

COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP REGARDING BP-14 POWER RATES WORKSHOP ISSUES

These comments are submitted by utilities that comprise the Western Public Agencies Group (WPAG). This opportunity to submit comments on the issue identified by the Bonneville Power Administration (BPA) at the August 9, 2012 BP-14 Power Rates Workshop regarding the allocation of unrecovered power purchase expenses incurred for certain utilities in the load growth rate pool (LGR pool) is appreciated.

Issue: BPA forecast that four customers in LGR pool would require approximately 5 aMW in FY 2015, and made purchases to cover this amount of load. However, the loads in the LGR pool were less than forecast, and now there is only one customer with about 1.6 aMW of load in the LGR pool. Under current and forecast market prices, BPA cannot resell the unused power for what they paid for it. This results in a shortfall of about \$100,000 to be recovered, and presents the question of how BPA should do so.

Answer to Issue: A literal reading of the TRM language appears to require the allocation of the entire shortfall amount to the one customer which will actually take power from BPA under the LGR during the rate period. However, this would result in an exorbitant level of charges to this one customer. BPA is trying to find an acceptable method to mitigate what appears to be a result that was unanticipated when this provision of the TRM was crafted. Since this is the first time that BPA has attempted to “interpret” the language of the TRM to avoid an unanticipated and unfair result to a single customer, rather than addressing the problem through a change in the TRM, the first step in doing so should be to establish some principles to govern this interpretive endeavor, in order to give it both consistency and predictability when a similar event occurs in the future. The following principles are suggested:

- If more than one interpretation is available, the one that most closely matches the literal meaning of the TRM language should be used.
- Any interpretation that is made to mitigate the impacts of an unanticipated result should not cause a greater impact on “innocent bystander” utilities than will be experienced by the utility that is benefiting from the interpretation.

In this instance, BPA has made a number of proposals to mitigate the impact of recovering its load growth rate pool power acquisition costs when there is only one utility taking service under that rate. These proposals include:

- Alternative 1 – Surcharge future LGR customers in the future for the unrecovered costs of power purchased to provide load growth rate pool service in FY 2015.
- Alternative 2 – Surcharge the unrecovered costs of power purchased to provide LGR pool service to the customers whose loads were forecast to require the 5 aMW, but who do not now require that power.
- Alternative 3 – Allocate the unrecovered power costs to the one utility placing load on BPA in the LGR pool.
- Alternative 4 – Allocate to all utilities that have signed up for service from the load growth rate, regardless of whether they are taking power from BPA under the load

growth rate for the FY2015 period. A number of different allocators are under consideration for this approach, none of which relies on the actual serve to be provided under the LGR.

Alternative 2 and 3 both suffer from the same defect, that is they result in a inordinately high rate for the service being provided through no fault of those utilities. As a consequence, these alternatives are really the problem that BPA is trying to avoid. The alternative that offer some relief from this problem are alternatives 1 and 4, and these will be the focus of these comments.

As between alternatives 1 and 4, the one the most closely conforms to the literal language of the TRM, and which has the least adverse impact on “innocent bystander” members of the LGR pool is a variation of alternative 1. The approximately \$100,000 of expected under-recovery should be carried on BPA’s books, and not charged to any member of the LGR pool during this rate period. When at least one-half of the utilities that comprise the LGR pool are actually taking power under that rate, this under-recovery (plus interest for the period BPA carried this cost) should then be allocated to the LGR pool. At that point in time, BPA can decide if these unrecovered costs should be collected from all LGR pool members, or just those actually taking service under that rate. In either case, the rate impacts should be minimal.

This approach does the least violence to the literal language of the TRM. While the TRM requires such costs to be allocated to the LGR pool if there is load in that pool, which is the case for FY 2015, it does not precisely indicate the timing of such recovery. As a consequence, collecting these unrecovered costs from the LGR pool at a later date does not conflict with any express language of the TRM.

Further, this approach is the fairest to all LGR pool members. If the under-recovery is allocated to all LGR pool members regardless of whether they are taking service under or not, there will be some very inequitable results. For instance, based on a BPA analysis it appears that Benton REA, which is taking *no* LGR service will pay a surcharge that is nearly double the charge paid by the one utility actually taking LGR service. The result is that the mitigation of the one LGR pool member taking service will pay considerably less than another pool member that was not forecast to take LGR service, and is in fact not taking such service. This inequitable result is avoided if the unrecovered power costs are carried forward until the LGR pool has a substantial number of participants.

Alternative 1 as described above will also avoid double charging certain LGR pool members. Some of the LGR pool utilities have also made non-federal power purchases to serve all of their expected AHWL load. However, since this load did not materialize, these utilities are currently bearing the unrecovered costs of these non-federal purchases, without any financial help from other LGR pool members. To allocate to these utilities, who were not forecast to make any LGR pool purchases and who made their own non-federal power arrangements, the unrecovered costs of BPA’s LGR pool purchases would amount to double charging these utilities: Once for the unrecovered costs of their own non-federal AHWL purchases, and a second time for the unrecovered costs of BPA’s LGR pool purchases. This result is indefensible when there is available an approach that does not have this result.

Lastly, there has been much discussion regarding a possible surcharge to all members of the LGR pool to collect BPA's unrecovered power purchase costs. However, there has been no discussion regarding BPA's authority under the TRM and the Regional Dialogue Power Sales Contract to impose such a surcharge on LGR pool utilities which were not forecast by BPA to take service under the LGR, who have not placed any load on BPA under the LGR, and who have made their own non-federal power purchases to cover anticipated AHWM load that is now being sold at a loss that they are bearing alone. There is no doubt that if the unrecovered costs of BPA's power purchase for the LGR pool are allocated to all LGR pool utilities regardless of whether or not they are taking service from BPA, that allocation decision will be subject to legal challenge.

In conclusion, BPA made the 5aMW power purchase in good faith and in reliance on its forecast. The circumstances it now confronts were not anticipated when the TRM was drafted, nor when BPA made this power purchase. The alternative that most closely adheres to the literal language of the TRM, and which imposes the least hardship on other members of the LGR pool, is to carry this small cost forward, and collect it from the pool (with interest) when doing so does not have the adverse impacts that current circumstances have caused.