AWEC

Alliance of Western Energy Consumers ◆ 3519 NE 15th Ave., #249 ◆ Portland, OR 97212 ◆ 971-544-7169 ◆ www.awec.solutions

September 11, 2024

***Via Electronic Submission***

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

**Re: BP-26 August Workshops**

Dear Administrator Hairston:

The Alliance of Western Energy Consumers ("AWEC") appreciates the opportunity to provide feedback regarding the BP-26 Pre-Rate Case Workshops held on August 27th and 28th. We appreciate the presentations Bonneville Power Administration's ("BPA or "Agency") Staff and their ongoing engagement with customers.

While we understand that a comprehensive overview of BPA's rate proposal will be presented as part of BPA's rate case filing, the information that has been made available through the IPR and the BP-26 workshop series has made it appear nearly certain that Customers will be presented with a significant rate increase in the BP-26 Rate Adjustment Proceeding. It appears likely that significant increases will be proposed for both the power and transmission business lines. AWEC provided comments specific to the cost increase drivers associated with the IPR. As BPA prepares its initial proposal, it is critical to consider the cumulative effects of increases that are being discussed with customers in individual forums. In an effort to provide constructive and helpful feedback from customers to BPA, AWEC has attempted to consider each of BPA's proposals to increase spend and other rate drivers on its own merit. However, we are increasingly concerned that the cumulative effect of BPA's various proposals will lead to a rate increase in BP-26 that will simply not be tenable for customers.

Keeping this larger context in mind, AWEC provides the following comments on specific elements of the BP-26 process discussed at the August 27-28 workshops:

<u>*Customer Proposals*</u>

AWEC believes that BPA should continue to follow cost causation principles. BPA responded to two different customer proposals that had been submitted in a customer-led workshop on July 11: the Short-Distance Discount and Utility Delivery Charge. AWEC appreciates that BPA recognizes merit in further examination of the Short-Distance Discount proposal, which, we believe, would both incentivize customer investment in the system and recognize situations in which behind the meter generation reduces the impact of load on the BPA system. While BPA has stated that it is not feasible to take up this proposal in BP-26, we encourage BPA to look carefully at this proposal in a future rate adjustment proceeding.

On the other hand, the Northwest Requirements Utilities' proposal to roll in the utility delivery charge into network segment rates has been raised and considered by BPA and stakeholders in the past. This proposal has been opposed by many customers and rejected by BPA in the past on the grounds that it would shift costs that have been incurred to serve individual utilities into network rates, requiring all user of the network segment to subsidize specific utilities that find it hard to bear the costs of facilities created specifically to serve them alone. AWEC is sympathetic to the plight of a small group of customers paying a rate that feels painful and outsized but encourages BPA to look for other options for addressing this pain point that do not involve simply creating a subsidy when it comes back to stakeholders as part of its September meeting.

*Revenue Financing*

AWEC has, in the past, questioned whether the two-tiered revenue requirement methodology is optimal, or necessary. Given that BPA has not been receptive to alternatives, we acknowledge that within this framework, revenue financing does not lead to over-recovery or double recovery of the revenue requirement. Rather, AWEC questions the underlying rationale of using customer dollars to finance the system without commensurate value being returned to the customers for the use of their funds over time – which funds are collected above and beyond the lowest possible rates. We are disappointed that BPA continues to misapprehend the cost of supplying such capital to BPA and regularly refer to these dollars as though there is no cost of money associated with the funds. Customers can assure the agency that there is, and that we believe that the cost of revenue financing is generally much higher than BPA's cost of federal debt.

In the current environment, we urge the Agency to reconsider the levels of revenue financing that are proposed for the upcoming rate period. In the face of substantially greater IPR costs and uncertain markets both for the purchase of the additional power and capacity BPA is likely to need – let alone the uncertainty and lack of clarity currently surrounding net secondary sales rate relief – we believe that the path toward for potential consensus, or at least acceptance, of BP-26 rates very likely includes relaxation of BPA's revenue financing and leverage goals during the next rate period, while the impacts of recent inflationary periods and deferred maintenance are front and center in the conversation. Notably, BPA itself cites the critical decisional language:

> BPA may propose or adopt an amount of revenue financing for a given rate period that is greater than or less than the default amount, in response to circumstances including, but not limited to: changes in BPA's capital program, prior or forecast triggering of risk adjustment mechanisms, rate pressure, settlement, likelihood of achieving the debt- to-asset ratio policy goal, or whether an

amount of revenue financing greater or less than the default amount occurred in a prior rate period.[1]

BPA and its customers must cooperate in the face of changing energy markets, loads, emerging markets, and the aftermath of sustained inflation among other things. The answer to all of the pressures cannot simply be the inclusion of more costs in rates. AWEC encourages the Agency to look carefully at each cost bucket, but most particularly, those, such as revenue financing, that are discretionary in nature.

Regarding BPA's proposal to increase transmission revenue financing, AWEC strongly urges BPA to reconsider revenue financing that would exceed the 1% rate-impact cap included in the Sustainable Capital Financing Policy. By its very terms, the Sustainable Financing Policy is "intended to provide consistent, long-term guidance for BPA's use of debt and revenues to finance its capital investments."[2] AWEC is concerned that two years after its inception, BPA may be losing sight of the long-term nature of the Sustainable Financing Policy if its final proposal is to increase transmission revenue financing at an amount that would result in greater than a 1% rate impact to customers. As described more generally above, AWEC struggles to see how any potential customer benefits would outweigh adding an additional 3.4% (or greater) amount of rate pressure.

*DERBS*

BPA indicates that the Inc rate for Dispatchable Energy Resource Balancing Services ("DERBS") will increase by 248.8%, to approximately $74.30. DERBS is a relatively small portion of BPA's transmission revenue requirement and has generally been justified as a mechanism to incentivize good scheduling practices. Naturally, an increase of this magnitude is difficult for the small group of customers who pay this rate to bear. We understand from discussions during the workshop that significant increases in the cost of the resources that supply the approximately 13 MW of capacity needed for DERBS, exacerbated by the roll-off of the BP-22 DERBS settlement, is driving this potential increase.

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[1] Sustainable Capital Financing Policy at Section 5(2).
[2] Financial Plan 2022 at 8 (September 2022).

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While AWEC believes in appropriately valuing capacity, many customers continue to believe that DERBS is not designed in a way that accurately reflects the cost of serving Dispatch Energy Resources – particularly those that are cogeneration units integrally harnessed to changes in associated loads. We are hopeful that the studies underlying the initial proposal will support a lower rate than currently indicated, but AWEC believes that re-evaluation of the DERBS deadbands is appropriate in the face of a nearly 250% rate increase. We are interested in understanding what level of deadband would sufficiently incentivize good scheduling practices if a $74.30 rate for Incs is adopted. It is our belief that BPA can meet its goals regarding scheduling with far looser deadbands, given the extremely high rates indicated by current studies.

*/s/ William Gaines*
Executive Director
Alliance of Western Energy Consumers