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Powerex Corp.
Suite 1300 – 666 Burrard Street
Vancouver BC Canada V6C 2X8

604 891 5000 PHONE
800 220 4907 TOLL FREE
www.powerex.com

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Powerex Comments on Bonneville's Transmission Rates Risk Mitigation Options

Powerex appreciates the opportunity to provide these comments to the August 10, 2016 BP-18 Transmission Rate Case Workshop. Specifically, Powerex provides these comments regarding potential Transmission rates risk mitigation options.

At the workshop BPA staff presented two possible options to addressing risk in Transmission rates: Risk Aggregation and Risk Allocation. The Risk Aggregation approach would see BPA aggregate all risks and manage them together through reserves and reserves-risk mitigation tools (i.e. the CRAC). The Risk Allocation approach would see BPA isolate risks and allocate them to the products that most "cause" the risk. Powerex discusses these two options below in response to BPA's solicitation of comments.

1. What are customers' leaning on how ACS risks should be managed?

In the workshop, BPA staff presented the specific risk of the Power CRAC triggering would result in some of the cost being passed along to reserves-based Ancillary and Control Area Services (ACS) Transmission customers. In BP-16, the allocation approach was used for the Power CRAC/DDC applicable to reserves-based ACS rates. The continuation of the BP-16 allocation approach is appropriate since the triggering of the Power CRAC is the result of under-collection of Power revenues. In general, Powerex supports the rate-making principle of cost-causation, and therefore supports the risk allocation approach. Powerex encourages the continued use of the allocation approach to manage ACS-related risk.

2. What are customers' leaning on how risk is managed in general?

While the ACS risk issue above is clearly identified and articulated, BPA staff has not clearly communicated their desire to develop a "general" Transmission risk mitigation approach that would differ from approaches currently used to manage risk. Powerex would appreciate BPA staff providing more information regarding the motivation for risk aggregation, further examples of transmission risks that need to be mitigated, and analysis of why mitigating these risks through aggregation would be a superior approach to risk allocation.

As BPA indicated, overall Transmission risk is small due to the large degree of Transmission revenues contracted under long-term, firm agreements. Therefore, Powerex questions the degree of risk that needs to be aggregated with the aim to reduce the overall cost of risk and reduce rate volatility/uncertainty. It seems that any identified risk would be small and could be allocated to customers consuming the product that causes the risk without creating a significant or uncertain rate burden.

Therefore, without understanding the motivation for risk aggregation, what potential risks would be aggregated, and what the rate implications to Transmission customers would be, Powerex finds it difficult to lean away from the current risk allocation approach at this time. Powerex would appreciate further presentation of BPA material on this topic, and further customer discussion, prior to BPA staff moving forward with any proposal on this issue in the BP-18 Rate Case.

3. Risk Mitigation and the Financial Reserves Policy

At this point, a discussion of risk cannot be easily separated from a discussion of the Financial Reserves Policy. BPA staff noted at the workshop that they are considering the introduction of DDC and CRAC mechanisms for the Transmission business line. Powerex suggests BPA provide more clarity on the introduction of these mechanisms prior to further discussion of risk mitigation and risk-cost allocation. As it stands, the most significant rates risk to Transmission customers continues to be the over-collection of financial reserves through rates, not the risk of under-collection discussed in the August 10 workshop.

Powerex appreciates Bonneville's consideration of these comments, and looks forward to continued dialogue on both the Financial Reserves Policy and risk mitigation.

Submitted by:

Connor Curson
Trade Policy Analyst
Powerex Corp.
Phone: 604-891-6028
Email: connor.curson@powerex.com