Comments of the
M-S-R Public Power Agency
Charge Code Allocations
Grid Modernization Cost Allocation
Leverage Policy Implementation

The M-S-R Public Power Agency[1] (M-S-R) appreciates the opportunity to comment on BPA's BP-22, TC-22 and EIM initiatives. M-S-R's comments focus on the workshops and discussions respecting Energy Imbalance Market ("EIM") charge code cost allocations, Grid Modernization program cost allocations, and Leverage Policy Implementation issues.

Charge Code Allocations

M-S-R understands BPA Staff proposes a phased-in approach, sub-allocating only a subset of charge codes in BP-22, and developing additional sub-allocations in BP-24 and BP-26, as it gains experience with EIM. However, the proposal to roll many EIM charge code costs into Transmission rates imposes EIM charge code costs on entities that are not participating in the EIM. Such treatment fails to follow cost-causation principles.

M-S-R understands that during the BP-22 rate period BPA will be the only EIM participant during the first year of the rate period, with plans for non-Federal generation to have access beginning in the second year of the rate period. As such, during at least the first year the entity causing the costs will be BPA's generation

[1] The M-S-R Public Power Agency ("M-S-R") is a joint powers agency formed by the Modesto Irrigation District, and the Cities of Santa Clara and Redding, California, each of which is a consumer owned utility. Beginning with a 2005 contract, M-S-R obtained contractual rights to the output from some of the first large scale wind resources developed in Washington State. M-S-R and its members currently have rights to 350 MW of wind generation in Washington and Oregon, which its members use to serve their customers and meet California's Renewable Portfolio Standards. Those customers ultimately bear the cost of the Bonneville Power Administration ("BPA") Transmission and ancillary services rates and charges.

fleet. As such, the costs imposed through the EIM charge codes will initially depend exclusively on BPA's actions as a participant in the EIM.

The decision to participate in the EIM depends to a degree on the cost benefit analysis performed on BPA's behalf. A decision to proceed with participation will presumably depend on benefits exceeding the costs associated with participation. Given that BPA will be the initial sole participant, and given uncertainty regarding the magnitude of the charge code costs, a preferable Transmission rate treatment for EIM charges would be to plan on the benefits covering the costs, with no additional costs or benefits built into Transmission rates. M-S-R understands this approach is being proposed for Power rates, and asserts the same is likewise appropriate for Transmission rates in BP-22. In subsequent rate periods, after sufficient experience is gained with the EIM, the costs can be flowed through using a sub-allocation informed by experience and cost causation.

Grid Modernization

M-S-R understands the total cost of the Grid Modernization program over its six year planned life is $75 million, or $12.5 million per year. During the August 26, 2020 workshop, BPA Staff made a presentation regarding the justification of its allocation of 65% of the Grid Modernization program costs to Transmission and 35% to Power. M-S-R understood the explanation to be that the allocation was in line a historical look at which business line was doing the work.

M-S-R asserts that the primary beneficiary of the Grid Modernization will be Power, enabled by Grid Modernization to reach new customers through the EIM. The fact that Transmission incurred costs to implement the program does not justify allocating the program costs to Transmission. A more equitable program cost split must be implemented in the BP-22 rate proceedings.

Leverage Policy

M-S-R appreciates the additional explanations provided by BPA Staff with regard to its modified interpretation of the Leverage Policy calculations. M-S-R understands BPA Staff identified three implementation issues that were skewing the results of the Leverage calculation, and BPA Staff intends to modify its implementation of the calculation. Specifically, BPA Staff explained it plans to: (1) include "deferred borrowing" in the Federal debt value; (2) include non-BPA financed capital investments as forecast plant in the value used for net utility plant

in the forecast; and (3) adjust the value of net utility plant using a 3-year rolling average of actual retirements and adjustments to depreciation.

While the basic formula BPA included in the Leverage Policy is straightforward, there appear to be details that BPA Staff addresses in its interpretation and implementation of the policy. M-S-R appreciates BPA Staff's explanations of the implementation details and would appreciate opportunities for exploring the implementation details further. For example, would the use of actual values instead of capital expenditure forecasts have a material impact on the Leverage calculations? M-S-R would also appreciate an explanation as to how inclusion of "deferred borrowing" in the Federal debt value relates to the Leverage Policy's treatment of financial reserves.

Conclusion

In conclusion, M-S-R appreciates the opportunity to comment on these important issues. M-S-R reserves the right to comment further as the issues develop.