

2012 BPA Rate Case Customer Workshop

Transmission Rate Development

July 14, 2010



Transmission Rates Workshop Agenda

9:00 A.M. – Noon

- **Opening and Introduction**
- **Transmission Rate Development**
 - Parking Lot Issues
 - Use of Transmission Reserves
 - Power Factor Penalty Charge: Transfer Service
 - Montana Intertie – Brief Update
 - Reservation Fee – Deferral Analysis
 - Incremental Rate
 - Short Distance Discount/Unauthorized Increase Charge
- **Next Steps**



Acronym List

- BAA – Balancing Authority Area
- CF – Conditional Firm
- COB – California-Oregon Border
- CSL – Customer Served Load
- DNR – Designated Network Resource
- FCRTS – Federal Columbia River Transmission System
- HLH – Heavy Load Hour
- IR – Integration of Resources
- NEPA – National Environmental Policy Act
- NOS – Network Open Season
- NT – Network Transmission
- OATT – Open Access Transmission Tariff
- POD – Point of Delivery
- POR – Point of Receipt
- PTP – Point to Point
- PV – Present Value
- SDD – Short Distance Discount
- SI – Southern Intertie
- TSA – Transmission Service Agreement
- TSR – Transmission Service Request
- UD – Utility Delivery
- UFT – Use of Facilities



Objective

- Our objective today is continued discussion of transmission parking lot issues for the FY12-13 BPA Rate Case.
- The alternatives discussed for each parking lot topic do not reflect BPA commitment to adopt any particular proposal or position in the Initial Proposal.
- Today's discussion is preliminary and pre-decisional.
- We look forward to working together to better understand the issues that will help shape the development of the Initial Proposal.



Rate Making Principles

- Full and timely cost recovery
- Lowest possible rates consistent with sound business principles
- Cost causation—fairly allocate costs to customers based on proportionate use
- Statutory requirement of equitable allocation
- Simplicity, understandability, public acceptance, and feasibility of application
- Avoidance of rate shock and rate stability from rate period to rate period (e.g., magnitude of rates and rate design)



TR-12 Transmission Parking Lot Topics

- The transmission parking lot issues are primarily rate case topics submitted by customers. The alternatives for each parking lot topic do not reflect BPA commitment to adopt any particular proposal or position. All discussions are **preliminary** and **pre-decisional**.

	Parking Lot Topic	Status of Workshop Meetings
1	Incremental Cost Rates	See Meeting Handouts on: 4/14, 7/14
2	Delivery Charge	See Meeting Handouts on: 4/14, 6/17, 8/18
3	Short Distance Discount Added to Southern Intertie	See Meeting Handouts on: 4/14, 7/14
4	Reservation Fee	See Meeting Handouts on: 4/14, 7/14, 8/18
5	CSL Replacement (Short Distance Discount)	See Meeting Handouts on: 4/14, 7/14, 8/18
6	Transmission Segmentation	See Meeting Handouts on: 4/14, 6/17, 7/14, 9/15
7	Revenue Requirement	See Meeting Handouts on: 9/8 (tentative)
8	Revenue/Load Forecasting/LGIA Credits	See Meeting Handouts on: 9/15
9	Risk Analysis	See Meeting Handouts on: 9/15
10	Use of Cash Reserves	See Meeting Handouts on: 5/26, 7/14
11	Montana/Eastern Intertie	See Meeting Handouts on: 6/17, 7/14, 8/18
12	Overall Transmission Rates (No Surprises)	To Be Scheduled
13	Power Factor Penalty: Transfer Service, Ratchet Demand	See Meeting Handouts on: 7/14, 8/18
14	Customer Reasons for Unsold UD Facilities	See Meeting Handouts on: 6/17
15	Does rolling-in the Montana Intertie into the Network mean that Generators Interconnecting at Townsend would be in the Bonneville BAA and take Control Area services from BPA?	To Be Scheduled
16	Unauthorized Increase Charge	See Meeting Handouts on: 7/14, 8/18

Note: Workshop topics are subject to change without notice



Use of Reserves



Use of Financial Reserves

- At the May 26th workshop, we discussed the appropriateness of temporarily using some of the financial reserves attributed to Transmission to support the Treasury Payment Probability for Power in the upcoming rate case. This would reduce the amount of Planned Net Revenue for Risk in Power rates (see Appendix for more background information).
- Three options for the risk analysis modeling were discussed:
 1. Keep business unit reserves separate with no reliance by one business unit on the other's reserves (status quo).
 2. Treat all reserves as one pool, with no business unit distinctions, that can be drawn on by either business unit, as needed. This would probably require an Agency TPP calculation.
 3. Keep Power and Transmission reserves separate but model the capability of either a) explicit or b) implicit inter-business unit loans.
- Power customers have shown some support for Option 3.
- We would like to hear the views of Transmission stakeholders.



Power Factor Penalty Charge: - Transfer Service



Power Factor Penalty Charge Introduction

- Review the Transmission Rate Schedule provision to establish a common understanding of the Power Factor Penalty Charge.
- Invite PNGC to discuss the proposed Rate Schedule language for Transfer Service.
- BPA Power Services will discuss their new proposal to establish a Power Factor Penalty Charge in the 2012 Power Rate Case.
- Discuss Next Steps.



Power Factor Penalty Background

- Pursuant to the 2010 Transmission Rate Schedule, “[a]ny party that is interconnected with the Federal Columbia River Transmission System (FCRTS) shall be charged for its reactive power requirements...”
 - Each point of interconnection or point of delivery shall be monitored and billed independently for determining the party’s total reactive power requirements and all associated billing factors, including the Reactive Deadband.

- The Power Factor Penalty charge is designed to encourage and incentivize utilities to take mitigating actions to promote and maintain reliable interconnection to BPA’s Transmission System.

- Service by Transfer
 - Points of delivery that are served by transfer over another utility’s transmission system will not be subject to the Power Factor Penalty Charge unless there are significant BPA-TS Network facilities between the party’s points of delivery and the transferor’s system.





Customer Proposal for Transfer Service

Power Factor Penalty - Transfer Service under Transmission Rate Schedule

d. Service by Transfer

Points of delivery that are served by transfer over another utility's transmission system will not be subject to the Power Factor Penalty Charge unless (1) there are significant BPA-TS Network facilities between the party's points of delivery and the transferor's system, or (2) the transfer customer's points of delivery are within the BPA BA.



BPA Power Services

For service at transfer points of delivery that are not subject to the BPA-TS Power Factor Penalty charge, BPA-PS will propose an identical charge in the power rate case. BPA-PS is basing this proposed charge on the following:

- BPA holds to a single technical standard concerning reactive power usage by PF customers .
- Establishing a power factor penalty charge ensures adequate and timely policy direction to customers.
- It removes the disparate treatment between in-and-out-BA PF requirements customers.
- Billing algorithms and processes currently exist and can be applied to transfer customers' power bills.
- It would reduce the prospect that IOUs might implement a load-based reactive charge and would help maintain a “good neighbor” operational environment.
- It is consistent with the Agreement Regarding Transfer Services (ARTS).
- Little, if any, incremental revenue is expected from the charge.



Montana Intertie



Status of Analysis to Roll In or Not to Roll in the costs of the Montana Intertie into the Network

- Previously at the June 17th Transmission Rates workshop BPA-TS presented preliminary rate analysis of various rate alternatives associated with the customer proposal to begin the Network at Townsend instead of Garrison to eliminate the Montana Intertie rate.
- The purpose of the preliminary rate analysis shared was intended to address the question of whether to roll the Montana Intertie into the Network or not and to explore rate impacts associated with a potential transmission upgrade.
- We shared six alternatives. The first three alternatives were based on the existing facilities while the remaining three preliminary rate alternatives were based on an assumed upgrade to the Montana Intertie and West of Garrison facilities.
- After careful review of the assumptions for the upgrade analysis (alternatives 4,5,6), we believe it is premature to try to calculate the rate impact of an upgrade to the Montana Intertie at this time. Notably, any upgrade will likely not be completed for at least four to five years out, which is well outside of the 2012 rate period.
- That said, at the August 18th rates workshop we will share and discuss revised analysis for rolling in the costs of the Montana Intertie, based on existing facilities and costs, into the Network (alternatives 1,2,3). We look forward to more dialogue with you!



Reservation Fee Deferral Rate



Background

- The *pro forma* OATT allows for up to five one-year extensions of a PTP TSR's commencement of service date.
- The *pro forma* charge and the charge currently in BPA's transmission rate is one month's PTP charge for each extension.
- BPA has set up Network Open Season, which is a process that will be performed every year to determine which requests can be offered service with or without a build.
- If a build is determined to be needed to offer service to a request, BPA will analyze if the request can be offered service at rolled-in rates.
- Through this Network Open Season process, BPA takes on the risks of building projects for which it makes a decision to build.
 - All deferrals (NOS and Non-NOS) have the potential to cause a loss of revenue for BPAT.
 - Allowing customers to defer service requested during NOS creates additional revenue risk and uncertainty, particularly when BPA is building to accommodate the request.
 - BPA is exploring pricing options for deferrals to better mitigate this risk.



Deferral Analysis Introduction

- Our intent today is to walk through the revised analysis, and assumptions used to support the analysis, to ensure that we all understand the assumptions and preliminary findings.
- On June 8, 2010, BPA sent out a Tech Forum notice containing Network deferral analysis related to the Reservation Fee that shows the eligible and expected deferral requests and associated MWs accounting for Transmission Service Requests (TSR), original Point to Point (PTP) requests and Conditional Firm (CF) offers.
- Since the time of the Tech Forum notice, a few minor changes have been made to reflect updated information that is consistent with preliminary revenue forecasts for the initial proposal. The net impact of the modifications is immaterial and will be discussed today.
- This information is a work in progress and is both preliminary and pre-decisional.



Deferral Analysis Assumptions

- PTP redirects and NT requests are not included in the analysis.
- For each fiscal year the “requests eligible to defer service” include requests with expected start date (based on TSR request or forecasted build completion date) before the end of that fiscal year. TSRs expected to defer in previous years are included in the “eligible to defer” total until they are expected to take service.
- Build completion dates are assumed as follows (from July 2009 NOS Summary):
 - McNary – John Day (February 2012)
 - Big Eddy – Knight (February 2013)
 - Central Ferry – LoMo (September 2013)
 - I-5 (October 2015)
- PTP requests with associated CF offers are assumed to be eligible to start service on the start date of the CF offer.
- Expected deferrals are counted in the fiscal year the deferral is made.
- All deferrals are assumed to be for a full year.

“*” identified in the following tables means the analysis includes CF and PTP deferrals.



Deferral Analysis Assumptions (cont.)

In general the number of deferrals expected for each TSR was based on the following:

- TSRs associated with confirmed generation interconnection (GI) requests are expected to take service at the time their GI is forecast to be in service by customer service engineers. If their TSR start date is before this time they are expected to defer service until GI completion.
- TSRs associated with GI requests in “Study” status were assumed to defer for 2 years.
- TSRs associated with new generation that were not associated with a GI request were assumed to defer for 3 years.
- For requests already in the deferral queue, account executive input was used to determine whether the TSR would be deferred again.



Deferral Analysis

- The totals in Table 1 include all TSRs submitted in Network Open Season (NOS) 2008, NOS 2009, and outside of NOS. Table 2 provides analysis of NOS 2008 Transmission Service Requests (TSRs) only.

Table 1: All TSRs						
	Requests Eligible to Defer Service		Expected Deferrals (% of total eligible to defer service)*			
Fiscal Year	Requests	MW	Requests		MW	
FY 2010	31	1,663	23	74%	1,339	81%
FY 2011	38	1,881	17	45%	1,054	56%
FY 2012	34	1,747	17	50%	535	31%
FY 2013	65	3,096	33	51%	1,700	55%
FY 2014	33	1,700	27	82%	1,350	79%
FY 2015	28	1,400	10	36%	392	28%
FY 2016	16	989	2	13%	80	8%

Table 2: NOS 2008 TSRs Only						
	Requests Eligible to Defer Service		Expected Deferrals (% of total eligible to defer service)*			
Fiscal Year	Requests	MW	Requests		MW	
FY 2010	12	562	6	50%	290	52%
FY 2011	19	680	7	37%	230	34%
FY 2012	21	848	11	52%	470	55%
FY 2013	47	2,270	28	60%	1,420	63%
FY 2014	28	1,420	22	79%	1,070	75%
FY 2015	23	1,120	9	39%	320	29%
FY 2016	13	780	2	15%	80	10%



Deferral Analysis

- Table 3 include all TSRs submitted in Network Open Season (NOS) 2009 only. Table 4 provides analysis of Non-NOS TSRs only.

Table 3: NOS 2009 TSRs Only						
	Requests Eligible to Defer Service		Expected Deferrals (% of total eligible to defer service)*			
Fiscal Year	Requests	MW	Requests		MW	
FY 2010	2	35	2	100%	35	100%
FY 2011	3	185	2	67%	35	19%
FY 2012	5	110	0	0%	0	0%
FY 2013	17	811	5	29%	280	35%
FY 2014	5	280	5	100%	280	100%
FY 2015	5	280	1	20%	72	26%
FY 2016	3	209	0	0%	0	0%

Table 4: Non-NOS TSRs Only						
	Requests Eligible to Defer Service		Expected Deferrals (% of total eligible to defer service)*			
Fiscal Year	Requests	MW	Requests		MW	
FY 2010	17	1,066	15	88%	1,014	95%
FY 2011	16	1,016	8	50%	789	78%
FY 2012	8	789	6	75%	65	8%
FY 2013	1	15	0	0%	-	0%
FY 2014	-	-	0	N/A	-	N/A
FY 2015	-	-	0	N/A	-	N/A
FY 2016	-	-	0	N/A	-	N/A



Incremental Rates



Incremental Rates Objective

- BPA continues to pay close attention to the Network Open Season (NOS) process to identify any specific Network upgrades being considered that may not move forward at embedded cost rates and are therefore subject to Incremental Rates.
- We do not have any projects currently involved with NOS that meet this criteria; therefore useful illustrative examples of potential Incremental Costs are not available at this time.
- In light of the circumstances, we are considering Alternative #3 to continue with the current rate schedule language requiring a 7(i) process and if BPA decides to build facilities after the NEPA process, adopt a specific Incremental Rate once NEPA process is done.
- We are soliciting customer input on this approach and more specifically whether support exists for the other alternatives discussed or new suggestions.



Background

- Under our current (FY10-11) Rate Schedules, Incremental Cost Rates must be established in a 7(i) rate case. As part of the FY10-11 rate case, we considered replacing the 7(i) process with a less formal public process to establish the inputs to a formula Incremental Rate. We made some progress, but both BPA and Customers were not quite ready to commit to that approach so we agreed to table the issue.
- BPA-TS retains the need for incremental costs rates. Network upgrades identified in the Network Open Season cluster study as required for service, but are not moving forward at embedded costs rates are subject to Incremental Rates.
- A key challenge is that the NEPA process could take 3 or more years after System Facility Studies are completed.



Incremental Rate Preliminary Alternatives

1. Adopt a formula Incremental Rate in the 2012 Rate Case; apply formula rate to the costs developed during NEPA process if facilities are not Directly Assigned and BPA decides to build the facilities after completion of NEPA:
 - Pros
 - Assures that the Incremental Rate formula will be in place when needed
 - In theory would eliminate the need to run special 7(i) Process and would minimize the time required to offer incremental rate TSAs
 - Could facilitate process of building new facilities
 - When deciding whether to pay for NEPA the customer would know incremental rate methodology
 - Cons
 - Difficult to develop formula rate in the abstract
 - When a specific need arises, BPAT may find that the formula rate previously adopted may not be appropriate to the circumstance, requiring a special 7(i)
 - Could limit BPAT's flexibility
 - Requires heavy use of limited available staff time
 - Customers have asked for significant public process for implementing the formula rate, which would take almost as much time as a special 7(i) process



Incremental Rate Preliminary Alternatives

2. Wait until start of NEPA process to develop formula rate:

– Pros

- NEPA process takes at least three years so there would plenty of time to adopt a formula rate during that period
- In theory would eliminate the need to run special 7(i) Process and would minimize the time required to offer incremental rate TSAs
- Could facilitate process of building new facilities
- More would be known about specific circumstances than under Alternative #1
- Avoids use of limited staff time now

– Cons

- When deciding whether to pay for NEPA, the customer would not know Incremental Rate methodology
- Still possible (although much less likely than in Alternative #1) that the methodology adopted may not work once the NEPA process is finished



Incremental Rate Preliminary Proposal

3. Continue with the current rate schedule language requiring a 7(i) process and if BPA decides to build facilities after the NEPA process, adopt a specific Incremental Rate once NEPA process is done:
 - Pros
 - Eliminates need to run 2 processes—Incremental Rate methodology and application
 - Easier to develop Incremental Rate methodology in specific fact circumstance
 - Avoids use of limited staff time now
 - Cons
 - Could result in delay in constructing new facilities
 - When deciding whether to pay for NEPA the customer would not know the Incremental Rate methodology
 - Unless the customer(s) has signed a precedent agreement obligating it to take service if the Incremental Rate is not higher than a certain level, and the actual rate is within the limit, the customer could decide not to sign the service agreement after the rate is developed, thus resulting in wasted effort and possibly the need to do another 7(i) for any customers that are still interested, with the same possible outcome



Customer Served Load Replacement/ Short Distance Discount



Customer Served Load

- CSL is the monthly amount in megawatts of the Transmission Customer's Network Load that the Transmission Customer elects to serve on a firm basis from sources internal to its system, or over non-Federal transmission facilities, or pursuant to contracts other than the Network Integration (NT) Service Agreement.
 - The Customer must specify the amount of CSL in the Customer's NT Service Agreement.
- The Billing Factor for Customers with CSL is the Customer's Network Load on the hour of the Monthly Transmission Peak Load less Declared CSL (unless the Actual CSL is less than 60% of the Declared CSL during Heavy Load Hours, in which case the CSL credit does not apply).





Customer Served Load Background

- Currently, five NT Customers have declared Customer Served Load (CSL) in their NT Service Agreements totaling approximately 288 MW.
- Since 1996 CSL has been included in the BPA-TS NT Rate Schedule and Open Access Transmission Tariff (OATT).
- Pursuant to the 2006 Transmission Rate Case Settlement Agreement, CSL will expire at midnight on September 30th, 2011.
 - BPA-TS agreed to work with interested Customers to determine an appropriate replacement mechanism, if any.



Alternative 1- No CSL Replacement

- The Transmission Provider has an obligation to plan for all NT Customer Network Load, including load growth.
- If an NT Customer designates a Behind the Meter Resource, the Transmission Provider nevertheless has the obligation to plan for all Network Load.
- An NT Customer can elect not to designate a particular load at a discrete Point of Delivery and not be subject to the NT Rate.



Alternative 2- Offer a Short Distance Discount

- Reflects a limited use of the Transmission System.
 - Provides an economic benefit for NT Customers with qualifying resources.
- The table below shows preliminary estimates based on current CSL and the proposed Short Distance Discount scenario at existing FY10 transmission rates:

	Current CSL	Qualify for SDD
General Criteria	(1) Internal resources, (2) Non-Federal transmission facilities, or (3) Contracts other than NT Service Agreements	A SD DNR is a resource that is designated as a Network Resource in Customer's NT Service Agreement and (1) is scheduled over the FCRTS using less than 75 circuit miles of the FCRTS calculated in accordance with the Tx Distance definition below; or (2) is directly connected to the customer's system and the delivery of the SD DNR output is not scheduled to the customer's load over the FCRTS; or (3) is directly connected to a third party's system and the delivery of the SD DNR output is not scheduled over the FCRTS to the customer's load.*
Number of Customers	5	11 (16 resources)
MW Impacted	288	332
Estimated Financial Impact	\$4.5 million/year	\$1.9 million/year

* Criteria used for estimated financial analysis above is based on resources using 75 circuit miles or less of BPA transmission facilities, including Behind the Meter Resources.

- The following slides contain discussion points related to the customer's revised Short Distance Discount Proposal (see separate attachment). Some of the language on the slides may be inconsistent with the customer's latest redline proposal.



Transmission Distance #1

- Measure the circuit miles from the resource to the load based on the path to the closest POD as identified in power flow studies, and assume all generation from the resource goes to that closest POD.
 - Example- Customer has a 250MW resource and 3 PODs. If the distance to the closest POD is 20 miles (less than 75 circuit miles), the Customer would receive the SDD credit for the entire 250 MW as if delivered to the closest POD, regardless of the capacity of the POD. The SDD factor would be $0.4 \cdot (75 - 20) / 75$ or 0.293, which would be identified in the contract and multiplied by the HLH Average energy generated each month to determine the credit.



Transmission Distance #2

- Measure the circuit miles from the resource to load based upon the amount of capacity that could be delivered to load nearest POD and PODs within 75 miles.
 - Example- Customer has a 250 MW resource and 3 PODs. The POD MW limit and circuit miles from the resource are (1) 100 MW and 20 miles (qualifies), (2) 100 MW and 50 miles (qualifies), and (3) 50 MW and 80 miles (does not qualify). The first two PODs qualify for SDD and the calculated distance would be $(20 \text{ mi} * 100 \text{ MW} + 50 \text{ mi} * 100 \text{ MW}) / 200 \text{ MW}$ or 35 miles. Since only 200 MW of the 250 MW resource qualifies for the SDD, the measured HLH MW would also be reduced by $200/250$. The resulting SDD factor would be $0.4 * (75 - 35) / 75 * (200/250)$ or 0.171, which would be identified in the contract and multiplied by the HLH Average energy generated each month to determine the credit.



Transmission Distance #3

- Measure circuit miles from the resource to load based upon the amount of capacity that could be delivered to load at each POD with the distance based upon the allocations to all PODs that satisfy the delivery of the full designated resource.
 - Example- Customer has a 250 MW resource and 3 PODs, same as in Example 2. The transmission distance captured in the contract would be calculated as $(20 \text{ mi} * 100 \text{ MW} + 50 \text{ mi} * 100 \text{ MW} + 80 \text{ mi} * 50 \text{ MW}) / 250 \text{ MW}$ or 44 miles which qualifies for a SDD credit. The SDD factor would be $0.4 * (75 - 44) / 75$ or 0.165, which would be identified in the contract and multiplied by the HLH Average energy generated each month to determine the credit.
- Alternatives to base transmission distance on airline miles do not provide a realistic representation of the electron flow through the Transmission System.



Point of Delivery Limits

- Considerations on what to base the calculation of POD limits on:
 1. Transformer / Line limits
 2. Historical metered load
 3. Forecast load at the POD



Unauthorized Increase Charge (UIC)



Unauthorized Increase Charge (UIC) Relationship to CSL Replacement

- Customer Served Load (CSL) will expire at midnight on September 30, 2011.
- Transmission Customers taking Network Integration Transmission (NT) Service under the NT Rate Schedule are assessed the UIC if the Actual CSL is less than the Declared CSL.
- As CSL expires, BPA Transmission Services is considering alternatives to replace the NT Service Unauthorized Increase Charge.
- Pursuant to BPA's OATT §30.4, Operation of Network Resources: "The Network Customer shall not operate its designated Network Resources located in the Network Customer's or Transmission Provider's Control Area such that the output of those facilities exceeds its designated Network Load, plus sales of less than one year delivered pursuant to Part II of the Tariff, plus losses, plus power sales under a reserve sharing program, plus sales that permit curtailment without penalty to serve its designated Network Load."



Open UIC Discussion

Our intent is to discuss and obtain customer feedback for developing an NT Unauthorized Increase Charge.

1. **Behind the Meter Generation exceeding a customer's Network Load for any given hour**
 - Behind the Meter Resources do not use BPA transmission facilities. Behind the Meter generation exceeding Network Load flows onto the BPA Transmission System. There are no schedules submitted for Behind the Meter Resources.
2. **All Designated Network Resources generation exceeding Network Load for any given hour**
 - Excess generation leads to unreserved use of BPA Transmission System.



Open UIC Discussion - Continued

3. Scheduling NT Firm above contractually designated capacity
 - Customer can submit additional schedules for secondary non-firm service to Network Load.

- Currently, Point to Point (PTP) Customers are subject to UIC.



Wrap Up

- To suggest rate case topics to be added to the parking lot for discussion, please submit a written request to techforum@bpa.gov and state “2012 Rate Case” in the subject line.
 - Customers are encouraged to also participate in workshop discussions where such topic(s) are discussed.
- Customers that desire to post other rate-related materials to our rates website must submit a written request to techforum@bpa.gov
- See 2012 Rate Case website for additional information, workshop postings and handouts, and the BPA Calendar: <http://www.bpa.gov/corporate/ratecase/2012>. The BPA Calendar is also located at http://www.bpa.gov/corporate/public_affairs/calendar/.
- The next scheduled rates workshop for Transmission topics is August 18th. A Tech Forum notice announcing the workshop topics will be sent out prior to the meeting.



Appendix



1. Keep Power and Transmission reserves separate with no reliance by one business unit on the other's reserves

- This has been BPA's general practice since the two business units were separated.
- Does not allow for helping PS rates through use of TS reserves.
- Keeps transmission-generation equity issues very clean.



2. Treat all reserves as one pool, with no business unit distinctions, that can be drawn on by either business unit, as needed

- Would probably require use of a whole-Agency TPP calculation instead of separate TPP measures for each business unit.
- Agency TPP would require quantitative understanding of the correlations among TS and PS risks, which is beyond BPA's current capabilities.
- Equity issues would need to be resolved; for example:
 - If Agency TPP is too low, which B.U. would need to raise rates?
 - If one B.U. draws down the other's reserves, would there be compensation? How? Separate tracking and "repayment"? If so, how is this better than inter-business unit loans?



3a. Keep Power and Transmission reserves separate with explicit inter-business unit loans

- This idea has been mentioned many times, but detailed possibilities have never been fleshed out.
- One example: TS might agree to “lend” \$X million of reserves to PS for the period of 2012-2015 (full payback required by the end of the 2014-2015 rate period).
- Explicit loans might make tracking easier and clearer, make equity more certain to be achieved.
- The meaning of having one sub-organization within BPA “owe” another one has not been clarified.



3b. Keep Power and Transmission reserves separate with implicit inter-business unit loans

- One possibility:
- First, quantify any planned TS uses of reserves:
 - Ensure TS TPP is $\geq 95\%$.
 - Funding for capital projects?
 - Reduce potential TS rate increase?
- Forecast or calculate the amount of TS reserves for risk remaining after satisfying the TS uses, and allow some or all of this remainder to be relied upon to support PS TPP. This would not mean PS would plan to use (spend) those reserves.
- This would reduce the level of PNRR in PS rates needed for PS TPP.



3b. One Possibility, cont'd

- All TS reserves would still be considered to be TS reserves when calculating interest credit for TS.
- If PS actually needed to use (spend) the TS reserves, PS would need to restore them. BPA would track all such uses and ensure that TS would be made whole. For example, TS would not lose interest credit.
- Formal inter-business line loan arrangements would not be made; BPA would carefully, transparently track reserves to ensure that TS and TS constituents would suffer no financial harm.



How Might This Actually Work?

- We need to distinguish the planning perspective from the operational perspective, i.e., separate issues about how BPA might allow PS to *rely* on TS reserves in the rate case from issues about what BPA would do if BPA actually needed to *expend* those reserves to pay PS bills.
- There are precedents in both perspectives.



Precedent: Planning (Rate Case)

- In the 2007 Power rate case, the Administrator allowed Power to rely on the temporary availability of reserves attributed to Transmission for TPP purposes; for FY 2007 only.
- Power did not actually draw on Transmission reserves.
- No follow-up actions were needed.
- In this possibility, the Administrator could again decide for one rate period that this cross-business unit TPP support is a prudent idea for BPA.



Precedent: Operations (during the Rate Period)

- At the end of FY 2002, the second of two execrable secondary marketing years for Power, reserves available for risk attributed to Power equaled about -\$9M. In effect, Power had drawn on Transmission reserves.
- Interest was credited to Transmission as if all of the TS reserves still existed.
- Power was “credited” with negative interest.
- Power reserves recovered later.
- No other action was needed.



Precedent: Operations, cont'd

- In this possibility, if PS actually used TS reserves, TS would continue to earn interest on all the reserves attributed to TS, even if some have been temporarily used by PS.
- PS would set rates for the next rate period using only reserves attributed to PS, plus any amount of the Treasury note made available to it.
 - The reserves attributed to PS would be negative in this hypothetical situation.
 - This would result in a PS TPP below 95%, and PS would need to raise rates to meet the TPP standard.
 - This would generate additional reserves, replenishing the amounts of TS reserves previously used by PS.

