Comments of the M-S-R Public Power Agency Regarding BP-20 Workshops

M-S-R[1] values the opportunity to comment on BPA's BP-20 follow-up presentation on August 22, 2018.[2] M-S-R appreciates BPA's follow-up on some of the points raised by customers in various comments submitted on August 8th, including M-S-R's comments. However, M-S-R has a number of concerns that remain unanswered, or which are reinforced by BPA's follow-up presentation. These comments do not supersede M-S-R's prior comments, but focus on BPA's follow-up discussion which included depreciation, debt repayment, amortization, and Large Generator Interconnection Agreement ("LGIA") network upgrade credits and financing.

I. Depreciation

M-S-R previously raised two concerns with Depreciation: (1) the need to explore the basis for the proposed $46 million increase in BPA Transmission's annual depreciation expense; and (2) the need to avoid charging customers to depreciate assets they funded.

As to the first concern, M-S-R understands BPA intends to delve into the basis for the depreciation study and rate increase in a workshop. While that will hopefully

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[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.

[2] August 22, 2018 BP-20 Rate Case Workshop: Revenue Requirement Follow-Up: https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/RateCase/2018.08.22_BP20_RevReq.pdf

shed light on the issue, M-S-R maintains that the issue must be addressed in the rates proceeding, consistent with BPA's statutory responsibilities.

With regard to depreciation of assets funded by customers, M-S-R heard two things. First, BPA indicate BPA does not consider assets funded through reserves to be assets funded by customers. M-S-R disagrees with that view. Reserves result from BPA collecting revenues through rates that exceed BPA's costs. BPA's rates are required to be set to recover its costs, and no more. Amounts collected in excess of costs are therefore not BPA's funds to claim their own – they are overpayments by customers. When those funds are used to purchase assets, BPA is using customer funds to pay for capital improvements, which is fundamentally no different than revenue financing.

Second, more generally BPA's presentation asserts that

> *The transmission revenue requirement includes depreciation calculated on all plant placed into service regardless of the source of financing, including customer financed investments.*

M-S-R asserts that BPA's position is inconsistent with standard utility practice, as reflected in FERC's regulations, which provide for depreciation of electric plant in service, but also make clear that electric plant in service must not include plant funded by customers:

> ***The electric plant accounts shall not include the cost or other value of electric plant contributed to the company****. Contributions in the form of money or its equivalent toward the construction of electric plant shall be credited to accounts charged with the cost of such construction. Plant constructed from contributions of cash or its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledgers of accounts.*[3]

Requiring customers to fund assets through revenue financing, either directly or through over-collection of rates, and then charging those customers for the

[3] *See* 18 C.F.R. Part 101 (2018)(emphasis added).

decrease in value of the assets is an inequitable double charge. The customers have already paid for one-hundred percent of the facility costs, so any reduction in the value of the assets is just a reduction in what the customers have provided to BPA. Charging depreciation for plant funded by customers is also contrary to BPA's statutory directives to establish rates that recover the costs of transmitting electric power, including amortizing the Federal investment in the Federal Columbia River Power System (FCRPS) over a reasonable period of years.[4] Collecting the reduction in value of assets funded by customers collects more than BPA's cots. Furthermore, collecting the investment in the FCRPS through revenue financing is inconsistent with amortizing *Federal* investment over a reasonable period of years.

M-S-R asserts that: (1) long-life assets must not be revenue financed; and (2) to the extent they have been, or are in the future funded by customers, the value of those assets must be removed from depreciable plant, and depreciation expense must be reduced accordingly.

II. I5 Reinforcement Amortization Should be Over the Life of the Planned Asset, or Alternatively Funded with Reserves

The August 22nd workshop presentation confirmed that BPA intends to amortize Transmission's $130 million investment the now abandoned I5 Reinforcement project over a period of five years. BPA explained it chose that period because the studies have a life of 2 to 5 years.

M-S-R asserts that is an incorrect focus. The assets that were studied, had they been built, would have a 30-40 year life, justifying a much longer amortization of the abandoned $130 million investment. Given the other rate pressures leading to a potential double-digit rate increase for Transmission, BPA should exercise reasonable judgement to amortize the I5 Reinforcement investment over the expected life of the planned project, not a theoretical life of the studies.

[4] *See* 16 U.S.C. § 839e(a), 16 U.S.C. § 838g, and 16 U.S.C. § 825s.

III. LGIA Double-Recovery and BPA Funding of Network Upgrades

In its August 8, 2018 comments, M-S-R raised concerns regarding customer funding of LGIA network upgrades. One concern was the mismatch between the long life of the network upgrades (30-40 years) and the relatively short repayment of the customer funded investment (up to 20 years, but typically 7-8 years). M-S-R suggested BPA explore financing the network upgrades itself, as is common industry practice.

During the August 22nd workshop M-S-R understood BPA to explain it would not fund the network upgrades associated with LGIAs because, when customer fund them and receive repayment through transmission credits, BPA does not count the amount owed to customers as debt, which is better for Leverage Policy purposes.

M-S-R continues to assert that it makes better sense, and is more in line with BPA's statutory obligations (discussed above) for BPA to fund the network upgrades using debt with a term that better matches the life of the assets. The fact that the Leverage Policy would interfere with that rationale business decision is yet another reason why BPA should not adopt the Leverage Policy.

IV. Conclusion

M-S-R appreciates BPA's follow-up presentation, but it does not resolve the concerns raised by M-S-R ad others. M-S-R looks forward to opportunities to fully explore these issues through the pre-BP-20 workshop process and beyond.