Comments of the M-S-R Public Power Agency
Regarding Bonneville Power Administration's Capital Investment Review

The M-S-R Public Power Agency 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 ("RPS"). Those customers ultimately bear the cost of the Bonneville Power Administration ("BPA") transmission rates.

In response to BPA's April 23, 2014 notice, M-S-R appreciates the opportunity to submit comments regarding procedural and substantive issues for BPA's BP-16 rate case workshops. The workshops to date demonstrate BPA staff's commitment to strengthen the rate case processes. M-S-R encourages BPA to continue this effort to replace conjecture with best available information.

The workshops to date have revealed a number of BP-16 specific issues, and have also shed light on BPA's circumstances that affect the issues common to all rate cases. As the parties work through the data in the workshops, the current circumstances reveal new layers to the existing issues. The discussions have also brought to the surface instances when the existing rate case process may be inhibiting the parties ability to move towards a satisfactory resolution of issues.

I. Procedural Issues

M-S-R suggests three broad modifications to the BP-16 rate process: (1) Some integration of Capital Investment Review ("CIR"), Integrated Program Review ("IPR"), and the BP-16 7(i); (2) Increased granularity with respect to the benefits and costs assigned to various customer classes; and (3) Sufficient opportunity for discussion and possible settlement of a broad range of issues.

A. Integration of CIR, IPR, and BP-16 7(i)

M-S-R understands the historical benefit of "sequencing" the CIR, IPR, and 7(i) processes. However, recent workshops indicate there is an important linkage between current capital investments and near term and future Operating and Maintenance ("O&M") costs. Specifically, it is apparent that increased near term capital investment may result in decreased current and future O&M costs. M-S-R supports a business approach that minimizes costs (revenue requirements) over time. The separation of CIR from IPR makes it more difficult to balance near term capital expenditures with current and future O&M costs. As several parties have noted, the separation creates concerns about missing the opportunity to raise an issue in one process because the team addressing that issue is part of another workshop process.

Similarly, the formal separation of the IPR from the 7(i) process makes it difficult to consider possible changes in revenue requirements when discussing the level of rates, and allocation of costs through rates. For example, past rate cases have followed a pattern of setting revenue requirements at a level sufficient to cover costs (and provide for reserves), and then using a portion of reserves to offset increases in revenue requirements.

A third issue is the relative emphasis given to the three phases. Significant time and effort is allotted for the CIR and 7(i) processes. The current processes include significant time to discuss allocation of costs (in the 7(i) process), but relatively little time is set aside for the IPR, even though the level of revenue requirements is an essential issue. M-S-R would like more time to explore issues such as the prudent level of expenditures for capital and O&M, how the spending levels inter-relate, the long-term results of levels of expenditures, and how the spending relates to revenue requirements and cash flows.

Finally, as access to capital becomes more constrained it may be more difficult to separate the source of financing from the allocation of the associated financial costs. It may be helpful to discuss both topics together rather than assign one to CIR and the other to a different process.

M-S-R does not have a detailed proposal for accomplishing this integration, but suggests that the current processes could be modified to facilitate some iteration between the three phases before final decisions are made.

B. Increased Granularity of Benefits and Costs

M-S-R understands that each customer group legitimately seeks to minimize the rates it and its customers must pay. However, M-S-R maintains that there needs to be a linkage between the services received and the associated rates. Specifically, those who receive relatively greater benefits (higher quality and/or higher priority) should be assigned relatively higher rates. To equitably and consistently assign costs to services provided it seems necessary to define the benefits received in greater detail and then assign the associated costs appropriately. (Note: This process is not intended to question or modify the benefits enjoyed by any customer group, but rather delineate which customer groups receive which benefits, and align the associated rates accordingly.) M-S-R encourages BPA to adopt this approach for both Transmission and Power Issues.

C. Opportunity for Settlement

M-S-R has consistently supported settlement as the preferred approach to resolving complex regional issues. (M-S-R is not suggesting that customers prematurely wave their legal rights.) M-S-R has favored this approach for 3 primary reasons: (1) settlement permits greater flexibility in the elements of the agreement; (2) settlement allows potentially for greater durability (during the term of the settlement); and (3) settlement allows for consideration of a broader range of issues in the negotiation.

The concern M-S-R has with previous settlement discussions is the boundaries often are narrowed to the point that discussions prematurely approach a zero-sum game (one party’s gain is another party’s loss). M-S-R thinks that an approach that is more encompassing and allows for a broader range of customer priorities may have a better chance of allowing customers to reach a “positive sum” outcome. That is, a broader scope may allow for a resolution where customers are better off from the settlement than if the issues had been resolved by one or more administrative processes. M-S-R encourages BPA to permit the process to include a broad range of issues including transmission, power, financial, and institutional, to create opportunities for parties to negotiate across a broader range of issues. M-S-R encourages BPA to initiate a process where the priorities of the various customer groups can be identified and possible settlement options discussed.

II. Substantive Issues

M-S-R would like the BP-16 workshops to include the following substantive topics: (1) examination of cash flow for each business unit, and explanations of how cash flows differ from accrual; (2) fair treatment of reserves for risk between the business units; (3) equitable allocation of costs of financing between the business units; (4) billing determinants; (5) tracking costs associated with BPA's accommodation of PacifiCorp's decision to from an energy imbalance market ("EIM") with the California Independent System Operator Corporation ("CAISO"); (6) a process for addressing Oversupply Management and allocating any related costs beyond 2015; (7) third party reserves; and (8) exploring the development of fundamental principles as a foundation to the workshops.

A. Cash vs Accrual

During the Quarterly Business Report several questions arose regarding the inconsistency between what appeared to be surplus revenues without corresponding increases in reserves. It appears that there are cash obligations that may not be fully considered in the process of establishing revenue requirements. More discussion and data in this area would be helpful.

B. Reserves for Risk

M-S-R remains concerned that a substantial portion of reserves for risk continue to be funded through surplus collections from transmission customers. BPA appears to have identified an issue for discussion regarding addressing reserves as an entity rather than addressing reserves on a business unit level. M-S-R is not aware of the details of the entity based reserves proposal, but it is important that the proposal equitably allocate the funding of reserves between customer groups.

C. Equitable Allocation of Finance Costs

Discussions during the existing workshops reveal that the power business unit has less options available for financing capital improvements. M-S-R understands the Power business unit can borrow from the federal government, and it can finance through customer prepays. The transmission business unit can borrow from the federal government, it may be able to use customer prepays (but apparently does not do so), it uses customer financed assets (in return for which credits are provided to customers), and it can use third party financings (primarily leases). The primary overlap between the two units' funding sources is borrowing from the federal government. Federal borrowing capacity is limited, and M-S-R understands it is also the least expensive source of funds. M-S-R would like the rate case process to include additional discussions about equitably allocating financing costs amongst the business units.

D. Billing Determinants – Gen Inputs

M-S-R would like further discussion of the appropriate methodology for calculating the billing units for gen inputs.

E. EIM Costs

During the workshops addressing the PacifiCorp-CAISO EIM, BPA presented a memorandum of understanding between BPA, PacifiCorp and CAISO that set forth certain principles that would be the foundation of agreements for BPA to enable PacifiCorp's use of BPA transmission to support PacifiCorp's participation in the EIM. One of the principles was that PacifiCorp would pay for costs incurred by BPA to accommodate PacifiCorp's participation. M-S-R would like the rate case to include a presentation on the programs BPA is developing to accommodate PacifiCorp, the associated costs, and how those costs are being recovered from PacifiCorp.

F. Oversupply Rates Post-2015

The Final Record of Decision ("ROD") in the OS-14 proceeding established cost allocation for oversupply rates through September of 2015. M-S-R acknowledges that the ROD may be subject to challenges on review, and that the underlying Oversupply Management Protocol ("OMP") is itself pending review in the U.S. Court of Appeals for the Ninth Circuit. Regardless of the outcome of those challenges, M-S-R understands oversupply management, cost allocation and rates will need to be established for post-2015 either through the BP-16 proceeding or another process.

G. Third Party Reserves

The existing discussions of BPA's reserve determinations and initial efforts to procure reserves from third parties has been constructive. M-S-R would like a continued dialogue on prudent strategies for the acquisitions of reserves from third parties.

H. Principles as a Foundation

In the segmentation portion of this rate case, BPA set forth principles that would guide the evaluation of segmentation proposals. Those principles have proven useful in focusing the discussions and evaluation of the proposals. M-S-R believes a similar set of principles should be established to guide the discussions of the remaining elements of the rate case. Many of the principles from segmentation would apply equally (e.g., cost causation, equity). Although principles may be appropriate for the broader rate case. For example, one principle should be ensuring rates charged to customer classes reflect the level of service received by the customers.

M-S-R appreciates the opportunity to provide its comments, and looks forward to working with BPA and the other parties to resolve the BP-16 rate case issues in an equitable manner.