

October 13, 2020

**Via email:**

[techforum@bpa.gov](mailto:techforum@bpa.gov)

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

**Re: Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. Regarding TC-22, BP-22 and EIM Phase III September 29, 2020 Workshop on Loss Returns and Financial Issues**

Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. (“Commenting Parties”) submit the following comments on the BPA TC-22, BP-22 and EIM Phase III September 29, 2020 Workshop presentation.<sup>1</sup>

**I. LOSS RETURNS**

**A. BPA Should Not Propose a Capacity Charge for Loss Returns**

The September 29 Presentation indicates at pages 26-29 that BPA staff intends to include in the initial BP-22 proposal a capacity charge in connection with loss services--whether in-kind 168-hour delay of loss returns or financial settlement of losses. As discussed below, it does not appear that a BPA capacity charge is warranted, and BPA should not propose it.<sup>2</sup>

**1. BPA Should Strongly Consider LAP Pricing of Losses, Without a Capacity Charge “Adder,” for Financial Pricing of Losses**

The BPA presentation at the August 25, 2020 workshop presentation<sup>3</sup> states at page 84 that, under financial settlement of losses, “[t]he energy provided would be charged . . . EIM LAP if in EIM in the hour losses were provided by BPA.”

---

<sup>1</sup> Available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/29Sep20%20-%20Main%20Tarrif-Rates-EIM%20Workshop.pdf> (“September 29 Presentation”).

<sup>2</sup> See, e.g., September 14, 2020 Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, Portland General Electric Company, and Puget Sound Energy, Inc. Regarding TC-22, BP-22 and EIM Phase III August 25 Workshop on Transmission Losses, available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/Comments/Aug%2025%20Workshop/Avangrid-Avista-Idaho-PGE-Puget%20Comments-on-Aug-25-TC-BP-EIM-workshop.pdf> at pages 1-3 (“September 14 Loss Comments”).

<sup>3</sup> Available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/25Aug20%20-%20Main%20Tarrif-Rates-EIM%20Workshop.pdf> (“August 25 Presentation”).

Based on the loss provisions of other, investor-owned EIM participants in the Pacific Northwest<sup>4</sup> and the September 16, 2020 comments of PacifiCorp,<sup>5</sup> BPA should strongly consider LAP pricing (while BPA is in the EIM) for pricing financial settlement of losses without an additional capacity charge. BPA should analyze this proposition and explain its analysis to stakeholders. (In this regard, stating that providing losses uses capacity does not demonstrate that LAP pricing alone does not capture the cost of providing losses.)

## **2. BPA Should Not Propose a Capacity Charge for Physical Return of Losses in BP-22**

First, the absence of a capacity charge for financial settlement of losses of other, investor-owned EIM participants in the Pacific Northwest discussed above, argues against a capacity charge for physical return of losses.

Further, assuming *arguendo* that BPA's provision of losses (with 168-hour delay of loss returns) uses capacity for which BPA assesses a capacity charge, BPA nevertheless should not propose a capacity charge for physical return of losses with 168-hour delay of loss returns. Under BPA's proposed approach to capacity pricing for loss service, the capacity charge would apparently be relatively significant only for 168-hour delayed return of losses and BPA intends to no longer offer 168-hour delayed return of losses starting in BP-24. Any BPA capacity charge for physical return of losses should, even if adopted in BP-22, not be applied in subsequent rate periods insofar as BPA has concurrent (or near-concurrent) loss returns with a loss factor that is not a flat annual factor. Under these conditions, BPA customers can provide physical loss returns without exposure to a capacity charge. BPA should not impose a capacity charge in BP-22 when customers do not have the ability to provide concurrent loss returns under a shaped loss factor.

BPA should avoid proposing a capacity charge in BP-22 for physical return of losses, particularly inasmuch as (i) BPA imposition of a capacity charge for loss returns is likely to be a contentious issue and (ii) BPA's entry into the EIM will introduce a number of new, somewhat complex charges and credits, and it is desirable under these circumstances to avoid introduction of a new, temporary capacity charge for losses.<sup>6</sup>

---

<sup>4</sup> September 14 Loss Comments at pages 2-3.

<sup>5</sup> The September 16, 2020 Comments of PacifiCorp Regarding TC-22, BP-22 and EIM Phase III August 25 Workshop on Transmission Losses (available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/Comments/Aug%2025%20Workshop/Tx-Losses-PacifiCorp-Comments-9162020.pdf>) conclude at pages 1-2 that settling losses incurred based on the LAP price represents the "true cost to serve load" and "provides fair compensation to the transmission provider".

<sup>6</sup> Further, BPA has indicated that it would not propose a capacity charge for in-kind concurrent loss returns unless a flat annual loss factor is used. (See August 25 Presentation at page 81, indicating that BPA's proposal to calculate the cost of concurrent loss returns is "applicable only if BPA has a single flat annual loss factor".) The September 29 Presentation indicates at page 25 that BPA staff's leaning is to propose monthly loss factors in TC-22. It appears likely that BPA staff would not seek a capacity charge "adder" for rate periods after BP-22. Particularly in light of the rate and operational challenges of BPA's joining CAISO EIM, BPA should avoid pursuit of a capacity charge "adder" for what is likely to be a single rate period.

### **3. Contrary to BPA’s Summary of Customer Comments Regarding a Capacity Charge for Loss Returns, the Comments Do Not Generally Support Such a Charge**

Page 140 of the September 29 Presentation includes the following characterization in BPA’s summary of its understanding of comments received on BPA’s June 23 and 24, 2020 workshops

General support for monetizing the value of capacity used by Power Services but should reflect BPA’s capacity cost[.]

However, the comments of the following entities, among others, on BPA’s June 23 and 24, 2020 workshops do not reflect general support of a BPA capacity charge for loss returns:

Avangrid;<sup>7</sup> Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc<sup>8</sup>; NIPPC;<sup>9</sup> Shell Energy North America (US), L.P.<sup>10</sup>; and TransAlta Energy Marketing (U.S.) Inc.<sup>11</sup>

Other comments support a capacity charge.

In short, comments submitted on BPA’s June 23 and 24, 2020 workshops do not reflect “[g]eneral support for monetizing the value of capacity used by Power Services but should reflect BPA’s capacity cost”. Some comments support such a charge and others do not.

#### **B. BPA Should Maintain an In-Kind Loss Return Option**

The August 25 Presentation<sup>12</sup> indicates at page 73 that “BPA Staff agrees that BPA should maintain the option to provide in-kind loss returns for the BP-22 rate period.” BPA’s maintenance of the customer option to provide in-kind loss returns is appropriate.<sup>13</sup> The ability of a BPA transmission customer to elect physical returns provides the customer with protection against a BPA financial settlement rate that exceeds the customer’s cost of physically returning

---

<sup>7</sup> “...Avangrid supports maintaining the status quo—including a flat yearly loss factor and retention of returns in-kind during the BP-22 period. This would give customers time to assess the operational viability of the different scenarios presented, including whether Bonneville should include a capacity component when pricing losses.”

<sup>8</sup> “It has been argued in various workshops that BPA’s financial loss return rate should not include a capacity component. BPA should fully consider such arguments.” To date, it does not appear that BPA has done so.

<sup>9</sup> “. . . NIPPC does not support capacity costs in the charges for Real Power Losses. . .”

<sup>10</sup> “. . . BPA is proposing to charge a capacity component to losses. Shell Energy does not support this approach.”

<sup>11</sup> “TEMUS does not think adding a capacity component to losses is appropriate if improvements similar to the suggestions made above are implemented.”

<sup>12</sup> Available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/25Aug20%20-%20Main%20Tarrif-Rates-EIM%20Workshop.pdf> (“August 25 Presentation”).

<sup>13</sup> See, e.g. January 8, 2020 Comments of Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., Regarding BPA Transmission and EIM Losses and EIM Charge Code Allocation (available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/Comments/Dec%2012%20Workshop/Avista-010820%20comments%20on%20losses%20and%20EIM%20charge%20code%20allocation.pdf>).

losses. In this regard, the option to physically return losses is consistent with “the lowest possible rates to consumers consistent with sound business principles” statutory standard.<sup>14</sup>

## II. FINANCIAL ISSUES

### A. BPA Is Contemplating Substantial BP-22/24 Transmission Rate Increases Based on Federal Borrowing Authority Concerns, But Those Concerns Should Not Be Pursued in BP-22

Page 62 of the September 29 Presentation includes the following with respect to “Approaches for Transmission BP-22”:

- Without action now, BPA falls short of maintaining \$1.5b available borrowing authority and faces a tremendous challenge in BP-24.
- Doing nothing now means facing a borrowing authority shortfall of \$432m in BP-24. If this is managed entirely with revenue financing in BP-24, it would create approximately 22% rate pressure in BP-24.

The September 29 Presentation does not set forth analysis of whether, based on experience, BPA’s transmission capital spending forecasts tend to be higher than actuals; BPA’s capital spending forecasts should include such analysis and appropriate adjustments based on this analysis.

BPA is pointing to remaining federal borrowing authority and contemplating substantially higher transmission rates in BP-22/24<sup>15</sup> to reduce projected transmission borrowing (in essence, by revenue financing transmission capital additions). Indeed, BPA in the September 29 Presentation, which was very near the end of the BP-22 workshops, spelled out for the first time the prospect of a double digit transmission rate increase over the BP-22/24 period based solely on revenue financing.<sup>16</sup>

It is disappointing that BPA did not raise its concerns in a more timely manner, which would have allowed BPA and its customers to better address BPA’s concerns in a comprehensive manner (using the six-step workshop process over several workshops). In short, the transmission rate increases contemplated by BPA have not been adequately developed in the BP-22 workshop process and should not be pursued in BP-22.

The contemplated transmission rate increase is particularly surprising in light of the following (discussed in these Comments):

- (i) the lack of opportunity to address BPA’s concerns in a timely manner in the BP-22 workshop process;

---

<sup>14</sup> See, e.g., 16 U.S.C. §838g.

<sup>15</sup> See September 29 Presentation at page 62.

<sup>16</sup> As used in these comments, “revenue financing” refers generally to (i) paying for investments without the issuance of debt or (ii) additional retirement of existing debt, both of which reduce the amount of debt that would otherwise be outstanding.

- (ii) the COVID-19 concerns in the region and the suspension of the Financial Reserves Policy (FRP) Surcharge;
- (iii) BPA's progress on decreasing its leverage;
- (iv) financial reserves for risk levels for each business line that are basically above the lower threshold;
- (v) transmission's contribution of more than a proportionate share of the agency financial reserves for risk that provide liquidity to the agency;
- (vi) the failure of the September 29 Presentation to recognize that both power and transmission should participate in addressing BPA's federal borrowing constraints; and
- (vii) the assumption in the September 29 Presentation analysis of no new lease purchases for transmission, despite substantial existing and historical transmission lease purchases and substantial non-federal power financing (Regional Cooperation Debt);

In light of the foregoing, BPA should not pursue its contemplated transmission rate increases in BP-22 based on borrowing authority concerns but should work over time with its customers to develop and address BPA's borrowing authority concerns.

**B. BPA's Contemplated Higher BP-22 Transmission Rates Based on Federal Borrowing Authority Concerns Should Be Examined in Context and Rejected**

**1. In Light of BPA's COVID-19 Concerns as Evidenced by the FRP Surcharge Suspension, BPA Should Not Pursue Higher BP-22 Transmission Rates Based on Federal Borrowing Authority Concerns**

In June 2020, BPA decided to suspend the FRP Surcharge for the remainder of the BP-20 rate period.<sup>17</sup> The BP-20E ROD pointed out that, before the suspension--

The Power FRP Surcharge triggered for FY 2020, resulting in a \$30 million increase to power rates beginning in December 2019. Based on current end-of-year projections, the Power FRP Surcharge is expected to trigger again in FY 2021. The Transmission FRP Surcharge did not trigger in FY 2020 and is not expected to trigger in FY 2021.

(BP-20E ROD at page 2; citations omitted.) The suspension of the FRP Surcharge, which appears to have lowered power financial reserves by tens of millions of dollars, was as a result of concerns about COVID-19:

---

<sup>17</sup> BP-20E Expedited Rate Proceeding Administrator's Final Record Of Decision BP-20E-A-01 (June 2020) ("BP-20E ROD") at page 7.

On March 13, 2020, the President declared the outbreak of a coronavirus pandemic, COVID-19, in the United States a national emergency. Since then, much of the United States has been under stay-at-home orders. The impacts of COVID-19 on the national economy are only beginning to be understood. With near-record unemployment in many regional communities, utility customers of the Bonneville Power Administration (Bonneville) have had to lay off staff, rely on cash reserves, and use short-term credit to maintain operations. Throughout the pandemic, Bonneville has remained committed to working with its customers to ensure that they are able to continue to provide essential utility services to regional homes and businesses.<sup>18</sup>

It is not clear that the impacts of COVID-19 as pointed out by BPA are over, and BP-22 is not the time for measures to address BPA long-term concerns about BPA financial issues. Indeed, the 22% transmission rate increase in BP-22/24 contemplated by BPA based on financial concerns should not be adopted.

**2. BPA’s Leverage Is Improving and Financial Reserves for Risk for Each Business Line Are Above the Lower Threshold, Although Transmission Is Contributing More Than a Proportionate Share of Agency Financial Reserves For Risk**

The September 29 Presentation acknowledges at page 53 that “BPA has made progress on decreasing its leverage.”

Forecast financial reserves for risk for end of year fiscal year 2020 (FY20) are as follows:<sup>19</sup>

Power: 65 days cash on hand

Transmission: 151 days cash on hand

Agency: 87 days cash on hand

These levels for both power and transmission are above the lower thresholds.

The lower and upper financial reserves thresholds for a business line are basically 60 days and 120 days cash on hand, respectively.<sup>20</sup> In general, if a business line’s financial reserves for risk are below its lower threshold, “a rate action shall trigger [FRP Surcharge] the following

---

<sup>18</sup> BP-20E ROD at page 1.

<sup>19</sup> BPA Q3 Quarterly Business Review Technical Workshop presentation (August 18, 2020) (“QBR Presentation”) (available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/Q3%20QBR%20Tech%20Workshop%20Final%20Presentation%208.18.20.pdf>) at page 16.

<sup>20</sup> BPA Financial Reserves Policy (“FRP”) (available at <https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/frpdocs/FRP%20PHASE-IN%20IMPLEMENTATION%20Policy%20Final.pdf>) at page A-2.

fiscal year to recover, in part or in whole, the shortfall.”<sup>21</sup> If a business line’s financial reserves for risk (and agency financial reserves are above its upper threshold)--

. . . , the Administrator shall consider the above-threshold financial reserves for investment in other high-value business line-specific purposes including, but not limited to, debt retirement, incremental capital investment, or rate reduction.<sup>22</sup>

In short, transmission financial reserves for risk are substantially above the transmission upper threshold, but power financial reserves for risk are only slightly above the lower threshold. As a result, transmission is contributing more than a proportionate share<sup>23</sup> of the agency financial reserves for risk that provide liquidity to the agency.

### **3. Outstanding and Projected Business Line Debt Levels Indicate That Both Power and Transmission Should Participate In Addressing BPA’s Federal Borrowing Constraints; However, BPA Is Contemplating Rate Action Only for Transmission**

It appears that BPA is focusing on the transmission rates on the grounds that borrowing for transmission capital projects is projected to increase, while borrowing for power capital projects is projected to be relatively flat.<sup>24</sup> However, both power and transmission have substantial outstanding and projected federal borrowing and should participate in addressing BPA’s federal borrowing constraints. Under the circumstances, the burden of revenue financing that may be necessary as a last resort to address BPA’s federal borrowing constraints should not fall primarily on one business line. (As discussed below, for example, use of transmission capital leases should be pursued.)

The graphs in the September 29 Presentation at pages 57-58 indicate that

- (i) outstanding power non-federal debt (Regional Cooperation Debt) is projected to decline substantially while outstanding power federal debt is projected to increase substantially; and
- (ii) outstanding transmission non-federal debt (Capital Leases) is projected to decline to a very low level (indicating an assumption of essentially no new capital leases) while outstanding transmission federal debt is projected to increase substantially.

These graphs also indicate that

- (i) outstanding federal debt for power *exceeds* outstanding federal debt for transmission in 2020; and
- (ii) outstanding federal debt for power and transmission are projected to be roughly *equal* in ten years (2030).

---

<sup>21</sup> FRP at page A-2.

<sup>22</sup> FRP at page A-2.

<sup>23</sup> As indicated above, transmission has 151 days cash on hand and power has 65 days cash on hand.

<sup>24</sup> See September 29 Presentation at pages 57-58.

In short, (i) projected declines in non-federal borrowing by both power and transmission increase pressure on projected federal borrowing; (ii) outstanding federal debt of power currently exceeds that of transmission; and (iii) outstanding federal debt of power is projected in ten years to be roughly equal to that of transmission. Accordingly, both power and transmission--not transmission alone as apparently contemplated by BPA--should participate in addressing BPA's federal borrowing constraints. However, the September 29 Presentation contemplates rate actions in response to BPA's financial concerns only for transmission.

#### **4. BPA Must Pursue Transmission Lease Financing, Which Will Alleviate Pressure on Federal Borrowing**

The September 29 Presentation's federal borrowing authority forecast at page 54 assumes "no new Lease Purchase"; similarly, the September 29 Presentation states as follows at page 57 that the "climbing [transmission] debt profile is driven by Transmission's nearly 100% debt financing practice." Under the circumstances, BPA must not abandon capital lease financing and use that as the basis for substantial transmission rate increases to support revenue financing. BPA must pursue transmission lease financing, which will alleviate pressure on federal borrowing.

In that regard, BPA seemed to indicate at the September 29 workshop that not *all* transmission financing needs could be met by lease financing. However, this extreme proposition does not and cannot justify abandoning all lease financing. This is particularly true insofar as (i) BPA's non-federal borrowing has been substantial<sup>25</sup> and (ii) BPA has strong credit ratings,<sup>26</sup> which should help support lease financing.

BPA must include lease financing going forward, absent a conclusive demonstration that it is unavailable--a demonstration that has not been provided to date. It would be particularly premature and unfair to BPA's transmission customers to pursue BPA transmission revenue financing based on financial concerns in the absence of such a demonstration.

\* \* \*

Nothing contained in these comments constitutes a waiver or relinquishment of any rights or remedies provided by applicable law or provided under BPA's Tariff or otherwise under contract. Commenting Parties appreciate BPA's review of these comments and consideration of the recommendations contained herein. By return e-mail, please confirm BPA's receipt of these comments.

---

<sup>25</sup> The graph on page 57 of the September 29 Presentation indicates about \$2 billion of outstanding transmission capital leases.

<sup>26</sup> Available at <https://www.bpa.gov/Finance/FinancialInformation/Debt/Pages/Rating-Agency-Reports.aspx>. As discussed above, BPA's leverage is improving and its financial reserves for risk for each business line are above the lower threshold; this should help support BPA's credit rating.