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Comments of the Sacramento Municipal Utility District
BP-18 Rate Case

Introduction

The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to provide comments on the Bonneville Power Administration's (BPA) BP-18 Rate Case. Specifically, SMUD's initial comments refer to the rate Model, and more specifically to the proposed Hourly Non-Firm Southern Intertie Transmission Rate (IS-HNF). Our concerns are threefold: First, the proposed IS-HNF rate increase is not designed to address a revenue adequacy problem. Second, the impetus for the proposal–to preserve the value for existing firm transmission customers of the contractual commitments they made to purchase long-term firm service–is not a reasonable basis for increasing charges to non-firm customers. Third, the changes proposed for IS-HNF would create large disparities in the way non-firm service is priced for customers on the Southern Intertie and similarly situated customers on BPA's regional system.

General Comments

As BPA explained in April 2016, its proposal to modify IS-HNF is driven by (1) a concern that "the CAISO Day Ahead Market (DAM) has eroded the product advantages and value of BPA Long Term Firm (LTF) transmission on the Southern Intertie." (BPA BP-18 Rate Case Workshop Presentation (April 20, 2016), p. 3.), and (2) a desire to "protect the value of LTF transmission on the Southern Intertie and encourage continued investment in the product." *Id*. That same April presentation highlights how BPA proposes to protect the value of LTF—by pricing non-firm service on the Southern Intertie as if it were firm service.

BPA proposes to change the IS HNF rate so a customer reserving HNF transmission in the evening peak would pay the same as a customer reserving long term transmission. *Id*, p. 5. This simply does not articulate a reasonable or sound basis for the changes being proposed to the IS-HNF rate. As SMUD has noted above in the Introduction, our concerns about this proposal are threefold:

First, the changes proposed are not driven by a need to preserve revenue adequacy. The principal users of long-term firm service on the Southern Intertie have, by definition, contracted to purchase the service on a long-term basis. Their agreements to do so bind them to pay demand charges to help recover BPA's costs. Those revenues will not decline simply because there have not been any new recent subscribers for the service. And BPA has not suggested that it would fall short on

revenues without the proposed increase in hourly non-firm rates. Thus, BPA fails to provide a "revenue adequacy" rationale for its proposal.

Second, and related, the proposed increases in the non-firm hourly rate are, again by definition, not driven by a need to recover the higher costs of providing the service–BPA has not asserted that the costs to provide that service have gone up in any material way–but by the goal of "protecting the value of LTF transmission service on the Southern Intertie." *Id.* p. 3. The value of LTF service has been eroded because of changes in the marketplace, largely related to the adjacent Day Ahead Market operated by the California Independent System Operator. *Id.* When a customer signs up for firm service, it always takes the risk that the service might, at some future date, become less valuable than when the contract was executed. In some cases, that value may increase. But in either case, the risks and rewards of the customer's decision are borne by the customer, not others. There would be little end to menace in the Open Access Transmission Tariff rate making process if BPA were to veer away from the guiding principle cost–based rates and instead aimed to design rates that would insulate certain classes of customers from the consequences of their business planning decisions.

Consider, for example, the case of a customer that executes a long-term firm service agreement in anticipation of a growing demand for electricity that does not materialize, either because of a weakening economy or because its customers choose to buy from another supplier. It would obviously be unreasonable to raise the rates to non-firm customers in order to defray the costs of the firm service and reduce the firm service customer's rates to reflect the now lower value of its service. But that, in essence, is what BPA is now proposing regarding its IS-HNF rate. While it does not propose to lower its LTF rates, it proposes to raise the non-firm rates so that the LTF customers will find it easier to resell their unused capacity to would-be non-firm transmission customers.

Third, BPA's proposal would create non-cost-based disparities in the way BPA charges its regional and Southern Intertie non-firm customers. BPA provides hourly non-firm service to its regional customers at rates that are direct derivatives of its monthly and annual non-firm rates to customers in the region. The chart below shows that if the IS-HNF customer rates are designed on the same basis as BPA's other non-firm service, the rates would be materially lower:

	BPA PTP Rates Proposed	BPA Southern Intertie Rates Proposed
Monthly	$1.489/kWmo	$1.150/kWmo
Daily 1	$0.0690/kWday	$0.0530/kWday
Daily 2	$0.0490/kWday	$0.0380/kWday
Hourly	$4.28/MWhr	$10.57/MWhr
Ratio of Hourly to Monthly	2.874412357	9.191304348

Conclusion

BPA has a general obligation to ensure that its transmission charges are equitable, reasonable and non-discriminatory.[1] The changes proposed for the IS-HNF rate do not meet these standards. SMUD therefore encourages BPA to pursue a rate Model with respect to the Southern Intertie that more accurately aligns with these standards.

If you have any questions about these comments, please contact Andrew Meditz at andrew.meditz@smud.org or 916-732-6124.

[1] See, e.g., Regional Preference Act, 16 U.S.C. § 837e, section 7(a)(2) of the Northwest Power Act, 16 U.S.C. § 839e(a)(2), section 7(k) of the Northwest Power Act, 16 U.S.C. § 839e(a)(2) and section 212 of the Federal Power Act, 16 U.S. C. § 824k(i)(1)(ii).