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August 8, 2018

VIA EMAIL

RE: Powerex Comments: BPA BP-20 Workshop, July 25, 2018

Powerex appreciates the opportunity to comment on materials presented on July 25, 2018 regarding BPA's Capital Financing, Preliminary Rate Estimates, Revenue Requirements and Repayment Model, etc. Powerex is pleased that BPA is working to reduce anticipated BP-20 rate increases. Powerex provides some brief comments and questions below to better understand the BP-20 Rate Previews and the key drivers behind any rate increases, with a particular focus on Transmission Services.

BP-20 Rate Previews

In the "BP-20 Rate Previews" document, BPA identifies a number of upward rate pressures to Transmission Services that are expected to cause a rate increase of around ten percent in BP-20. The main driver is explained to be an updated depreciation study combined with updating Transmission plant assumptions.

The upward pressure on BP-20 rates associated with the depreciation study and plant updates is quite concerning for Transmission customers. First, BPA has indicated that the depreciation study is not a workshop or rate case topic, and thus cannot be further explored by customers. However, BPA should not allow this study—the cause of significant increase in the Transmission revenue requirement—to be left unaddressed, and BPA should accept and consider customer comments on the study. Second, our own review of this study suggests that it should have downward (not upward) pressure on Transmission rates, because the study states that: *"Most average service lives are longer than those currently utilized."* The study appears to either conclude that BPA should adopt longer service lives than it does currently, or that the study has in fact, extended service lives. In either case, Powerex would have expected that extending the service lives should have allowed for a *reduction* in depreciation, and would as a result, apply downward pressure. We would greatly appreciate BPA providing additional information as to why there is upward rate pressure from depreciation instead of a downward pressure.

Powerex also requests more detail on the net interest expense, including what capital financing instrument(s) is involved in the investments for which there are increasing interest expenses (e.g., Treasury borrowing, Lease-purchase financing, etc.)? Also, what interest rate and, if applicable, administrative fees, are assumed? If BPA foregoes Lease-purchase arrangements for BP-20 (as may result due to decisions involving a preference for using tax-exempt RCD), how will this $28 million/year upward rate pressure change?

Powerex also notes that the I-5 Corridor/South of Allston study cost write-off decision is a significant factor in the upward rate pressure for Transmission. Powerex would appreciate if BPA would provide more information regarding this write-off. Specifically, over what time frame did BPA perform the $130 million study, and was this study exclusively limited to the I-5 corridor (SOA) upgrade? BPA explained that the Administrator chose to write-off this effort and treat the investment as a regulatory asset. Were other approaches to this write-off considered that could reduce the impact over the next five years, starting with BP-20? Has BPA experienced writing off other studies, and if so, did BPA handle those write-offs similarly to its proposal for BP-20?

Finally, at the July 25 workshop, BPA stated that it was pursuing cost reductions with the aim of keeping Power rate impacts at or below the rate of inflation. Powerex appreciates BPA's commitment to achieving reasonable cost savings across its business lines. Powerex is hopeful that BPA will also aim to pursue reductions in the previewed Transmission rate increase. Powerex looks forward to responses to our above questions and concerns that may impact Transmission rates, as well as information on any additional cost reductions BPA is pursuing.

Revenue Requirements

With reference to the "BP-20 Rate Case Workshop: Revenue Requirement" presentation, Powerex commends BPA on its decision to modify its revenue requirement reporting to eliminate what it calls the "RCD effect", and instead, display directly the RCD transactions. Given the significance of RCD, we believe that it is important to report its effect with as much transparency as possible.

In the spirit of transparency, as well as getting used to the accounting changes that were described at the workshop, Powerex would greatly appreciate BPA preparing side-by-side comparisons of current and "new" accounting for the affected reports, e.g., cash flow and revenue requirements, etc. This request is intended to reduce confusion going forward and during the BP-20 proceeding itself.

Secondly, with regard to "Capital Financing Assumptions" (slide 13): Given the fluidity of BPA's decisions regarding capital financing, it would be helpful to know the assumption(s) associated with funding Transmission expenses. Specifically, what dollar amount of investment is assumed to be financed with federal debt (75%) and lease-purchase (25%) and what are the associated assumed interest rate(s), and, if applicable, administrative fees?

Finally, Powerex also requests the following further detail and explanation on the major changes indicated between BP-18 and BP-20, as displayed in the "Transmission Comparison to BP-18", slide 25:

a. Line 5: Does this change between BP-18 and BP-20 reflect the approximately $20 million increase associated with the Ancillary Service expenses that used to be directly allocated to Power, but which BPA plans to allocate to Power through Ancillary Services?
b. Line 8: Please reconcile the approximately $72 million increase between BP-18 and BP-20, as this is significantly more than the impact associated with updating the depreciation study and plant data reported in the "BP-20 Rate Previews" document.
c. Line 18: What is causing an increase in interest on long-term debt? What form of financing is assumed, and what interest rate is assumed?

Thank you in advance for addressing these questions and furthering our understanding of BPA's financial picture.

Submitted by:

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Powerex