COMMENTS OF CONSUMER-OWNED UTILITIES REGARDING BPA'S INCREMENTAL DRAFT AVERAGE SYSTEM COSTS METHODOLOGY

Submitted: February 10, 2026

PPC, NRU, WPAG and PNGC (hereafter referred to as the "the COUs") provide the following comments in response to the Incremental Draft Average System Cost Methodology released by BPA on February 3.

The following comments are preliminary and may be updated, revised, or completely amended during the formal comment period. By not raising a specific issue(s) in these comments, COUs do not waive the right of all COUs and COU groups or any individual COU or COU group to comment on such issue(s) in the future.

ASC Review Process

The COUs appreciate BPA's inclusion of a public notice and kickoff workshop in the rules of procedure governing BPA's ASC review process. These provisions will promote a more transparent and robust review of ASC filings.

Energy Storage Devices

The COUs oppose the proposed energy storage functionalization language because it creates a structural asymmetry that can bias ASCs upward and thereby increase REP cost exposure to public power customers.

Specifically, the proposal permits DIRECT functionalization of energy storage when advantageous to the filing utility, while defaulting to PTD functionalization when DIRECT is not pursued. This framework creates a one-directional incentive: utilities may elect DIRECT when it supports a high Production allocation, thereby increasing ASC, and may avoid DIRECT when analysis would support Distribution-only treatment, instead relying on the PTD default, which assigns a non-zero Production share even when storage is primarily distribution-driven.

This asymmetric selection mechanism risks systematically overstating Production-functionalized costs in ASC. The COUs therefore support the use of a standardized allocation ratio for energy storage rather than optional reliance on DIRECT analysis.

In addition, and consistent with prior COU comments, the COUs are not persuaded that PTD is the appropriate default ratio for energy storage devices. Instead, BPA should apply a PTDG allocation. A PTDG ratio recognizes that energy storage resources are inherently multi-functional while allocating costs across a broader, more neutral, system-wide base that better reflects the integrated role of storage within modern utility systems. For these reasons, BPA should revise the proposed energy storage functionalization language to replace optional DIRECT analysis and the PTD default with a PTDG-based standard allocation.

Distribution Losses

Consistent with earlier COU comments, the COUs support the use of a single method for calculating distribution losses. Allowing IOUs to select among alternative distribution loss methodologies would create incentives to choose the approach that produces the most favorable ASC outcome, thereby increasing the risk of ASC inflation.
Because not all utilities may possess a distribution loss study that satisfies BPA's proposed study criteria, the COUs support BPA's use of the default calculated distribution loss method in the ASC methodology as the sole method for determining distribution losses.

Commission Basis Adjustments

In our previous comments, we proposed that BPA require the use of state Public Utility "Commission Basis Reports" (CBR) as the basis to exclude disallowed costs from the FERC Form 1s submitted to BPA by exchanging IOUs. This proposed process would require IOUs that submit ASCs to adjust their FERC accounts to include *only* those costs allowed for retail rate setting purposes. For compliance purposes, our suggested revisions also required exchanging IOUs to attest to their accuracy.

BPA has indicated that it is reluctant to adopt the COU CBR proposal due to certain perceived issues and complexities including that not all state commissions require CBRs; the opaqueness of IOU rate settlements approved by state commissions; and that many of the IOUs have operations in more than one state jurisdiction, each with their own methodologies and rules. We believe these issues can and must be overcome to better reflect the intent of the Residential Exchange under the statute (i.e., to compare the production costs of the IOUs used for setting their respective <u>retail rates</u> to production costs of BPA that the COUs pay.)

For instance, while Idaho Public Utility Commission does not have the same requirement for annual CBRs as the Oregon and Washington Commissions, it does similarly use a historical test period and requires utilities to adjust the historic test period for *restating* *adjustments* (i.e. disallowed costs from prior orders and abnormally high expenses) and *pro forma adjustments* (i.e. increase costs without offsetting benefits).

In addition, our proposed attestation requirement would place the burden on the exchanging IOU to parse through their own enigmatic rate settlements to determine the basis of Commission adjustments for setting retail rates. Finally, the fact that some IOUs have operations in more than one state jurisdiction, each with their own methodologies and rules, is something that such IOUs manage daily as a cost of doing business in more than one state. BPA can leverage this through our recommended attestation requirement to ease its own administrative burden for multi-jurisdictional IOUs.

Accordingly, we renew our recommendation that ASCM require that the costs included in FERC accounts that are disallowed by the IOUs' regulatory commission(s) for retail ratemaking must be identified (nature and amount) and removed for ASC purposes. At the very least, BPA must not foreclose any party from proposing material adjustments to an IOU's FERC accounts based on CBRs and similar state commission required adjustments.

New Large Single Loads

The COUs remain unopposed to BPA's updated NLSL methodology. The new methodology will be (1) easier to implement, (2) avoid informal 'resource dedication' and (3) prevent gaming. The methodology will hold all interests constant while allowing for the removal of the NLSL exception. If BPA makes any changes to the methodology presented in this draft that reintroduce gaming, COUs reserve the right to argue that BPA reintroduce the NLSL exception in the final ASCM.

As it relates to § 301.4.p.1, the COUs are supportive of allocating a portion of the cost of new resources to new NLSLs. This approach is consistent with the cost allocation principles PPC members maintain in their own retail rate structures as well as BPAs own statutory directives for wholesale power supply.

ASC Consultation

The COUs oppose BPA's proposed rewrite section 301.6. to exclude customer groups – COUs and IOUs – from initiating a 5(c)(7) consultation process. The COUs recommend that BPA maintain the language from the 2008 ASCM.

Materiality Threshold

The COUs oppose BPA's proposed treatment of new resource additions or reductions in the ASC, including the proposed 0.5 percent materiality threshold for individual resources during the period between the Base Period and the final ASC filing and the application of a grouped materiality test for resource changes occurring within the Exchange Period.

The ASC framework is fundamentally designed to rely on a Base Period cost structure that is subsequently adjusted through methodological escalation factors to calculate the Exchange Period ASC. Within this structure, differences between forecasted and actual load-resource balance are already addressed through forecast power purchases to serve excess load and secondary sales associated with surplus resources.

Because these mechanisms inherently capture the financial effects of load and resource variation, true-ups for incremental resource changes prior to the final ASC determination are unnecessary and would undermine the stability, predictability, and administrative efficiency that the Base Period ASC construct is intended to provide. Allowing adjustments during this period - particularly at a 0.5 percent threshold - would introduce unwarranted ASC volatility without improving cost accuracy. For these reasons, BPA's newly proposed expansion to recognize new resource additions or reductions that occur after the Base Period and before the final ASC filing should not be adopted.

With respect to the Exchange Period, any ASC adjustments should occur only as expressly authorized under the applicable Residential Purchase and Sale Agreement (RPSA). To the extent resource-related adjustments are permitted under the RPSA, BPA should not apply a grouped materiality approach, as aggregation could allow multiple individually immaterial resource changes to collectively trigger ASC adjustments, thereby increasing volatility and administrative complexity.

Instead, any Exchange Period recognition of new resource additions or reductions permitted under the RPSA should apply a 2.5 percent materiality threshold, consistent with the threshold already used for service territory changes; and be evaluated on a per-resource basis, rather than through aggregation across multiple resources. This approach preserves the integrity of the Base Period ASC, aligns resource treatment with existing 2.5 percent service territory materiality standards, and ensures that Exchange Period adjustments occur only when changes are truly significant.

BPA should revise the proposed provision to:

- Prohibit adjustments for new resource additions or reductions prior to the final ASC filing; and

- Limit any Exchange Period adjustments permitted under the RPSA to circumstances where an individual resource change exceeds a 2.5 percent materiality threshold.

Injuries and Damages (Account 925)

The COUs oppose the 1% threshold advanced in the incremental ASCM. In BP-26, 1% of the IOUs Contract System Costs totaled roughly $80 million. These costs shouldn't be automatically added to a utilities ASC without justification because it is plausible that they (1) are the result of a utility's gross negligence, (2) were caused by utility assets functionalized to transmission or distribution and/or (3) haven't been granted cost recovery from the relevant State Commissions. COUs encourage BPA to return to the language from the preliminary ASCM to address these concerns.

Transmission

We are supportive of BPA's proposal to remove all transmission costs from the ASC except for those which are in principle as near to the transmission costs included in the PF rate as possible. However, there are outstanding questions as to whether BPA's ASCM proposal implements the "like for like" principle fairly, how differences between the approaches can be mitigated over time, and whether the transmission costs IOUs are including in their filings are transparent and verifiable.

First, functionalizing all of Account 565 "Transmission of Electricity by Others (Wheeling)" to Production expands upon BPA's proposed "like for like" treatment by including all legs for all resources and use cases. For preference customers, BPA's POC contract only embeds the cost of the last leg of transfer service for non-federal resources serving net requirements load in wholesale power rates. BPA's ASCM should likewise only include the last leg of transmission wheeling.

Second, Account 447 is the FERC account where IOU's account for the credits they receive from wholesale power sales to other utilities. The FERC Uniform System of Accounts describes it as follows:

447 Sales for resale.

A. This account shall include the net billing for electricity supplied to other electric utilities or to public authorities for resale purposes.

B. Records shall be maintained so as to show the quantity of electricity sold and the revenue received from each customer.

NOTE: Revenues from electricity supplied to other public utilities for use by them and not for distribution, shall be included in account 442, Commercial and Industrial Sales, unless supplied under the same contract as and not readily separable from revenues includible in this account.

Unfortunately, we understand that IOUs book considerable transmission costs in this account as well; and because the income from these power sales far outstrips the transmission costs associated with their delivery, Account 447 appears in utilities FERC Form 1 as a large credit. BPA proposes to include this entire account in IOU's ASCs despite COU's having no transparency into the magnitude of these costs.

By contrast, where IOUs book additional market-related transmission costs elsewhere, the preliminary draft requires those costs to be separately identified and supported through documentation. COUs request that IOUs be required to provide comparable documentation for any transmission-related costs embedded in Account 447, as this transparency is necessary to determine whether BPA's proposed "like-for-like" transmission treatment is being applied consistently and without inflating IOU ASCs.

Market Prices and Forecast of Short-Term purchases and sales

The incremental Draft ASCM proposes to move off of a longer, five-year weighted average in favor of a shorter-term, three-year period for formulating the market-price forecasts for short-term purchases power expenses and sales for resale in the calculation of Exchange Period ASCs. While we understand the tradeoff to be based on one for accuracy in the forecast against stability in this particular price signal, we favor more stability in this price signal given the impact this could have in an era of regional load growth and associated resource development.

The COU's appreciate your consideration of these comments.