

January 8, 2020

Via email:

techforum@bpa.gov

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

Re: 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

Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., (“Commenting Parties”) submit the following comments on BPA transmission and EIM losses and on BPA EIM charge code allocation, in response to the BPA presentation at the December 12 , 2019 TC-22, BP-22 and EIM Phase III Customer Workshop.”¹

At this point, it appears BPA is gathering information to assist in developing proposals for real power loss factors, real power loss settlements and EIM charge code allocations. This is an appropriate step, but as discussed below, many of the issues raised or suggested by the December 12 Presentation must be determined in terms and conditions (TC) or rate proceedings. Decisions required to be made in a rate or TC proceeding cannot be made as a “policy” decision outside a TC or rate proceeding. Accordingly, BPA should conduct further discussions with BPA’s stakeholders and then present detailed BPA proposals in TC and rate proceedings, upon which stakeholders can provide more formal, detailed input in advance of BPA decisions in a TC or rate Record of Decision.

I. INTRODUCTION

A. Loss Issues and Summary Responses

Several loss issues are raised or suggested by the December 12 Presentation. Several such loss issues, together with summary responses, are as follows:

- (i) How should BPA transmission loss factors and rates be established and where should they be reflected?

¹ Available at <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/12.12.19%20Tariff-Rates-EIM%20Workshop.pdf> (“December 12 Presentation”).

Response: BPA transmission loss factors should be established in TC proceedings, and such transmission loss factors should be set forth in BPA's Tariff.

- (ii) What options--such as financial settlement and in-kind return--should be available for BPA transmission loss energy return?

Response: BPA transmission customers should have the options of financial settlement and in-kind return, and BPA should not consider proposing abandonment of a customer option of in-kind return unless and until an equitable financial settlement rate that applies to both Federal and non-Federal power is developed in a rate case.

- (iii) How should the rate for financial settlements of transmission losses be established and where should they be reflected?

Response: The rate for financial settlements of transmission losses should be developed in BPA transmission rate cases and should be reflected in BPA transmission rate schedules.

- (iv) What standards should govern in the development of rates for financial settlements of transmission losses? Where should the rate for financial settlements of transmission losses be developed and reflected?

Response: Such standards include the following: The rate for financial settlements of transmission losses should recover the costs of the losses and should be the same rate for transmission of Federal and non-Federal power, consistent with the statutory requirement that recovery of the cost of the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system.

B. BPA EIM Charge Code Allocation Issue and Summary Response

A BPA EIM charge code allocation issue is raised by the December 12 Presentation. Such issue, together with a summary response, is as follows:

“What approach should Bonneville adopt in recovering its costs (or distributing credits) for charge codes that it will receive as an EIM Entity from the CAISO?”²

Response: BPA should recover its costs (or distribute credits) that it will receive as an EIM Entity from the CAISO through allocations (or direct assignments) determined in BPA rate cases. Such allocations (or direct assignments) determined in BPA rate cases should be consistent with the principles of cost causation. The transmission services that BPA as an EIM Entity provides to customers must--like

² December 12 Presentation at page 51.

other transmission services--be set forth in BPA's Tariff adopted in TC proceedings. The rates for services that BPA as an EIM Entity provides to transmission customers must--like rates for other transmission services--be set forth in BPA's rate schedules adopted in rate proceedings.

II. BPA'S PROPOSAL FOR LOSS RETURN MECHANISMS SHOULD BE DEVELOPED IN CONSULTATION WITH AND INPUT FROM BPA'S STAKEHOLDERS

As discussed below, the mechanism for settlement of losses associated with BPA transmission service is a term and condition for transmission service and must be included in BPA's Tariff. Following further discussions with BPA's stakeholders, BPA should make a detailed proposal in a TC proceeding. In the TC proceeding, stakeholders can provide more formal, detailed input in advance of a BPA decision in a TC Record of Decision on a loss return mechanism.

Further, the interrelationship between BPA's loss return mechanism and BPA's financial settlement rate must be recognized and taken into account. As discussed below, a physical loss return option helps protect customers and is consistent with the lowest possible rates to consumers consistent with sound business principles statutory standard. BPA should not consider proposing the abandonment of a customer option of physical loss return unless and until an equitable financial settlement rate that applies to both Federal and non-Federal power is developed in a rate case.

III. BPA'S LOSS RETURN MECHANISMS AND LOSS FACTORS SHOULD BE APPROPRIATELY DEVELOPED IN TC PROCEEDINGS AND INCORPORATED INTO BPA'S TARIFF

A. The Mechanisms for Settlement of BPA Losses Must Be Included in BPA's Tariff and Should Allow Customers to Elect Either Financial Settlement or Physical Return of Transmission Losses

The mechanism for settlement of losses associated with BPA transmission service is a term and condition for transmission service and must be included in BPA's Tariff. BPA's Tariff should permit customers to elect between financial settlement or physical loss return.³

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 losses. In this regard, the option to physically return losses is consistent

³ BPA currently allows customers to elect four times each fiscal year between financial settlement or physical loss return (See BPA August 22, 2017 presentation titled "Waiving Loss Return Obligations During Oversupply Conditions" ("Oversupply Loss Waiver Presentation"), available at <https://www.bpa.gov/Projects/Initiatives/Oversupply/Workshops/082217-Loss-Waiver-Workshop.pdf> at 17). Four times each fiscal year which is a reasonable frequency for customer elections. Reducing the frequency of permitted elections would fail to adequately protect BPA customers from a financial settlement rate that is in excess of the customer's cost of physical loss returns or that is inequitable.

with “the lowest possible rates to consumers consistent with sound business principles” statutory standard.⁴

B. The Real Power Loss Factors Must Be Developed in TC Proceedings and Reflected in BPA’s Tariff

BPA’s Settlement Tariff (“Settlement Tariff”)⁵ specifies the Real Power Loss Factors in Schedule 11. Real Power Loss Factors are a term and condition of transmission service and are appropriately included in BPA’s Tariff.⁶ As such, real power loss factors must be developed in TC proceedings⁷.

IV. BPA’S FINANCIAL SETTLEMENT RATE MUST BE ADOPTED AS A TRANSMISSION RATE AND MUST BE CONSISTENT WITH STATUTORY STANDARDS

A. Any BPA Financial Settlement Rate Must Be Adopted in BPA Transmission Rate Proceedings and Reflected in BPA Transmission Rate Schedules

The June 13 Presentation at page 16 includes the following: “If financial only option is selected, then we anticipate moving the financial rate to the Gen Inputs portion of the BP rate case”. BPA’s provision of losses is an element of transmission service. Any rate for financial settlement of BPA transmission losses is a rate for transmission service and must be developed in a BPA transmission rate proceeding and set forth as a transmission rate. *See, e.g.,* Northwest Power Act (“NWPA”) section 7.

Development of BPA financial settlement rates in BPA transmission rate proceedings should facilitate development of rates that are consistent with BPA’s statutory obligations and based on the cost of providing the losses.

⁴ *See, e.g.,* 16 U.S.C. §838g.

⁵ *See* [https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/TC-20%20Settlement/Attachment%20%20to%20the%20TC-20%20Settlement%20Agreement Settlement%20Tariff%2011_08_18.pdf](https://www.bpa.gov/Finance/RateCases/BP-20/Meetings/TC-20%20Settlement/Attachment%20%20to%20the%20TC-20%20Settlement%20Agreement%20Settlement%20Tariff%2011_08_18.pdf).

⁶ *See, e.g.,* Settlement Tariff section 9(a).

⁷ The December 12 Presentation at page 39 includes a statement that “Bonneville will need to determine how it calculates the loss percentages used by the EIM”. Any such determination should be made in a TC proceeding, following input from stakeholders.

B. BPA Financial Settlement Rates Must Be Based on the Cost of Providing the Losses and Must Equitably Allocate Such Cost between Financial Settlement Rates for Transmission of Federal and non-Federal Power; the Financial Settlement Rates for Transmission of Federal and non-Federal Power Should be Equal

Section 10 of the Federal Columbia River Transmission System Act includes the following requirement: “The recovery of the cost of the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system.” (*See also* Northwest Power Act, §7(a)(2)(C).) BPA financial settlement rates should recover the cost of providing losses and should equitably allocate the cost of providing losses between Federal and non-Federal power transmitted by BPA. In other words, BPA financial settlement rates should recover the cost to BPA of losses and should be the same rate for losses on transmission of Federal and non-Federal power.

As discussed below, it appears that BPA’s current approach fails to establish rates that recover the cost of providing losses and fails to establish rates that equitably allocate the cost of providing losses between Federal and non-Federal power transmitted by BPA.

It is our understanding that BPA currently “grosses up” Non-Slice preference power purchases by BPA’s loss factor to account for transmission losses.⁸ This results in effect in financial transmission loss settlements for transmission of this preference power at a NWP section 7(f) rate equal to the preference (PF) rate.⁹

By contrast, it is our understanding that the rate currently charged by BPA for financial transmission loss settlement for transmission of non-federal power is the following:¹⁰

The energy price is the simple monthly average of Intercontinental Exchange (ICE) Mid-Columbia Electricity Price Index, Firm On Peak (excludes Sundays and NERC holidays) plus 15%.¹¹

⁸ *See, e.g.*, BP-20 Rate Proceeding Final Proposal Power Rates Study, BP-20-FS-BPA-01(July 2019), at page 55, lines 21-22 (“The cost of generating the real power losses for the transmission of Non-Slice sales is included in the Composite cost pool.”)

⁹ This “grossing up” of preference power sales in effect results in financial settlement for transmission losses at a rate *equal to* the PF rate--in effect a sale under Northwest Power Act section 7(f) at a rate *equal to* the PF rate. This “grossing up” of preference power sales should not be treated as a sale of power at the PF rate itself to the customers (that is then concurrently returned to BPA as a physical return). This is because the PF rate is only available for sales to meet the firm power load in the region of preference customers. (*See* Northwest Power Act sections 5(b)(1) and 7(b).) Power purchased from BPA by preference customers for delivery to BPA as a physical loss return should not be treated as part of the firm power load in the region of preference customers and should not qualify for purchase at a PF rate but rather should be subject to a NWP section 7(f) rate. *See* Revised Policy on Determining Net Requirements of Pacific Northwest Utility Customers Under Sections 5(b)(1) and 9(c) of the Northwest Power Act (First revision. Issued March 19, 2009; effective October 1, 2011) available at https://www.bpa.gov/p/Power-Contracts/Regional-Dialogue/rdi/2009-03-25_5b9c_Final_Revised_Policy.pdf at page 6 (“BPA will offer an amount of Federal power for sale to a customer under section 5(b)(1) based upon such customer’s actual retail firm power loads in the region.”) Losses on BPA’s transmission system are not part of a customer’s retail load.

It thus appears that BPA's current approach charges *different* rates for financial settlement of losses for transmission of Federal and non-Federal power. Further, it appears that BPA's current approach fails to establish rates that are based on the BPA cost of providing the losses.

One or more of the Commenting Parties is an EIM Entity in the CAISO EIM and has a loss return rate based on the hourly EIM Load Aggregation Point (ELAP) pricing information for its BAA(s). It should be noted that these Commenting Parties are--unlike BPA--jurisdictional entities under Part II of the Federal Power Act and their rates are subject to a number of statutory requirements that are different from those generally applicable to BPA. It is unclear at this point whether ELAP pricing would be appropriate for either or both BPA loss settlement or EIM loss settlement and be consistent with BPA's statutory obligations. Selection at this point of a proposal for a financial settlement rate for losses on transmission of Federal and non-Federal power in BPA's transmission rate case would be premature. Commenting Parties welcome continued discussion of this and other financial settlement options to achieve, in the loss return context, "the lowest possible rates to consumers consistent with sound business principles" statutory standard¹² and recovery of the cost of losses on the Federal transmission system that is "equitably allocated between Federal and non-Federal power utilizing such system".¹³ Meanwhile, however, BPA should preserve the in-kind loss return option and should not consider proposing abandonment of a customer option of in-kind return unless and until an equitable financial settlement rate that applies to both Federal and non-Federal power is developed in a rate case.

V. BPA EIM ENTITY TRANSMISSION SERVICES MUST BE SET FORTH IN BPA'S TARIFF; RATES FOR SUCH SERVICES MUST BE IN BPA'S RATE SCHEDULES

The services that BPA as an EIM Entity provides to transmission customers must--like other transmission services--be set forth in BPA's Tariff adopted in TC proceedings.

The rates for transmission services that BPA as an EIM Entity provides to customers must--like rates for other transmission services--be set forth in BPA's rate schedules adopted in rate proceedings.¹⁴ Such rates should reflect costs and credits that BPA will receive as an EIM Entity from CAISO, and as discussed below, should be developed consistent with the principles of cost causation.

The December 12 Presentation at page 51 poses several questions regarding allocation of costs (or credits) that BPA will receive as an EIM Entity:

Policy Question

- What approach should Bonneville adopt in recovering its costs (or distributing credits) for charge codes that it will receive as an EIM Entity from the CAISO?

¹⁰ It is unclear whether, where, and how BPA's apparent current financial loss settlement rate for transmission of non-federal power was adopted in a transmission rate proceeding.

¹¹ See Oversupply Loss Waiver Presentation, at page 17.

¹² See, e.g., 16 U.S.C. §838g.

¹³ See, e.g., 16 U.S.C. §838h.

¹⁴ See, e.g., NWPA section 7(a)(1).

- Should Bonneville roll-in the costs/benefits to its current transmission rates? (completely insulating customers from direct CAISO costs/credits)
- If not, how should Bonneville recover from customers? (partial insulation, no insulation from costs/credits)
 - E.g. Sub-allocation by each charge code or sub-allocation by charge code grouping

The December 12 Presentation does not recognize that the rates for BPA EIM Entity services must be adopted in rate proceedings. For example, a decision on whether or not to “roll-in the costs/benefits to its current transmission rates” is a rate case decision, not a policy decision that BPA can make outside a rate case. Further, it may be appropriate that some charge code costs should be directly assigned rather than rolled-in or sub-allocated to a class of customers; again, such decisions should be made in rate cases.

In general, BPA should recognize that rolling-in, allocation, or sub-allocation of costs are all determinations of which customer(s) should bear which charges--and in that sense all such determinations are allocations. All such determinations must be made in rate cases. For example, BPA cannot avoid rate case allocation issues by adopting a “policy” of rolling-in costs and benefits into transmission rates.

VI. BPA EIM ENTITY COSTS (OR CREDITS) SHOULD BE ALLOCATED (OR DIRECTLY ASSIGNED) IN BPA RATE CASES CONSISTENT WITH THE PRINCIPLES OF COST CAUSATION

Under the principles of cost causation, costs should be recovered from (or credits should be provided to) those customers that cause such costs (or credits). BPA rate cases should provide an appropriate forum for applying cost causation principles to BPA EIM Entity costs (or credits).

As an initial step, BPA should conduct a series of rate case workshops in which BPA and its stakeholders can examine BPA EIM Entity costs (and credits) and the application to them of cost causation principles.

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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.

A copy of these Comments is being sent by each Commenting Party to its BPA Account Executive.