

**Comments of the M-S-R Public Power Agency
Regarding the August 10, 2016 Workshop Presentation on
BP-18 Transmission Risk Mitigation Options**

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 August 10, 2016, BP-18 Rate Case Workshop transmission risk presentation by BPA. A significant portion of the presentation focused on Transmission risk mitigation associated with BPA’s Ancillary and control Area Services (“ACS”). The ACS risk mitigation addresses the risks associated with Power’s Gen Inputs, including the risk that Power’s Cost Recovery Adjust Clause (“CRAC”) will trigger. The presentation raised questions as to whether customers believe it is better to allocate or aggregate Transmission’s risks. BPA defines allocating risks as isolating risks and allocating them to the specific products that cause the risks. BPA describes aggregation as combining the risks and managing them as a whole through reserves and mitigation tools like the CRAC.¹

M-S-R supports the aggregation of Transmission risks. BPA notes, on slide 5, that aggregation usually reduces the overall cost of risk, and reduces rate volatility. As such, absent good reason to isolate a particular risk, M-S-R prefers the aggregation of Transmission risks. ACS services are part of Transmission, and the ACS risks are generally similar to Transmission risks. Transmission faces a variety of risks including, among others, that: gross revenues are lower than forecast because customers purchase less transmission than forecasted; transmission Operation and Maintenance costs may be higher than forecasted; and unexpected forced outages may result in both a loss of revenue and higher costs. These are the typical business risks that should be appropriately addressed by the provision of adequate reserves, potentially augmented through other mechanisms. It is appropriate to combine the risks, because some are interdependent or overlapping, so attempting to isolate one risk could actually increase the overall cost of risk mitigation.

Much of the ACS services risks are similar to those of Transmission in general, and may correlate with Transmission risks. ACS services may collect excess revenues one year

¹ Notably, the CRAC does not currently apply to Transmission rates, and the presentation indicates no decision has been made on any reserves or risk mitigation policies that might include a CRAC for Transmission. M-S-R reserves any comment on risk mitigation tools for Transmission until such time as a risk policy is presented by BPA.

and have a deficit of revenues in another year. Both ACS and Transmission services are affected by water supply deviations. This is illustrated by the most recent Quarterly Business Review, in which the Transmission revenue forecast for the 3rd quarter was reduced by \$3 million from the revenue forecasted in the 2nd quarter. The explanation given for the decrease was due to “a reduction in forecast for long-term and short-term reservations due to low water supply.” Quarterly Business Review, at p.5, August 2016. The reduced water supply will affect Transmission reservations, which may also affect the demand for ACS, as well as BPA’s ability to provide ACS. A shortfall in revenue resulting from low water supply can have the same economic impact on BPA’s net Transmission revenues as would higher transmission expenses, such as ACS. Trying to parcel off each risk associated with low water could result in overlapping risk coverage at a higher cost than necessary.

M-S-R understands that BPA’s risk mitigation process performs a calculation to estimate the variance of both revenues and expenses in a given year and an evaluation is made as to the adequacy of reserves to address the uncertainty. ACS risk should continue to be aggregated with Transmission because the risks are similar, overlapping, and interdependent. M-S-R does not find any sound business principle or reason to change BPA’s general aggregation of the ACS risk. Excluding ACS risks from Transmission could trigger an endless effort to disaggregate each risk to the disadvantage of all Transmission customers. The increased complexity would come at a cost, and does not appear to be justified.

As BPA notes, the one ACS risk that was allocated to Gen Inputs in BP-16 was the risk of CRAC or DDC being triggered for Power. The decision to allocate that risk was part of a package settlement. M-S-R does not recall any discussion of a justification for treating the Power CRAC/DDC risk any differently than other Transmission risks, and absent such justification that risk should be aggregated with the other Transmission risks.

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