Proposal to Roll Utility Delivery Charge into Network Segment

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Background: What are Utility Delivery Facilities?

- The Utility Delivery segment is made up of BPA-owned grid assets that BPA and its customers use to deliver electricity to retail customers, such as low-voltage transmission lines (typically below 34.5 kV) and substation equipment.
- In contrast, Network facilities transmit power "at voltages that the customer must step down before entering the customer's distribution system", typically above 34.5 kV.
- Where there are multi-segmented substations that include both Network and Utility Delivery investment, the high side of the delivery transformers and station generally are assigned to the Network, with the low side equipment assigned to Utility Delivery.

Background: Utility Delivery Charge

- The Utility Delivery Charge (UDC) applies to utility customers that take delivery of power over transmission facilities that are included in the Utility Delivery segment.
- There are less than 30 utilities that incur the UDC, and two-thirds of the utilities that pay UDC are less than 15 aMW.
- Customers who are charged the UDC are subject to an additional charge on their transmission bills.

Problem 1: Outlasted its Purpose

- The intent of the charge, in part, was to provide an incentive for Utility Delivery customers to purchase Delivery facilities.
- The UDC has outlasted its usefulness.
  - The facilities that were prudent for customers to purchase have already been bought over the last 25 years.
  - Of 205 Utility Delivery facilities connected to BPA's network, 163 have been sold.
- Many of the unsold substations are simply unsellable.
  - Pose ownership risk and complexity (split usage situations) for UDC payers.
  - Have longevity risk due to age of infrastructure and associated costs.
  - Pose large financial risk for small utilities to take on individually.
  - Bring additional operational and environmental risk to utilities not best suited to handle them.
- **These issues preclude utilities from purchasing the remaining Utility Delivery facilities irrespective of the Utility Delivery Charge, thus eliminating the value of the "incentive."**
- The charge has become an onerous obligation over which the utility has no control nor can be mitigated by purchase.

Problem 2: Punitive Charge applied to Small and Rural Utilities

- The total number of payers of the UDC has gone down as facilities have been sold, with ~30 utilities still taking Utility Delivery service.
- With less utilities paying, the result is in an increased cost per Utility paying the UDC.
- The Utilities paying the UDC are among BPA's smallest, least dense, and most rural customers.
- These utilities' small customer base struggles to absorb any rate impacts and rising costs applied them. **Investments at just a single substations would significantly impact UDC rate.**
- Not being able to purchase the remaining facilities leaves these Utilities with no viable alternatives to manage any rate increases.
- A punitive charge to the smallest and most rural utilities violates BPA's statutory requirement to provide the "widest possible use" of federal power. (16 U.S.C. 838g) The charge violates the concept of "postage stamp rates."

Problem 3: Double Charge

- Utilities paying the UDC are required to pay two rates for service across the same facilities – the UDC and the NT rate.

- For context:
  - A typical UDC customer with 6 MW of load will pay $9,930 per month ($119,160 per year) in UDC charges.
  - In **addition** to a Network Transmission charge of $12,186 for that 6 MW of Transmission demand that month.
  - **A utility can wheel across hundreds of miles of the NT rate, and the last hundred feet of the Utility Delivery facilities is a rate that is almost as high, where service and response time issues are the most likely.**

- This double charge is a financial hardship for preference utilities under the obligation to pay.

- There is continuing upward pressure on the UDC rate far exceeding the NT base rate.

- Not being able to purchase the remaining facilities leaves customers with no viable alternatives to manage any rate increases.

Proposed Solution

- The NRU and PNGC Boards of Directors support eliminating the UDC segment and recovering the associated costs via the Network segment.
- Recovering the costs via the Network segment is a long-term, sustainable solution to the Utility Delivery segment dilemma.

Proposed Solution – Minimal Impact

- BPA and other customers have sought to remove this charge for years. Now, we believe the time is right for most stakeholders to agree to remove the charge.

- In FY 2022 and FY 2023 BPA forecast it would collect $3 million annually via the UDC charge, this is nominal compared to the $740 million annual Network Transmission Sales Revenue.

- Rolling in the costs of the Utility Delivery segment would have a minimal rate impact of ~0.4% to the Network segment, all else being equal.

Proposed Solution – Why Now?

- The region is moving toward the development of more organized market constructs, such as the EIM, potential RTO or ISO, formalizing of a capacity market, reliability cooperative through the WRAP, and others.

- The move to consolidate the network segment's charge aligns with future organized market constructs.

- There may be other opportunities to simplify rate structures that align with this proposal as the region prepares for additional participation in organized markets.

Proposed Solution – Why Now?

- The impact of even modest investment to Utility Delivery facilities would induce rate shock for the very few customers that are subject to the charge.
- The UDC has outlasted its usefulness and does not serve as an incentive to customers to purchase UDC facilities.
- Rolling in the UDC would have a *de minimus* impact on the Network segment rates.

All of these factors indicate it is time to roll the rate into the Network segment.

Testimony from UDC Payers

- Big Bend Electric Cooperative
- Okanogan County Electric Cooperative

Big Bend Electric Cooperative

- Christina Wyatt, Manager of Power Supply
- 2003 – Purchased 8 substations
  - Remaining 4 deemed "too complicated" by BPA
  - Continued paying UDC charges
- 2015 – Initial BPA meeting to purchase remaining 4 substations
- 2020 – Finally able to purchase 1 substation
- No path forward for remaining 3 substations
  - Service to other Federal partner – USBR
  - Moving POD to new construction to facilitate area growth
  - UDC charges are about $1M every 4.5 years

Okanogan Co. Electric Cooperative

- Greg Mendonca, General Manager

Questions or Concerns?

Please reach out to us to discuss:

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