



Risk Mitigation Discussion

Customer Proposal Design

BPA staff has talked a lot about this proposal. We have focused our evaluation of the Customer Proposal based on the following key elements:

1. limited to water and price risk
2. triggers mid-year (around March) to take effect in April
3. adjusts for actuals (true-up)
4. seasonal customers are impacted equally

Two issues remain unresolved at this time. First is the issue that any mid-year surcharge fails to generate adequate cash for the September 30th Treasury payment. Preliminary discussions have begun with Treasury, but those discussions are not expected to be resolved between now and the Initial Proposal.

The second issue is how to develop a historical forecast for the remaining six months of the year for each of the historical water years and then to develop hydro generation values based on these forecasts. BPA's own forecasts of annual net secondary revenues still have high standard errors in March.

We have some knowledge about snow-pack but not of how it will come down the river. The River Forecast Center usually forecasts normal precipitation for the remainder of the year, so that also is not of much predictive value. It does not seem reasonable to assume perfect knowledge of the remaining six months, and therefore a modeling solution is needed. Unfortunately, to develop a solution would be extremely complex. There may be some other forecasting alternative, but none has been developed at this point.

Alternate Mid-Year Surcharge Proposal

Staff is exploring a variation on the Customer Proposal that might be workable and might be considered to be an acceptable design by those who suggested the idea in the first place using the same key elements listed above.

The essence is to divide the drought surcharge into two parts:

- 1) In March, assess BPA's realized net secondary revenue for the five months from October through February. Use the downward deviation from the rate case figure for the same period as the basis for a surcharge to be collected from April through September.
- 2) Shortly before the end of September, perhaps too late for utility rate making needs, but still worth talking thru, and they can make that comment rack up the nearly-complete fiscal year net secondary revenue numbers and put in place on October 1 the second half of the surcharge. The second half would true up the whole 12-month period, and would make adjustments in surcharge amounts to ensure that customers pay an equitable amount of the surcharge based on annual



load shape. This could result in rebates to some or all customers whose rates are subject to this surcharge.

- i. The BPA staff? proposal would have the two, half-year true-ups for the October-March surcharge based on dollar amounts instead of a percentage change to rates.
- ii. The parameters of the design – potential caps on the annual or semi-annual amounts to be collected, any “deadband” (minimum size of downward deviation required to actually put the surcharge into effect), etc., can be experimented with once we have a design specific enough and practical enough to model.

Regardless of what design is chosen for the Initial and Final Proposals, BPA has risks that extend beyond secondary sales (water and prices). These will have to be dealt with through some mechanism (Reserves, PNRR or other mechanism) in order to meet agency risk tolerance requirements, namely the TPP target.