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REBUTTAL TESTIMONY OF

REBECCA E. FREDRICKSON AND DANIEL H. FISHER

Witnesses for Bonneville Power Administration

SUBJECT: POWER AND TRANSMISSION RATE POLICY

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SUBJECT: POWER AND TRANSMISSION RATE POLICY

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Rebecca E. Fredrickson, and my qualifications are contained in BP-20-Q-BPA-10.

A. My name is Daniel H. Fisher, and my qualifications are contained in BP-20-Q-BPA-08.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to respond to the direct testimony of the Alliance of Western Energy Consumers (AWEC), Northwest Requirements Utilities (NRU), and the Public Power Council (PPC) regarding power and transmission rate policy issues.

Section 2: Financial Reserves Policy Surcharge and Risk Adjustment Mechanism Parameters

Q. Do the parties generally support BPA's proposed risk adjustment mechanisms?

A. NRU and PPC expressly support BPA Staff's proposal to (1) implement the Financial Reserves Policy's (FRP) below-lower-threshold rate action through a surcharge mechanism, rather than through a Planned Net Revenues for Risk (PNRR) mechanism, (2) change the timing of when risk adjustment mechanisms are implemented, and (3) retain the Accumulated Calibrated Net Revenue (ACNR) metric for determining whether risk adjustment mechanisms trigger. *See* Stratman, BP-20-E-NR-01, at 7-10; Deen and Bush, BP-20-E-PP-01, at 9-11. As discussed below, AWEC has proposed a stay on implementing the FRP Phase-In Implementation Record of Decision. Mullins and Hellman, BP-20-E-AW-01, at 23-25. No other parties commented on the proposed risk adjustment mechanisms.

Q. PPC states that its support for the proposed timing change, and for using a surcharge mechanism rather than PNRR, is conditional. Deen and Bush, BP-20-E-PP-01, at 10. Please describe PPC's conditional support.

A. PPC's direct testimony states:

> [T]his support is conditional on the commitment of BPA to be open in their communication and analysis of the potential for a CRAC or RDC trigger during the previous fiscal year. We also note the commitment in BPA staff's testimony to provide notice 'by' November 30. BPA should explicitly commit to provide the notice at the earliest possible date, but no later than November 30. . . . BPA must also remain vigilant in communicating the probability of an FRP surcharge and appropriately account for the impact of the surcharge on Tier 1 average net costs.

Id.

Q. What is your response?

A. BPA remains committed to transparency. The risk adjustment mechanisms in the Power and Transmission General Rate Schedule Provisions (GRSPs) include provisions regarding communication and analysis of the potential for a Cost Recovery Adjustment Clause (CRAC) or Reserves Distribution Clause (RDC) to trigger. With regard to providing notice to customers of the final CRAC, RDC, and FRP Surcharge determinations, these GRSPs state that "[b]y November 30" BPA will complete calculations of ACNR for use in determining if and for how much the risk adjustment mechanisms trigger for both business lines. 2020 Power Rate Schedules and General Rate Schedule Provisions, BP-20-E-BPA-10-CC01, GRSP O.3(b), P.3(b), Q.3(b); 2020 Transmission, Ancillary, and Control Area Service Rate Schedules and General Rate Schedule Provisions, BP-20-E-BPA-11-CC01, GRSP G.2(b), H.2(b), I.2(b). The language in the Power and Transmission risk adjustment mechanisms goes on to state that if the mechanisms trigger, BPA will notify customers "as soon as practicable, but in no case later than November 30 of each applicable year." *Id.* Staff's intent is to provide notice as soon as final information is available. In most circumstances, we expect this communication to occur in coordination with the fourth quarter Quarterly Business Review (QBR), which generally occurs around the end of October or start of November. The language "by November 30" and "in no case later than November 30" was proposed because we recognize the possibility that the information needed to make the final determination for the risk adjustment mechanisms could become available later than expected. We believe that the proposed GRSP language fulfills the request that BPA explicitly commit to providing notice at the earliest possible date.

Q. Please describe AWEC's characterization of BPA Staff's proposed FRP Surcharge.

A. AWEC's direct testimony states:

> As AWEC understands it, the BP-20 Initial Proposal assumes that a Power Financial Reserves Policy ("FRP") Surcharge will be applied to the rates BPA charges its customers. This Power Surcharge rate would go into effect for the period December 1 through September 30 of each applicable year of the two-year rate period.

Mullins and Hellman, BP-20-E-AW-01, at 23.

Q. Is this an accurate description of BPA Staff's proposal?

A. Whether the Power FRP Surcharge will trigger, resulting in a rate impact, will depend on actual ACNR levels for the prior fiscal year (FY). For example, the amount (if any) of the FRP Surcharge applicable to FY 2020 rates would be calculated based on actual ACNR through the end of FY 2019. At the time of the Initial Proposal, it appeared very likely that the FRP Surcharge would trigger for Power for both FY 2020 and FY 2021. *See* Power and Transmission Risk Study, BP-20-E-BPA-05-CC01, at 99. As such, a $30 million FRP Surcharge amount for each fiscal year was reflected in the reported 2.9 percent average wholesale power rate increase for the two-year rate period. Whether the FRP Surcharge actually triggers—and therefore, whether BPA collects additional amounts from its customers beginning in December—will be determined when actual ACNR is calculated in late October or early November 2019, consistent with the relevant GRSPs.

Q. Did AWEC mention a potential modification to the FRP Surcharge?

A. Yes. Within the context of AWEC's proposal "to allow for the return of incremental revenues in the case of a capacity sale," AWEC stated:

> In preparing this testimony, our initial recommendation was for BPA to return any incremental revenues from Firm Surplus as an offset to the financial reserves surcharge. Such an approach would be warranted since any incremental revenues achieved from a capacity sale would otherwise flow into financial reserves.

Mullins and Hellman, BP-20-E-AW-01, at 16.

Q. Is AWEC proposing any changes to the FRP Surcharge or its calculation?

A. As we understand AWEC's testimony, no. AWEC mentioned that it was considering making such a proposal, but ultimately concluded to recommend changes to BPA's secondary sales forecast instead. We address AWEC's secondary sales proposal in Fisher *et al.*, BP-20-E-BPA-21.

Section 3: Financial Reserves Error

Q. What concerns did the parties raise regarding BPA's financial reserves?

A. AWEC, WPAG, NRU, and PPC note that during a publicly noticed conference call on February 19, 2019, BPA shared preliminary findings regarding an error in the way it has attributed financial reserves available for risk between the Power Services and Transmission Services business lines. Mullins and Hellman, BP-20-E-AW-01, at 24-25; Andersen *et al.*, BP-20-E-WG-01, at 9; Stratman, BP-20-E-NR-01, at 5-6; Deen and Bush, BP-20-E-PP-01, at 11-12. The parties noted that additional information would be shared during a public workshop on March 11, 2019. *Id.* AWEC believes it is appropriate for BPA to address the financial reserves error through a separate notice and comment process, and to include the outcome of that process in the development of BPA's final proposed rates. Mullins and Hellman, BP-20-E-AW-01, at 24-25. WPAG states that BPA should take whatever action is necessary to ensure that Power Services is attributed its full and correct allotment of financial reserves prior to the final rate proposal. Andersen *et al*., BP-20-E-WG-01, at 9. NRU and PPC suggest there could be impacts on power rates and/or implementation of the Financial Reserves Policy for the BP-20 rate period, and that BPA should provide a procedural opportunity to provide evidence on this new information if necessary. Stratman, BP-20-E-NR-01, at 5-6; Deen and Bush, BP-20-E-PP-01, at 11-12.

Q. Please respond.

A. BPA is currently conducting a public notice and comment process outside of the BP-20 rate case to address the financial reserves error. BPA is addressing these issues outside of the rate case because actual financial reserves levels, and BPA's decisions regarding corrections to errors in the attribution of financial reserves between Power Services and Transmission Services, are not rate case issues. To the extent stakeholders have questions or concerns with BPA's proposals relating to its financial reserves, BPA will review and address those concerns through the public process established to address those issues.

Q. Please describe AWEC's proposal regarding the FRP Surcharge.

A. AWEC's direct case states:

> Given the information we have received to date, and the magnitude of the potential error, we recommend the Administrator stay the September 2018 Financial Reserves Phase-in Implementation Policy Record of Decision, subject to further administrative process. Once the effects of this new information are understood, further process can take place to determine whether a surcharge is still appropriate.

Mullins and Hellman, BP-20-E-AW-01, at 25.

Q. Do you believe this proposal is within the scope of the BP-20 proceeding?

A. No. BPA's determinations regarding the FRP and FRP Phase-In Record of Decision are outside the scope of the BP-20 proceeding. Bonneville Power Administration, Fiscal Year (FY) 2020-2021 Proposed Power and Transmission Rate Adjustments Public Hearing and Opportunity for Public Review and Comment, 83 Fed. Reg. 62,849, 62,851 (Dec. 6, 2018). The FRP provides a structure to manage financial reserves levels over time. BPA has already determined that it is appropriate to take rate action to recover financial reserves when financial reserves are below a business line lower threshold, and has determined the appropriate parameters for doing so. *See* FRP Phase-In Implementation Record of Decision, September 2018 (available at https://www.bpa.gov/Finance/FinancialPublicProcesses/Financial-Reserves-Leverage/Pages/Financial-Reserves-Leverage-Policies.aspx). We have proposed risk adjustment mechanisms to implement the FRP's rate action parameters for replenishing and repurposing financial reserves. Mandell *et al.*, BP-20-E-BPA-18, at 9-10. Under the proposed FRP Surcharge mechanism, rate action will depend on actual ACNR levels, in accordance with the relevant GRSPs. If financial reserve levels are different than what was assumed for the Initial Proposal, then the likelihood of the FRP Surcharge triggering would change. The appropriateness of having an FRP Surcharge mechanism to recover financial reserves below each business line's lower threshold would not change.

Q. Does this conclude your testimony?

A. Yes.

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