Strawman Proposal for BPA Error Correction Process

Problem Statement

The Bonneville Power Administration (BPA) facilitates a complicated joint rate setting process for power and transmission services, which involves numerous inputs and complex technical work. BPA does not currently have an established methodology to correct for computational errors it finds in its formula rates discovered after the rate setting process had concluded.

Background

During BP-14, BPA discovered that an error had been made when calculating the proper allocation of costs between various Segments of its Transmission customers. While BPA did not fall short of its revenue requirement, some customers were allocated more than their proper share of costs, while others were allocated less. This computational error resulted in over/under payments by BPA Transmission customers.

Initially, BPA proposed not to take any action to correct the error. To correct the rate would require a 7(i) rate-setting process, which BPA claimed would be time consuming and work intensive. Instead, BPA stated that the issue would be addressed in the BP-16 rate process. BPA had several opportunities to correct this error once it become known at the beginning of the two-year rate period by: 1) immediately fixing the rate and stopping further harm to customers; or 2) compensating customers for being charged improper rates after the fact. BPA elected to do neither, and took no action in the Final Record of Decision for BP-16. The result is the Network segment overpaid by approximately $9M for FY14-15; Snohomish's share was an overpayment of ~$1M.[1]

During this same timeframe, BPA Power discovered that there had been a misallocation between the Tier 1 Composite and Tier 1 Non-Slice cost pools. Costs associated with WNP-3 Settlement Agreement had been misallocated beginning in FY2012 (the first rate period that implemented the Tiered Rates Methodology), causing Slice customers to have received a disproportionate

[1] Snohomish understands that the net financial effect on Snohomish is closer to $500k due to the impact the error had upon BPA Power rates; Snohomish would have otherwise paid $500k more in BPA Power rates

amount of benefit compared to Non-Slice customers. In this case, the rate calculation error spanned the FY12-13 and FY14-15 rate periods. As part of BP-16, BPA in its Final ROD chose to collect the full $3M amount in error from Slice customers and correcting the cost allocation for the WNP-3 Settlement going forward. The result was Snohomish repaying $790k to BPA Power in December 2015. While Snohomish does not dispute this correction, the lack of a consistent treatment and correction of errors by BPA for its Power and Transmission business lines is troubling.

Request

BPA should hold a public process to establish a consistent methodology for addressing errors including, but not limited to, improper cost allocations and math errors in rate computations. Snohomish has some suggestions on how a methodology could be crafted to address this gap, as presented below in greater detail. These suggestions could serve as a starting point for future regional discussions.

Proposal – Error Correction 7(i) Process

The "Error Correction Process" would only occur in cases where the cause of the error is clear, and rooted in a technical mistake or miscalculation. The Error Correction process would not foreclose BPA from acting to correct errors that fall outside its scope.

Limitations

Because certainty behind BPA's rates is important both to BPA and its customers, the Error Correction Process would only occur in cases where the cause of the error is clear, and rooted in a technical mistake, miscalculation, or departure from established rate making procedures. The Error Correction process would not be used to change rates due to inaccurate forecasts, lower than anticipated revenues, or other economic variables.

Method

Upon the discovery of an error, BPA would first determine whether the cause of the error is rooted in a technical mistake, miscalculation, or improper implementation of established rate making procedures. BPA would then perform an analysis on how the incorrect rate has or will

likely affect BPA customers. BPA would take action to correct the math error if either of the following two criteria are met:

Criteria[2]

1. If any customer has a financial net impact **greater than 2% of their total error-specific business line forecasted annual bill** due to improper rate payments stemming from the error
2. If the aggregate effect on customers is greater than (or forecasted to be) $10 million in total, per fiscal year

Process

If BPA determines that either of these conditions are met, BPA would act to correct the rate error and make affected customers whole. Either BPA or a customer could initiate the Error Correction process, depending on which party first discovers the error. Snohomish suggests that the specific mechanism for making customers whole be addressed on a case by case basis, depending on the size and nature of the rate error. BPA must hold a 7(i) process to change rates, and the topic of compensating customers or recovering underpayments would be best answered within the rate setting process.

BPA should also differentiate treatment between errors that affect all customers equally (or on an approximate pro rata basis) and errors that have disparate effects on customers.

Timing for the Error Correction Process

Snohomish recognizes that timing will play a significant role in solving potential errors. If errors are discovered near the end of a rate period, BPA may not have sufficient time to hold a full 7(i) process. In this case, BPA could exercise discretion by addressing the error in the next scheduled 7(i) process (typically for the next rate period). Prior to the 7(i) however, BPA would hold workshops to collaborate with customers, establishing a preliminary approach before entering into *ex parte*.

[2] The effect or impact of an error could be a customer overpayment or underpayment; the Error Correction Process would apply in either case.

Conclusion

BPA's complex ratemaking process, with numerous inputs and calculations, has high potential for inadvertent calculation errors. While Snohomish appreciates the hard work BPA staff does to ensure rates are calculated correctly, it is unreasonable to assume that these rates will be error free in every rate process. BPA should have an established methodology to deal with errors in rate calculation, especially when even small mistakes can have multi-million dollar consequences. Snohomish looks forward to engaging with BPA to help craft such a solution.