BPA sets wholesale rates for fiscal years 2018–2019

BPA adopts a 5.4 percent average increase in wholesale power rates and an average 0.7 percent decrease in transmission rates for fiscal years 2018 and 2019.

BPA's rates for 2018 and 2019 will help create a modern transmission grid, allowing Bonneville to maximize the value of the regional federal power and transmission systems and position itself well to compete in a rapidly changing electricity industry. These rates also strengthen the agency's finances and demonstrate rigorous cost management despite costs beyond BPA's direct control placing significant upward pressure on rates.

BPA is a federal, nonprofit power marketing administration that must recover its costs with revenues it earns from selling wholesale power and transmission services. Every two years, BPA establishes rates for its power and transmission services in a formal rate proceeding. Before rates can be developed, BPA determines the overall costs of its programs and services for the next two years in regional processes called the Integrated Program Review and Capital Investment Review. Rate cases determine how BPA will recover those costs from its customers.

The rate-setting process for FY 2018 and 2019, called the BP-18 Rate Case, began in November 2016 when BPA issued its initial proposal. Rate case parties challenged certain aspects of BPA's proposal in an evidentiary hearing. After thoughtful evaluation of all

The above puzzle highlights the many factors that have an effect on BPA rates.

RETAIL RATES

BPA's wholesale rate increase is the average change utilities will see in the price of BPA power and transmission services. The actual increase varies depending on a utility's load shape, resource mix and other costs. Therefore, it is impossible for BPA to determine the impact of a change in BPA's wholesale rates on a typical residential electricity consumer. Also, the local utility may choose to absorb some or all of the change in rates if it has sufficient financial reserves.

The impact of BPA's transmission rates on end users is generally much smaller than the power rate impact because transmission makes up a smaller portion of a consumer's energy bill.
positions, the BPA administrator issued the final record of decision on July 26, 2017. BPA files its rates with the Federal Energy Regulatory Commission for confirmation and approval. The rates are expected to be in effect from Oct. 1, 2017, through Sept. 30, 2019.

Power rates
The average wholesale power rate is $35.57 per megawatt hour, an increase of 5.4 percent for the rate period, or 2.7 percent annually. The rate increase is primarily due to a lower expected demand for power, a declining forecast of surplus power sales revenues due to lower market prices and escalating costs of programs driven by legal requirements despite successful efforts to find further reductions in anticipated program costs and debt-management actions. BPA is committed to continued cost containment and identifying new revenue streams to help alleviate this pressure and help BPA achieve more stable and competitive long-term rates.

There are four different rate schedules, or types of services offered, for the sale of federal power: Priority Firm (PF) Power, New Resource Firm Power (NR), Industrial Firm Power (IP), and Firm Power and Surplus Products and Services (FPS). The vast majority of BPA’s power sales are made at the PF rate.

The **Priority Firm Power rate** is for the sale of firm requirements power to load following, Slice/Block and Block customers. The PF Exchange rate applies to sales under the Residential Exchange Program. The average PF Exchange rate for BP-18 is $61.86 per MWh, which is an increase of 5.3 percent from the BP-16 rate.

The **New Resource Firm Power (NR-18) rate** is for firm power sales to the new large single loads of preference customers and to investor-owned utilities consistent with power sales contracts. The NR-18 rate is $78.95 per MWh, which is an increase of 7.0 percent from the NR-16 rate.

The **Industrial Firm Power (IP-18) rate** is for sales to two direct-service industrial customers, Alcoa and Port Townsend Paper. It is $43.51 per MWh, an increase of 3.8 percent over the IP-16 rate.

The **Firm Power and Surplus Products and Services Rate (FPS-18)** is negotiated between BPA and the purchaser.

Spill surcharge
BPA created the spill surcharge to recover the costs associated with the March 27 spill ruling by the U.S. District Court in Oregon in which the court ordered increased spill at eight Federal Columbia River Power System dams on the lower Columbia and Snake rivers for the 2018 spring fish passage season. The cost implications of this ruling were not known at the time of rate setting, so BPA adopted a surcharge.

The spill surcharge will adjust non-Slice power rates to recover the cost, or lost revenue, associated with increased spill and lost generation relative to the spill assumptions used when setting rates. The spill surcharge will help BPA achieve more stable and competitive long-term rates.

### BP-18 Priority Firm Tier 1 Average Net Cost of Power

<table>
<thead>
<tr>
<th>Rate ($ / MWh)</th>
<th>Change from BP-16 (%)</th>
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</thead>
<tbody>
<tr>
<td><strong>Overall</strong></td>
<td>35.57</td>
</tr>
<tr>
<td><strong>Slice</strong></td>
<td>33.74</td>
</tr>
<tr>
<td><strong>Non-Slice</strong></td>
<td>36.14</td>
</tr>
</tbody>
</table>
surcharge will be calculated separately for FY 2018 and 2019 based on the planned spill for each year.

The approach BPA adopted gives the administrator discretion to decrease or offset the spill surcharge for program spending reductions relative to the program spending used for the purpose of setting rates.

Transmission rates
BPA’s average transmission rate is decreasing this year due to cost containment and lower interest rate expense. Even with this decrease in rates, BPA needs to address the significant impact of long-term capital costs and develop a sustainable investment strategy for pending transmission system capital needs.

Depending on which service customers select, the rate change will affect them differently: The Network Integration rate, which BPA charges customers who use BPA transmission to deliver energy from their resources to their loads, will decrease 0.5 percent; and the Point-to-Point rate, for delivering energy from one specified point to another, will decrease 1.2 percent.

The administrator decided not to eliminate the Montana Intertie (IM) rate. However, BPA is committed to helping to establish and actively participate in a thoughtful, cohesive process to address barriers to the development of renewables in Montana. These are issues raised by stakeholders during the rate case process. BPA made a change to the IM rate to align the rate calculations with other tariff-based services, which led to a 15 percent reduction.

The overall long-term firm Southern Intertie (IS) rate will decrease approximately 16 percent. However, the IS rate for hourly services will rise by about 170 percent. This change addresses market differences between the Pacific Northwest and California and the reduction of high-demand hours in the California markets. This will also help to avoid stranded costs associated with customers switching from the long-term product to the short-term product. A reduction in long-term firm reservations and sales would mean that BPA would have to rely more on short-term sales to recover its Southern Intertie costs, and short-term sales are much more volatile and driven by market conditions that vary from year to year.

BPA also set rates for the ancillary and control area services it provides, such as managing the imbalance between scheduled and actual transmission use. BPA reached a settlement agreement with parties in October 2016, and the terms of the settlement were adopted with the final rates.

Financial Reserves Policy
The Financial Reserves Policy provides a framework for how Power and Transmission contribute to agency financial reserves. It sets a financial reserves target range with lower and upper...
Financial Reserve Policy
thresholds for BP-18
($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Lower threshold</th>
<th>Upper threshold</th>
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<tbody>
<tr>
<td>Power</td>
<td>0</td>
<td>609</td>
</tr>
<tr>
<td>Transmission</td>
<td>99</td>
<td>199</td>
</tr>
<tr>
<td>Agency</td>
<td>—</td>
<td>606</td>
</tr>
</tbody>
</table>

The lower threshold is determined by the greater of the equivalent of 60 days cash on hand or the minimum level of financial reserves needed to ensure BPA maintains a 95 percent Treasury payment probability. The TPP provides a high probability that each business line generates enough money to cover its costs and make BPA’s annual payment to the U.S. Treasury.

The upper threshold is calculated for each business line by adding 60 days cash on hand to the lower threshold amount.

The policy uses a cost recovery adjustment clause (CRAC) and a reserves distribution clause (RDC) to collect or distribute financial reserves as needed. The CRAC would trigger to recover lost financial reserves when financial reserves go below the lower threshold. The RDC would trigger if both a business line’s financial reserves and the agency’s financial reserves are above their upper thresholds. When the RDC triggers, the administrator has discretion over whether and how the additional funds should be used, such as for rate relief or early debt repayment.

BPA is phasing in the lower financial reserves threshold for Power Services to avoid a large single rate increase. As of the close of the second quarter, reserves available for risk for the agency are $423 million, with Power Services’ share at $21 million and Transmission Services’ share at $402 million. While Transmission has enough financial reserves to meet the lower threshold requirement outlined in the policy, Power does not. Power Services’ revenue requirement includes $20 million per year to begin rebuilding Power financial reserves over time. A larger discussion of the timing and mechanism to achieve the threshold in the future will be held in a separate public process before the BP-20 Rate Case.

For more information on the rate case and to view the final ROD, go to www.bpa.gov/goto/BP18.