September 7, 2018

Via Email (*techforum@bpa.gov*)

U.S. Department of Energy
Bonneville Power Administration
Transmission Services

Re: BP-20--Comments of Avangrid Renewables LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. on BPA Methodologies in Establishing Revenue Requirement

Avangrid Renewables LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. ("Commenting Parties") hereby submit the following in response to the BPA "BP-20 Rate Case Workshop: Revenue Requirement Follow-up" presentation on August 22, 2018.[1] Commenting Parties appreciate the opportunity to submit comments to BPA and look forward to working with BPA on these matters.

A. In Establishing the Revenue Requirement for BPA Transmission Rates, (i) the Inclusion of Depreciation on Revenue Financed Assets, and (ii) the Use of Higher of Depreciation and Repayment Obligations Should be Examined and Eliminated

Typically, depreciation is the method of recovering the investment in capital assets over time in utility ratemaking.[2] However, when BPA revenue finances[3] an asset, the investment in that asset is not recovered over time but has already been recovered (represented by financial reserves) or is recovered in what is essentially the current rate period. Accordingly, there is double recovery if an asset is both depreciated for rates and is revenue financed.

Comments submitted on August 8, 2018, in response to the July 25 BP-20 workshop pointed out that the role of depreciation in establishing BPA transmission rates should be examined, particularly in light of BPA revenue financing and the prospect that including

---

1 Bonneville Power Admin., BP-20 Rate Case Workshop: Revenue Requirement Follow-Up (August 22, 2018), available at https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.08.22_BP20_RevReq.pdf (the "August 22 Revenue Requirement Presentation").

2 *See, e.g.*, Federal Energy Regulatory Commission, Cost-of-Service Rates Manual at 19, available at https://www.ferc.gov/industries/gas/gen-info/cost-of-service-manual.doc.

3 As used in these comments, "revenue financing" is a general reference to (i) a mechanism that funds capital assets without financing them over a reasonable period in light of the useful life of the capital assets, such as funding capital investments from current revenues or from financial reserves, or (ii) a mechanism that repays Treasury obligations earlier than they would otherwise would be paid, in order to address leverage requirements or to increase access to Treasury borrowing authority.

depreciation for assets that have been revenue financed would lead to rates set to double-recover those investments:

> BPA has traditionally set rates based on the higher of depreciation (including amortization of intangibles) and repayment obligations. However, this approach must be reexamined. To the extent that BPA uses financing for assets that have a useful life longer than the period for which they are financed, then BPA must ensure that depreciation for such assets is not included in rates if and to the extent the capital cost has already been recovered in rates. For an extreme example, assuming that BPA could, and did, revenue finance all of its assets, use of depreciation in setting rates would double-collect the amount of the investment. It is imperative that BPA not include in the revenue requirement depreciation associated with any revenue financed assets.[4]

BPA's August 22 Revenue Requirement Presentation states at page 6 that BPA's transmission revenue requirement includes depreciation, *regardless* of the source of financing for the plant being depreciated:

> The transmission revenue requirement includes depreciation calculated on all plant placed into service regardless of the source of financing, including customer financed investments. The only exception is for facilities funded by customers that are exclusively for their use.

This statement does not respond to the double-counting issue raised in the August 8 Comments. BPA should respond to this issue. BPA's approach is (i) unfair and (ii) inconsistent with applicable statutory requirements. In this regard, section 7(a)(1) of the Northwest Power Act requires BPA to establish rates for the sale and transmission of power that shall

> *recover*, in accordance with sound business principles, the cost associated with the acquisition, conservation, and transmission of electric power, including *the amortization of the Federal investment in the Federal Columbia River Power System … over a reasonable period of years ….*[5]

This statutory standard addresses recovery of the cost of amortizing investment over a reasonable number of years and does not authorize BPA to revenue finance an asset and--assuming *arguendo* that BPA revenue finances an asset--does not authorize BPA to include in revenue requirement depreciation for the same asset, which results in double-recovery of investment.

---

4 BP-20 - Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. on the July 25 BP-20 Repayment Modeling Presentation and the July 25 BP-20 Revenue Requirement Presentation, at 2 (Aug. 8, 2018) (footnote omitted) (the "August 8 Comments") and available at https://www.bpa.gov/Finance/RateCases/BP-20/Comments/2018.08.08/Comments%20July%2025%20BP-20%20Workshop%20Presentations.pdf.

5 Section 7(a)(1) of the Northwest Power Act, 16 U.S.C. § 839e(a) (italics added). *See also* section 9 of the Federal Columbia River Transmission System Act, 16 U.S.C. § 838g, and section 5 of the Flood Control Act of 1944, 16 U.S.C. § 825s.

Such double-recovery appears to be symptomatic of BPA's use of both cash and accrual methodologies in its ratemaking, which BPA should address.[6] The use of the higher of depreciation and repayment obligations in establishing BPA's revenue requirement will result in over-recovery of BPA investment. This over-recovery, like BPA's inclusion in revenue requirement of depreciation on revenue financed assets, is both unfair and contrary to BPA's obligation to set rates in accordance with section 7(a)(1) of the Northwest Power Act.

Attached as Attachment A is a spreadsheet that illustrates, in simplified form with hypothetical examples, over-recovery of BPA investment that results from (i) BPA's setting revenue requirement based on the higher of depreciation (including amortization of intangibles) and repayment obligations, and (ii) BPA's inclusion in revenue requirement of depreciation on revenue financed assets. For the reasons set forth above, (i) the inclusion of depreciation on revenue financed assets, and (ii) the use of the higher of depreciation and repayment obligations should be eliminated, in establishing the revenue requirement for BPA transmission rates,.

Comments submitted on June 28, 2018 requested workshops to address revenue financing and capital expenditure forecasts.[7] BPA should hold such workshops, which should include an opportunity to address the issues discussed above in these comments.

* * *

Commenting Parties appreciate BPA's review of these comments and consideration of the recommendations contained herein. By return e-mail, please confirm BPA's receipt of these comments.

---

[6] For example, the August 22, 2018 AWEC BP-20 comments to BPA, available at https://www.bpa.gov/Finance/RateCases/BP-20/Comments/2018.08.22/AWEC%20Comments%20on%20BP-20_TX%20and%20Power%20Rates%20(8.22.18).pdf , raise issues in this regard to which BPA should respond. The AWEC comments include the following at page 4, to which BPA should respond:

> Requiring ratepayers to pay the higher of accrual accounting or cash accounting is fundamentally unfair and results in ratepayers systematically overpaying for their use of the federal investment, due to the timing differences surrounding the schedule of depreciation and the schedule of principal repayment.

[7] BP-20--Comments of Avangrid Renewables LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. on the Scheduling, System Control and Dispatch (SCD) Service and Additional Workshops to Address Revenue Financing and Capital Expenditure Forecasts, dated June 28, 2018 and available at https://www.bpa.gov/Finance/RateCases/BP-20/Comments/2018.06.28/Avangrid,%20Avista,%20Idaho%20Power,%20PacifiCorp,%20PGE,%20and%20PSE%20Comments%20re%20SCD%20and%20Request%20for%20Workshops.pdf

Attachment A

BPA Transmission Plant

Analysis of BPA Policy "Recover Greater of Depreciation/Amortization and Repayment Obligation"

Capital Investment	1,000
Borrowing	1,000

	# of yrs	$/yr	Total Recovery	yr1	yr2	yr3	yr4	yr5	yr6	yr7	yr8	yr9	yr10	yr11	yr12	yr13
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20
Repayment (yrs)	30	33	1,000	33	33	33	33	33	33	33	33	33	33	33	33	33
Total Recovery	50		1,400	33	33	33	33	33	33	33	33	33	33	33	33	33
Over Recovery			400													

Analysis of BPA Revenue Financed Plant Investment Recovery and Depreciation/Amortization Policy

Capital Investment	1,000
Borrowing	700
Revenue Financing	300

	# of yrs	$/yr	Total Recovery	yr1	yr2	yr3	yr4	yr5	yr6	yr7	yr8	yr9	yr10	yr11	yr12	yr13
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20
Repayment (yrs)	30	23	700	23	23	23	23	23	23	23	23	23	23	23	23	23
Revenue Finance	1	300	300	300												
Total Recovery	50		1,400	323	23	23	23	23	23	23	23	23	23	23	23	23
Over Recovery			400													

Analysis of BPA Revenue Financing and Depreciation

Capital Investment	1,000
Revenue Financing	300

	# of yrs	$/yr	Total Recovery	yr1	yr2	yr3	yr4	yr5	yr6	yr7	yr8	yr9	yr10	yr11	yr12	yr13
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20
Revenue Finance	1	300	300	300												
Total Recovery	50		1,300	320	20	20	20	20	20	20	20	20	20	20	20	20
Over Recovery			300													

BPA Transmission Plant

Analysis of BPA Policy "Recover Greater of Depreciation/Amortization and R

Capital Investment	1,000
Borrowing	1,000

	# of yrs	$/yr	Total Recovery	yr14	yr15	yr16	yr17	yr18	yr19	yr20	yr21	yr22	yr23	yr24	yr25	yr26	yr27	yr28	yr29
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Repayment (yrs)	30	33	1,000	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Total Recovery	50		1,400	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Over Recovery			400																

Analysis of BPA Revenue Financed Plant Investment Recovery and Depreciat

Capital Investment	1,000
Borrowing	700
Revenue Financing	300

	# of yrs	$/yr	Total Recovery	yr14	yr15	yr16	yr17	yr18	yr19	yr20	yr21	yr22	yr23	yr24	yr25	yr26	yr27	yr28	yr29
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Repayment (yrs)	30	23	700	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23
Revenue Finance	1	300	300																
Total Recovery	50		1,400	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23
Over Recovery			400																

Analysis of BPA Revenue Financing and Depreciation

Capital Investment	1,000
Revenue Financing	300

	# of yrs	$/yr	Total Recovery	yr14	yr15	yr16	yr17	yr18	yr19	yr20	yr21	yr22	yr23	yr24	yr25	yr26	yr27	yr28	yr29
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Revenue Finance	1	300	300																
Total Recovery	50		1,300	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Over Recovery			300																

BPA Transmission Plant

Analysis of BPA Policy "Recover Greater of Depreciation/Amortization and R

Capital Investment	1,000
Borrowing	1,000

	# of yrs	$/yr	Total Recovery	yr30	yr31	yr32	yr33	yr34	yr35	yr36	yr37	yr38	yr39	yr40	yr41	yr42	yr43	yr44	yr45
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Repayment (yrs)	30	33	1,000	33															
Total Recovery	50		1,400	33	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Over Recovery			400																

Analysis of BPA Revenue Financed Plant Investment Recovery and Depreciat

Capital Investment	1,000
Borrowing	700
Revenue Financing	300

	# of yrs	$/yr	Total Recovery	yr30	yr31	yr32	yr33	yr34	yr35	yr36	yr37	yr38	yr39	yr40	yr41	yr42	yr43	yr44	yr45
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Repayment (yrs)	30	23	700	23															
Revenue Finance	1	300	300																
Total Recovery	50		1,400	23	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Over Recovery			400																

Analysis of BPA Revenue Financing and Depreciation

Capital Investment	1,000
Revenue Financing	300

	# of yrs	$/yr	Total Recovery	yr30	yr31	yr32	yr33	yr34	yr35	yr36	yr37	yr38	yr39	yr40	yr41	yr42	yr43	yr44	yr45
Depreciate (yrs)	50	20	1,000	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Revenue Finance	1	300	300																
Total Recovery	50		1,300	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Over Recovery			300																

BPA Transmission Plant

Analysis of BPA Policy "Recover Greater of Depreciation/Amortization and R

Capital Investment	1,000
Borrowing	1,000

	# of yrs	$/yr	Total Recovery		yr46	yr47	yr48	yr49	yr50
Depreciate (yrs)	50	20	1,000		20	20	20	20	20
Repayment (yrs)	30	33	1,000						
Total Recovery	50		1,400		20	20	20	20	20
Over Recovery			400						

Analysis of BPA Revenue Financed Plant Investment Recovery and Depreciat

Capital Investment	1,000
Borrowing	700
Revenue Financing	300

	# of yrs	$/yr	Total Recovery		yr46	yr47	yr48	yr49	yr50
Depreciate (yrs)	50	20	1,000		20	20	20	20	20
Repayment (yrs)	30	23	700						
Revenue Finance	1	300	300						
Total Recovery	50		1,400		20	20	20	20	20
Over Recovery			400						

Analysis of BPA Revenue Financing and Depreciation

Capital Investment	1,000
Revenue Financing	300

	# of yrs	$/yr	Total Recovery		yr46	yr47	yr48	yr49	yr50
Depreciate (yrs)	50	20	1,000		20	20	20	20	20
Revenue Finance	1	300	300						
Total Recovery	50		1,300		20	20	20	20	20
Over Recovery			300						