

# **BP-18 Rate Case Workshop: Risk**

August 10, 2016

# Agenda

- Financial Reserves Policy – Status
- Effect of the Power CRAC on Transmission
- Transmission Rates Risk Mitigation Options
- Next Steps

# Financial Reserves Policy – Status

- BPA has not decided on a financial reserves policy framework to use as the basis for developing the BP-18 initial rate proposal.
- We are exploring certain issues in this workshop with the understanding that BPA may or may not include a reserves policy for both Power and Transmission in its initial rate proposal.
- BPA will discuss this topic in more detail at a later workshop.

# Effect of the Power CRAC on Transmission (Current State)

- **Why Transmission is affected by the Power CRAC:**  
Power supplies Generation Inputs to Transmission. Generation Inputs are uses of the power system. The CRAC is applied to uses of the power system, and therefore is applied to Generation Inputs.
- **How Transmission manages the Power CRAC:**  
Currently, if the Power CRAC triggers, some of the cost is passed along to reserves based ACS customers. Other Transmission customers would not be affected.

# Transmission Rates Risk Mitigation Options for BP-18

At a high-level, there are two approaches:

- **Risk Aggregation:** Aggregate all risks and manage them together through reserves and reserves-risk mitigation tools (the CRAC).
  - Aggregation usually reduces the overall cost of risk
  - Aggregation usually reduces rate volatility/uncertainty
  - This is, generally, the approach used in Power Rates
- **Risk Allocation:** Isolate risks and allocate them to the products that most “cause” the risk
  - Ties the risk to the “cause” of the risk
  - Keeps products with low uncertainty in costs from being affected by products with high uncertainty
  - Increases rate volatility/uncertainty in some products

# Transmission Rates Risk Mitigation Options for BP-18 (continued)

- Previously, reserve based ACS rates-related risks were highly isolated; there were numerous formula rates and the Power CRAC was transferred directly to ACS rates.
- In the BP-16 settlement, some of these risks were aggregated (e.g., third party capacity purchase risks). The allocation approach was still used for the Power CRAC/DDC applicable to reserves-based ACS rates.
- For BP-18 we will need to decide how to manage reserve based ACS-related risks again (as well as other transmission risks)

# Next Steps

- What are customers' leaning on how risk is managed in general?
- What are customers' leaning on how ACS risks should be managed?
  - Please send feedback to [techforum@bpa.gov](mailto:techforum@bpa.gov) with the subject "BP-18 Risk" by August 24, 2016.
- BPA will discuss the Financial Reserves Policy decisions for the BP-18 Initial Proposal at an upcoming September 14, 2016 workshop.