



May 25, 2012

VIA EMAIL

Daniel Fischer
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Re: Draft Cost Functionalization Principles

Dear Mr. Daniel Fischer,

At its April 26th Rate Case workshops, BPA requested customer comment on its "Draft Cost Functionalization Principles Applicable for Acquisitions and Services That Benefit Both Power and Transmission Functions." BPA asked for feedback specifically on both the content of the proposed principles, and also whether it should bring the principles through the BP-14 Rate Case. We appreciate BPA's attempt to incorporate customer feedback in its decision-making principles. BPA should not, however, adopt them in the BP-14 Rate Case proceedings. PPC believes that parties will likely not agree to a common set of functionalization principles, especially if they are intended to limit arguments that may successfully be made in all future rate cases. In addition, PPC fears there will only be an increased level of unproductive, burdensome litigation if BPA introduces the functionalization principles in BP-14. Instead of adopting these principles, BPA should determine the assignment of costs between business lines on a case-by-case basis. If however, BPA insists on adopting functionalization principles in the BP-14 Rate Case, we request further opportunity to comment before the rate case begins.

BPA states that the benefit to adopting Functionalization Principles in the BP-14 Rate case is to "provide more certainty to applicable business cases as they are initially developed and tested internally at BPA."¹ Such increased certainty seems to stem from customers agreeing to the principles, thus narrowing arguments or reducing the volume of litigation in future Rate Cases. First, BPA cannot limit the arguments of other parties not present to the BP-14 rate case by establishing principles. Second, it is very unlikely that customers will unanimously agree to functionalization principles that are intended to "pre-decide" cost functionalization or to limit rate or policy arguments that may be made in future rate cases. To the contrary BPA and the customers would undoubtedly spend a very significant amount of time in the summer and fall striving to craft ever more specific language to cover every contingency or, conversely, to craft even more general principles that will not hem in their

¹ Draft –Cost Functionalization Principles Applicable for Acquisitions and Services That Benefit Both Power and Transmission Functions March 31, 2012, Page 1

interests. In either case, we believe that BPA and the customers will be left litigating the proposed principles in the rate case and courts without achieving a satisfactory or defensible result. While PPC appreciates BPA's attempt at streamlining future rate case processes, we are concerned that the principles will instead spur a wave of new litigation over the principles without increasing BPA's certainty.

Even if the principles are not intended to limit future arguments, or parties could agree, it is still unlikely that the principles will provide certainty to BPA. BPA stated it may choose to apply the principles broadly.² In many instances, project and customer-specific details should drive how costs are allocated. If the principles do not preclude customers from advocating that such details should drive cost-allocation, agreeing to general principles does not seem to provide meaningful certainty to BPA and will not save BPA staff (or customer representatives') time. Further, to avoid the risk of a potential precedent being set, parties will likely spend a significant amount of time and resources litigating the general principles in BP-14 regardless.

Overall, customers' and BPA's time is better spent discussing allocation issues on a case-by-case basis. If, however, BPA insists upon adopting functionalization principles in this Rate Case, PPC has concerns about the principles and feels the document needs more time for review and feedback by customers. PPC is concerned with basing cost allocation on benefits, as suggested in principles 6, 7 and 8. There are several classes of benefits, such as benefits to reliability and societal benefits which are difficult to calculate and may be used to push costs across business lines inappropriately. For example, reliability benefits are arguably shared by all interconnected customers. In the future, BPA may choose to construct a resource that happens to unload a congested point in the transmission system. While one customer may drive the need for the new resource, all customers of the interconnected grid could be said to benefit from increased reliability. Whether those other customers needed that upgrade to provide reliable service, however, is another matter. All customers may "benefit" from improved reliability, but they may receive only limited incremental value because additional "reliability" is not needed to meet a standard of reliable service, whether that standard is a reliability regulation or otherwise. With respect to power purchase agreements, energy storage and demand-side management, there maybe be similar situations when functionalizing costs based on general benefits is inappropriate. We wish to discuss our concerns with BPA before the beginning of the Rate Case, should BPA decide to propose these principles in BP-14.

² The principles are intended to first guide the allocation of costs incurred for power purchases, energy storage devices, and demand-side management programs. In the future, however, the principles could extend to other acquisitions and services.

Overall, we appreciate BPA's efforts, but request that BPA not adopt these principles in the BP-14 proceeding. Thank you for this opportunity to comment.

Sincerely,

/s/

Kayce Spear

Policy Analyst

Nancy Baker

Senior Policy Analyst

cc: PPC Executive Committee
PPC Rates & Contracts