

November 13, 2020

Tina Ko
Vice President, Transmission Services Marketing and Sales
Bonneville Power Administration
Portland, OR 97232

Richard Shaheen
Senior Vice President, Transmission Services
Bonneville Power Administration
Portland, OR 97232

John Hairston
Acting Administrator and CEO
Bonneville Power Administration
Portland, OR 97232

Submitted via email

Re: Joint Transmission Group Customer Response and Counter Proposal to Bonneville's Proposed Capacity Charge and Settlement Proposal for Transmission Losses Service

Dear John, Richard, and Tina:

The below signing Transmission Customers (“Joint Customer Group” or “Group”) have significant concerns regarding a novel transmission losses-related charge that is expected to be part of Bonneville’s BP-22 Initial Proposal. This transmission losses-related charge is also the subject of a proposed settlement that Bonneville has offered to resolve the issue for the BP-22/TC-22 rate period. Although the Joint Customer Group agrees that there may be value in settling the losses issue to help streamline the rate case, the Group cannot commit at this time to support or not oppose a settlement proposal that includes a capacity charge (however labeled) for losses. The Joint Customer Group, which represents at least 36% of Bonneville’s total transmission sales,¹ wishes to engage Bonneville further on this issue, as there may be common ground and a path to settlement. Such engagement by Bonneville would be consistent with the Agency’s past receptiveness to customer concerns and its strategic goal of meeting Transmission Customer needs efficiently and responsively.²

¹ Moody’s Investor Service Credit Opinion, *Bonneville Power Administration* at 4 (May 1, 2019), available at <https://www.bpa.gov/news/Investor/InvestorDocuments/Moodys%20May%202019%20Credit%20Opinion-final.pdf>.

² Bonneville Power Admin., 2018-2023 Strategic Plan, at 45 et seq., available at <https://www.bpa.gov/StrategicPlan/StrategicPlan/2018-Strategic-Plan.pdf> (setting out Strategic Goal 4: Meet Transmission customer needs efficiently and responsively).

1. Development of Bonneville’s Proposed Capacity Charge for Real Power Loss Service

Historically, Transmission Customers have had the ability to either return transmission losses in-kind within 168 hours of the transmission service provided or to settle losses financially. Almost ninety percent of Bonneville’s losses service is provided through in-kind loss returns.³

In anticipation of the BP-22 rate case, Bonneville has tried to lay the groundwork for a substantial shift in its real power losses service, which will have profound financial implications for Transmission Customers. Specifically, Bonneville has communicated that it will propose a \$2.64/MWh generation capacity charge for in-kind loss returns and \$5.45/MWh capacity cost adder for financially settling loss returns. As discussed below, such capacity charges are inconsistent with industry practice, unjustified, and duplicative. In addition, as Bonneville has made clear, enabling concurrent loss return functionality with a shaped loss factor would not impose costs on Bonneville’s system, which would mitigate any cost concerns.⁴ However, the Agency has generally maintained that concurrent return functionality would be unattainable before BP-24.

Separately, on October 30, 2020, Bonneville proposed to settle all of the losses related issues that have arisen in the course of the rate case workshops.⁵ Notably, although Bonneville indicated that, in the initial proposal scenario, the Agency would commit to working toward concurrent losses functionality “that may become available during the BP-22 rate period,” in exchange for a discounted capacity charge in the settlement proposal, Bonneville would take concurrent loss returns off the table for BP-22 *entirely*. More fundamentally, under the proposed settlement, Transmission Customers would have to fund the capacity charge discount through their own reserves account.

2. Bonneville’s Anticipated Losses Capacity Charge is Unjustified and Expected to Drive Up Costs for Transmission Customers

It is disappointing that the settlement proposal does not yet address concerns voiced by many in the Joint Customer Group regarding the proposed capacity charge.⁶ As argued in previous

³ Bonneville Power Admin, December 12, 2019 BP-22, TC-22, EIM Workshop Presentation at 15, *available at* <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/121219-Tx-Losses-Steps-1-3.pdf> (noting 88.77% of Bonneville’s MW obligations were for in-kind returns, whereas Slice loss returns accounted for 10.41%, and Financial Settlement accounted for only 0.82%). While not the focus of this letter, the use of Powerdex for hourly pricing of financial losses creates significant burdens for the customers that do use financial loss returns, and the addition of a capacity charge to the hourly index price is unsupported.

⁴ August 25 Presentation at 77 (noting that capacity charges for concurrent losses “would go away if BPA adopts a shaped loss factor”), and 81 (outlining details regarding “[l]oss service for in-kind concurrent loss returns (applicable only if BPA has a single flat annual loss factor)”).

⁵ In the Customer call held on Wednesday, November 4, 2020, it appears that the only customers consulted by Bonneville for this settlement arrangement were power customers which, regardless of the initial proposal or settlement agreement scenarios, are expected to receive \$8.2 million per year in funding from solely Point-to-Point Transmission Customers.

⁶ *See generally* Comments submitted in September and October 2020 by Avangrid Renewables LLC, Avista Corporation, Idaho Power Company, NIPPC, M-S-R Public Power Agency, PacifiCorp, PNGC Portland General

comments, this proposal: (1) is inconsistent with industry-wide and regional practices;⁷ (2) is contrary to the non-tradable, energy-only nature of real power losses; (3) has been insufficiently justified on cost-causation grounds;⁸ (4) may lead to double-recovery of fixed generation costs;⁹ (5) does not align with Load Aggregation Point (“LAP”)-based pricing, which has been accepted by FERC as just and reasonable and is used by CAISO Energy Imbalance Market (“EIM”) participants;¹⁰ and (6) may be an inefficient use of Bonneville staff resources, as such charges will likely only apply until concurrent loss returns are available.¹¹

3. Joint Customer Group Urges Bonneville to Continue to Ensure that Capacity Charges will not be Imposed for Real Power Losses Until a Charge-Free Concurrent Loss Return Scheme is Available to Customers

The Joint Customer Group urges Bonneville to refrain from imposing any capacity charge and maintain the status quo regarding real power losses service, at least until such time as a concurrent loss returns scheme is implemented. As Bonneville has acknowledged, if customers were able to make concurrent loss returns based on a shaped loss rate, Bonneville would not seek to impose a capacity charge.¹² Concurrent returns, therefore, enable a win-win for Bonneville and Transmission Customers in so far as Customers can avoid a new, unjustified charge, and there would be no question that Bonneville would not incur any unrecovered capacity-related costs.¹³ That is, notwithstanding the apparent disagreement regarding the justification for the capacity charges, a concurrent loss return scheme could enable the parties to avoid the impasse altogether. As written, however the settlement proposal does not even acknowledge the importance of accelerating concurrent loss return functionality, and even moves in the *opposite* direction from this important customer goal.

Electric Company, Powerex, Puget Sound Energy, Inc., Shell Energy, and TransAlta, *available at* <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Pages/Customer-Comments.aspx>.

⁷ September Comments of PacifiCorp at 2-3; October comments of Avangrid Renewables LLC, et al. at 2; September Comments from PNGC at 2; NIPPC September Comments at 1.

⁸ October comments of Avangrid Renewables LLC, et al. at 2; PNGC September Comments at 2 (“Capacity requirement should be based on actual capacity provided not on the amount of losses scheduled. Data example provided by BPA, Dec 2016, would demonstrate they need to recover a max of 173 MW because that is the capacity the system provided”).

⁹ October comments of Avangrid Renewables LLC, et al. at 2.

¹⁰ *Id.*; September comments of Avangrid Renewables LLC, et al. at 2; NIPPC October comments.

¹¹ NIPPC September comments at 2.

¹² August 25 Presentation at 77 (noting that capacity charges for concurrent losses “would go away if BPA adopts a shaped loss factor”), and 81 (outlining details regarding “[l]oss service for in-kind concurrent loss returns (applicable only if BPA has a single flat annual loss factor)”).

¹³ The Joint Customer Group does not concede that Bonneville would have any unrecovered capacity-related costs, but in any event, concurrent loss returns would resolve the issue for both Transmission Customers and Bonneville.

4. Bonneville’s Concurrent Losses Implementation Concerns are Surmountable Through the Collaboration of Bonneville and Customers

For the past several workshops, Bonneville has indicated that there are “implementation challenges... centered on software/process changes in both the Transmission and Power business lines” to allowing concurrent loss returns.¹⁴ On Friday, November 6, 2020, Bonneville released a draft Concurrent Losses Project Timeline, which shows that the projected timeline for implementing a concurrent loss return scheme would take approximately 22 months.¹⁵ The Joint Customer Group recognizes and appreciates that there will be implementation challenges in undertaking this work, but it is difficult to vet and provide constructive feedback, such as opportunities for time savings, in the absence of understanding what information Bonneville consulted.

As noted above, the settlement proposal does not acknowledge the importance of promptly establishing concurrent loss return functionality, nor does it contemplate Transmission Customers playing a role in assisting in an accelerated timeline. To be clear, the Joint Customer Group stands ready to assist Bonneville in speeding up these efforts. Moreover, with just under one year before the commencement of BP-22, substantial progress could yet be made with such a significant portion of Bonneville’s customers in support. There may also be additional time and resources available through closer scrutiny of ongoing grid modernization projects. Indeed, there has been no indication that Bonneville has endeavored to expedite its concurrent loss return implementation, which is necessary to avoid imposing undue financial harm solely to Point-to-Point Transmission Customers.¹⁶

5. Further Engaging with Transmission Customers and Deferring Capacity-Related Charges Until a Concurrent Return Functionality is Established is Consistent with Bonneville’s Past Assistance to Customers, and Commitment to Transmission Customers in Particular

Further engaging with Transmission Customers while deferring any capacity-related losses charges until concurrent return functionality is established would be consistent with past customer assistance from the Agency as well as with Bonneville’s strategic goal of meeting Transmission Customer needs efficiently and responsively. Earlier this year, Bonneville completed an expedited rate case to suspend the Power Financial Reserves Policy (“FRP”) surcharge to provide approximately \$40 million in rate relief for power customers in the midst of financial hardships stemming from the COVID-19 pandemic. As the Administrator noted in the final ROD, no party objected to the suspension. Several parties did nonetheless raise concerns regarding how the forgone power financial reserves revenues might impact the Agency’s credit rating, financial health, and reduce the likelihood that the Reserves Distribution Clause (“RDC”) might trigger to

¹⁴ *Id.* at 91.

¹⁵ Bonneville Power Admin., Concurrent Losses Project Timeline (Draft) (Nov. 6, 2020), *available at* <https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/Concurrent-Losses-Timeline.pdf>

¹⁶ August 25 Presentation at 79 and 84 (noting that the capacity adder would impose an additional approximately \$9.7 million on transmission customers for in-kind service and roughly \$18.2 million for financial settlement).

provide rate relief for Transmission Customers.¹⁷ Bonneville's Transmission Customers are not spared from the pandemic's financial impacts, and many of them encouraged the Agency to consider ways to offer comparable rate relief in the midst of similar financial hardships, which the Agency said "would be more appropriate" in the BP-22 workshops and other forums.¹⁸ Ensuring "equity" between power and transmission reserves was a key factor in Bonneville's adoption of the FRP in BP-18,¹⁹ yet this policy is undermined by the expected capacity proposal.

In addition, Bonneville has indicated that it intends to propose to phase-in an approximately 20% transmission rate increase over the course of BP-22 and BP-24. Bonneville is also expected to propose that Transmission Customers pay 65% of the total \$75 million in Grid Modernization program costs, regardless that much of the Grid Modernization programs facilitate Bonneville's EIM implementation and enable more economic dispatching, and cost reductions, for Bonneville's power business line. Notwithstanding the Agency's apparent willingness to consider Transmission Customer relief, the exact opposite has occurred: a barrage of new rate proposals that would only further shift an already disproportionate share of the Agency's financial support onto Transmission Customers.

Bonneville's responsiveness to power customer concerns is commendable, but inequitable compared to the relative silence that has met the concerns raised by Transmission Customers. While burdens on the power business line are lightened, Transmission Customers are asked to shoulder the cumulative impact of unwarranted generation capacity charges, a twenty percent rate increase, a disproportionate allocation of EIM costs, and the reduced likelihood of RDC triggering from both the FRP surcharge waiver and the latest losses settlement proposal.

6. Bonneville Responsiveness Here Would be an Important Good Faith Step Toward Settlement with Transmission Customers

In closing, the Joint Customer Group strongly encourages the Agency to maintain the status quo regarding real power losses service and, meanwhile, further engage with Transmission Customers toward a mutually-acceptable solution. The proposed capacity charges are highly disputed, underdeveloped, and, as Bonneville has acknowledged, could be avoided altogether by implementing concurrent return functionality. Bonneville has demonstrated an ability to act quickly and responsively to mitigate customer financial harm. Similar action by Bonneville here would be consistent with such past relief afforded to customers, Bonneville's commitment to be responsive to transmission customers in particular, and it would be an important good faith step in negotiating with customers going forward into the rate case.

¹⁷ PacifiCorp Petition to Intervene BP-20E, BP-20E-M-PC-01, at 2-3 (June 24, 2020); NIPPC Petition to Intervene in BP-20E, BP-20E-S-NI-01.

¹⁸ BP-20E Administrator's Final Record of Decision (BP-20E-A-03, June 2020) at 7.

¹⁹ BP-18 Administrator's Final Record of Decision (BP-18-A-04, July 2017) at 210; 244-55.

Thank you for your engagement and consideration of these issues.

Sincerely,

/s/ Tony Dorazio

Tony Dorazio
Chief Commercial Officer
Avangrid Renewables, LLC

/s/ Joseph P. Hoerner

Joseph P. Hoerner
Sr. Vice President, Regional Grid Solutions
PacifiCorp

/s/ Scott Kinney

Scott Kinney
Director, Power Supply
Avista Corporation

/s/ James Lobdell

James F. Lobdell
Senior Vice President, Finance,
CFO & Treasurer
Portland General Electric Company

/s/ Ryan Adelman

Ryan Adelman
Vice President, Power Supply
Idaho Power Company

/s/ Ron Roberts

Ron Roberts
Vice President, Energy Supply
Puget Sound Energy, Inc.

/s/ Martin R. Hopper

Martin R. Hopper
General Manager
M-S-R Public Power Agency

/s/ Marcie A. Milner

Marcie A. Milner
Vice President, Regulatory Affairs
Shell Energy North America (US), L.P.

/s/ Spencer Gray

Spencer Gray
Executive Director
Northwest & Intermountain
Power Producers Coalition

/s/ Blain van Melle

Blain van Melle
Senior Vice President, Trading &
Commercial
TransAlta Energy Marketing (U.S.), Inc.