

BP-14 Rate Workshop: Ancillary and Control Area Service (ACS) Rates and Risk Mitigation

A discussion of how the reserves-based ACS rates have supported BPA's financial risk mitigation in the past, and how they could or should support it in the future.

BPA has provided a short background paper.

Workshop Objective

Whether the Power cost recovery adjustment clause (CRAC) should apply to the reserves-based ACS rates was debated in the 2012 rate case. BPA said we would revisit the issue in the 2014 case. Here we are!

- **We would like to start the discussion today:**
 - Review the background of BPA's financial risk mitigation
 - Review the BP-12 consideration of ACS rates and risk
 - Hear comments on the current approach
 - Hear comments, suggestions, etc. on
 - Alternatives for ways ACS rates can support risk mitigation
 - General principles that might guide the design of ACS risk mitigation

- Please ask questions throughout ...

Very Brief Review – BPA’s Financial Risk Mitigation

- Treasury Payment Probability (TPP) standard: BPA sets rates by business line to achieve at least a 95% probability that cash flow + financial reserves will be sufficient to pay all financial obligations associated with that business line during the rate period.
- If TPP is < 95%, we add PNRR (planned net revenues for risk) or a CRAC (cost recovery adjustment clause).
- BPA measures TPP by running computer simulations that aggregate all of the financial risks that we model. We have not calculated amounts of PNRR that are needed for individual risks.

Very Brief Review – ACS Risk Mitigation

- The Generation Inputs revenue requirement has included a portion of any PNRR in the Power revenue requirement since at least 2007.
 - In the 2010 and 2012 cases this was moot, as there was no Power PNRR.

- The 2012 General Rate Schedule Provisions (GRSPs) allocated 3.6% of any CRAC revenue to reserves-based ACS rates.
 - BPA’s Initial Proposal had allocated 7.2%, the percentage of PNRR that would flow from the Power revenue requirement to the Generation Inputs revenue requirement.
 - NWG objected to the application of the CRAC to ACS rates.
 - The Record of Decision (ROD) acknowledged that the issue had not been fully explored and specified 3.6%.

Discussion

- Principles and Considerations
 - We probably all agree that the risk mitigation burden on each rate should be fair. What does “fair” mean to you?
 - Legal defensibility
 - Ease of implementation
 - What other principles should a solution support?

- Alternatives
 - Revenue requirement flow-through calculation (7.2% of any CRAC revenue to be collected from reserves-based ACS rates)
 - BP-12 decision: 50% of the revenue requirement approach
 - Your ideas: _____