

August 8, 2018

Re: NRU's Comments on Tier 2 pricing

Below are the comments Northwest Requirements Utilities (NRU) submits in response to BPA staff's proposal on Tier 2 rates that was shared during the BP-20 rate case workshop held on July 25th.

First, we express appreciation for staff taking the time to consider alternative methodologies to develop a proxy forward market price to use to price surplus power sold at a Tier 2 rate. As we expressed in the BP-18 rate case, we had numerous concerns about the methodology employed by BPA staff in the initial proposal (using critical water pricing). While some progress was made in the final proposal (averaging critical and 80-year water pricing), NRU still believes there is a more appropriate methodology to develop a proxy forward market price to use when pricing surplus federal power sold at a Tier 2 rate.

NRU supports using an approach similar to the "ICE method" described on slide 9 of the July 25th presentation. Using actual data from ICE for MIDC electricity futures contracts is a reasonable and transparent proxy of what BPA would have paid if it had needed to make actual market purchases to sell at a Tier 2 rate.

Given volatility in price movement, NRU would offer the following modification to the proposed ICE method:

- Use the average forward market settlement prices for 5 consecutive days each from two separate time periods: Spring of the year of the Initial Proposal publication and Spring of the year of the Final Rates publication.
 - For example, to set the proxy forward market price for FY 2020, use the prices from 5 consecutive days in the Spring of 2018 and 5 consecutive days in the Spring of 2019.

This approach mimics the actions load serving entities take to mitigate their own risks when it comes to purchasing power in advance of need – layering in market purchases over an extended period of time to smooth price excursions. This approach also offers a transparent and repeatable methodology for future Tier 2 rate setting processes. By using data from several points in time, this should eliminate the need to include a small risk adder.

However, if BPA continues to propose inclusion of a small risk adder, we request additional discussion prior to the rate case beginning on what the methodology might be for calculating that risk adder.

We look forward to discussing these remaining details with you before the rate case starts. Thanks again for holding a collaborative process on this topic.

If you have any questions, please don't hesitate to contact us.

Sincerely,

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