

BP-18 Rate Case Workshop: Staff's Response to Snohomish PUD's Error Correction Proposal

August 10, 2016

What We Heard from Customers

- Consistent treatment of errors
- Preserve Administrator's discretion
- Resistance to special 7(i) hearings
- Limited to one rate period lookback
- Define and limit the type of error
- Prospective correction of errors
- Only correct errors that result in substantial financial impacts

Concerns with Snohomish PUD's Proposal

- Adoption of the policy would significantly restrict Administrator's discretion.
- Correction via mini 7(i) not feasible from a time perspective. Special 7(i) would increase costs and workload.
- What do we do if there are errors that do not meet the criteria?
- Criterion based on each customer's business line bill could be burdensome to implement.

What Staff liked in Snohomish PUD's Proposal

- The need for guidelines
- Consistency
- Prospective corrections
- Types of errors to be corrected
- High bar for review of errors
- Some preservation of Administrator's flexibility

BPA Staff Leanings

- Develop trial guidelines for staff to evaluate errors and propose treatment to parties and Administrator in a general 7(i) hearing
 - For example, Staff’s initial testimony in BP-18 would describe the use of the guidelines to evaluate the error that Power recently identified and propose how to treat the error. (See [August 9 workshop presentation](#), pp. 15-16, “Lost Creek/Green Springs Error.”)

BPA Staff Guidelines

- Applies to ministerial cost allocation and calculation errors.
- Error must exceed an annual average of \$15M for the rate period.
- Errors in only one rate period eligible for adjustment (i.e., if an error is discovered in BP-14 and BP-16 rates, the BP-18 rates would only correct BP-16).
- Adjustment would be effectuated in next general rate case (rates reduced/increased to offset error).
- Adjustments would be rate class (not customer) specific.
- Staff's guideline recommendations would be included in Initial Proposal for consideration by parties and the Administrator.

Comparison of Proposals

Error Correction Proposal	Snohomish PUD	BPA Staff
Nature of proposal	<p>“Policy” adopted by Administrator</p> <p>The policy is intended to provide consistent criteria to be used by the Administrator to address correction of rate errors.</p>	<ul style="list-style-type: none"> • Staff would propose “guidelines” to evaluate errors in general 7(i) hearings. • The guidelines would provide consistent criteria to be used by Staff to evaluate whether to recommend an error correction to the Administrator. • Administrator retains full discretion to decide if and how an error will be addressed. • Whatever Administrator decides in rate case, a precedent could be established.
Errors subject to correction	<p>Calculation and cost allocation errors. Does not cover forecast error.</p>	<p>Calculation and <i>ministerial</i> cost allocation errors.</p> <p>Does not cover forecast error, contested issues, or other issues that are not the result of a calculation, mathematical, or administrative error. Policy not applicable to issues that are subject of litigation.</p>

Comparison of Proposals, continued

Error Correction Proposal	Snohomish PUD	BPA Staff
Criteria for correcting errors	<p>1. financial net impact greater than 5% of a customer's total error-specific business line forecasted annual bill, or</p>	N/A
	<p>2. the aggregate effect of the error on all customers is greater than \$15 million/year (i.e., a cost allocation error would count the absolute value of the increased and decreased allocations.)</p> <p>For example, a mistake that over-allocated \$8M to Rate Class A and under-allocated \$8M to Rate Class B in each year of the rate period would meet the test, because the sum of the absolute values would be \$16M/yr.</p>	<p>The size of the error on all customers (not the sum of the absolute values) is greater than an average annual \$15 million in the rate period.</p> <p>For example, a mistake that over-allocated \$8M to Rate Class A and under-allocated \$8M to Rate Class B in each year of the rate period would not meet the test—the size of the error is \$8M/yr.</p>

Comparison of Proposals, continued

Error Correction Proposal	Snohomish PUD	BPA Staff
Criteria for correcting errors	<p>3. Correcting errors (i.e., adjustment of future rates to offset error) is limited to one rate period.</p> <p>For example, if an error was found in BP-14 and BP-16 rates, the BP-18 rates could correct the error for BP-16 only.</p>	Same
	<p>4. If the error is discovered early enough in the first year of a rate period, hold a special 7(i) hearing to correct the error for the second year of the rate period, but it is not necessary to “make affected customers whole.”</p>	Regardless of when it is discovered, special 7(i) hearings would not be used to correct errors unless extenuating circumstances were identified.
	<p>5. If the error is not discovered early enough to run a special 7(i) hearing to correct it within the same rate period, then, in the next general rate case, propose rates “with the aim of making affected customers whole.”</p>	Errors would be corrected through future rate adjustments (rates reduced/increased to offset error) in the next general rate case. Adjustments to rates would be rate class specific, not customer specific.

Next Steps

- Please submit comments to techforum@bpa.gov by **August 24**, with the subject line “Error Correction Comments.”