August 8, 2018

**Via Email** (techforum@bpa.gov)

U.S. Department of Energy
Bonneville Power Administration
Transmission Services

**Re: BP-20 - Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. on the July 25 BP-20 Repayment Modeling Presentation and the July 25 BP-20 Revenue Requirement Presentation**

Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. ("Commenting Parties")[1] hereby respectfully submit the following in response to the July 25 BP-20 Repayment Modeling Presentation[2] and the July 25 BP-20 Revenue Requirement Presentation.[3] Commenting Parties appreciate the opportunity to submit comments to BPA and look forward to working with BPA on these matters.

## A. BPA's Repayment Modeling in the Rate Case Process Should be Implemented to Reflect Amortization of Federal Obligations Over a Reasonable Period of Years

Section 7(a)(1) of the Northwest Power Act requires BPA to establish rates for the sale and transmission of power that shall

> *recover*, in accordance with sound business principles, the cost associated with the acquisition, conservation, and transmission of electric power, including *the amortization of the Federal investment in the Federal Columbia River Power System … over a reasonable period of years ….*[4]

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1 The Commenting Parties represent approximately 40 percent of BPA transmission sales. Moody's Investor Service Credit Opinion, *Bonneville Power Administration* at 3 (Feb. 8, 2018) ("Moody's Report"), available at https://www.bpa.gov/Finance/FinancialInformation/Debt/RatingAgencyReportsArticles/Moody's%20Credit%20Opinion%20Report%20Final%202.9.18.pdf.

2 Bonneville Power Admin., *BP-20 Rate Case Workshop: Repayment Modeling* (July 25, 2018), available at Repayment Modeling https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.07.25_BP20_RepaymentModeling.pdf (the "July 25 BP-20 Repayment Modeling Presentation").

3 Bonneville Power Admin., *BP-20 Rate Case Workshop: Revenue Requirement* (July 25, 2018), available at https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.07.25_BP20_RevReq.pdf (the "July 25 BP-20 Revenue Requirement Presentation").

4 Section 7(a)(1) of the Northwest Power Act, 16 U.S.C. § 839e(a) (italics added). *See also* section 9 of the Federal Columbia River Transmission System Act, 16 U.S.C. § 838g, and section 5 of the Flood Control Act of 1944, 16 U.S.C. § 825s.

BPA's repayment modeling in the rate case process should be implemented to reflect amortization of federal obligations over a reasonable period of years. In other words, BPA's rates should reflect the repayment of federal obligations over a reasonable period of years and should not, for example, be set to repay federal obligations in less than that period. If it appears that proposed rates will generate increases in transmission reserves or result in early repayment of federal obligations, the proposed rates should be lowered to avoid generating increases in transmission reserves (which already exceed the transmission reserves upper threshold) or early repayment.

### B. The Role of Depreciation in Establishing BPA Transmission Rates Should be Examined

BPA has traditionally set rates based on the higher of depreciation (including amortization of intangibles) and repayment obligations. However, this approach must be reexamined. To the extent that BPA uses financing for assets that have a useful life longer than the period for which they are financed, then BPA must ensure that depreciation for such assets is not included in rates if and to the extent the capital cost has already been recovered in rates. For an extreme example, assuming that BPA could, and did, revenue finance[5] all of its assets, use of depreciation in setting rates would double-collect the amount of the investment. It is imperative that BPA not include in the revenue requirement depreciation associated with any revenue financed assets.

### C. The BPA Rate Treatment of LGIA Credits Should Be Reviewed and Explained

BPA receives certain amounts for Network Upgrades from interconnection customers, typically under a Large Generator Interconnection Agreement (LGIA). These amounts are generally repaid to the interconnection customer, as a credit against (i.e., reduction of) amounts due on the customer's transmission bill. BPA refers to these amounts repaid to customers as "LGIA credits."[6]

At the July 25 workshop, BPA indicated that the projected LGIA Credits were included (as negative amounts) under CASH FROM CURRENT OPERATIONS on line 10 ("CUSTOMER FUNDED") of the Transmission Cash Flow Statement at page 24 of the July 25 BP-20 Revenue Requirement Presentation.[7] Thus, BPA recognizes LGIA credits as a BPA use of

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[5] As used in these comments, "revenue financing" is a general reference to (i) a mechanism that funds capital assets without financing them over a reasonable period in light of the useful life of the capital assets, such as funding capital investments from current revenues or from financial reserves, or (ii) a mechanism that repays Treasury obligations earlier than they would otherwise would be paid, in order to address leverage requirements or to increase access to Treasury borrowing authority.

[6] Bonneville Power Admin., *BP-20 Rate Case Workshop: Transmission Rates* (July 18, 2018), available at https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.07.18_BP20_TxRates.pdf (the "July 18 BP-20 Presentation") at 33.

[7] The LGIA Credits shown were -$18,713,000 for 2020 and -$18,252,000 for 2021.

cash[8] and the LGIA credits are taken into account on a cash basis in setting the transmission revenue requirement.

However, the July 18 BP-20 Presentation seemed to suggest that LGIA credits, which typically offset BPA transmission revenues, result in BPA receiving non-cash (accrual) revenues that increase the transmission revenue requirement:[9]

- However, if there will be non-cash (accrual) revenues in the revenue forecast, then the Revenues from Proposed Rates must be greater than the Cash Requirements to demonstrate cost recovery

- To capture this in determining the Revenue Requirement, then, the Revenue Requirement is the sum of all Cash Requirements and Non-Cash Revenues[10]

As discussed above with respect to the July 25 workshop, the LGIA credits are included in the cash requirements in determining the revenue requirement. However, the July 18 BP-20 Presentation appears to suggest that the LGIA credits also result in non-cash revenues that are added to the revenue requirement.[11] This appears to be a double-counting of the LGIA credits in determining revenue requirement. BPA should explain whether or not LGIA credits are included in revenue requirement both on a cash and accrual basis. If BPA includes LGIA in revenue requirement on both a cash and accrual basis, BPA should explain the reason for such inclusion, including in particular any statutory requirement for such inclusion.

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Commenting Parties appreciate the opportunity to submit these comments. By return e-mail, please confirm BPA's receipt of these comments.

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[8] This use of cash was recognized (and served to increase) the Minimum Required Net Revenue calculated on that Transmission Cash Flow Statement.

[9] July 18 BP-20 Presentation at 32-33

[10] *Id*. at 33.

[11] *Id*. at 32-33