COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP ON NETWORK OPEN SEASON

Submitted: December 5, 2013

A. Introduction.

The utilities that comprise the Western Public Agencies Group ("WPAG") are pleased to submit these comments on the following topics related to the Bonneville Power Administration's ("BPA") Network Open Season ("NOS") process:

- BPA's Commercial Infrastructure Financial Policy ("CIFP") and Analysis ("CIFA");
- BPA's Regional Economic Benefits Analysis ("REBA"); and
- BPA's Cluster Study Financial Policy.

BPA is projecting that it will spend on average over $560 million per year on transmission capital projects over the next ten years.[1] A significant portion of those projected expenditures (an average of approximately $244 million per year) are related to expansion projects.[2] Many, if not all, of those expansion projects will likely arise from BPA's NOS process. The expansive size of BPA's transmission capital program, including NOS, is having a significant impact on BPA's ability to access capital. Indeed, in the recent Debt Management Public Discussion, BPA staff indicated that the agency is seriously considering revenue financing for long term assets, including transmission facilities, due to constraints in its ability to use debt financing.[3]

The prospect that some component of NOS projects could be revenue financed augments the importance of the rolled-in rate determination made under the NOS process. This is because where the costs of NOS projects are rolled into the general revenue requirement and funded, in whole or in part, through revenue financing, BPA's other transmission customers will likely see immediate and substantial rate impacts arising from NOS. BPA should consider and discuss with customers the interplay between BPA Finance's proposal to increase BPA's reliance on revenue financing and the rolled-in rate determinations made under NOS. This discussion should be part of a larger dialogue regarding (i) the specific impacts NOS has on BPA's access to capital and debt management strategies; and (ii) the role of NOS in bringing BPA's capital program budgets under control and to sustainable levels. These are important considerations in BPA's business evaluation of NOS projects that are in need of further discussion.

Even absent the use of revenue financing, it is critical that rolled-in rate determinations made under NOS be made in a manner that protects BPA's existing customers from undue risk and cost. The touchstone of the CIFA and the rolled-in rate determination should be to match

---

[1] Debt Management Public Discussions PowerPoint, p. 41 available at http://www.bpa.gov/Finance/FinancialPublicProcesses/AccesstoCapital/Debt%20Management%20Strategy%20Presentation.pdf.

[2] *Id.*

[3] *Id.* at pp. 53, 55-56.

the costs of NOS projects with the reliability benefits and forecasted revenue from those projects so that BPA's other customers are in no worse of a position than they would have been if the projects were not rolled into the general revenue requirement. To that end, the WPAG utilities make the following comments:

B. Commercial Infrastructure Financial Policy ("CIFP") and Analysis ("CIFA").

1. Assumptions on Roll-Over.

Historically in performing the CIFA BPA has assumed that transmission service requests ("TSR(s)") with initial terms of five years or more will renew upon expiration of the initial term and in perpetuity following every term thereafter. This assumption encourages commercial parties to request initial five year terms because it provides them with the earliest opportunity to stop taking and paying for service if they so chose, while still yielding the highest net present value ("NPV") of forecasted future revenue possible for purposes of the CIFA.[4] The higher the NPV of forecasted future revenue in the CIFA, the more likely a NOS project will move forward at a rolled-in rate.

As stated above, the touchstone of the CIFA and the rolled-in rate determination should be to match the costs of NOS projects with the forecasted revenue from those projects so that BPA's other customers are in no worse of a position than they would have been if the projects were not rolled into the general revenue requirement. This is not achieved where a customer can contractually cease taking service after only five years and thereby leave BPA, and thus BPA's other transmission customers, with stranded costs relating to a 30 year transmission investment.

Accordingly, rather than assuming roll-over for all TSRs with an initial term of five years or more, BPA should establish a longer minimum initial term length, such as 15 or 20 years, that must be met before roll-over will be assumed in the CIFA NPV calculation. Future revenue for shorter term (e.g., five years) requests would be included in the calculation, but only for the initial term. This approach will encourage longer initial term requests, thereby creating more certainty that the costs of a project will match the future revenue of the same. It will also better ensure that the projects selected for rolled-in rate treatment will generate sufficient future revenue to be worthy of the designation.

2. Assumptions on Deferrals.

BPA should assume a realistic level of deferral of service by NOS participants in the CIFA. When stating the rate impacts from NOS projects, BPA should include the rate impact caused by the project for each year that deferrals are expected to be exercised, as well as the

[4] A number of request submitted in the 2008, 2009, and 2010 NOS processes were for the minimum five year duration. A good portion of those requests threatened to default on their transmission requests and later settled with BPA in order to effectuate a controlled default.

average impact of the project on rates over 5, 10 and 20 years.[5] This is important because deferrals of service can cause a NOS project to have significant rate impacts in the near term that would otherwise appear insubstantial when averaged with subsequent years when no deferrals are exercised. When a customer defers service under its PTSA, they do not pay the short term rate impacts that may arise from such deferral (other than the fee for deferral that is equal to the cost of one month of transmission service) because they are not taking or paying for service, but BPA's existing customers do pay such impacts. Therefore, it is essential that BPA understand and account for the near term rate impacts of NOS projects (including deferrals) when performing its business evaluation of projects and when determining whether to roll the costs of projects into the general revenue requirement.

3. Assumptions on the Use of Lease Financing.

BPA presently assumes that NOS projects will use tax exempt lease financing in the CIFA. Subject to further discussions on NOS impacts to BPA's access to capital and debt management strategies (as requested above), at this time the WPAG utilities agree that lease financing is the appropriate assumption for purposes of performing the CIFA, as this appears to be the primary means BPA will use to finance NOS projects. However, tax exempt lease financing is not available in every state. BPA should therefore use a *taxed* leased financing assumption for purposes of the CIFA where a proposed transmission project is to be located in a state that does not allow tax exempt lease financing.[6] This will ensure that the CIFA better reflects the true cost of NOS transmission builds in such states; and, if anything, this may encourage states that currently do not allow tax exempt lease financing for transmission builds to amend such laws and/or policies preventing its use.

4. Assumptions on Large Generator Interconnection Agreement ("LGIA") Credits.

In past workshops BPA has demonstrated that LGIA credits produce higher rates for BPA's other transmission customers. For this reason, we agree with BPA's proposal to include the costs and rate impacts of LGIA credits in the CIFA.

C. Regional Economic Benefits Analysis ("REBA").

BPA is seeking comment on whether it should use its Regional Economic Benefits Analysis ("REBA") (i) as part of its Preliminary Business Evaluation of NOS projects, (ii) in its cluster studies, (iii) as part of CIFA, and/or (iv) in making rolled-in rate determinations. We understand the REBA to be a security constrained economic dispatch and unit commitment simulation that examines the costs and benefits to the entire Western Interconnection of the proposed transmission builds identified in the NOS cluster study vis-à-vis the status quo and other select scenarios. However, what we do not fully understand is how BPA intends to use the

---

[5] BPA can estimate potential deferrals by comparing the transmission request to the corresponding Generation Interconnection Queue.

[6] A tax exempt lease financing assumption should be used for transmission builds in those states where such financing is allowed.

results of the REBA for any of the aforementioned purposes and the assumptions BPA is employing in its REBA analysis.

That being said, we do have serious concerns that BPA may use REBA to justify a rolled-in rate determination for a NOS project based on REBA results that forecast benefits accruing to the greater Western Interconnection rather than only those benefits to the Pacific Northwest. We do not believe that such a result is consistent with BPA's statutory obligations to Northwest ratepayers and consumers.

In addition, we are concerned that REBA does not capture other costs that may accrue to Northwest ratepayers due to the transmission facilities proposed to be built under NOS and the generation resources associated with such facilities. Such costs include, but are not necessarily limited to, the costs of non-federal balancing reserves needed to balance new generation resources, oversupply management costs, and NT redispatch costs. We see nothing in the current construct of REBA or BPA's NOS Preliminary Business Evaluation proposal that captures these costs that may arise from or be exacerbated by new NOS facilities. This needs to be remedied.

For the above reasons, we are not prepared to recommend or foreclose BPA's use of REBA in NOS and feel more discussions are necessary to understand how REBA impacts the process. It may be that REBA, or something similar, could be helpful in BPA's evaluation of NOS projects. However, further discussion is warranted to determine whether that is in fact the case and what the scope of REBA should be.

D. Future Cluster Study Financial Policy.

For the 2013 NOS cluster study, participants are required to fund their pro rata share of cluster study costs, which is estimated to be approximately $150 per megawatt of requested transmission service. For the 2014 NOS cluster study, participants will be required to tender a security requirement equivalent to six months of transmission service under their TSR. The differential between the 2013 cluster study funding requirement and the 2014 cluster study funding requirement is substantial. Under the 2013 funding requirement it is expected that a 100 MW request will pay about $15,000. That same 100 MW request would pay approximately $887,400 in 2014.

A large portion of the MWs originally eligible for the 2013 cluster study (4,347 MW or 56%) did not end up moving forward into the study. BPA attributes this attrition, at least in part, to the 2013 cluster study funding requirement, which itself is a new requirement compared to prior NOS processes. Given this, BPA staff asks whether the 2013 cluster study funding requirement should become permanent. According to BPA staff the region's risk of cost shift remains unchanged under this proposal because (i) customers are still required to pay their pro rata share of cluster study costs and (ii) the financial commitments required in the next stages of NOS (i.e., financial commitments providing security for Environmental Impact Statement and construction costs) will remain the same.

We recommend that BPA retain six month security requirement for the 2014 cluster study. There is true value in ensuring that only the most committed transmission customers enter the NOS process from the very beginning. The six month security will help in this regard. Further, it is our understanding that the six month security can ultimately be applied to the security requirement for next phase of NOS and/or customer's transmission bill once they take service over the NOS facilities built to meet their transmission service request. Under such circumstances, and given the benefits of having only truly committed participants in the NOS process, the six month security requirement is reasonable.