COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP ON GENERATION INPUT ISSUES

Submitted: June 20, 2014

The utilities that comprise the Western Public Agencies Group ("WPAG") appreciate this opportunity to comment on the Bonneville Power Administration's ("BPA") embedded cost methodology for balancing reserves and the various rate and risk options identified by BPA for handling Spring high water events during the BP-16 rate period.

Embedded Cost Methodology. The current embedded cost methodology used in setting the various balancing reserve rates only considers the costs of the Big-10 hydro facilities. The methodology excludes a tremendous amount of the other costs of the Federal system from consideration, including the costs of the Columbia Generating Station, BPA's Residential Exchange Program, non-Big 10 hydro facilities, and Projects 1 and 3 debt service. However, the Big 10 hydro facilities do not provide 900 MW of *inc* 1100 MW of *dec* balancing reserves in isolation. Instead, they are operated on an integrated basis with the rest of the Federal power system. It is this system, in the aggregate, that meets BPA Power's obligations while also providing 900 MW of *inc* 1100 MW of *dec* for balancing reserves. It is therefore appropriate to re-examine whether BPA's embedded cost methodology should include the total costs of the entire system, not just the cheapest portions thereof. This review should also reconsider the other assumptions made under the methodology such as the use of an average rather than a critical water assumption in the embedded unit cost calculation. At this time we have not yet developed a proposal to bring forward, but can only say we are interested in further discussions on this topic.

Addressing Spring for BP-16. We appreciate BPA's presentation on June 10th identifying the various rate and risk options for the Spring when BPA has to reduce the amount of balancing reserves provided from the Federal system due to high water constraints. It is, however, impossible for us to provide comments on those options without information as to (i) the proposed rate treatment of the costs of non-Federal reserve acquisitions made, or forecasted to be made, to replace Federal reserves when they are reduced during the Spring; and (ii) a proposal as to which customers (or which rate or financial reserve pools) would bear the risk in the event the fixed rates established under options 2 and 4 do not recover the actual costs of third party supplied reserves. It is our belief that under BPA's statutory rate directives that such costs and risks must belong to VERBS customers. If that is BPA's proposal, then the appropriate acquisition, rate and risk strategy for the Spring should largely be driven by the commercial needs and risk appetite of VERBS customers, which we do not yet know. On the other hand, this perspective would entirely change if non-VERBS customers (*e.g.*, load customers) are also expected to shoulder the costs and risks associated with non-Federal reserve acquisitions during the Spring. Accordingly, without a clear understanding regarding these issues, we cannot fully evaluate the various alternatives identified by BPA for Spring but must instead wait for further information.

Thank you for the opportunity to comment on the above matters.