AWEC

Alliance of Western Energy Consumers ◆ 818 SW 3rd Avenue, #266 ◆ Portland, OR 97204 ◆ 971-544-7169 ◆ nwenergyusers.org

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Via Electronic Submission

John Hairston
Interim Administrator and Chief Executive Officer
Bonneville Power Administration
911 NE 11th Avenue
Portland, OR 97232

Re: August 25-26th 2020 TC-22/BP-22/EIM Phase III Workshops

Dear Administrator Hairston:

The Alliance of Western Energy Consumers ("AWEC") appreciates the opportunity to provide feedback regarding Bonneville Power Administration's ("BPA or "Agency") August 25-26, 2020 TC-22/BP-22/EIM Phase III workshop presentations. Below, AWEC addresses the following August 25-26th workshops topics: Transmission Losses; Real Power Losses on EIM Transfers; Transmission Rates: Charge Code Cost Allocation; Transmission Rates: Generation Inputs; Functionalization of Grid Modernization Costs; Treatment of EIM Benefits and Charge Codes in Power Rates; Section 7(f) Power Rate Options; and Secondary Revenue Proposal.

Transmission Losses

While AWEC did not submit specific comments on Transmission Losses, we continue to follow this issue closely and will be prepared to discussed Transmission Losses in later workshops or in the BP-22 rate adjustment proceeding once more analysis is available regarding the Loss Factor.

Real Power Losses on EIM Transfers

At the August 25th workshop, BPA Staff clarified that if the Agency moves forward with a charge code allocation approach to sub-allocate the Real Time Imbalance Energy Offset ("RTIEO") BPA incurs using measured demand by magnitude (assuming it includes export leg of wheel throughs), then it will not plan to charge losses on EIM transfers. At this time, such treatment appears to alleviate concerns about double recovery for losses and removes disincentives to donating transmission for EIM.

Transmission Rates: Charge Code Cost Allocation

AWEC appreciates BPA's discussion of considerations for how it might address sub-allocating the neutrality codes. At the August 25th workshop, Staff proposed to sub-allocate using measured demand by magnitude. As previously noted, this approach is concerning given that it disconnects the neutrality codes from those incurring the base codes by solely focusing on loads. Further, it is unclear how the proposed approach aligns with cost causation principles. AWEC requests that BPA commit to analyze this potential misalignment over the BP-22 rate period and update stakeholders on the magnitude of neutrality codes going to those with no imbalance. This update could be part of the Public Power Council request that BPA commit to a quarterly review of charges after the go-live date to ensure the proposed approach does not create any unintended consequences for customers. Additionally, AWEC requests additional opportunity to comment on this topic after the discussion of Powerex's issue paper at the September 29, 2020 workshop.

Transmission Rates: Generation Inputs

EI/GI PD/ID

AWEC supports BPA Staff's proposal to remove the existing Energy Imbalance ("EI")/Generation Imbalance ("GI") deviation bands. Such removal will enable a smoother transition to the new EIM paradigm with different scheduling requirements placed on customers. AWEC continues to believe that the Intentional Deviation ("ID")/ Persistent Deviation ("PD") penalties are unnecessary. BPA should remove such penalties and track possible accumulation of imbalances over the BP-22 rate period. In doing so, BPA may assess if a penalty is necessary in the BP-24 rate period without penalizing customers unnecessarily. Given that the Agency appears intent on retaining these penalties, AWEC supports modifications to the penalties that acknowledge the EIM environment in which customers are participating. We agree that if a Dispatchable Energy Resource ("DER") participating resource incurs Instructed Imbalance Energy ("IIE") they should not be penalized. Moreover, BPA should endeavor to make such updates to penalties and not let implementation challenges prevent them from being instituted. If it appears that the system implementation challenges are too great to overcome for the BP-22 rate period, then BPA should waive the penalties until such updates can be implemented in the billing system.

Balancing Reserve Pricing

During the August 26th workshop, BPA presented newly estimated Ancillary Services and Control Area Services ("ACS") rates that reflect updates to solar data sets, updated Dispatchable Energy Resource Balancing Service ("DERBS") billing determinants and updated variable costs. Accordingly, the resultant DERBS INC rate is 9.67 mills/kW greater than the estimated rate presented at the prior workshop and 16.32 mills/kW greater than the BP-20 rate. This new estimate is more than double the BP-22 rate. The newly estimated DERBS DEC rate is 4.02 mills/kW or 2.07 mills/kW greater than the previously estimated rate and 2.43 mills/kW greater than the BP-20 rate. This new estimate is more than 2.5 times the BP-22 rate. According to BPA Staff, this potential increase should not be viewed as a rate shock because "[h]istorical under-collection of costs is also a factor. All else equal, the rate would need [to] increase to simply collect the same amount of money because [the] response to price signal is not causing a one for one decrease costs…[g]enerally, the total amount of revenue collected as a result of these two DERBS rates is small relative to a customer's overall bill. The % increase of a single rate cannot alone be used to determine rate shock…[and] [t]he new DERBS rates are forecast to collect a total of roughly $1.2 million"[1/]

While BPA makes the claim that doubling an already punitive rate will not cause rate shock, trade-exposed industries operating in highly competitive global markets will have a much different experience if a more rational rate is not adopted. As AWEC has pointed out in the past, cogeneration units must operate subject to the demands of manufacturing processes, leaving them exposed to DERBS rates despite best efforts to avoid imbalance and deviations from schedule that may exceed 3 MW. Further, BPA does not consider the offsetting effects caused by the integrally linked manufacturing load. As a result, DERBS charges are, in fact, harmful to customers that that do not have margin to absorb increased costs, regardless of whether BPA thinks it's a small amount or not. Further, these DERBS customers cannot simply leave the Balancing Authority Area ("BAA") to avoid these charges as other large thermal plants have and because of their ties to the manufacturing process, cannot exercise a significant amount of dispatchability with their resources to avoid these higher charges. As a result, this subset of customers have no choice but to absorb this significant rate increase.

AWEC recommends that BPA consider having DERBS discussions with individual operators of cogeneration plants and their Transmission AE's prior to ex-parte period associated with the filing of the BP-22 federal register notice. AWEC would be happy to facilitate such potential discussions with cogeneration operators that are AWEC members.

Functionalization of Grid Modernization Costs

AWEC appreciates the discussion of how the Agency assumes a functionalization of Grid Modernization ("Grid Mod") costs, including those associated with EIM projects to the Power and Transmission Business Lines. BPA noted that after analysis of the existing 65/35 split, it is proposing to continue with this practice because it best "approximated the cost causation based on which organization would be completing the work."[2/] This statement is concerning. It may make more sense to test whether this split best approximated the cost causation based on which organization would benefit from the work. It is possible that the split is the same in this case, however, it is worth reevaluating to ensure that the corporate cost split comports with the business lines' programs benefiting from such EIM projects.

Treatment of EIM Benefits and Charge Codes in Power Rates

In addressing the treatment of dispatch benefits from EIM participation, BPA Staff currently proposes to include an amount equal to the EIM costs. However, AWEC

1/ Bonneville Power Administration, TC-22, BP-22 and EIM Phase III Customer Workshop, at slide 56 (Aug. 25, 2020).

2/ Id. at slide 67.

continues to believe that it is appropriate to assume some higher level of EIM dispatch benefits in rates. Although we agree that overestimating the potential benefit is not a desirable outcome, assuming $2.4 million in potential benefits and relying on tools such as a possible Power Reserves Distribution Clause ("RDC") to return any additional revenues to customers is not a satisfactory outcome. As numerous customers have pointed out, in making the monumental business decision to join the EIM, BPA has relied on studies providing estimates of net benefits that are in the range of twenty times the level that BPA Staff has recommended including in rates. It is hard to understand how the study results can be sufficiently robust to justify joining the EIM while simultaneously being so uncertain that they must be discounted to a de-minimis fraction in the ratemaking process. Again, AWEC does not argue with BPA's conclusion that it could be imprudent to include the full amount of projected EIM benefits in BP-22 rates, but such an extreme discount casts doubt upon the prudence of joining the EIM generally. Further it is troubling that BPA is proposing to collect and retain EIM benefits that, according to the studies, should number in the tens of millions of dollars, while stating that at this time, there are no plans to revisit the Cost Recovery Adjustment Clause ("CRAC") and RDC thresholds or terms until BP-26 at the earliest.

BPA Staff presented a follow up to its July discussion regarding how to share the costs and benefits of EIM dispatch between the classes of power customers. As AWEC previously commented, sharing the costs and benefits between the classes such that there is comparability appears to be reasonable assuming the implementation hurdles are not too challenging to overcome. During the August 25th workshop, BPA Staff presented several different methods for apportioning benefits, with the BPA Staff leaning trending toward the alternative in which there is a pro-rata share based on the actual deployments of balancing reserves and non-Slice inventory. There still appears to be some implementation details to resolve with this alternative. Notwithstanding these unresolved implementation details, BPA Staff's leaning appears to be a reasonable approach. AWEC looks forward to gaining a better understanding of how this data will be tracked and accounted for, and whether all of the models can accommodate this treatment.

Section 7(f) Power Rate Options

AWEC appreciates BPA Staff's efforts in exploring Section 7(f) Power Rate options in response to stakeholder requests—including AWEC. AWEC acknowledges BPA Staff's conclusion that now may not be the appropriate time for a new New Resource Firm Power ("NR") or Firm Power and Surplus Products and Services ("FPS") rate for New Large Single Loads ("NLSLs").

When AWEC originally suggested pursuing this concept, there was significant available firm surplus to potentially supply such products. However, circumstances have changed such that BPA would have to purchase system augmentation to meet this potential need. Moreover, offering an option that was priced no lower than Tier 1 plus the 7(b)(3) surcharge was not likely to be viable in today's markets. Regardless, the exploration was time well-spent and establishes a conversation framework for how to serve NLSLs in the next, post-2028 contract time period. AWEC again requests that BPA consider accommodating a green exception similar to that which was grandfathered into one customer's Regional Dialogue contract in the next power sales contract discussions.

Secondary Revenue Proposal

BPA Staff provided an update on their previously discussed secondary revenue proposal. This proposal would artificially cap secondary revenues assumed in rates to a prior rate period's level if the rate case forecast is greater. During this discussion, BPA Staff explained that this proposal needs to be considered separately from the Financial Reserves Policy ("FRP") Surcharge and assumed EIM benefits level. BPA argues that, absent an FRP Surcharge, BPA could still hit zero financial reserves despite a "lower of secondary revenue concept" and as a result, the need for an FRP Surcharge remains to mitigate such risk. BPA also declined to offer any proposal that would ensure that the benefits of higher-than forecast returns would be returned directly to customers outside of a discretionary RDC.

BPA notes that the likelihood of triggering an FRP Surcharge diminishes with the "lower of secondary revenue concept" in place. AWEC acknowledges this perspective, but given no other option, would prefer that customers retain and put their dollars to use in their communities and businesses until such a time as a surcharge must trigger, rather than overpaying BPA and allowing the agency to hold their dollars regardless of whether or not they are needed to ensure the Agency's solvency. From AWEC's perspective, the only result that would be guaranteed by the proposal, in the absence of a programmatic distribution of overcollections, would be overcollections.

BPA has offered a compromise of committing to only allow the FRP Surcharge to trigger in FY2023 and to limit the annual base rate change to 1%. Unfortunately, this does not provide AWEC members sufficient benefit to make this compromise acceptable. Our members would rather keep their funds in their businesses to support continued employment of individuals than see such funds go to pay ahead, with a dim possibility of a rebate. Given the current economic crisis resulting from the COVID-19 pandemic it is vital that BPA implement policies that provide support for their customers. Additionally, the Region has been pressing for rate relief which this compromise does not provide.

/s/ John Carr
Executive Director
Alliance of Western Energy Consumers