

September 18, 2020

Submitted electronically

RE: Comments on August BP/TC-22 Rate Case Workshops

Northwest Requirements Utilities (NRU) appreciates the opportunity to submit comments on the following topics in response to the proposals shared during the August workshops. (Note: our comments on transmission losses were previously submitted on September 14.)

Net Secondary Revenue Methodology

NRU members express appreciation for the time and creativity BPA staff and executives have put into considering potential modifications to the net secondary revenue (NSR) methodology. NRU observes that most of the Tier 1 rate volatility in the past eight years has stemmed from changes in secondary sales (namely, decreasing market prices).

Commendably, Tier 1 costs have stayed relatively flat over this period of time, meaning that the primary driver in Tier 1 rate increases has been decreases in secondary revenues. Nevertheless, the secondary revenue credit is a foundational component of the Tier 1 rate and is critical to keeping the rate affordable over time. Customers have braved the downside risk and now need to have access to the upside benefits as well. Forecasted market prices appear to be trending up, which will flow through as an increased rate credit, helping to keep the Tier 1 rate affordable (possibly even decreasing).

The proposal shared by BPA on August 26th will not provide customers the ability to access the upside potential from increased NSR. This is because any increase in NSR, forecast or actual, will not be credited to the Tier 1 rate but will instead flow into Power's financial reserves. Under the existing Financial Reserves Policy (FRP), financial reserves are inaccessible until (1) Power exceeds its upper threshold and (2) the agency exceeds its upper threshold. Even then, the Administrator maintains the discretion to use those excess reserves for a "higher value purpose," which could include rate relief,

early debt repayment, or financing capital projects. Thus, even if the upper thresholds are met, there is no guarantee the excess reserves will be used as a rate credit.

Given that Power's financial reserves are forecasted to be about \$300M at the end of this fiscal year and its upper threshold is about \$600M, this means an additional \$300M of ratepayer money would need to be held in BPA's coffers before the Administrator would have the opportunity to exercise their discretion to use the excess reserves as rate relief.

This would be unacceptable to NRU under normal circumstances, but is even more so given the economic recession caused by the pandemic and now the wildfires burning through our region.

Therefore, NRU strongly opposes the NSR methodology change proposed by BPA. NRU firmly believes any increase in NSR should flow to our local communities instead of being held in BPA's coffers.

EIM Phase III Letter

NRU strongly supports the phased process BPA has adopted to guide its consideration of joining the Energy Imbalance Market (EIM). BPA recently issued its draft Phase III letter where BPA discusses its proposed decisions on certain policy issues that do not have dependencies and connections with issues that fall into Phase IV, the TC-22 and BP-22 proceedings. Notably, there are few policy issues that fit within this narrow scope. NRU appreciates BPA's acknowledgement of the interconnectedness of various policy and rates issues and inclusion of those into Phase IV.

NRU does not object to the proposed policy decisions stated in the Phase III letter, with two qualifiers:

- We emphasize the importance of BPA monitoring the possible outcomes of these decisions and the possible need for modifications in future rate and tariff proceedings.
- We ask for transparency in the determination of the loss percentage used by the EIM.

Energy Imbalance (EI) and Generation Imbalance (GI) Deviation Bands

NRU does not oppose the proposal to remove the existing EI/GI deviation bands; however, we ask that BPA closely monitor any potential impact from this change during BP/TC-22 and provide regular updates to customers. Further, we ask that

evaluation of this change be included in the pre-BP/TC-24 workshops to ensure there are no unintended consequences, such as cost shifts or improper scheduling behavior.

Intentional Deviation (ID) and Persistent Deviation (PD) Penalties

NRU strongly supports the retention of ID and PD penalties. These are important tools to incentivize proper scheduling behavior and discourage loads and resources from leaning on BPA's Balancing Authority Area and to prevent accumulated imbalance energy on the FCRPS.

We ask BPA to monitor the effectiveness of the ID and PD penalties in BP/TC-22 and provide data and evaluation in the pre-BP/TC-24 workshops so we can ensure these penalties are functioning appropriately.

Section 7(f) Power Rate to Serve New Large Single Loads (NLSLs)

NRU expresses appreciation for the time and energy BPA staff have devoted to responding to our previous request to make it easier for Load Following customers to cost effectively serve NLSLs. NRU staff and members have similarly invested time in exploring potential changes to the 7(f) rate, or other mechanisms, to achieve that goal while limiting potential risk and cost shifts to other customers.

As shared with you in February, the NRU Board provided the following guidance:

- Any revised NR rate must provide load following services for the NLSL.
- Any revised NR rate must be available over time and not limited only to BPA having forecasted firm surplus power.
- There should be limits applied to the quantity of power sold at a revised NR rate. Those limits should be applied on a per-utility or per-NLSL basis to ensure the revised NR rate is available to future NLSLs and to multiple utilities.
- Consistent with Exhibit H of the Regional Dialogue contract, environmental attributes associated with power used to the serve the revised NR rate should be allocated to the utility as applicable.
- BPA Transmission should work to ensure it can timely respond to interconnection requests for the NLSLs so the revised NR rate can truly be available to Load Following customers.

Like you, we have been unable to develop a proposal that balances the desire for a competitively priced NLSL product without unduly shifting costs and risks to other Tier 1 customers. Consequently, we support your proposal to not develop an additional NLSL product for BP-22.

However, the conversations we had over the past year will be useful as we discuss post-2028 contracts and we believe we can apply some of this work to design a post-2028 construct that makes it easier for Load Following customers to competitively and more simply serve NLSLs.

Loads and Resource Forecasts

NRU appreciates the inclusion of “Tier 2 Load Service” in the chart of “Total Firm Obligations” (slide 97 of the August 26th presentation). This helps provide a more complete picture of BPA’s load/resource balance.

During the workshop, BPA stated that there may be potential changes in the hydro studies, such as increasing the data set to 90 water years or including climate changes. NRU asks that BPA shares any proposed changes in a public process.

Electricity Market Price Forecast

NRU offers the following comments and questions in response to the August 26th presentation that begins on slide 114.

- The chart on slide 120 shows AURORA market price forecasts for BP-22 of \$23.12/MWh, compared to ICE futures of \$29.30/MWh. NRU has acquired from a third-party AURORA forecasts which show an average market price of \$30.31/MWh for the same time period. Please discuss what might be causing such dramatic differences (\$7/MWh) between BPA’s AURORA runs, our third-party AURORA runs and ICE futures.
- Please discuss the impact of BPA’s AURORA assumption that effectively models the entire WECC as a single ISO as opposed to employing a zonal model with transfer limits (the latter being an assumption used by some third-parties in their AURORA modeling).
- Please share the WECC BA load forecasts that were used in the AURORA modeling.
- Please discuss whether the Social Cost of Carbon was included in the AURORA modeling.

Thank you for consideration of these comments. Additionally, NRU staff and members express appreciation to BPA staff for their regular engagements with customers over the past year of pre-rate case workshops. We covered a tremendous number of topics, including many new rates and policy issues, and we recognize the time and effort that

went into the development of rate case materials, the workshops, and reading and responding to customer comments.

Sincerely,

A handwritten signature in black ink that reads "Megan Stratman". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Megan Stratman
Rates and Policy Director