

**Comments of the M-S-R Public Power Agency
Regarding Tacoma Power's August 10, 2016 Workshop Presentation**

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

M-S-R appreciates the opportunity to comment on the Tacoma Power presentation of August 10, 2016. At the outset, M-S-R recognizes that there was significant and thoughtful discussion of segmentation costs in the 2016-2017 rate case. However, M-S-R believes that Tacoma Power has now provided substantive new information that warrants reconsideration of the current segmentation methodology for the allocation of costs between Network and Point-to-Point ("PTP") rates.

Specifically, Tacoma Power has persuasively documented that the current methodology (12 NCP for Network customers) is inconsistent with BPA's transmission planning criteria. The BPA transmission planning team reviewed their methodology with BPA stakeholders during several workshops in the past few months. BPA's transmission planning team clearly indicated that decisions regarding transmission investment consider the forecasted annual peak at each POD and POR (the "stressed condition") not a 12-month average. According to BPA, it is the "stressed condition," not the "average condition," that dictates its need or lack thereof for upgrades to its transmission system. If BPA is to set rates based on cost causation, then the rate design should be consistent with the planning criteria for transmission investment.

Currently, the rate design for Network customers is based on the non-coincidental peak ("NCP") by month, not year. However, the physical system design is based on the forecasted annual NCP or "stressed condition." This means that in any month where the monthly NCP is less than the annual NCP, the Network customer is charged based on usage, not system capability. In effect, the Network customer receives a free option. The system is designed and built to provide Network customers with service up to their annual peak, but they get the option of using less than the annual peak, and paying only their expected usage in a particular month. However, BPA needs to recover its costs associated with building the facilities for the annual peak. Charging Network customers for less than the annual peak results in an undercharge, collecting less revenue than costs, which becomes a financial liability to BPA's PTP customers. In contrast to the Network customers who are charged only for the monthly peak, PTP customers are charged based on a "contract limit" (*i.e.*, the "stressed condition"), not actual usage.

Tacoma Power's presentation explained its analysis documenting the magnitude of this discrepancy, concluding that the inequity is approximately \$43 million per year, or about 10% of the PTP revenue requirement. *See* Slides 10- 13 of Tacoma Power's Presentation. As Tacoma points out, the underfunded amounts by Network customers will grow if customers are transitioned from PTP to Network rates, as proposed. *See* Slide 19 of Tacoma Power's Presentation.

M-S-R is sensitive to BPA's policy of avoiding rate shock, and like Tacoma Power, M-S-R understands it would not be practical to completely eliminate the inequity in the BP-18 rate case. However, M-S-R requests that BPA acknowledge the inconsistency between its rate design methodology and the criteria used by its transmission planning staff for transmission reinforcements at PORs and PODs, and include some modification to its rate methodology to mitigate the discrepancy. As explained by Tacoma Power, a INCP methodology addresses some of the inequity and avoids the potential for rate shock. *Id.* at Slide 17.

In conclusion, M-S-R hopes that the methodology for allocating costs to Network and PTP can be re-evaluated in light of the information provided by BPA's transmission planning staff, as documented and analyzed by Tacoma Power, and that an equitable methodology can be developed.

M-S-R appreciates the opportunity to comment on this issue, and looks forward to further discussions.