August 23, 2016

Via Email: techforum@bpa.gov

Department of Energy
Bonneville Power Administration

Re: BP-18 Risk

Avista Corporation, Avangrid Renewables, LLC, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. ("Commenters") respectfully submit these comments[1] to the Bonneville Power Administration ("BPA") on treatment of risk and financial reserves for risk in the BP-18 rate proceeding and the BPA presentation—titled "BP-18 Rate Case Workshop: Risk"—at the August 10, 2016 workshop ("August 10 Presentation"). Commenters appreciate the opportunity to submit these comments.

A. Development of the Financial Reserves Policy and BPA's BP-18 Initial Proposal Regarding Risk and Financial Reserves

The Administrator's Preface in the BP-16 Record of Decision stated at P-1 that

> . . . BPA will work with stakeholders to develop disciplined financial policies that will equitably apply to both power and transmission rates, including the use of financial reserves and risk mitigation measures in support of BPA's enduring financial strength.

This is an appropriate objective that should guide the development of the Financial Reserves Policy ("Policy").

We understand, from the August 10 workshop, that work on the development of a draft or proposed Policy is ongoing within BPA, that draft or proposed Policy decisions will be discussed at a workshop on September 14, 2016, and that these decisions may serve as a guide in the development of the initial proposal in the BP-18 rate proceeding. BPA should allow adequate

[1] These comments are for discussion purposes only and do not necessarily represent positions to be taken by any Commenter in a rate proceeding or other forum.

time for stakeholder discussion of such decisions before they are used as a guide in developing the BP-18 initial proposal. We would welcome an opportunity to discuss and provide further input on these matters.

By letter dated February 19, 2016 (copy attached), Avista Corporation, Avangrid Renewables, LLC, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., submitted comments and recommendations to BPA regarding BPA's draft reserves policy objectives and scope for developing a Policy. These recommendations included a recommendation that BPA should adopt specific policy objectives to guide the development of the risk mitigation package for transmission rates in the BP-18 rate proceeding. The recommended objectives are comparable to the policy objectives that BPA has used for a number of rate cases to guide the development of BPA's power services risk mitigation. The BP-18 initial proposal should include these February 19, 2016 recommended objectives.

The June 15, 2016 BPA presentation at the BPA Financial Reserves Workshop #3 (the "June 15 Presentation") included a BPA staff proposal for reserves targets for each business line and lower and upper thresholds for each business line that would trigger a Cost Recovery Adjustment Clause ("CRAC") and Dividend Distribution Clause ("DDC"), respectively. By letter dated July 7, 2016 (copy attached), Avista Corporation, Avangrid Renewables, LLC, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., submitted detailed comments and recommendations regarding targets and lower and upper thresholds. The BP-18 initial proposal should include a CRAC/DDC for BPA's transmission rates (other than reserve based ACS rates) and should include the July 7, 2016 recommendations regarding targets and lower and upper thresholds.

We would appreciate BPA's continued consideration of the above-referenced February 19 and July 7, 2016 comments and would appreciate receiving feedback on, and an opportunity to discuss, these recommendations.

B. Reserve-Related ACS Risks

A particular issue upon which BPA requested comment at the August 10, 2016 workshop is how to treat the uncertainties in the cost of generation inputs used for BPA's reserve based ACS.

To the extent BPA's cost uncertainties under the reserve based ACS rates are uncertainties arising out of the need for and cost of generation inputs to provide service under such rates, it does not seem appropriate--in light of BPA's approach to providing and allocating costs to generation inputs for reserve based ACS and in light of BPA's approach to Power risk mitigation--to aggregate such generation input-related uncertainties with the uncertainties in the costs of providing service under BPA's other transmission rates. For example, if BPA has a Power CRAC/DDC as part of its risk mitigation uncertainties of costs included in its Power rates and BPA applies such a Power CRAC/DDC to generation inputs for reserve based ACS, the resulting costs and benefits should be reflected in BPA's rates for reserve based ACS.

In these comments, we do not comment on, and do not endorse, (i) any particular BPA methodology for determining or allocating the cost of generation inputs to provide service under BPA's reserve based ACS rates or (ii) any particular BPA Power risk mitigation measure. However, it should be noted that application of a Power CRAC/DDC to BPA's reserve based ACS rates does not preclude application of a Transmission CRAC/DDC to BPA's other transmission rates. Indeed, consistent with the risk mitigation package for transmission rates discussed in the above-referenced February 19, 2016 comments, BPA should include such a Transmission CRAC/DDC for BPA's other transmission rates in the BP-18 initial proposal.

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Commenters appreciate BPA's consideration of these comments, look forward to working with BPA and others in the regions to address these matters, and would be happy to discuss these matters with BPA.

February 19, 2016

Via Email: BPAFinance@bpa.gov

Department of Energy
Bonneville Power Administration
Transmission Services
P.O. Box 64109
Vancouver, WA 98666-1409

Re: Joint Comments on BPA Policy for Financial Reserves in Rates

Avista Corporation, Avangrid Renewables, LLC, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. ("Joint Commenters") respectfully submit these comments to the Bonneville Power Administration ("BPA") regarding BPA's draft reserves policy objectives and scope for developing a Financial Reserves in Rates Policy ("Policy"). In January, BPA distributed to a number of parties a document entitled "Scope of 'Financial Reserves in Rates' Policy" ("Scope Document") and indicated that a series of workshops on development of a Policy would be scheduled in the spring of this year. Joint Commenters appreciate BPA's commencement of a process to develop a Policy and submit these initial comments on this topic.[1]

A. Overall Objective to Guide Development of the Policy

The Administrator's Preface in the BP-16 Record of Decision stated at P-1 that

> . . . BPA will work with stakeholders to develop disciplined financial policies that will equitably apply to both power and transmission rates, including the use of financial reserves and risk mitigation measures in support of BPA's enduring financial strength.

This is an appropriate objective that should guide the development of the Policy.

[1] These Joint Comments are initial comments for informal discussion purposes only and do not necessarily represent positions to be taken by any Joint Commenter in a rate proceeding or other forum.

B. Evaluation of Risk and Financial Reserves in Setting BPA Rates

Joint Commenters would like to include, in the discussions regarding the Policy, exploration of the following approach regarding evaluation of risk and financial reserves in setting BPA rates:[2]

(i) In each rate case, allocate the BPA Treasury Note available for risk between the two business lines.[3]

- The share allocated to each business line ("Share of Treasury Note") should be proportionate to the variations in the cash flows of that business line.

- Even if a business line does not need its allocation of its Share of Treasury Note to satisfy the TPP requirement, a proportionate Share of Treasury Note should be allocated to such business line. Failure to allocate a proportionate Share of Treasury Note to each business line will over time result in unnecessarily high levels of financial reserves for one business line while supporting a low level of financial reserves for the other business line.

(ii) In each rate case, establish for each business line a target level of financial reserves[4] for the beginning of the rate period ("Target Level of Reserves").

- The Target Level of Reserves for each business line should be adequate to reasonably protect against variations in the cash flows of that business line during the rate period, taking into account (a) the magnitude of the uncertainties in the cash flows of that business line and (b) the liquidity provided by the Share of Treasury Note for that business line.

(iii) In each rate case, project for each business line the financial reserves for the beginning of the rate period ("Projected Level of Reserves").

[2] This approach consists of a number of steps to be followed in the development of BPA rates. These steps are complementary and are intended to work together as a package.
[3] Such allocation of the BPA Treasury Note is for BPA ratemaking and would not affect the availability of the BPA Treasury Note to meet liquidity needs of either business line during the rate period.
[4] As used in these Joint Comments, "financial reserves" refer to BPA financial reserves available for risk.

(iv) Adjust the revenue requirement of each business line for the rate period as follows:

- If the Target Level of Reserves exceeds the Projected Level of Reserves for a business line, increase the revenue requirement for the rate period for that business line by an amount equal to the lesser of (a) the amount by which the Target Level of Reserves exceeds the Projected Level of Reserves or (b) [X]% of the revenue requirement of that business line for the rate period.

- If the Projected Level of Reserves exceeds the Target Level of Reserves for a business line, decrease the revenue requirement for the rate period for that business line by an amount equal to the lesser of (a) the amount by which the Projected Level of Reserves exceeds the Target Level of Reserves or (b) [X]% (the same percentage as is used in item (iv) above) of the revenue requirement of that business line for the rate period.

(v) Determine the adequacy of the intra-year liquidity of each business line, assuming the revenue requirement and Projected Level of Reserves for that business line determined as described above and taking into account such business line's Share of Treasury Note. If either business line has inadequate intra-year liquidity, increase the revenue requirement for that business line to provide such liquidity.

(vi) Determine whether the proposed rates for each business line meet a 95% TPP, taking into account such business line's Share of Treasury Note. To the extent a business line has a TPP less than 95%, increase the revenue requirement for that business line to achieve a 95% TPP. To the extent a business line has a TPP greater than 95%, reduce the revenue requirement for that business line to achieve a 95% TPP.

(vii) Determine an appropriate credit rating for BPA. If the revenue requirements (as adjusted pursuant to steps (iv), (v) and (vi) above) in aggregate for both business lines are not adequate to support an appropriate credit rating for BPA, adjust both revenue requirements by a uniform percentage to the level necessary to support that credit rating.

The financial reserves for each business line should be adequate in light of the magnitude of the uncertainties in the cash flows of that business line and the Share of Treasury Note allocated to that business line. In other words, the objective should be that financial reserves for each business line should equal the

Target Level of Reserves for that business line. If this is the case, financial reserves should be adequate to support an appropriate credit rating for BPA, assuming that the revenue requirement for each business line before any adjustments as described above is set at a level to recover projected costs.

C. The Policy Should Address a Risk Mitigation Package for Power Rates and Transmission Rates

1. BPA Has Applied Policy Objectives to Guide Development of BPA's Power Services Risk Mitigation

BPA has, for a number of rate cases, used the following policy objectives guide the development of BPA's power services risk mitigation:

(a) Create a rate design and risk mitigation package that meets BPA's financial standards, particularly achieving a 95 percent two-year Treasury Payment Probability (TPP).

(b) Produce the lowest possible rates, consistent with sound business principles and statutory obligations, including BPA's long-term responsibility to invest in and maintain the aging infrastructure of the Federal Columbia River Power System (FCRPS).

(c) Set lower, but adjustable, effective rates rather than higher, more stable rates.

(d) Include in the risk mitigation package only those elements that can be relied upon.

(e) Do not let financial reserve levels build up to unnecessarily high levels.

(f) Allocate costs and risks of products to the rates for those products to the fullest extent possible; in particular, prevent any risks arising from Tier 2 service from imposing costs on Tier 1 or requiring stronger Tier 1 risk mitigation.

(g) Rely prudently on liquidity tools, and create means to replenish them when they are used in order to maintain long-term price availability.[5]

2. BPA Should Adopt Comparable Policy Objectives to Guide Development of BPA's Transmission Services Risk Mitigation

BPA should adopt comparable policy objectives to guide the development of BPA's transmission services risk mitigation. In BP-16, Joint Party 04 recommended adoption of the following policy objectives to guide the development of the risk mitigation package for transmission rates in this proceeding (shown as blacklined revisions to the policy objectives set forth by BPA for the development of the risk mitigation package for power rates):

> The following policy objectives guide the development of the <u>transmission</u> risk mitigation package:
>
> (a) Create a rate design and risk mitigation package that meets BPA financial standards, particularly achieving a 95 percent two-year Treasury Payment Probability.
>
> (b) Produce the lowest possible rates, consistent with sound business principles and statutory obligations, including BPA's long-term responsibility to invest in and maintain the ~~aging~~ infrastructure of the Federal Columbia River ~~Power~~ <u>Transmission</u> System (<u>FCRTS</u>~~FCRPS~~).
>
> (c) Set lower, but adjustable, effective rates rather than higher, more stable rates.
>
> (d) Include in the risk mitigation package only those elements that can be relied upon.
>
> (e) Do not let financial reserve levels build up to unnecessarily high levels.
>
> (f) Allocate costs and risks of products to the rates for those products to the fullest extent possible~~; in particular, prevent~~

[5] Holland, *et al.*, BP-16-E-JP04-14-V01, at page 3, line 21 through page 4, line 20, quoting Lovell, *et al.*, BP-16-E-BPA-30, at page 2, lines 2-18..

~~any risks arising from Tier 2 service from imposing costs on Tier 1 or requiring stronger Tier 1 risk mitigation~~.

(g) Rely prudently on liquidity tools, and create means to replenish them when they are used in order to maintain long-term availability.

These objectives are not completely independent and may sometimes conflict with each other. Thus, BPA must create a balance among these objectives when developing its overall <u>transmission</u> risk mitigation strategy.

3. The Policy Objectives to Guide Development of BPA's Power Services Risk Mitigation and Transmission Services Risk Mitigation Should Be Supplemented to Incorporate the Above Approach to Evaluation of Risk and Financial Reserves in Setting BPA Rates

The above-described approach to evaluation of risk and financial reserves in setting BPA rates (in Section B above) includes determination of Projected Level of Reserves and Target Level of Reserves, adjustment of the revenue requirement of each business line based on those levels, and further adjustments to revenue requirement as necessary based on TPP, liquidity needs and credit rating needs. This approach should be explored and, if appropriate, added to the risk mitigation package for power rates and transmission rates.

Use of such policy objectives, which would be parallel for both business lines, should help ensure that power and transmission financial reserves are adequate but not unreasonably high and that each business line bears a reasonable share of the cost or burden of BPA's overall need for financial reserves to support Agency needs, including to support an appropriate BPA credit rating. Use of parallel policy objectives for the development of the risk mitigation packages for power and transmission rates mitigates the potential of ratepayers of one business line subsidizing the ratepayers of the other business line and is also consistent with the fact that power and transmission rates are generally subject to the same statutory standards.

* * *

Joint Commenters appreciate BPA's consideration of these Joint Comments, look forward to working with BPA and others in the regions to address these matters, and would be happy to discuss these matters with BPA.

July 7, 2016

Via Email: BPAFinance@bpa.gov

Department of Energy
Bonneville Power Administration

Re: Comments on BPA Policy for Financial Reserves

Avista Corporation, Avangrid Renewables, LLC, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. ("Commenters") respectfully submit these comments[1] to the Bonneville Power Administration ("BPA") on BPA's development of a Financial Reserves Policy ("Policy"). Specifically, these comments are in response to the June 15, 2016 BPA presentation at the BPA Financial Reserves Workshop #3 ("June 15 Presentation"). Commenters appreciate BPA's commencement of a process to develop a Policy and believe that the proposal is a good start to discussions. Commenters respectfully submit these comments, including recommended changes to BPA's approach.

A. Overall Objective to Guide Development of the Policy

The Administrator's Preface in the BP-16 Record of Decision stated at P-1 that

> . . . BPA will work with stakeholders to develop disciplined financial policies that will equitably apply to both power and transmission rates, including the use of financial reserves and risk mitigation measures in support of BPA's enduring financial strength.

This is an appropriate objective that should guide the development of the Policy.

B. Role of the Policy

BPA has indicated that the Policy should

- assure adequate liquidity;

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– support BPA’s current credit rating;

– take an Agency view, while remaining sensitive to business line-specific issues;

– be compatible with the Treasury Payment Probability (“TPP”) standard; and

– be durable.

It is our understanding BPA has also indicated that the credit rating agencies routinely examine “days cash on hand” and agency financial reserves[2] of less than 30 days cash on hand could cause some concern for rating agencies.

C. BPA Staff Proposal

The June 15 Presentation included at pages 10 and 11 a BPA staff proposal (“Staff Proposal”), which we generally understand as follows:

(i) The reserves target for each business line should be calculated independently and be equal to the higher of a 95% TPP or 90 days cash on hand. The Agency reserves target is the sum of the business line targets.

(ii) The lower threshold for each business line should be calculated independently and be equal to 60 days cash on hand. For each business line, if reserves fall below the lower threshold, a Cost Recovery Adjustment Clause (“CRAC”) recovers the amount of the shortfall the following fiscal year.

(iii) The upper threshold for each business line should be calculated independently and be equal to 120 days cash on hand. If business line reserves are above the upper threshold and Agency reserves are above the Agency reserve target, the administrator should consider the excess reserves available for other high value purposes such as rate relief (*e.g.*, Dividend Distribution Clause (“DDC”)), debt retirement and/or capital investment. BPA staff indicates that this approach ensures business line reserves are above 120 days cash on hand and Agency reserves are above 90 days cash on hand before they can be used for other purposes.

(iv) The transmission reserves target and lower and upper thresholds should be implemented in the next rate case.

[2] As used in these comments, “financial reserves” or “reserves” refer to financial reserves available for risk.

(v) The power reserves target and upper threshold should be implemented in the next rate case while the lower threshold should be phased in over 10 years in equal increments, or sooner if power accrues reserves and reaches the reserves target prior to the end of the 10-year phase-in period. The power lower threshold would be $30 million for the first year and increase $30 million for each of the ensuing 9 years.[3] The phase-in would presumably continue until the lower threshold equaled 60 days cash on hand—the phase-in would be accelerated if power financial reserves reach the target prior to the end of the 10-year phase-in period.

D. Discussion

As discussed below, the Staff Proposal is a good start in the development of a BPA financial policy and should be revised in several respects.

1. Targets Based on Days Cash on Hand and TPP

The use of both days cash on hand and TPP in developing targets is intended to take into account through the TPP the uncertainty inherent in the respective business lines and take into account through days cash on hand a common industry metric used by rating agencies for BPA.

The use of the same number of days cash on hand and the same TPP (with reserves only) for power and transmission targets should promote equitable application of the Policy to both power and transmission rates.

2. Thresholds Based on a Percentage of Target

A percentage of the target should be used to establish the upper and lower thresholds, calculated on a rate period basis. (*See* June 15 Presentation at page 7.) Specifically, it appears that an upper threshold for a business line of 125% of the target for that business line and a lower threshold of 75% of the target would be appropriate.

If the TPP is higher than the days cash on hand standard and thus establishes the target, use of a days cash on hand standard to establish the thresholds could well skew the relationship between the target and the thresholds. In other words, the target and thresholds should be set on a consistent basis. Use of a percentage of the target to establish thresholds helps maintain an appropriate spread (centered on the target) between the relationship between the target and the

[3] A lower threshold of 60 days cash on hand would have equaled $300 million for power and $100 million for transmission in BP-16. The $30 million per year is derived by spreading the $300 million for power over a 10-year period and thus is equivalent to 10% of the lower threshold per year using BP-16 numbers.

thresholds. The use of the same percentage of target for both business lines should promote equitable application of the Policy to both power and transmission rates.

As indicated above, the use of 25% above and below target for setting the thresholds appears to be appropriate. Use of 25% rather than the Staff Proposal days cash on hand approach should result in a slightly narrower band[4] (centered on the target even if set by TPP), which tends to raise the lower threshold and thus reduce BPA's liquidity exposure.

3. TPP Without Treasury Facility in Target Calculations

Calculation of TPP with reserves only (*i.e.*, without consideration of the Treasury Facility) for purposes of determining targets is appropriate. As BPA staff points out, the Treasury Facility is not the same as cash on hand. Although the Treasury Facility provides liquidity, it does not provide the same degree of support for the Agency's credit rating as other financial reserves—and BPA staff contemplates reliance on the Treasury Facility for within-year liquidity needs (which are not considered in TPP).

The Staff Proposal appears to contemplate use of the Treasury Facility in calculating the TPP of a business line for purposes of determining its target level of reserves. Such use is not appropriate, could well result in a very low calculated level, and could render the use of TPP in determining the target level essentially meaningless. For example, as shown on page 6 of the June 15 Presentation, the target level of financial reserves for power calculated using a 95% TPP with reliance on an amount of Treasury Facility would be $0—a level of financial reserves for power that is clearly too low. Accordingly, the Agency's Treasury Facility should not be considered in determining the target level of reserves for either business line.

4. Phase-In of Power Lower Threshold

The phase-in contemplated in the Staff Proposal should be revised in order to effectuate a smooth phase-in of planned additions to power financial reserves. An appropriate phase-in of planned additions to power financial reserves would cushion power rate payers from an excessive, sudden increase in rates, while minimizing the burden on transmission rate payers who will continue to carry power services' share of responsibility for BPA's financial health for the interim period. If for example the lower threshold is 75% of the target, the lower threshold could start at 7.5% of target and increase by 7.5% of target each year until the threshold equals 75% of target. However, this approach by itself may well not result in any planned additions to

[4] Using the Staff Proposal days cash on hand approach, the upper threshold (120 days) is twice the lower threshold (60 days). Using the 25% approach, the upper threshold is 1.67 times the lower threshold (125% of target/75% of target).

power financial reserves--which are currently too low--in the early years because the CRAC would only trigger if financial reserves fall below the lower threshold (which would only be 7.5% of target in the first year).[5] A smooth phase-in of planned additions to power financial reserves should be achieved by including, along with the phase-in of the lower threshold, the use of Planned Net Revenues for Risk ("PNRR") equal to 7.5% of the power target[6] each year until power financial reserves reach the lower threshold.

In other words, the use of PNRR in connection with phase in of the power lower threshold allows for inclusion of planned increases in financial reserves in the course of each rate case and helps avoid the potential (which occurs under the Staff Proposal) for not having planned additions to financial reserves when power financial reserves are substantially below the lower threshold.[7]

5. Equitable Application to Power and Transmission Rates

The Policy and the treatment of financial reserves in rate cases and in adjustment mechanisms for reserves should equitably apply to both business lines. BPA has indicated that adequate financial reserves in aggregate for the Agency (the sum of the reserves for both business lines) must be adequate in order to support, for example, BPA's credit rating. However, the Policy and the treatment of financial reserves in rate cases and in adjustment mechanisms for reserves must equitably apply to both business lines. Each business line should have an appropriate level of financial reserves in light of the uncertainties of that business line, which should help prevent disproportionate reliance on the financial reserves of one business line in order to achieve or maintain an appropriate credit rating for the Agency.

If the financial reserves of a business line are below its lower threshold, BPA should take prompt action to increase the financial reserves of that business line. Retention of business line financial reserves in excess of upper threshold because Agency reserves are below the Agency

[5] As discussed in the June 15, 2016 workshop, under the Staff Proposal, if, for example, power financial reserves were to remain equal to or less than the current forecast levels for 2016 ($191 million), it appears that, under the Staff Proposal, the CRAC might well not trigger for at least the first six or so years because the CRAC would only trigger to the extent power financial reserves are below the lower threshold (of $30 million in the first year and increasing by $30 million per year for nine years).
[6] Assuming for example the lower threshold is 75% of the target, the annual 7.5% of target phase-in amount should add up 75% of target after 10 years. Of course, the phase-in would end when power financial reserves equal 75% of target.
[7] As discussed elsewhere in these comments, there should be a CRAC and DDC for each business line, and use of PNRR to increase financial reserves up to the lower threshold for example does not and should not supplant the use of a CRAC for rates of a business line subject to a CRAC if the business line's financial reserves are below the lower threshold.

target is problematic with regard to equitable treatment of the business lines, particularly if steps are not being taken to increase the financial reserves of the line. The proposal set forth in this letter is designed to help address these issues.

6. Application of Excess Financial Reserves to Reduce Rates

To the extent a business line has excess financial reserves (above the upper threshold) and Agency financial reserves are greater than the Agency target financial reserves, the excess should be applied to reduce the revenue requirement or reduce the rates related to the business line with excess financial reserves. This approach is akin to the DDC already applicable to BPA power rates, which results in a downward adjustment to the rates subject to the DDC when it triggers.[8] The current excess transmission reserves were generated under current and past transmission rates. The credit to customers should be applied to reduce transmission revenue requirement or rates rather than applied to capital investment or debt repayment, which would delay return of the benefit to BPA customers that paid the rates that generated the excess reserves and potentially raise intergeneration equity issues.

Further, BPA is statutorily required to adopt transmission rates that are the lowest possible rates consistent with sound business principles[9] and that recover, in accordance with sound business principles, the amortization of the federal investment in transmission facilities "over a reasonable period of years."[10] If transmission reserves are excessive, BPA's transmission rates will be higher than they otherwise would be and will not be the lowest possible rates consistent with sound business principles. Use of excessive transmission reserves to repay transmission investment (other than in a nominal amount consistent with BPA's current practice) or to fund transmission capital assets would result in amortization of the federal transmission investment over fewer than a reasonable period of years.

To the extent that financial reserves are excess during a rate period even after a reduction in revenue requirement to reduce excess, a DDC should be used to reduce rates.[11]

[8] *See*, *e.g.*, BP-16 Final Record of Decision, Appendix B: Power Rate Schedules and General Rate Schedule Provisions, BP-16-A-02-AP02 (July 2015) at p. 47.
[9] *See* Federal Columbia River Transmission System Act § 9; 16 U.S.C. § 838g.
[10] *See* Northwest Power Act § 7(a)(1); 16 U.S.C. § 839e(a)(1).
[11] To the extent a business line is forecast *in a rate case* to have financial reserves that are excess, then such excess reserves should be subject to reduction through a decrease in the revenue requirement for that business line in the rate case (to the extent Agency financial reserves are in excess of the Agency target level). To the extent a business line is forecast *during a rate period* to have financial reserves that are excess, then such excess reserves should be subject to reduction through a DDC to decrease rates for that business line (to the extent Agency financial reserves are in excess of the Agency target level).

7. Examination of Targets, Thresholds and Related Rate Actions in BPA Rate Cases

The Policy should help define the initial proposal in BPA's rate cases with regard to financial reserves targets, thresholds and actions to be taken when financial reserves are above the upper threshold or below the lower threshold—but such matters should be determined in BPA rate cases.

The adoption of a Policy cannot and should not foreclose in BPA rate cases discussion of financial reserves targets, thresholds and actions to be taken when financial reserves are above the upper threshold or below the lower threshold. Further, making these determinations in rate cases is consistent with the procedural requirements of Northwest Power Act section 7. BPA's decision establishing rates must "include a full and complete justification of the final rates pursuant to [Northwest Power Act section 7]."[12] Issues regarding rates to be charged BPA customers must be addressed in the BPA Northwest Power Act section 7(i) ratemaking process:

> any person shall be provided an adequate opportunity by the hearing officer to offer refutation or rebuttal of any material submitted by any other person or the Administrator . . . .[13]

Determination in rate cases of targets and the upper and lower thresholds, and the actions to be taken when reserves are outside the thresholds will allow rate case parties the opportunity to refute or rebut material regarding such determinations and should result in BPA's rate records of decision including a full and complete justification of such determinations. By contrast, attempting to foreclose, through a Policy, examination in rate cases of these determinations would not be consistent with the requirements of Northwest Power Act section 7. Indeed, even the selection of the general methodology of reserves targets should be subject to examination in a rate proceeding if a party wishes to raise the issue. As an overarching mater, the Policy should not be used to foreclose from consideration in a rate case determination of any matters relating to the target level of reserves, upper and lower thresholds, and actions to be taken if reserves fall outside the thresholds.[14]

[12] Northwest Power Act § 7(i)(5); 16 U.S.C. § 839e(i)(5).
[13] Northwest Power Act § 7(i)(2)(A); 16 U.S.C. § 839e(i)(2)(A).
[14] The Policy should not be treated as "binding precedent." For example, the U.S. Court of Appeals for the D.C. Circuit stated as follows in *Pacific Gas and Electric Co. v. Federal Power Commission*:

> A general statement of policy, on the other hand, does not establish a 'binding norm.' It is not finally determinative of the issues or rights to which it is addressed. The agency cannot apply or rely upon a general statement of policy as law because a general statement of policy only

BPA should also adopt in rate cases a risk mitigation package for transmission rates that is comparable to the risk mitigation package that BPA has used for power rates in a number of rate cases.[15] BPA should retain a CRAC and DDC in addition to the adjustments to revenue requirements discussed in these comments. For example, a CRAC can help protect against unexpected deviations from forecast amounts during a rate period.

If transmission reserves are inadequate, BPA's transmission rates may well be inadequate to recover the federal transmission investment over a reasonable number of years. Accordingly, the targets, upper and lower thresholds, and the actions to be taken when reserves are outside the thresholds should all be determined in the rate case for the upcoming period, which will help avoid excessive or inadequate reserve levels.

* * *

Commenters appreciate BPA's consideration of these comments, look forward to working with BPA and others in the regions to address these matters, and would be happy to discuss these matters with BPA.

> announces what the agency seeks to establish as policy. A policy statement announces the agency's tentative intentions for the future. When the agency applies the policy in a particular situation, it must be prepared to support the policy just as if the policy statement had never been issued. An agency cannot escape its responsibility to present evidence and reasoning supporting its substantive rules by announcing binding precedent in the form of a general statement of policy.

506 F.2d 33, at 38-39 (D.C. Cir. 1974) (footnotes omitted).

[15] *See* section C of the February 19, 2016 Comments of Avista Corporation, Avangrid Renewables, LLC, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc., submitted to BPA.