

BPA Tiered Rates Methodology (12/21/2007 version)

Comments of Springfield Utility Board 1/10/08

SUB appreciates the work conducted by BPA staff in putting together a draft Tiered Rates Methodology (TRM).

Included in the white paper are sections highlighted in blue – which is a description of BPA’s intent behind the proposal.

I. DSI Service

SUB is concerned about the use of this section. BPA appears to be predetermining a TRM outcome for an unresolved issue. This has the effect of imposing a solution to a problem that currently doesn’t exist.

The Draft TRM states:

“BPA is exploring a number of approaches intended to provide service benefits to the direct-service industries (DSIs) after 2011, including a financial mechanism similar to the existing FY 2007-2011 DSI contract that provides the Region with known, capped costs. These types of costs would be allocated as BPA program costs.

Also, BPA reserves the option to provide some level of physical power to the DSIs under a Regional Dialogue contract. If BPA were to make such a sale, it might be necessary for BPA to purchase FBS replacement resources so that such sales would not result in a decrease to the publics’ HWMs. These system replacement costs would be allocated as FBS costs. It is expected that the non-Tier 2 rates will reflect the costs of these purchases. This power sale would be priced at the Industrial Firm Power (IP) rate in accordance with section 7(c). BPA does not intend to tier the IP rate.”¹

Starting with the last sentence, BPA proposes to not have tiered rates regardless of DSI service levels. Because the level of power sales, if any, to DSI’s is unresolved this in an open-ended proposal and results in unlimited cost exposure to consumer-owned utilities.

Second, the statement that “BPA reserves the option to provide some level of physical power” implies that a public process has vetted BPA with that authority.

SUB suggests that the TRM be modified to read:

¹ Draft TRM, page 64

“The region is exploring a number of approaches intended to provide service benefits to the direct-service industries (DSIs) after 2011, including a financial mechanism similar to the existing FY 2007-2011 DSI contract that provides the Region with known, capped costs. These types of costs would be allocated as BPA program costs.

Regional resolution of DSI benefits, if any, is unresolved. However if the outcome of a regional process results in a sale of power to DSI’s and if BPA were to make such a sale, it might be necessary for BPA to purchase FBS replacement resources so that such sales would not result in a decrease to the publics’ HWMs. These system replacement costs would be allocated as FBS costs.”

BPA should leave open the ability to tier the cost of DSI service in the TRM methodology pending the resolution of a regional process.

II. Low Density Discount

On page 61 of the TRM discussion paper BPA states that the intent of the LDD is:

“The LDD will continue under tiered rates. No LDD will be paid on Tier 2 in order to allow a level playing field in choices between BPA service and self-supply. However, the Tier 1 LDD discount will be adjusted based on the utility’s total load such that the utility gets approximately the same benefit they would have received under melded rates.”²

From SUB’s perspective, the solution proposed in the TRM is contrary to BPA’s stated intent, the RD ROD, and appears to be in conflict with BPA’s organic statutes.

11.A Why The Draft TRM Proposed Solution Does Not Align With BPA’s Stated Intent

The Draft TRM states:

“In order to allay this concern and still provide an equivalent amount of LDD benefit as would have been provided in the absence of tiered rates, the following modified approach will be proposed. Instead of the current practice of basing the discount on a fixed percentage, the LDD would be reformulated. The percentage discounts in the LDD percentage discount table applicable to each customer would be adjusted each rate year by the percent which each customer’s net requirement has increased above its HWM. For example, if a customer is receiving an LDD of 5 percent, it has a HWM of 10 aMW, and its net requirement load is 11 aMW, the utility would have its LDD percentage adjusted upward to 5.5 percent. This adjustment would also be applicable to the 7 percent cap.”³

² Draft TRM, page 59

³ Draft TRM, page 61, the draft TRM’s use of the term “net requirement” is confusing in a Tiered Rate construct. Does this mean total load? Load net of 5b Resources? Load net of all resources?

Assuming for a moment that the RD ROD did not exist, customers would have the ability to declare resources (federal or non-federal) to meet load⁴. Customers do not get a LDD discount on total load, only on the net requirement (PF purchases) from BPA. The draft TRM proposal assumes that the default scenario is that absent tiered rates customers would always put their load growth on BPA PF products and they should be held harmless from this “default” scenario. The Draft TRM solution stems from overly generous and unrealistic baseline assumption about how a “non tiered rates” world would function.

This is true particularly in light of state level RPS standards. It is SUB’s position that absent tiered rates, the default regulatory environment would push utilities to acquiring resources to comply with RPS standards⁵. PF load on BPA would not increase. There would be no increase in LDD. Even without an RPS, in a melded rates world utilities could still elect to bring in non-BPA resources and the LDD would decrease.

In addition, the proposal in the draft TRM does not capture the influence of lower system densities over time due to, for example, a new 2aMW load in a city served by an LDD qualifying utility with a pre-existing load of 10aMW. This type of load growth located in an urban area does not increase the relative size of the utility’s distribution system and the draft TRM – with the increase in LDD % tied only to load growth - rewards the urbanization of existing utility. SUB recognizes there is some modest influence due to the impact of the kWh/Investment Ratio (K/I), but with the LDD cap increasing above the current 7% in the TRM proposal there remains a concern that the construct has residual LDD benefits for dense load growth.

Currently the K/I investment ratio excludes investment in generation resources. Given RPS standards and the potential incentive (under the draft TRM methodology) to develop a renewable resource to serve a large load, the influence of the K/I ratio over time may become diluted. Because this process is intended to address long-term resolution of the LDD issue, this is of particular concern. If the LDD were evaluated on a periodic basis, theoretical long-term outcomes become less of an issue (however that is not the direction decided in the RD ROD).

There is also the situation where a utility receives both an LDD and has qualifying loads that receive an irrigation discount. It is unclear to SUB if the distribution system investment used to serve the irrigation discount customers is excluded from the K/I ratio. If the distribution investment to serve Irrigation Discount customer included in the denominator of the K/I ratio, the ratio is decreased, the LLD increases, and LDD utilities receive a double counting of benefits with having irrigation customers that receive the Irrigation Discount. Clarification from BPA on this issue would be useful.

Rather than increasing LDD under the Tiered rates construct, BPA should be freezing or decreasing LDD under a tiered rates methodology in order to get approximately the same benefit they would have received under a melded rate. LDD benefits could be passed along directly to

⁴ Including 5(b) resources.

⁵ This is true particularly given discussions around EPP. BPA has appropriately backed away from a “cafeteria plan” of tier II product options to ensure that tier II products comply with every single state RPS standard. Given today’s environment, utilities will not be able to turn to BPA for full RPS compliance. Absent tiered rates, utilities would be pursuing non-BPA 5b renewable resources.

specific retail customers, but that would (and should) be at the election of the utility. A freeze or reduction LDD benefits does not mean that pre-existing retail customers are harmed by urban development (dense load growth). The benefits could still be passed on if the utility chooses to do so.

Should BPA staff promote the positions outlined in the Draft TRM to BPA management, BPA staff would be advocating for a federal bailout of the impacts associated with state-driven regulatory requirements. SUB's requests that BPA refrain from doing so. It only encourages utilities to promote state regulatory change, reap the political benefit, and extract the financial cost from BPA.

Lastly, BPA should be cautious of adopting an alternate reality as the basis for one policy decision and then use a totally different and conflicting alternate reality(s) for other policy decisions⁶.

II.B Why BPA's Proposed Solution Conflicts with the RD ROD

The proposed treatment of the LDD also conflicts with the RD ROD. One of BPA's decisions in the RD ROD is:

“In order to avoid biasing a customer's resource choices, BPA believes the level of a customer's LDD benefits should not be affected by its choice between BPA Tier 2 and non-Federal resources. As noted above, the LDD methodology, including whether or not the LDD will apply to power sold at Tier 2 rates or power from non-Federal resources for load growth, can only be revised in BPA's general rate case proceedings under section 7(i) of the Northwest Power Act.”

Conservation is a Federal or non-Federal resource identified in the RD ROD and/or BPA's organic statutes⁷. The TRM proposal to increase the LLD percentages based on increased load, is a policy that discourages conservation (since conservation lowers load and lowers the LDD %), and affects the choice between conservation resources and other resources (federal or non-federal). Utilities would be incented to avoid reducing load, to avoid a non-federal resource (conservation), and to purchase a Tier II power product from BPA over conservation.

In order for the Draft TRM's proposed solution to co-exist with the decisions in the ROD, BPA staff would have to demonstrate that conservation is not a resource and that the LDD is not impacted by conservation resource decisions. A daunting task in SUB's view.

⁶ Case in point: in the Power Function Review BPA used one set of market rates when determining the benefits of its renewable resource proposal and a total different set of market rates for other parts of the Review.

⁷ Page 187 of the RD ROD, for example, discusses “Whether BPA should offer only renewable resource(s) and conservation based Tier 2 products”. 839d(a)(1) of the Northwest Power Act begins “The Administrator shall acquire such resources through conservation...”

II.C Why Not A High Density Discount?

SUB does not propose a High Density Discount, but raises this rhetorical question to highlight another argument why the LDD is not justified. RPS standards promote or require renewable generation to serve load. Utilities that have large service areas are uniquely benefited from the new regulatory environment as they have more opportunities to develop wind, solar, hydroelectric and other resources within their service territory – potentially reducing wholesale power and transmission costs and enhancing their distribution system. It has happened is happening now and likely will in the future. Large service territories can be a blessing, not a curse. From a regional equity perspective, the justification for an LLD has come and gone and the justification for a High Density Discount is on the rise.

Over time utilities with large service areas may be more competitive than urban utilities due to resource development advantages. By enhancing the LDD, BPA would be providing regional benefits that aren't justified.

II.D Summary and Proposed Solution

SUB disagrees with the unrealistic default melded rates scenario used in the Draft TRM. The Draft TRM assumes that the LDD would increase, when the regulatory reality is that LDD would likely stay the same or go down in a melded rates world. The solution outlined in the draft TRM discourages conservation resource acquisition and conflicts with the RD ROD.

While SUB understands arguments that the LDD would go down in a melded rates environment and that the regulatory environment provides benefits to utilities with large service areas related to new resource development, SUB believes that the LDD percentage should be frozen for the term of the RD contract. SUB's solution is that the LDD be tied to only Tier I purchases and that the LDD discount percentage for term of the RD contract for each utility would be based on the LDD % for Calendar Year 2010. For example, if a utility's LDD % for CY 2010 was 5% then the utility would receive a 5% discount on Tier I purchases for the term of the RD contract. Load based charges, such as load variance charges, would apply to the LDD – but only for the amount of Tier I purchases, not total load. For example, if a customer had a total load of 150 MW and a Tier I amount of 100aMW, they could receive a LDD credit associated with the load variance charge (or other load based charge) using 100aMW as the billing determinant associated with the load variance charge when computing the LDD.

Under SUB's proposal, utilities would not be rewarded for selecting a BPA tier II product over conservation to meet Tier II load growth. SUB's proposal is compatible with the RD ROD.

II.E LDD - Definition of Consumers:

The Draft TRM addresses the definition of Consumers. This is a clarification of existing policy and SUB agrees with the proposed definition of consumers.

II.F Calculation of LDD for Slice:

SUB agrees that Slice customers should receive a LDD dollar benefit equivalent to if they were purchasing Tier I load following product. Because load variance and other charges are designed and recovered through Load Following product rates, it does make some sense to exclude an LLD component related to load variance or any charge that is a total load based product linked to the Load Following product cost recovery. However, in order to have an “apples to apples” LDD benefit, SUB would not object to Slice customers receiving Tier I LDD benefits as if they purchases a “virtual” load following product, including a discount for load variance or other load based charge applied to the Tier I component of their purchase, as long as the cost for all LDD benefits were spread over all Tier I products. For example, if a Slice customer had a total load of 150 MW and a Slice/Block Tier I amount of 100aMW, they could receive a LDD credit associated with the load variance charge using 100aMW as the billing determinant.

III. Irrigation Discount

The Regional Dialogue ROD specified that the Irrigation Discount would continue in long term contracts. The Draft TRM proposes to have a fixed percentage discount for qualifying irrigation loads. Eligible irrigation loads will not increase. A critical component in the TRM methodology is the last paragraph in the draft TRM on this issue which states:

“BPA will require participating customers to implement cost-effective conservation measures on irrigation systems in their service territories. The conservation measures may be eligible for future BPA conservation programs, although the eligibility of particular measures and the amount of BPA support have not been determined.”

As cost effective conservation measures occur to reduce load from eligible Irrigation Discount customers, the cost of the irrigation discount should decrease over time.

Missing in the draft TRM is an explanation of what will occur if cost-effective measures are not implemented. SUB proposes that if cost-effective conservation measures are not implemented by an eligible Irrigation Discount customer that the Irrigation Discount would be suspended until such time as the cost-effective measures were put in place. This would be specified in the Irrigation Discount agreements. SUB also proposes that the TRM methodology specify:

- 1) Who determines the cost effectiveness standard: SUB proposes that it is determined by the Council.
- 2) What is the trigger point for suspension of Irrigation Discount benefits: SUB proposes that customers would have 4 months to implement cost-effective conservation until suspension of benefits occurs.
- 3) When would Irrigation Discount resume after a suspension: SUB proposes that the Irrigation Discount would resume beginning on the billing month after the cost-effective conservation measure was installed.

IV. The Cost of the Product Stays in the Product Pool

The draft TRM methodology proposes to keep the costs of individual product offerings within each product pool. True ups would be applied to each product based on the actual cost to provide service for the product. Costs for one product will not spill into other products. SUB strongly supports this approach.

V. High Water Mark Determination

The Draft TRM addresses how High Water Marks for customers will be determined. SUB strongly supports the requirement that utilities be required to provide specific, detailed load and resource data to BPA in order for BPA to calculate the High Water Mark. If a utility does not wish to provide detailed data, they do not need to sign a contract.

VI. Adjusting 2010 Measured Load for Anomalies

The Draft TRM states that

“This section will describe adjustments that may be made to customers’ 2010 measured loads for discreet load or data anomalies that would materially affect the outcome of the CHWM determination process”⁸.

What loads/anomalies is this intended to capture? SUB has heard BPA raise concerns about special retail rate discounts that would encourage load growth. Will BPA reduce loads for this type of anomaly? Along the same vein, the NLSL policy allows new loads to phase in amounts up to 9.9aMW over a 12 month consecutive period. Utilities may be using this as a lure to promote load growth in the near term to maximize the HMW while providing the new load that (that ultimately will be above 9.9aMW) with a special rate. Will BPA make downward adjustments to a utility’s HWM if this occurs?

⁸ Draft TRM, page 7