December 2, 2020

Via email:
techforum@bpa.gov

U.S. Department of Energy
Bonneville Power Administration
Transmission Services

Re: RDC Comments

Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. ("Commenting Parties") submit the following comments on the application of the Reserves Distribution Clause ("RDC") and BPA's proposed RDC application in the BPA November 19, 2020 Q4 Quarterly Business Review Technical Workshop presentation ("November 19 Presentation").[1]

The November 19 Presentation indicates at page 17 that BPA is proposing a transmission RDC of $79.7 million and proposing that it be applied to debt reduction. However, as discussed below, the RDC should be applied to rate reduction.

1. BPA Should Develop a Comprehensive Program to Address and Mitigate the Large Transmission Rate Increases It Contemplates; Application of the RDC to Transmission Rate Reduction Is An Important Element of Such a Program

BPA is contemplating a substantial, *double-digit* BP-22 transmission rate increase. At the November 12, 2020 conference call, BPA indicated that the BP-22 Initial Proposal for transmission would include a rate increase of about 11.5%, including an increase of 4.5% due to $45 million per year of revenue financing.

Moreover, BPA is contemplating rate increases in the BP-22/24 rate periods *totaling more than 20 percent due to revenue financing alone*.[2] Adding in 7 percent non-revenue financing BP-22 transmission rate increase and a typical non-revenue financing rate increase in BP-24 could result in *cumulative rate increases contemplated by BPA totaling 30 percent or more over the two rate periods*.

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[1] Available at https://www.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/qbrdocs/FY20%20Q4%20QBR%20Technical%20Workshop%20materials.pdf . In the November 19 Presentation at page 19, BPA requested comments, *inter alia*, on the application of the RDC. These comments are submitted in response to BPA's request for comments and do not comment, are not intended to comment, and should not be construed as commenting, on the merits of any issue in the BP-22 or TC-22 proceeding.

[2] BPA TC-22, BP-22 and EIM Phase III September 29, 2020 Workshop presentation (available at https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/29Sep20%20-%20Main%20Tarrif-Rates-EIM%20Workshop.pdf ("September 29 Presentation")) at page 62.

In other words, BPA is contemplating back-to-back, double-digit transmission rate increases in BP-22 and BP-24. BPA should develop a comprehensive program to address and mitigate the large transmission rate increases it contemplates; application of the RDC to immediate transmission rate reduction is an important element of such a program.

The region's utilities are facing the need to meet renewable energy and carbon reduction goals and are facing related financial challenges. Meeting those goals will entail substantial investments by many utilities and substantial reliance by many utilities on BPA transmission for renewable energy. Importantly, mitigation of the large transmission rate increases contemplated by BPA would facilitate achievement of renewable energy and carbon reduction goals by the region's utilities.

BPA should develop, in consultation with its customers, a comprehensive plan to address and mitigate the large transmission rate increases contemplated for BP-22/24. Such a comprehensive plan should include the following:

(i) Application of the RDC to immediate rate reduction. The contemplated BPA transmission rate increases support application of the RDC to transmission rate reduction, and application of the RDC to rate reduction is an important element of the mitigation of the contemplated rate increases.

(ii) Review and revision of planned BPA expenditures. The IPR2 planned for the spring of 2021 should be an important element of the mitigation of the contemplated rate increases.

(iii) Exploration of non-federal financing alternatives. In this regard, lease financing of transmission assets must, as discussed below, be explored (rather than merely assuming no new lease financing).[3]

BPA indicated on the November 12 call that (i) its projected usage of federal borrowing authority in the September 29 Presentation (which inexplicably assumed no new transmission capital asset lease financing) did not reflect BPA's best estimate of available lease financing, and (ii) the Vancouver Control Center or VCC (which is a major BPA planned transmission capital investment) may well be available for lease financing.[4] The comprehensive plan discussed above should address and mitigate the large transmission rate increases contemplated for BP-22/24.

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[3] *See, e.g.,* October 13, 2020 Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. Regarding TC-22, BP-22 and EIM Phase III September 29, 2020 Workshop on Loss Returns and Financial Issues ("October 13 Comments") (available at https://www.bpa.gov/Finance/RateCases/BP-22-Rate-Case/Documents/Comments/Sept%2029%20Workshop/Avangrid-Avista-IPC-PAC-.)PGE-PSE-Comments-Sept-29-TC-BP-EIM-Losses-Financial.pdf) at page 8.

[4] As discussed in the October 13 Comments at page 8, BPA must pursue transmission lease financing.

2. In Light of BPA's COVID-19 Concerns as Evidenced by the FRP Power Surcharge Suspension, BPA Should Apply the RDC to Transmission Rate Reduction

In June 2020, BPA decided to suspend the FRP Power Surcharge for the remainder of the BP-20 rate period.[5] The BP-20E ROD pointed out that, before the suspension--

> The Power FRP Surcharge triggered for FY 2020, resulting in a $30 million increase to power rates beginning in December 2019. Based on current end-of-year projections, the Power FRP Surcharge is expected to trigger again in FY 2021. The Transmission FRP Surcharge did not trigger in FY 2020 and is not expected to trigger in FY 2021.

(BP-20E ROD at page 2; citations omitted.) The suspension of the FRP Power Surcharge, which appears to have lowered power financial reserves by tens of millions of dollars, was as a result of concerns about COVID-19:

> On March 13, 2020, the President declared the outbreak of a coronavirus pandemic, COVID-19, in the United States a national emergency. Since then, much of the United States has been under stay-at-home orders. The impacts of COVID-19 on the national economy are only beginning to be understood. With near-record unemployment in many regional communities, utility customers of the Bonneville Power Administration (Bonneville) have had to lay off staff, rely on cash reserves, and use short-term credit to maintain operations. Throughout the pandemic, Bonneville has remained committed to working with its customers to ensure that they are able to continue to provide essential utility services to regional homes and businesses.[6]

Equity between power and transmission reserves was an important factor in BPA's adoption of the FRP in BP-18.[7] In the BP-20E proceeding, a number of transmission customers urged the Agency to consider ways to offer comparable rate relief in the midst of similar financial hardships.[8] BPA acknowledged these concerns but said they "would be more appropriate" in the BP-22 workshops and other forums.[9] Unfortunately, the late-breaking nature of these compounding financial issues have prevented further development by BPA and customers. Nonetheless, BPA can take important steps now.

The impacts of COVID-19 as pointed out by BPA are far from over, and the RDC should be applied to provide rate relief and reduce transmission rates. In this regard, only power

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[5] BP-20E Expedited Rate Proceeding Administrator's Final Record Of Decision BP-20E-A-01 (June 2020) ("BP-20E ROD") (available at https://ratecase.bpa.gov/openfile.aspx?fileName=BP-20E-A-01.pdf&contentType=application%2fpdf) at page 13.

[6] BP-20E ROD at page 1.

[7] BP-18 Administrator's Final Record of Decision (BP-18-A-04, July 2017) at 210; 244-55 ("BP-18 ROD").

[8] *See, e.g.* BP-20E Expedited Rate Proceeding, PacifiCorp Petition to Intervene (BP-20E-M-PC-01, June 24, 2020) at page 3.

[9] BP-20E ROD at page 7.

customers benefitted from the suspension of the power FRP surcharge, and BPA's transmission customers should now receive rate relief through application of the RDC.

3. Application of the RDC to Debt Reduction as Proposed by BPA Would be Inconsistent with the Intergenerational Equity Principle

As indicated above, BPA is proposing that the RDC be applied to debt reduction, which presumably means that debt would be retired before it is due. Application of the RDC to debt reduction would be inconsistent with the ratemaking principle of intergenerational equity and matching the period over which the cost of an asset is recovered with the period over which the asset is used. Under this principle, the "generation" of customers who receive the benefit of a capital expenditure generally bear its cost.[10]

However, application of the RDC to reduce debt fails to provide intergenerational equity—although the RDC is available because of payments by transmission customers in the *past*, application of the RDC to debt reduction in effect benefits customers in the *future* by reducing their payments. Indeed, the impacts of COVID-19 on current BPA transmission customers discussed above underscore the importance of avoiding the intergenerational inequity to current transmission customers that would result from application of the RDC to reduce debt.

4. Applying the RDC to Transmission Rate Reduction Will Reduce the Financial Disparity Between BPA's Power and Transmission Customers

BPA's contemplated approach to power revenue financing, as contrasted with the contemplated approach to transmission revenue financing, also supports the application of the RDC to reduce transmission rates. At the November 12 call, BPA indicated that the BP-22 Initial Proposal would call for $95 million per year of revenue financing only if and to the extent the power Tier 1 rate would have *no* rate increase. In other words Initial Proposal will contemplate (i) no revenue financing for power if there would be any Tier 1 rate increase, but (ii) $45 million per year of revenue financing for transmission on top of a 7 percent transmission rate increase. Applying the RDC to immediate transmission rate reduction will reduce the financial disparity between BPA's power and transmission customers.

5. Rate Reduction Is a High-Value Purpose for RDC Under the Financial Reserves Policy

Under the Financial Reserves Policy, transmission rate reduction is a high-value purpose for the transmission RDC. In this regard, the Financial Reserves Policy states as follows:

> *If business line financial reserves and agency financial reserves are above their respective upper thresholds, the Administrator shall consider the above-threshold financial reserves for investment in other high-value business line-specific purposes*

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[10] The principle of customers paying for capital assets over time is also embedded in the BPA statutory ratemaking standards. S*ee, e.g.*, Section 7(a)(1) of the Northwest Power Act, 16 U.S.C. § 839e(a) (providing for rates set to amortize investment "over a reasonable period of years. . . .").

> *including, but not limited to, debt retirement, incremental capital investment, or rate reduction.*

November 19 Presentation at page 19 (italics in original).

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Nothing contained in these comments constitutes a waiver or relinquishment of any rights or remedies provided by applicable law or provided under BPA's Tariff or otherwise under contract. Commenting Parties appreciate BPA's review of these comments and consideration of the recommendations contained herein. By return e-mail, please confirm BPA's receipt of these comments.