UNITED STATES OF AMERICA

U.S. DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

In the Matter of **BONNEVILLE POWER ADMINISTRATION** **Fiscal Year 2022-2023 Proposed Power and Transmission Rate Adjustments.**	**Docket BP-22**

DIRECT TESTIMONY OF JOINT PARTY 03 (AVANGRID RENEWABLES, LLC; AVISTA CORPORATION; PACIFICORP; AND PUGET SOUND ENERGY, INC.)

WITNESSES:

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I. INTRODUCTION

Q. Please state your name and qualifications.

A. My name is Erin Kester. I am appearing on behalf of Avangrid Renewables, LLC ("Avangrid Renewables"). My qualifications are as stated in BP-22-Q-AR-01.

A. My name is Kevin Holland. I am appearing on behalf of Avista Corporation ("Avista"). My qualifications are as stated in BP-22-Q-AC-01.

A. My name is Rohan Chatterjee. I am appearing on behalf of PacifiCorp. My qualifications are as stated in BP-22-Q-PC-01.

A. My name is W. Lynn Dillender. I am appearing on behalf of Puget Sound Energy, Inc. ("PSE"). My qualifications are as stated in BP-22-Q-PS-01.

A. My name is Thomas M. Flynn. I am also appearing on behalf of PSE. My qualifications are as stated in BP-22-Q-PS-02.

Q. What companies are sponsoring this testimony?

A. Avangrid Renewables, Avista, PacifiCorp, and PSE ("Joint Party 03") are sponsoring this testimony.

Q. Please summarize your testimony with regard to the Initial Proposal's proposed charge for real power losses service.

A. BPA failed to follow its normal workshop process in introducing the transmission revenue financing issue late in the BP-22 workshop process, thereby denying parties the opportunity to adequately analyze the issues, discuss alternatives and discuss customer feedback. Additionally, BPA's arguments in support of $45 million per year of transmission revenue financing for the BP-22 rate period are flawed. BPA has also failed to demonstrate that its proposal for revenue financing in this proceeding is consistent with BPA setting rates to amortize investment "over a reasonable period of years." Finally, BPA has not shown that its BP-22 transmission revenue financing proposal is consistent with the ratemaking principle of intergenerational equity.

Q. Please summarize your testimony with regard to the Initial Proposal's proposed charge for real power losses service.

A. As discussed through workshop comments and separate correspondence with BPA, Joint Party 03 opposes BPA's proposed unwarranted "capacity" charge for real power loss returns. In short, this proposal finds no support in current regional transmission provider practice, and fails to demonstrate that BPA's proposal will not over-collect for capacity. To the extent that there is an in-kind return issue (which Joint Party 03 does not concede), that issue is better addressed through concurrent loss returns. As BPA itself acknowledges, "capacity" charges for delayed loss returns could be avoided entirely through a concurrent loss return framework. Rather than creating a new unwarranted and duplicative capacity charge, upending settled practice, and expending considerable time and expense to impose a novel and short-term capacity charge for delayed loss returns, BPA should instead work with customers to expeditiously enable concurrent loss return functionality.

II. THE ADMINISTRATOR SHOULD REJECT BPA'S BP-22 PROPOSAL REGARDING TRANSMISSION REVENUE FINANCING

Q. What is BPA's BP-22 proposal regarding transmission revenue financing?

A. BPA is proposing a substantial increase in transmission rates, a major portion of which is due to proposed revenue financing. Specifically, BPA is proposing an overall 11.6 percent weighted average increase in transmission rates for the two-year rate period. This double-digit increase includes an increase of about 4.5 percent for the two-year rate period due to BPA's proposed $45 million per year of transmission revenue financing.

A. BPA's Failed to Follow Its Normal Workshop Process in Introducing the Transmission Revenue Financing Issue, Thereby Denying Parties the Opportunity to Adequately Analyze the Issues, Discuss Alternatives and Discuss Customer Feedback

Q. When did BPA raise its proposal regarding transmission revenue financing?

A. BPA announced its revenue financing proposal very late in the BP-22 workshop process. BPA first announced its intent to propose substantial revenue financing in a workshop that occurred on September 29, 2020,[1] near the end of the BP-22 workshops.

[1] Please see the First Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-03-02, for a relevant excerpt from the BPA presentation provided at the BP-22 workshop on September 29, 2020.

Q. How has BPA indicated that it would explore potential significant rate case issues in pre-rate case workshops?

A. At the outset of the BP-22 workshop process,[2] BPA indicated that it would explore potential significant rate case issues in pre-rate case workshops using a six-step process:

Step 1: Introduction and education
Step 2: Description of the issue
Step 3: Data and/or analysis that supports the issue
Step 4: Discussions on possible alternatives to solve issue
Step 5: Discussion of customer feedback to alternatives and BPA's response
Step 6: Staff proposal for solution[3]

Such a process allows BPA and its customers an opportunity to identify and discuss issues and develop and analyze alternative solutions.

Q. Did BPA follow this process with respect to the issue of revenue financing and allow time to adequately analyze the issues, discuss alternatives and discuss customer feedback?

A. No. BPA failed to follow its normal workshop process in introducing the transmission revenue financing issue late in the BP-22 workshop process. This failure denied parties the opportunity to adequately analyze the issues, discuss alternatives and discuss customer feedback.

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[2] Please see the Second Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-03, for a relevant excerpt from the BPA presentation provided at the BP-22 workshop on October 23, 2019, at which BPA announced these workshop process principles.

[3] *Id*. at 3.

Q. When did BPA first introduce the issue of revenue financing in the BP-22 proceeding?

A. As previously stated, BPA first provided details regarding the prospect of a substantial transmission rate increase due to revenue financing for the very first time in the workshop dated of September 29, 2020.[4] This workshop was near the very end of the BP-22 workshops. That workshop presentation laid out several levels of possible revenue financing but did not adequately explore other "all of the above" alternatives, including, in particular, non-federal financing such as lease financing of transmission capital additions. Rather, BPA simply assumed no new lease financing for transmission capital additions—without adequate discussion or analysis of the lease financing alternative—in the workshop process.[5]

Q. Did BPA previously indicate in the BP-22 workshop process that it did not expect any revenue financing in the BP-22 proceeding?

A. Yes. BPA indicated in a workshop presentation of July 28, 2020,[6] that it did not expect to see any revenue financing in the BP-22 rate case to hold the leverage ratio flat.[7] In discussing changes to its interpretation of assets and debt that are intended to better align

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4 *See* First Attachment to the Direct Testimony of Joint Party 03, BP-22-E-JP03-02.

5 *See id* at 8 (presenting a current forecast of BPA borrowing authority but assuming "no new Lease Purchase"); *see also id*. at 9 (asserting that "The Lease Purchase program that Transmission has relied on may not be available in the same capacity as before. Moreover, relying entirely on 3rd party tools to solve the problem is not prudent.")

6 Please see the Third Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-04, for a a relevant excerpt from the BPA presentation provided at the BP-22 workshop on July 28, 2020.

7 *See id*. at 12 (stating "that it was "[h]ighly unlikely that Transmission will see revenue financing to meet the near term target of holding the leverage ratio flat"); *see also id*. at 23 (excluding revenue financing in a projected statement of cash flows for transmission for the BP-22 period).

the agency's forecasts of its leverage ratios to actuals, BPA explained that its forecasting had been undervaluing assets.[8] Although this would have been an opportune time to discuss revenue financing more fully, BPA did not raise the issue. Instead, BPA gave no indication at that time that revenue financing would be proposed for the BP-22 rate period.

In short, BPA's transmission revenue financing proposal was not adequately developed in the BP-22 workshop process.

B. BPA's Arguments in Support of $45 million Per Year of Transmission Revenue Financing for the BP-22 Rate Period are Flawed

Q. Does BPA state why it is proposing $45 million per year of transmission revenue financing for the BP-22 rate period?

A. In response to a question about how BPA decided on the amount of transmission revenue financing in the Initial Proposal, BPA cites pre-rate case workshop presentation of to the September 29, 2020, and references addressing "the $430 million gap":

> **Q. How did you decide on the amount of revenue financing to include in the Initial Proposal?**
>
> A. At the September 29, 2020 pre-rate case workshop that described the borrowing authority problem over the next two rate periods, BPA presented a range of revenue financing approaches to address the $430 million gap. . . .[9]

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[8] *See id*. at 11.
[9] Fredrickson, *et al*., BP-22-E-BPA-17, at 11:5-9.

In the September 29 Presentation, BPA includes the following:

- Without action now, BPA falls short of maintaining $1.5b available borrowing authority and faces a tremendous challenge in BP-24.
- Doing nothing now means facing a borrowing authority shortfall of $432m in BP-24. If this is managed entirely with revenue financing in BP-24, it would create approximately 22% rate pressure in BP-24.[10]

In arguing for $45 million per year of BP-22 transmission revenue financing, BPA further states as follows:

> **Q. Did you consider waiting until BP-24 to include revenue financing, when you would have had an opportunity to further explore all alternatives to revenue financing?**
>
> A. Briefly, but the current analysis suggests that BP-24 could face a tremendous rate increase, especially if no action is taken now. Since current estimates identify a $430 million problem by BP-24, it could mean revenue financing $215 million per year, roughly a 21 percent rate increase from revenue financing alone. We believe it is more reasonable to take measured action now to avoid an even more significant rate increase in the future. It is not prudent to wait to the last possible moment to act on this problem.[11]

From the above, it appears that BPA is proposing $45 million per year of transmission revenue financing for the BP-22 rate period revenue financing because of what BPA perceives as a borrowing authority shortfall of $432 million in BP-24.

[10] *See* First Attachment to the Direct Testimony of Joint Party 03, BP-22-E-JP03-02, at 16.
[11] Fredrickson, *et al*., BP-22-E-BPA-17, at 15:3-10.

Q. Are the BPA arguments in support of $45 million per year of transmission revenue financing for the BP-22 rate period flawed?

A. Yes. BPA's arguments in support of $45 million per year of transmission revenue financing for the BP-22 rate period are flawed for a number of reasons. As discussed previously, BPA failed to develop the transmission revenue financing proposal in the BP-22 workshop process. Further, in proposing $45 million per year of transmission revenue financing for the BP-22 rate period, BPA:

(i) fails to take into account in calculating a $430 million "borrowing authority shortfall" the application of the $79.7 million FY 2020 Transmission Reserve Distribution Clause (RDC) toward debt reduction;

(ii) erroneously assumes in estimating the rate impact from revenue financing that any borrowing authority shortfall should be remedied by transmission revenue financing alone;

(iii) erroneously relies on transmission capital spending forecasts without analysis of the fact that BPA's forecast capital spending for transmission has significantly exceeded actual capital expenditures; and

(iv) fails to adequately explore the availability of lease financing as an alternative to revenue financing.

In short, BPA has not adequately evaluated and presented in this proceeding either the amount of the "borrowing authority shortfall" or alternatives to revenue financing, including lease financing in particular. For these reasons, BP-22 transmission revenue financing has not been adequately developed, is not adequately supported, and should not be pursued.

Q. Please address BPA's failure to take into account in calculating a $430 million "borrowing authority shortfall" the application of the $79.7 million FY 2020 Transmission Reserve Distribution Clause (RDC) toward debt reduction.

A. BPA argues for revenue financing in this rate case based on the asserted $430 million magnitude of the borrowing authority shortfall.[12] However, as indicated in an email from Tech Forum, dated December 14, 2020, BPA has "decided to apply the entire $79.7 million FY 2020 Transmission Reserve Distribution Clause (RDC) toward debt reduction."[13] This reduction of transmission debt of $79.7 million directly reduces any borrowing authority shortfall and is not reflected in BPA's statement that "current estimates identify a $430 million problem by BP-24".[14] Thus, even under BPA's analysis, the borrowing authority shortfall should be $350.3 million (i.e., the difference between $430 million and $79.7 million).

Even if BPA were to reject all of the other points advanced in this testimony (which BPA should not), BPA must reduce the transmission revenue financing proposed for BP-22 from $90 million (two years at $45 million per year as proposed in the Initial Proposal) by $79.7 million to $10.3 million to recognize and take into account the application of the FY 2020 Transmission RDC of $79.7 million toward transmission debt reduction.

In other words, the application of the FY 2020 Transmission RDC to reduce BPA's transmission debt is not reflected in BPA's Initial Proposal, including *Frederickson*, *et*

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[12] *See* Fredrickson, *et al*., BP-22-E-BPA-17, at 11:5 – 15:10.

[13] Please see the Fourth Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-05, for a copy of the email from Tech Forum, dated December 14, 2020.

[14] Fredrickson, *et al*., BP-22-E-BPA-17, at 15:6-7.

al., BP-22-E-BPA-17. Transmission revenue financing of $10.3 million in BP-22—when coupled with the application of the FY 2020 Transmission RDC of $79.7 million to debt reduction—will achieve the same transmission debt level that would have been achieved under the Initial Proposal, which did not recognize BPA's application of the FY 2020 Transmission RDC to debt reduction. BPA's transmission customers paid the rates that resulted in the FY 2020 Transmission RDC, and it is only fair to recognize the FY 2020 Transmission RDC in considering revenue financing in this proceeding.

Q. Please address BPA's assumption in estimating the rate impact from revenue financing that any borrowing authority shortfall should be remedied by transmission revenue financing alone.

A. BPA argues for its proposal for revenue financing in this rate case based on its calculation of the rate impact of delaying revenue financing.[15] However, BPA erroneously assumes in estimating the rate impact from revenue financing that any borrowing authority shortfall would be remedied by transmission revenue financing alone. This would be arbitrary and unfair. Indeed, BPA itself proposes that both business lines participate in revenue financing. Fundamentally, both BPA power and transmission have substantial outstanding and projected federal borrowing and should participate in addressing BPA's federal borrowing constraints.

The importance of participation by both the power and transmission business lines in addressing BPA's federal borrowing constraints is underscored by the fact that the BPA

[15] *See* Fredrickson, *et al.*, BP-22-E-BPA-17, at 11:5 – 15:10.

power function relies very substantially on the Treasury Facility (which is part of BPA's federal borrowing authority) to meet its Treasury Payment Probability (TPP). In this regard, BPA's response to Data Request PS-BPA-30-16[16] includes the following statement by BPA:

> If the Treasury Facility were not allocated to Power for TPP modeling purposes, Power would have a TPP of 59% and would need to add PNRR and/or adjust the risk mechanisms to meet TPP standard.[17]

This demonstrates the substantial reliance of power on the Treasury Facility to meet its TPP. Such heavy reliance underscores that power as well as transmission and should participate in addressing BPA's federal borrowing constraints.

For example, the Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. Regarding TC-22, BP-22 and EIM Phase III September 29, 2020 Workshop on Loss Returns and Financial Issues, dated October 13, 2020,[18] included the following:

> both BPA power and transmission have substantial outstanding and projected federal borrowing and should participate in addressing BPA's federal borrowing constraints.[19]

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[16] Please see the Fifth Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-06, for a copy of the BPA response to Data Request PS-BPA-30-16.

[17] *Id*. at 2.

[18] Please see the Sixth Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-07, for a copy of the Comments of Avangrid Renewables, LLC, Avista Corporation, Idaho Power Company, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. Regarding TC-22, BP-22 and EIM Phase III September 29, 2020 Workshop on Loss Returns and Financial Issues, dated October 13, 2020 (the "October 13 Comments").

[19] *Id*. at 7.

BPA ignores this comment and instead erroneously assumes in its rate impact calculation that what BPA refers to as "$430 million problem" would be solved through transmission rates alone.

Q. Please address BPA's reliance on transmission capital spending forecasts without analysis of the fact that BPA's forecast capital spending for transmission has significantly exceeded actual capital expenditures.

A. BPA erroneously relies on transmission capital spending forecasts without analysis of the fact that BPA's forecast capital spending for transmission has significantly exceeded actual capital expenditures. BPA's discussion of its "current estimates [of] a $430 million problem"[20] fails to set forth analysis of whether, based on experience, BPA's transmission capital spending forecasts tend to be higher than actuals. BPA's capital spending forecasts should include such analysis and appropriate adjustments based on this analysis.

Q. Has BPA's capital spending forecasts for transmission significantly exceeded actual capital expenditures for transmission?

A. Yes. BPA's capital spending forecasts for transmission have significantly exceeded actual capital expenditures for transmission. BPA responded to Data Request AR-BPA-30-9[21] as follows:

[20] Fredrickson, *et al*., BP-22-E-BPA-17, at 15:6-7.
[21] Please see the Seventh Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-08, for a copy of the BPA response to Data Request AR-BPA-30-9.

> For the period FY 2015-2019, forecast capital spending for transmission exceeded actual capital expenditures approximately thirteen percent.[22]

BPA's testimony states as follows:

> To the extent BPA spends less than forecast, the magnitude of the relatively near-term $430 million debt capacity problem would be reduced. It does not, however, address the longer-term debt outstanding issue that results from borrowing for 100 percent of capital spending. Moreover, even with historical underspend, on an actual basis, Transmission's debt outstanding has increased by about $2 billion over a 10-year period. Relying on the hope that underspend will continue is not a prudent strategy to address the issues at hand.[23]

This testimony does not, and the October 13 Comments[24] did not, call for relying on "hope that underspend will continue" but rather called for an analysis of historical underspend and appropriate adjustments to capital spending forecasts.

As discussed above, BPA acknowledges that "[t]o the extent BPA spends less than forecast, the magnitude of the relatively near-term $430 million debt capacity problem would be reduced."[25] Despite such acknowledgement, BPA's Initial Proposal does not quantify the historical amount of underspend and analyze adjustment of capital spending forecasts based on such analysis. Accordingly, any conclusion without such quantification and analysis that BP-22 transmission revenue financing is needed is not adequately supported and should not be pursued in BP-22.

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22 *Id*. at 1.
23 Frederickson, *et al*., BP-22-E-BPA-17, at 14:16-21.
24 *See generally* Sixth Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-07.
25 Frederickson, *et al*., BP-22-E-BPA-17, at 14:16-17.

Q. In proposing BP-22 transmission revenue financing, does BPA project capital leases in the BP-22 rate period?

A. No. In proposing BP-22 transmission revenue financing, BPA does not project capital leases in the BP-22 rate period. The BPA Initial Proposal includes the following statement:

> For purposes of the present rate case, we do not currently forecast capital leases being available in the BP-22 rate period, and it would not be prudent to rely on the theoretical availability of these arrangements in the near term. They may well play a bigger supporting role in BP-24 and beyond, but significant action is warranted now.[26]

Q. Does BPA describe active, on-going exploration of lease financing as an alternative that would help address what it refers to as a borrowing authority shortfall?

A. No. BPA does not describe active, on-going exploration of lease financing as an alternative that would help address what it refers to as a borrowing authority shortfall. BPA does recognize that ". . . capital leases may play a role in financing Transmission Services assets to preserve federal borrowing authority."[27] Indeed, BPA's lease financing borrowing has been substantial.[28]

However, BPA does not describe active, on-going exploration of lease financing as an alternative that would help address what it refers to as a borrowing authority shortfall. In this regard, BPA testimony in the Initial Proposal states that the lease finance program

[26] Frederickson, *et al*., BP-22-E-BPA-17, at 14:2-6.

[27] Frederickson, *et al*., BP-22-E-BPA-17, at 13:8-9.

[28] *See* First Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-02, at 11 (indicting about $2 billion of outstanding transmission capital leases as of FY 2020).

had "wound down,"[29] and BPA's response to Data Request PP-BPA-30-42[30] included the following statement: "The discussions on the lease purchase will be part of the future discussions on the financial plan to be considered and discussed holistically."[31]

In short, BPA indicates that lease financing (i) may have a role in addressing what it refers to as a borrowing authority shortfall, (ii) had wound down, (iii) will be explored "holistically" in future discussions on the financial plan, and (iv) may well play a role in BP-24 and beyond. This indicates that BPA lease financing has not yet been adequately explored. Accordingly, transmission revenue financing should not be adopted in BP-22.

C. BPA Has Failed to Demonstrate That Its Proposal for Revenue Financing in This Proceeding is Consistent with BPA Setting Rates to Amortize Investment Over a Reasonable Period of Years

Q. Has BPA demonstrated that its proposal for revenue financing in this proceeding is consistent with BPA setting rates to amortize investment "over a reasonable period of years"?

A. No. BPA has not demonstrated that its proposal for revenue financing in this proceeding is consistent with BPA setting rates to amortize investment over a reasonable period of years. It is our understanding that BPA is by statute to set rates to amortize investment "over a reasonable period of years. . . ."[32] However, BPA has not demonstrated that it has adequately explored alternatives to revenue financing and has therefore not demonstrated

29 Frederickson, *et al*., BP-22-E-BPA-17, at 13:15.
30 Please see the Eighth Exhibit to the Direct Testimony of Joint Party 03, *et al*., BP-22-E-JP03-09, for a copy of the BPA response to Data Request PP-BPA-30-42.
31 *Id*. at 1.
32 *See*, *e.g*., Section 7(a)(1) of the Northwest Power Act, 16 U.S.C. § 839e(a)(1).

the extent if any to which revenue financing in this proceeding is necessary. In short, BPA has not demonstrated that setting rates based on its proposed revenue financing in this proceeding is reasonable.

Q. Does BPA state that it took the rate impact of its proposed BP-22 transmission revenue financing of $45 million per year into account making that proposal?

A. BPA testimony in the Initial Proposal states that BPA took the rate impact of its proposed BP-22 transmission revenue financing of $45 million per year into account:

> Our proposed amount was tempered by a recognition of the rate impact within the BP-22 rate period and the possibility that additional options may present themselves over the next four years.[33]

Q. How does the proposed transmission rate increase compare with the proposed power rate increase?

A. BPA is proposing a flat nominal power rate, as compared with "an overall 11.6 percent weighted average increase in transmission rates for the two-year rate period, or 5.8 percent on an average annual basis."[34] In proposing a flat power rate, BPA indicates "we tempered our proposal as a result of the current financial strain our customers may be experiencing as a result of the wildfires and COVID-19."[35] Inasmuch as both BPA power and transmission customers seem likely to be exposed to current financial strain as

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[33] Frederickson, *et al*., BP-22-E-BPA-17, at 12:8-10.

[34] *Fiscal Year (FY) 2022–2023 Proposed Power and Transmission Rate Adjustments Public Hearing and Opportunities for Public Review and Comment*, 85 Fed. Reg. 77,189, 77,195 (Dec. 1, 2020).

[35] *Fisher*, *et al*., BP-22-E-BPA-15, at 16:22-23.

a result of the wildfires and COVID-19, the disparate proposed power rate increase (zero) and transmission rate increase (11.6 percent) appear inequitable.

Q. Does BPA's reflection of revenue financing in BPA's rates cause harm to BPA's transmission customers?

A. Yes. BPA's reflection of revenue financing in BPA's transmission rates causes harm to BPA's transmission customers. BPA does not take into account revenue financing in cost recovery of capital assets. BPA accrues and capitalizes allowance for funds used during construction (AFUDC) on revenue financed capital projects as well as includes depreciation in rate recovery on revenue financed capital projects. Therefore, BPA transmission customers are harmed because revenue financed capital assets (in effect financed by customers) are included in BPA rate recovery mechanism, potentially causing customers to pay for capital projects twice—through revenue financing and through inclusion of depreciation in revenue requirement—and with interest.

In any event, BPA should not proceed with transmission revenue financing without addressing the harm to BPA's customers due to potential double recovery of the cost of revenue financed assets.

D. BPA Has Not Shown That Its BP-22 Transmission Revenue Financing Proposal is Consistent With the Ratemaking Principle of Intergenerational Equity

Q. Has BPA shown that its BP-22 transmission revenue financing proposal is consistent with the ratemaking principle of intergenerational equity?

A. No. BPA has not shown that its BP-22 transmission revenue financing proposal is consistent with the ratemaking principle of intergenerational equity. Rather, BPA argues conceptually that revenue financing in this rate case "supports intergenerational equity" because revenue financing preserves federal borrowing authority, and

> [t]o the extent the depletion [of federal borrowing authority] is unavoidable, the economic impact of not having those resources should be spread out across the generations that are receiving benefits from that resource, including the current generation of people.[36]

This argument is unpersuasive. As discussed previously in this testimony, BPA has not adequately evaluated and presented in this proceeding either the amount of the "borrowing authority shortfall" or alternatives to revenue financing. Accordingly, the record in this proceeding does not demonstrate the extent, if any, to which depletion of federal borrowing authority is unavoidable.

BPA also argues that intergenerational equity supports revenue financing in this proceeding because revenue financing

> better aligns with the industry standard way of assigning costs and benefits of capital programs between current and future ratepayers. Most utilities do not debt finance all their capital needs.[37]

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[36] *Fisher, et al.*, BP-22-E-BPA-15, at 19:23-26.
[37] *Fisher, et al.*, BP-22-E-BPA-15, at 20:14-16.

However, BPA's general assertion about how other utilities finance their capital needs does not establish that BPA's revenue financing proposal in this proceeding is consistent with intergenerational equity.

It should be noted that BPA's general assertion about how other utilities finance their capital needs apparently does not include the financing practices of other federal Power Marketing Administrations (PMAs). In response to Data Request PS-BPA-30-2,[38] BPA stated as follows:

> We do not know if other PMA's [sic] have ever or are using revenue financing. The PMA's [sic] set rates independently and have different statutory frameworks.[39]

In short, BPA has not shown that any particular amount of revenue financing in the BP-22 rate period is consistent with intergenerational equity. BPA has not adequately evaluated and presented in this proceeding either the amount of the "borrowing authority shortfall" or alternatives to revenue financing such as lease financing.

BPA appears to be proposing to address the great majority of what it considers to be its near-term debt-capacity gap. BPA is proposing BP-22 revenue financing totaling $270 million ($90 million for transmission; $180 million for power). As discussed previously, the borrowing authority shortfall even under BPA's analysis should be adjusted down to $350.3 million. Thus, BPA is proposing BP-22 revenue financing of $270 million, which would leave only about $80 million (i.e., the difference between

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[38] Please see the Ninth Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-10, for a copy of the BPA response to Data Request PS-BPA-30-2.
[39] *Id*. at 1.

$350.3 million and $270 million) of any near-term debt-capacity gap. BPA has not shown that addressing the great majority of any near-term debt-capacity gap in BP-22 is consistent with intergenerational equity.

III. THE ADMINISTRATOR SHOULD REJECT THE INITIAL PROPOSAL'S PROPOSED CAPACITY CHARGE FOR REAL POWER LOSSES SERVICE

Q. What is real power losses service?

A. As BPA explains in its testimony,

> real power losses refer to the loss of power that occurs over the transmission system when power moves between the point of generation and the load. The power a transmission customer provides at a point of generation will be more than the power the customer receives at the load. The difference between the power delivered and the power received is equal to the loss of power during transmission, i.e., real power losses.[40]

In Order No. 888-A,[41] the Federal Energy Regulatory Commission (FERC) reiterated that

> [a]lthough the transmission customer is responsible for losses associated with its transmission service, supply of losses is purely a generation service that can be (1) self-supplied; (2) purchased from the transmission provider, if it offers this service; or (3) purchased from a third party.[42]

Q. How does BPA provide for real power losses service?

A. BPA Tariff Sections 15.7 and 28.5 require point-to-point (PTP) and network integration transmission service (NT) customers to replace real power losses associated with their

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[40] Meyers, *et al*., BP-22-E-BPA-22, at 1:22 – 2:2.

[41] *Promoting Wholesale Competition Through Open Access Nondiscriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888–A, FERC Stats. and Regs. ¶ 31,048, 62 Fed.Reg. 12,274, *clarified*, 79 FERC ¶ 61,182 (1997) ("Order No. 888-A")

[42] Order No. 888-A, FERC Stats. and Regs. ¶ 31,048, at 30,237.

transmission service (the "real power loss obligation"). Transmission customers have the option of satisfying their real power loss obligation financially—that is, by paying a charge intended to compensate BPA for the cost of the obligation—or by physically returning the real power loss obligation back to BPA in the form of an "in-kind" delivery (what BPA calls "In-Kind Loss Return Service") or via "Slice Output," whereby a Slice power customer's power entitlement from BPA is reduced in proportion to its real power loss return obligation (so-called "Slice-Output Loss Return Service"). BPA's testimony in this proceeding describes In-Kind and Slice Output Loss Return Services as follows:

> Both, the In-Kind and Slice Output Loss Return Services result in power being returned to BPA 168 hours after the obligation is incurred. Together [BPA] refer[s] to these services as "Delayed Loss Return Services."[43]

Q. How is BPA proposing to change its real power loss service?

A. BPA proposes three charges associated with the additional costs allegedly incurred in relation to BPA's real power losses services:

(a) a new charge in the Transmission General Rate Schedule Provisions to recover the "capacity" costs—that is, BPA's fixed costs[44]—associated with Delayed Loss Return Services;

(b) a revised Financial Settlement Loss Return Service charge that will include both what BPA refers to as an "energy rate" and a "capacity rate" for financial settlement of loss returns; and

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[4343] Meyers, *et al*., BP-22-E-BPA-22, at 3:7-9.

[44] As BPA explains in its Generation Inputs Study, as part of its embedded cost methodology, BPA first separates its revenue requirement into costs classified as capacity (fixed costs) and costs classified as energy (variable costs). And "fixed" costs are defined as: (1) all capital-related costs, (2) costs that do not vary with resource output and are directly attributable to the generation capability of the resources available to BPA, and (3) the capacity-attributed portion of power purchase costs. Generation Inputs Study, BP-22-E-BPA-06, at 33:2-6.

(c) a new penalty charge "to help ensure that customers electing In-Kind Loss Return Service return their loss obligations in an accurate and timely manner."[45]

Q. Please describe BPA's proposal regarding financial settlement of real power losses.

A. BPA's BP-22 proposal regarding financial settlement of real power losses is to charge an energy rate plus a capacity rate. If BPA is not part of the EIM, then the energy rate for Real Power Losses "shall be the greater of 0 and the applicable average hourly Powerdex Mid-C Index price for firm power for the hour in which the loss occurred."[46] If BPA becomes an EIM participant, then the energy rate for Real Power Losses "will be the greater of 0 and the applicable hourly average Load Aggregation Point (LAP) price for BPA as determined by the Market Operator (MO) under Section 29.11(b)(3)(C) of the MO Tariff for the hour in which the loss occurred."[47] In addition, BPA proposes a capacity rate using BPA's embedded cost for Supplemental Operating Reserves.[48]

Q. What are your concerns regarding BPA's proposed changes to its real power loss service?

A. We have several concerns with BPA's proposal to integrate a "capacity" charge into its delayed loss returns and financial loss return rates, many of which were raised in workshop comments. Generally speaking, we believe that BPA's proposal:

(1) is out of step with other regional transmission providers and regional practice;

[45] Meyers, *et al.*, BP-22-E-BPA-22, at 4:20-22.
[46] 2022 Power Rate Schedules and General Rate Schedule Provisions, BP-22-E-BPA-10, at 27.
[47] *Id*.
[48] Adams, *et al.*, BP-22-E-BPA-16, at 4:21 – 5:9.

(2) is an inefficient use of resources, as such "capacity" charges for delayed in-kind loss returns would only apply until concurrent loss returns are made available, which BPA should endeavor to implement as soon as possible; and

(3) ultimately, BPA's proposal with regard to financial settlement of losses raises unresolved concerns regarding potential over-recovery for capacity.

A. BPA's Proposal Is Out of Step With Other Regional Transmission Providers and Industry Practice

Q. Please explain your first concern—that BPA's proposal is out of step with other regional transmission providers and industry practice.

A. BPA has not identified any other regional transmission provider that explicitly imposes a capacity charge in the manner proposed here.[49] In fact, PacifiCorp, Portland General Electric Company ("Portland General"), and Puget Sound Energy, Inc. ("PSE") are Pacific Northwest IOUs that are CAISO EIM participants. They apply only LAP pricing for financial settlement of losses and do not apply an additional charge for "capacity." FERC has routinely found such LAP-based pricing to be just and reasonable.

[49] *See* Adams, *et al*., BP-22-E-BPA-16, at 6:4-15

B. <u>BPA's Proposal Is an Inefficient Use of Staff Resources</u>

Q. Please explain your second main concern—that BPA's proposal is an inefficient use of staff resources, as such charges for delayed in-kind loss returns would only apply until concurrent loss returns are available.

A. All of the concerns raised here, and throughout the workshop process, caution against changing the status quo due to temporary conditions until the option for concurrent in-kind loss returns is in place. In this regard, BPA has acknowledged that there would be no need for this new "capacity" charge for in-kind loss returns once concurrent returns are enabled, potentially within this rate period.[50] To our knowledge, no customer has expressed concern about the implementation of concurrent returns, and indeed, numerous other customers have strongly encouraged BPA to establish a concurrent loss return framework as soon as possible. BPA has itself agreed to begin working through technical and implementation issues associated with adopting a concurrent loss return framework.

Meanwhile, however, instead of putting those agency resources to use in implementing a widely supported policy, BPA is instead seeking to dedicate staff time and efforts toward establishing an unprecedented (and flawed) rate framework that will likely be in place only for BP-22, all against the backdrop of a significant double-digit rate increase proposed for transmission customers. It seems highly doubtful that the effort to impose these capacity charges for delayed in-kind loss returns for a two-year rate period is

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[50] *See, e.g.*, Meyers, *et al.*, BP-22-E-BPA-22, at 7:25 – 8:2 ("If BPA is able to offer a concurrent loss return service in the BP-22 rate period, a customer taking that service would not be subject to the proposed capacity charge for Delayed Loss Return Services.").

justifiable, particularly when other efforts, such as overcoming the implementation challenges for concurrent in-kind returns could reach a better result for customers.

Any operational difficulties associated with implementing concurrent loss returns are outweighed by the considerable financial impacts that BPA's transmission customers would face if BPA implemented its capacity charge proposal as stated. These charges would be imposed on transmission customers for the first time ever. It is not uncommon for transmission providers to allow concurrent in-kind loss returns. BPA should make best efforts to resolve its software and process difficulties to avoid this financial impact on customers. BPA and its customers should continue to engage on any remaining operational and technical details.

If implemented fairly and properly, concurrent loss return functionality with shaped loss factors could be a win-win solution for BPA and all of its customers. Specifically, if BPA enables concurrent loss returns, then, BPA admits

> it would be unnecessary for BPA to hold capacity to cover the capacity needs that are created when real power losses are returned 168 hours after the loss is incurred. As a result, a capacity charge like the one we are proposing in BP-22 would be unnecessary for a concurrent loss return service.[51]

However, absent concurrent return functionality, transmission customers would face an untenable situation: a new, temporary capacity charge for delayed in-kind returns without any ability to mitigate.

[51] Meyers, *et al*., BP-22-E-BPA-22, at 7:6-10.

Simply put, the case for imposing this unprecedented “capacity” charge on in-kind real power loss returns is as unjustified as it is unsupported by regional practice. Rather than imposing this new and temporary charge, BPA should instead work expeditiously to implement concurrent returns. Joint Party 03 supports these efforts and stand ready to assist where possible.

C. BPA’s Proposal Raises Unresolved Concerns Regarding Potential Over-Recovery for Capacity

Q. Please explain your third main concern—that BPA’s proposal raises unresolved concerns regarding potential over-recovery for capacity.

A. For financial settlement of losses, BPA proposes a capacity rate based on a market-based index plus an adder based on BPA’s embedded capacity cost. Thus, BPA proposes neither a market-based rate nor a cost-based rate for financial settlement of losses, but rather proposes an arbitrary combination of both approaches. BPA has failed to demonstrate that its approach will not over-collect for capacity.

BPA’s proposal for inclusion of a capacity rate for financial settlement of losses raises significant, and unanswered, concerns regarding the potential for over-recovery for capacity. First, and fundamentally, the EIM, and the Powerdex Mid-C Index price for firm power trade in firm energy. It is axiomatic that firm energy sales (i.e., sales at the Powerdex Mid-C Index for firm power or LAP pricing) are supported by dedicated capacity. BPA has itself acknowledged in its response to Data Request PSE-BPA-30-3, “EIM transfers are similar to traditional firm energy, in that once a participating resource is given dispatch instruction, that resource is required to follow them, or face financial consequences."[52]

Second, BPA's proposal also fails to acknowledge that any index, LMP, or LAP price at any given hour above a generator's marginal cost of production will provide a surplus above that unit's dispatch cost. This surplus contributes to the unit's fixed costs. Again, BPA has also acknowledged this, when, in response to the same data request, BPA stated that, "[t]o the extent energy is selected from an energy provider with a marginal cost that is not setting the market's marginal price, that provider would receive a payment in excess of its marginal cost."[53] In the case of BPA—where the marginal production cost is nearly zero—all or nearly all revenues from the EIM should be assumed to contribute to the fixed costs of the underlying units.

BPA has failed to demonstrate that its Initial Proposal has accounted for these disconnects and that it will not over-recover for capacity through the proposed financial "capacity" charge. In light of the above unanswered concerns, it would be inappropriate to adopt this charge, and Joint Party 03 strongly urges against such adoption.

IV. CONCLUSION

Q. Does that conclude your direct testimony?

A. Yes, it does.

[52] Please see the Tenth Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-11, for a copy of the BPA response to Data Request PS-BPA-30-3.

[53] Tenth Exhibit to the Direct Testimony of Joint Party 03, BP-22-E-JP03-11.