA's income statement, BPA appears to be a robust and healthy utility. However, from a ratepayer perspective, the current operation of the financial reserves surcharge, even after BPA corrected the persistent reserves allocation error, demonstrates that BPA has still not reached its desired level of financial health. Given the disparity between the financial and ratepayer perspectives, AWEC supports BPA adopting new approaches for regulatory asset accounting.

It is important to recognize that the case for accelerating regulatory assets up to the MRNR level has to do with long-term rate impacts, since the proposal has no immediate impact on rates. Current rates are being established based on cashflow-based revenue requirement, and BPA has said that rates are likely to be set based on cashflows for some time. Notwithstanding, accelerated amortization could potentially delay the date that accrual-based revenue requirement exceeds the cashflow-basis revenue requirement. Further, when rates are once again set on an accrual-basis, ratepayers will be required to pay for fewer regulatory asset costs if BPA decides to now accelerate those costs. Even if BPA's rates are ultimately set based on a cashflow basis forever, accelerating amortization at least reduces the possibility that the accrual-based revenue requirement will eclipse the cashflow-based revenue requirement in a future period.

A. AWEC recommends BPA consider changing its regulatory asset accounting policy outside of a rate case process.

Because changing BPA's accounting policy to accelerate amortization does not necessarily require a change in rates, only a change in accounting policy, AWEC believes it is appropriate for BPA to consider changes to its regulatory asset accounting policy outside of a rate case.^{4/} Changing BPA's regulatory asset accounting outside of a rate case has a number of advantages, including the possibility for greater dialogue between BPA and stakeholders.

Further, AWEC requests BPA consider whether it may still be possible to accelerate amortizations of regulatory assets, or perhaps adopting a new accounting for MRNR revenues beginning on BPA's FY 2020 and FY 2021 financial statements, assuming BPA decides that a change in accounting is warranted.

B. Amortizing short-lived regulatory assets first has the greatest potential for ratepayer benefits.

AWEC discussed the regulatory assets that it believes to be most appropriately accelerated in BP-20-E-AW-01 at 6-8. Specifically, AWEC recommended accelerating the Conservation Acquisition and Fish and Wildlife regulatory assets. Generally, AWEC supports accelerating amortization of short-lived regulatory assets first, since those assets have the greatest potential to impact future rates, although as noted, the rate impacts may not occur for many years.

Given the history behind the Conservation Acquisition regulatory asset, AWEC supports amortizing that regulatory asset first. BPA once considered these funds associated with acquiring energy efficiency to be assets and amortizing the costs over 12 years. BPA has since changed its policy and no longer considers energy efficiency as an asset on its financial statements.

When BPA made the accounting change to expense energy efficiency, it did so for prospective energy efficiency expenditures only. BPA did not, for example, decide to write off the historical energy efficiency balances when making the decision to change accounting. Since BPA no longer considers energy efficiency expenditures to be an asset, it calls into question not only the prospective expenditures, but whether it is appropriate for BPA to continue to carry the historical energy efficiency balances on BPA's financial statements. If those historical balances can be written off, with no rate impact, then it makes plain business sense for BPA to write off the historical balances.

^{4/} See, e.g., Bonneville Power Administration, BP-16 Rate Proceeding Administrators Final Record of Decision, BP-16-A-02, at P-1 (July 2015).

After the Conservation Acquisition regulatory asset, AWEC supports amortizing the Fish and Wildlife regulatory assets. Those assets consist of properties that BPA does not own and are not considered in BPA's implementation of its leverage policy. On page 20 of BPA's 2018 Leverage Policy Record of Decision, BPA decided to exclude the Fish and Wildlife regulatory assets from the leverage ratio, describing those Fish and Wildlife balances as follows:

Bonneville excludes all regulatory assets, including those relating to Bonneville's direct F&W program, from this calculation because such spending does not result in an asset (or the product of an asset) owned or operated by Bonneville or its Federal partners and that generates revenue or directly supports a revenue generating asset. Bonneville provides funds in its F&W program to support third parties who then acquire assets, such as land, conservation easements, habitat improvements, and screens on irrigation canals. The investments that these third parties acquire do not result in assets attributable to the FCRPS.^{5/}

AWEC did not contest including these Fish and Wildlife expenditures in rates. AWEC does, however, have concerns about including the amounts as regulatory assets in rates since ratepayers don't realize the type of benefits typically associated with an asset for these expenditures. Given this background, AWEC believes it is appropriate to remove these expenditures from BPA's balance sheet, to the extent it is possible to do so without impacting rates.

C. AWEC recommends BPA look more broadly at regulatory accounting for MRNR

Prior to developing its initial proposal, AWEC recommends BPA look more broadly at its regulatory accounting and MRNR. In Direct Testimony in the BP-20 rate case, AWEC raised a number of concerns about BPA's repayment theory. AWEC recommended BPA consider 1) its ability to refinance Energy Northwest debt in the repayment study; 2) the term of obligations when levelizing debt service in the Diagonal Bricklayer model; and 3) relaxing the power repayment study based on the Order RA 6120.2 language. In advance of the BP-22 rate case, AWEC requests that BPA consider these alternative perspectives on the repayment study.

Further, AWEC believes there may be justification for BPA to change its regulatory accounting policy for the revenues that it collects for MRNR. Specifically, AWEC recommends BPA consider whether creating a regulatory liability for MRNR revenues is appropriate.

In terms of regulatory accounting for public utilities, the repayment study rules are somewhat unique. The dual revenue requirement accounting system BPA uses creates MRNR as a class of revenues, with no tracking of the underlying costs. When a regulator uses accounting that is different from the GAAP financial accounting framework, regulatory assets

^{5/} Bonneville Power Administration, Administrator's' Record of Decision Leverage Policy, at 20 (Sep. 2018).

and liabilities will arise. Normally, if an investor-owned utility were to collect revenues from customers to prepay future expenses, the prepaid revenues would be considered a regulatory liability for accrual purposes and amortized against the future expense.

When BPA's revenue requirement includes MRNR, BPA is collecting revenues for the purpose of prepaying the U.S. Treasury's investment. Thus, the expense associated for MRNR is the cost of the assets that BPA has borrowed for, including regulatory assets, using the U.S. Treasury's capital. On BPA's financial statements, the cost of assets is incurred over time through depreciation and amortization expenses.

Since the repayment study is performed for all debt in aggregate, it is nearly impossible to determine which particular assets are driving the MRNR amount. It would be difficult, for instance, to determine the total amount of MRNR attributable to the Fish and Wildlife regulatory asset.

Notwithstanding, since it is known that MRNR is attributable to depreciation and amortization, BPA could create a separate regulatory liability accounting for the revenues associated with MRNR, which is amortized over time in a manner offsetting the underlying depreciation and amortization expense. From an accrual perspective, such a regulatory accounting will better match revenues and expense.

BP-20 Settlement Update: Solar Study

According to the BP-20 Settlement update, BPA will present to customers and stakeholders "the costs and impacts of holding reserves in a non-flat shape, such as planned shaped diurnal reserve amounts. This presentation(s) will use the BP-18 Solar Integration Study with Solar modeling updates identified and implemented during BP-20 workshops to provide...[u]p to two shaped balancing reserve forecasts for all Generation Input customer classes." The two shaped balancing reserve forecasts for all Generation Input customer classes includes Dispatchable Energy Resource Balancing Service (DERBS). In both shaped reserve alternatives, Rolling and Seasonal, the reserves allocated to the DERBS class is lower relative to the Baseline. The corresponding DERBS rates in these two alternative scenarios are also lower than those in the Baseline. We believe there is material value to exploring further a shaped reserve operation and look forward to working with BPA to implement this operation.

Technical Requirements for Participating and Non-Participating Resources and EIM Metering Policies

AWEC is aware that BPA will be holding additional discussions exploring further details on non-federal resource requirements in the EIM. We continue to be concerned about what, if any, new requirements will be placed on cogeneration resources. We request that BPA highlight any potential changes for these resources so that we can provide input from our members with such resources. In addition, given the new and additional processes that accompany the different resource topics being addressed in the TC-22, BP-22, and EIM



workshops, AWEC requests BPA address how the Agency plans to keep track of the new processes and their relationship and effects to other topics.

Demand Response and Load Participation

AWEC is aware that both Demand Response and Load Participation in the EIM are topics to be discussed in the future. Nonetheless, AWEC continues to be interested in these topics and potential solutions going forward. AWEC acknowledges that neither Demand Response nor Load Participation is a priority at this time but does not want to lose sight of either topic given the numerous subjects to be discussed at a later date.

/s/ John Carr
Executive Director
Alliance of Western Energy Consumers