PUBLIC POWER COUNCIL
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RE: PPC Comments on September 29 TC/BP/EIM Workshop

PPC appreciates the opportunity to comment on the last planned meeting of the TC/BP/EIM workshop series held on September 29. We would like to reiterate our thanks to BPA staff for working with customers throughout these workshops, particularly given the difficulty of conducting remote meetings in response to the COVID-19 pandemic. In this workshop series, issues have continued to evolve through the last meeting held in September. We anticipate that there may be additional opportunities to work on some of the issues addressed during the workshop series in advance of the rate case and expect that additional information will become available during the rate and tariff process. The comments below are offered based on our current understanding of the issues addressed in BPA's workshops, which may further evolve as more information becomes available.

Rate and Finance Issues

The rate and financial policy issues raised by BPA staff at the September 29 workshop are extremely impactful to customers. While PPC appreciates these issues and proposals being raised in the pre-rate case process, it is frustrating for customers that access to capital and debt repayment issues with this potential magnitude of rate impact are being raised this late. This timing is particularly challenging for customers that have already had to make budgeting assumptions for their BPA related costs.

PPC wishes to engage as productively as possible, but unfortunately lacks key specifics at this point to comment on BPA staff's proposals in a fully informed manner. We appreciate the initial follow up information provided by BPA and hope to use remaining time ahead of the formal rate case process as efficiently as possible to exchange information.

Based on the information and analysis available to date, it appears that access to capital challenges have been, and will continue to be, driven by transmission for at least 10 years to come. As such, solutions must come through transmission rates and asset management implementation. Caution should be taken given the potential sensitivity of analysis to long-term assumptions and potentially large rate impacts.

On the Power rate side, PPC has strong concern regarding the lack of accounting for customer cost of capital and resulting approaches that do not set power rates at the lowest possible level consistent with sound business principles. In this instance, lack of definition around the potential amount of debt repayment for Power under BPA staff's proposal is highly problematic for customers' ability to evaluate attendant costs and benefits. PPC is also concerned about how ad hoc repayment of additional debt interacts with existing financial policy implementation.

For these financial issues for both business lines, BPA should produce a well-supported, transparently documented initial proposal in BP-22 that lays out approaches. Wherever possible, PPC supports starting with a "status quo" implementation of existing policies as the base case.

PPC also supports determination of long-term approaches to financial policy implementation beyond BP-22 to be in a comprehensive process following or in parallel to the rate case. All options and approaches must be on the table longer term regarding access to capital. Of particular urgency, BPA must immediately work to restart lease-purchase capability and examine possibilities to expand the program beyond its historical scope. Exploration of other commercial and financial arrangements with customers to extend access to capital must also begin. The example of BPA's work with Lower Valley Electric on the Hooper Springs line leasing arrangement has been touted numerous times by BPA leadership as an example of the different approaches the agency can take to transmission capital investment. However this is just one project, and further efforts to explore and implement such creative measures that ultimately reduce the agency's continually growing appetite for capital are more urgent than ever.

The magnitude of potential revenue financing as currently proposed places heightened urgency on transmission asset management issues. For the BP-22 rate period and beyond this includes re-examination of planned size and prioritization of the capital program and the assumed level of execution. PPC also believes there is immediate need for greater transparency and potential exploration for formal customer involvement in the asset management process. Not only do customers ultimately bear all costs, benefits, and risks of asset management implementation, but they also have unique expertise and experience to bring to the table as partners with BPA.

Assumed Benefits of EIM Participation

In light of the foregoing comments on financial and rate issues, PPC reaffirms its position on inclusion of EIM benefits in rates for BP-22 and going forward. Specifically, assumed EIM benefits should be risk informed, but consistent with analysis supporting the final decision process. Currently, BPA is proposing to include in power rates less than 10% of the projected annual benefits to Power Service captured in its latest business case for BPA's EIM participation. This assumption is concerning and suggests that the agency no longer has confidence in the benefit analysis it used as justification for signing the EIM Implementation Agreement.

PPC looks forward to working with BPA during BP-22 to ensure the agency is setting rates at the lowest possible level consistent with sound business principles. At the same time, the agency will be working towards making its final decision on EIM participation after the BP-22 and TC-22 proceedings conclude. As stated above, the benefits captured in the rate case should be consistent with the analysis supporting the final decision process. PPC will expect these two estimates to be aligned when BPA makes its final decision on EIM participation.

Transmission Losses

In addition to our previous comments on BPA transmission loss issues, PPC offers the following considerations in response to the latest information presented at the September workshop.

When determining the granularity of the loss factor BPA will use, the agency should consider the tradeoff between increased accuracy and increased administrative burden. The agency should strive to set the loss factor at a level that will ensure Power Services is correctly compensated for the losses provided, both by those settling with in-kind losses and those settling losses financially. However, BPA should also acknowledge that frequent updates of the loss factor creates the potential for errors in calculation and can increases the administrative burden, for both the agency and customers. Analysis on average losses on the system during different time periods should inform the approach that best balances these two interests.

PPC appreciates BPA's sharing such analysis, which indicated the average Network-wide losses that occur on the system at monthly, seasonal, and annual granularities. It is our understanding - based on the updated data posted by BPA after the September workshop, along with our analysis using the "Network Loss Factor: TTSL 2017-19 Data" posted earlier in the process - that an with an updated definition of the seasons, a seasonal loss factor would result negligible additional error in calculating losses as compared to using a monthly loss factor. It also appears that making similar adjustments to the seasonal definitions in the "two-season" option would have comparable impacts, again resulting in negligible additional error in loss calculation compared to the monthly loss factor proposal.

Given this updated analysis, BPA should move to either a four or two season loss factor which appears to significantly reduce opportunities for scheduling and calculation errors as well as additional administrative burden through fewer changes in the loss factor, while introducing a very small amount of additional error into the calculation of losses on the Network. Given the recent updates to the analysis, BPA should consider working with customers to further refine this analysis to best define each "season" in a way that will facilitate customers' return of losses while still minimizing the error in the loss calculation.

PPC continues to support Power Services' recovery of the cost of the capacity it supplies to provide in-kind losses. As we have stated previously, PPC supports ensuring that Power Services is fully compensated for any use of the FCRPS and that preference customers should be credited for those additional revenues associated with that capacity. To the extent this capacity is supplied to support in-kind loss returns, Power Services should develop a mechanism for recovering the cost of that capacity. Even with the additional details supplied in the September workshop, PPC has some outstanding questions on the methodology proposed by BPA for calculating the amount of capacity supplied, the associated price, and the crediting mechanism for preference customers. Details of the proposed methodology should be further explored during the rate case to ensure an equitable assignment of costs.

PPC also continues to support the need for creating a Financial for Inaccuracy charge to incent accurate and timely return of losses to BPA Power Services. The agency's proposal for the Financial for Inaccuracy (FFI) charge as described at the September workshop appears reasonable. We support inclusion of a penalty adder for both the capacity and energy supplied as proposed by BPA. The proposed level of this penalty also appears appropriate as the penalty should be high enough to deter inaccurate scheduling, but not be overly punitive to customers who rarely experience errors in returning losses. In order to ensure the proposed penalty provides a sufficient deterrent for inaccurate scheduling, BPA should monitor the occurrence of FFI during BP-22.

EIM Rate Schedule Language

PPC appreciates BPA's thorough review of its proposed rate schedule language related to its EIM participation. Tariff and rate schedule language used by other EIM Entities may be a good starting point, but it is necessary to conduct a thorough evaluation of that language and associated policies to identify areas where BPA may need to deviate based on its own particular circumstances. BPA has statutory obligations that the agency must comply with during its EIM participation and that may require deviations from "FERC approved" language. Additionally, the agency has a diverse set of stakeholders and users of its transmission system, which may also require unique approaches to EIM participation. While we understand the desire to be consistent with other EIM Entity practices to reduce the occurrence of seams issues, there may be times when it is appropriate to take an alternative approach. In the Initial Proposal, BPA should describe how it evaluated BPA's unique position in determining whether policies used by other EIM Entities would be applicable to BPA as statute driven agency.

One helpful distinction BPA introduced during the September workshop is the additional specifications made in the GRSPs related to Interchange and Intrachange. The creation of "Intrachange" imbalance appears to be a helpful tool to facilitate BPA's participation. The ability to apply charges through Intrachange imbalance should remain a voluntary option as described by BPA in the September workshop.

EIM Charge Code Allocation & Powerex Proposal

The proposal presented by Powerex raised several questions on the potential impacts to firm transmission once BPA joins the EIM, including how use of non-firm transmission could expose firm users to additional congestion costs. In response to the latest round of customer comments, we would appreciate BPA sharing its perspective on the Powerex proposal including: whether the agency shares the concerns raised by Powerex, whether the solutions proposed by Powerex are viable options for BPA in BP-22 or future rate cases, and whether BPA has considered any other potential solutions to address the concerns raised by Powerex.

Regardless of whether BPA changes its proposed approach to EIM Charge Code allocation in BP-22, the agency should commit to a review the amount of costs allocated to firm transmission associated with changes in schedules made between T-57 and T-20 as well as the impacts of non-firm use on congestion assessed to firm customers.

EIM Implementation, Assessment and Reporting

PPC reiterates its request that BPA make a commitment to regularly monitor and report out to customers on aspects of its EIM participation for the first two years after it goes live. We appreciate that BPA staff has shared this request with the EIM implementation team as noted in the September 29 workshop slides; however, this request is not only focused on implementation issues, but will also inform important rate and tariff issues as well. The agency - including the rates, tariff, and EIM implementation team - should work with customers to develop a regular reporting structure on the impacts of the agency's participation in the EIM on power and transmission rates and services. PPC's request has focused on a quarterly review of specific aspects of BPA participation, but we believe that this request can be improved and refined through a joint customer and BPA effort to develop an assessment and reporting structure going forward. BPA should make a formal commitment to a monitoring effort in the rate and tariff process.