



Eugene Water & Electric Board

500 East 4th Avenue/Post Office Box 10148
Eugene, Oregon 97440-2148
541-685-7000
www.eweb.org

September 18, 2020

Submitted via email to: techforum@bpa.gov

RE: TC-22, BP-22 and EIM Phase III Customer Workshops

The Eugene Water & Electric Board (“EWEB”) appreciates the opportunity to provide feedback on the Bonneville Power Administration’s (“BPA’s”) BP-22/TC-22/EIM Phase III workshops. We are grateful for the hard work and responsiveness from BPA staff and management throughout the Workshop process, as well as the flexible and collaborative manner with which BPA has engaged with its customers. We look forward to continuing to work with BPA toward a mutually beneficial conclusion to the TC-22, BP-22 rate case processes, and toward BPA’s successful participation in the Western Energy Imbalance Market.

EWEB would like to signal its support for the comments submitted by the Western Public Agencies Group (“WPAG”) specific to Sub-Allocation of EIM Charge Codes, Definition of “Export Schedules” in the Context of Measured Demand, Energy Imbalance/Generation Imbalance Services, EIM Benefits and Charges in Power Rates, and Forward Market Sales. Specific to WPAG’s comments on BPA’s Secondary Revenue Proposal, EWEB is supportive and will also be taking this opportunity to submit a more specific counterproposal, below.

BPA’s Secondary Revenue Proposal:

EWEB appreciates the amount of time and effort that BPA has put into this issue, both at the initial June 24th Workshop presentation, and at the August 26th presentation where BPA provided additional clarity and an alternative to its initial plan. Historically, EWEB has maintained a preference for low rates with the possibility of a Cost Recovery Adjustment Clause (“CRAC”) or other surcharge from BPA, in lieu of higher rates with a reduced potential of the enforcement of such risk mitigation mechanisms. However, EWEB understands that BPA’s

secondary revenue forecast is the largest source of revenue recovery risk for power rates, and shares BPA's desire to move away from reliance on forecasted secondary revenue for cost recovery. We also recognize that market forces led to a BP-20 secondary revenue forecast that was the lowest in over a decade, and that BPA's successful efforts over the past several rate periods have resulted in forecast costs remaining relatively flat going into the BP-22 initial proposal. As such, we agree with BPA's assertion that the proposal is timely and hope that BPA is willing to continue the conversation.

In response to the June 24th presentation, EWEB was one of a group of customers requesting that BPA present its secondary revenue proposal in the context of a larger package. In response, BPA stated that it was willing to suspend the Financial Reserve Policy ("FRP") Surcharge Mechanism for an additional year and hold the base rate change for BP-22 to a rate increase of 1%. We appreciate the concession and believe it to be a good start, especially considering the region's continuing economic uncertainties due to COVID-19. However, given the existing structure of both the FRP and Reserves Distribution Clause ("RDC"), we ultimately see no benefit to EWEB and its customer owners, and remain unable to support BPA's proposal without significant modification.

This is true for several reasons. First, BPA has stated that their preferred approach would result in a forecasted average increase in power rates of 2%, or roughly \$40 million/year. Since the adoption of the FRP, with historically low secondary revenue forecasts, and given the current level of financial reserves, the likelihood of triggering a CRAC is relatively de minimis. Meaning the benefit to public power of BPA's "lower-of" approach, and the resulting 2% average rate increase, is arguably the reduced probability of an FRP surcharge. Though it may be higher if necessary to achieve the Treasury Payment Probability ("TPP") standard, BPA policy caps the FRP surcharge at \$40 million/year. Simply put, we do not see the benefit of supporting a \$40 million rate increase to avoid the potential of a \$40 million surcharge.

Further, and ignoring the possibility of additional secondary revenue from EIM participation, WPAG estimates an increase in forecast secondary revenue for BP-22 of approximately \$45 million/year over BP-20 assumptions, or \$90 million over the two-year rate period. Assuming no FRP surcharge for the entirety of the BP-22 rate period (which appears more likely than not), those funds would not help avoid a FRP surcharge and would not trigger

revenue distribution under the current threshold levels. Resulting in an unclear benefit to public power, \$90 million less in our public power communities, with no material improvement to BPA's financial health.

Finally, EWEB believes that without the 2018 implementation of the FRP, public power support for BPA's proposal would be overwhelming. However, as illustrated above the benefit of removing the single largest source of revenue recovery risk for power rates flows to BPA, with little measurable benefit to public power. This is largely due to structure of BPA's Financial Reserves Policy, which establishes upper and lower thresholds for managing financial reserves. The lower threshold for both Power and Transmission is set at 60-days cash on hand. The upper threshold is known as the reserves distribution clause ("RDC") and triggers when two conditions are met: the agency as a whole is above 90-days cash on hand, and a business line is above 120-days cash on hand. When these two conditions are met, the Administrator has discretion as to whether to apply the reserves above the threshold to other purposes, such as debt repayment, rate reduction through a Power Dividend Distribution ("Power DD"), or "any other Power-specific purposes determined by the Administrator." (2020 Power GSRP II P.1.) Given these thresholds, Power financial reserves would need to increase by approximately \$300 million before the RDC could trigger, at which point utilization of those financial reserves would be at the Administrator's discretion. And, as WPAG notes, there is little faith that preference customers will ever receive the additional financial reserves to be generated under the proposal before BPA spends or otherwise repurposes it.

EWEB's Secondary Revenue Proposal:

At this time, and given the available information, EWEB is supportive of assuming EIM benefits equal to costs. Additionally, we would be willing to consider BPA's "lower of" proposal if it included suspension of the FRP surcharge mechanism for the entirety of BP-22. If BPA is correct that reduced reliance on secondary revenues for cost recovery will make the FRP rate mechanism less likely to be needed, it should be willing to suspend the surcharge for the entire rate period. Further, since preference customers would be agreeing to a forecast average rate increase of roughly \$40 million to create that reduced risk, requiring assurance that an additional \$40 million surcharge won't immediately trigger is not unreasonable.

Additionally, EWEB believes that the removal of BPA's single largest source of cost recovery risk should result in a corresponding reduction in the need for those tools BPA employs to manage said risk. To help achieve that end, EWEB would ask that BPA modify the policy and quantitative criteria for the RDC coincident with any changes to the secondary revenue credit. To begin, we would request the following

- Reduce the upper threshold for RDC to 75-days cash on hand for both the business line and the agency.
- Reduce the threshold for the FRP to 45-days cash on hand.
- RDC will trigger quarterly, not annually.
- Consistent with BPA staff's August 26th proposal to use Reserves for Risk ("RFR") Actuals as the risk mechanism trigger metric, use quarterly calculation of RFR Actuals to determine whether an RDC is appropriate for the subsequent quarter.
- RDC utilization no longer subject to Administrator discretion.
- Mandatory use of RDC for rate relief.

We believe if BPA is willing to consider the above in conjunction with what it has already proposed, it may be possible to continue the conversation. However, without significant modification to the ways in which BPA would share the benefits of the proposed change in rate design, we maintain that the proposal fails to provide adequate value to public power.

Timing of Non-Federal Generation Participation:

Since BPA began exploring EIM implementation, EWEB has been supportive of BPA's efforts and consistently maintained a desire to participate in the EIM on day one of go-live. As discussed previously, we're all aware of anecdotes from owners of non-participating resources ("NPRs") in other participating balancing authorities describing the difficulty and additional costs associated with maintaining NPRs. And though we share BPA's concerns about the operational complications of EIM participation, it is with those operational complications in mind that we have repeatedly asked that BPA bring us along as it develops the systems and processes needed for successful implementation.

In its Phase III Decision Document, BPA notes that it is currently working with the CAISO on “multiple system implementation issues that are required to start up EIM participation for the balancing authority area,” and that “Resolving the system implementation issues related to allowing non-federal generators to participate, in addition to the work required to go-live, would add a significant layer of complexity.” BPA goes on to state that “The CAISO noted that implementing the EIM requires a very large amount of configuration, data preparation, registrations, business process changes, system development, integration and testing that much be carried out in a tightly coordinated fashion.” The section concludes with a proposal to delay non-federal resource participation for six months after BPA’s EIM go-live date in the interest of addressing the aforementioned operational complications.

The above excerpts highlight BPA’s current focus; specifically, developing the systems and processes necessary for successful EIM implementation. Which, given our stated desire for the option to participate, are precisely the issues EWEB is also concerned with. We submit that working with eligible non-federal generators at this point in the process will be far more efficient and beneficial for all involved, than it would be after waiting six months from go-live, at which point BPA’s focus will almost certainly be entirely on day-to-day operation. We therefore request that BPA make PCI available for questions, that a comprehensive outline of the systems, processes, and programming changes necessary for non-federal participation is made available, and that BPA work proactively with eligible customers to ensure a smooth transition for all involved.

Finally, given BPA’s stated preference for delayed non-federal participation, EWEB is also concerned with BPA’s unwillingness to help mitigate the impact of the proposed six-month delay, given the fact that all generation – including NPRs – will be exposed to imbalance at their EIM locational marginal price. Should BPA maintain its stated preference for a six-month delay, we would appreciate the opportunity to discuss possible financial risk mitigation mechanisms as soon as is practicable.

Slice Customers and Dispatch Benefits:

EWEB supports the Slice Customer Group comments submitted August 12, 2020 regarding the proposed option to treat both the capacity and energy as an “off-the-top” obligation. As a member of the Slice Customer Group, EWEB is aligned with its preference for Option 1.

EWEB appreciates this opportunity to comment and looks forward to continuing to engage with BPA staff throughout the remainder of the TC-22, BP-22, and EIM Phase III process.

Sincerely,

A handwritten signature in blue ink that reads "Matthew A. Schroettnig". The signature is written in a cursive style with a large, sweeping flourish at the end.

Matthew A. Schroettnig
Power Resources Counsel
Eugene Water & Electric Board