Washington state Rep. Jeff Morris (D-Mount Vernon)—who authored House Joint Memorial 4008 earlier this year calling on BPA to eliminate or mitigate the rate—tweeted on June 14, "This was a huge disappointing decision by BPA."

Although HJM 4008 passed unanimously in the House, it stalled in the Senate because budget negotiations took up all available time.

The NW Energy Coalition also expressed disappointment in the BPA decision.

"Despite the existence of this compelling need on both ends of the transmission line and the fact that more than 90 percent of the Montana intertie's capacity is available for subscription," the group said in a release, "developers and utilities are less able to take advantage because the Montana intertie rate tips the scale on the cost-competitiveness of energy from Montana wind."

However, Fred Heutte, NWEC senior policy analyst, tempered this, saying BPA's recent decision to not build the I-5 Corridor Reinforcement Project (CU No. 1800 [10]) was a step "in the right direction" for the Intertie issue.

"For a long time, it looked like BPA would go ahead with building a new power line for the I-5 corridor," Heutte said. "But, ultimately they figured out they could address the challenge more effectively through smarter planning and regional integration. Getting rid of the Montana Intertie transmission rate would be another step in that direction. We hope that, between now and when it makes its final recommendation, BPA will reconsider and let the intertie rate die."

However, Mainzer was confident in his decision to keep the rate in place.

"Consistent with my decision in the BP-16 Rate Case, I have decided to make no changes at this time," Mainzer said, adding that he felt achieving utility-scale development of renewable resources in Montana will require the active engagement of many regional stakeholders.

"To that end, BPA is willing to help establish and actively participate in a thoughtful, cohesive process to address barriers to the development of renewables in Montana," he said.

Opponents of eliminating the rate don't want to have to shoulder the costs of the line, which they say should be paid by those who use it. In addition, they are worried it could set a precedent for other line, particularly the Southern Interie.

The next steps in the process are the filing of a supplemental dROD on a proposed spill surcharge on June 21; the parties' briefs on exceptions on June 30; and publication of the final ROD on July 26. ***[Rick Adair]***

[11] Privatizing Grid a Bad Idea, McCullough Report Says • *from [2]*

Economist Robert McCullough has put numbers to the regional pushback against the Trump administration's May 23 budget proposal to sell BPA's grid, which he says greatly undervalues the system, would increase costs for consumers and would likely raise steep regulatory hurdles.

"Politicians, industry groups, and ratepayers are correct to criticize this proposal," McCullough said in a report released June 13.

The report noted that the proposed $4.9 billion in revenues the divesture would raise (CU No. 1801 [16]) is only about 80 percent of the system's value, based on BPA's 2016 Annual Report, which cites the system's original cost at around $9.1 billion with an accumulated depreciation of nearly $3.0 billion, putting its depreciated value at $6.1 billion.

"This raises the question of why these valuable assets would be sold at a discount—and who would get the benefit of the discounted price," the report said. "If the sale goes through, this will also raise novel regulatory issues."

In the report, McCullough estimates that privatizing BPA's grid could increase transmission rates 26-44 percent, "which would be passed directly to both industrial and residential consumers."

It is unclear how the sale would impact the regulatory value of the transmission assets, he said. Any private buyer would include a regulated rate of return on the investment. If the value is maintained at $6.1 billion, he said, the sale would increase transmission rates by an estimated 44 percent, with a fiscal year 2019 rate impact of $475 million.

If, on the other hand FERC, for example, lowered the rate base to the $4.9 billion value, transmission rates would increase by 26 percent.

The White House has twice before proposed selling off BPA and the other power marketing administrations (Southeastern, Southwestern and Western Area), under Presidents Ronald Reagan and Bill Clinton, McCullough said.

And Congress has frequently tried as well. The lawmakers passed legislation in 1995, in fact, to sell Alaska Power Administration.

Also, a 1997 Congressional Budget Office study commissioned by the House Budget Committee, controlled by Republicans at the time, estimated the value of BPA's grid at $3.2 billion, which works out to about $4.9 billion when adjusted for inflation, although it isn't clear whether this is the source for the 2018 budget's valuation.

Attempts to dismantle any of the other PMAs have always been fended off by regional bipartisan solidarity, such as the letters of protest sent last week by House and Senate members to Energy Secretary Rick Perry (CU No. 1803 [16]).

McCullough also noted that the "very nature of electric transmission makes it ill-suited for privatization," because transmission and distribution "constitute a natural monopoly, since they are most efficiently performed by a single transmission line or network of lines in a given area."

In contrast, he says, selling BPA's transmission assets "would create smaller private monopolies in its footprint, and thus not yield efficiency gains. Fragmentation of transmission ownership in the region could lead to disruptions in the Northwest transmission system as a whole."

Also, McCullough said, the sale of the backbone of the region's transmission system would pose "unique challenges" in the area of market power.

Because the country's largest electric market hub lies within the BPA transmission system, he said, the "temptation for the new owner to profit from transmission schedule information or by restricting transmission" would be "enormous."

And while FERC has tools to combat market power in such cases—Order 888, in particular—transmission violations of the market-power rules have been frequent, he said.

He also notes that even with Order 888, a number of issues regarding transparency, market share and efficiency would need to be addressed before privatization could be approved.

"These issues go beyond the structure of FERC market surveillance," he said "and would require a massive change in current regulations." ***[Rick Adair]***

Courts & Commissions

[12] Avista Proposes Spreading Idaho Rate Increase Over Two Years • *from [3]*

Avista asked the Idaho PUC on June 9 to approve increases in its electric and natural gas base rates over two consecutive years to recover costs related to power supply and to infrastructure, system maintenance and technology, the company said.

The proposal would also establish a "stay-out" period in which Avista would not file a new general rate case with an effective date earlier than Jan. 1, 2020. This would provide customers "with some predictability in their expected future energy prices," the company said in its filing.

In the same vein, Avista noted it would not update base power-supply costs in the second year of its plan, but would instead have any differences "flow through the power cost adjustment mechanism."

Also, Avista plans to replace a current $2.7-million customer rebate stemming from the 2015 general rate case with a $1.5-million rebate in 2018, for a net billed increase of about $1.2 million.

To meet customer expectations, Scott Morris, Avista chair, president and CEO said in a release, "We're continually investing in our systems in an effort to maintain reliability and deliver value, at a reasonable cost for customers."

The investments include rehabilitation and maintenance of generating plants and distribution and transmission infrastructure necessary to serve customers, Morris said. Avista's rates are cost-based, he said, so when the company replaces equipment, the costs are many times more expensive today than when the original items were purchased.

"This is a primary reason for the request to increase rates," he noted.

If approved, electric rates would rise $18.6 million, a 7.9-percent increase, beginning Jan. 1, 2018, and go up $9.9-million, a 4.2-percent increase, effective Jan. 1, 2019, for an overall $28.5-million, 12.4-percent increase *[AVU-E-17-01]*.

Natural gas rates would increase by $3.5 million, or 5.7 percent, beginning Jan. 1, 2018, and $2.1 million, or 3.3 percent, effective Jan. 1, 2019, for an overall $5.6-million, 9.0-percent increase *[AVU-G-17-01]*.

Under the proposed increases, the monthly electric bill of an average residential customer using 910 kWh would increase $7.03 in 2018, from $86.39 to $93.42. In 2019, the bill would increase $4.02, to $97.44.

The monthly natural gas bill of an average residential customer using 61 therms would increase $3.37 in 2018, from $51.10 to $54.47. In 2019, the bill would increase $2.07, to $56.54.

Both cases include a 25-cent increase in the monthly base charge of $5.75.

The rate requests are based on a proposed rate of return of 7.81 percent with a common equity ratio of 50 percent and a 9.9-percent return on equity, Avista said.

Avista serves more than 128,200 electric customers in Idaho. The IPUC has up to nine months to review the rate request.

The multiyear rate increases and the stay-out period mirror the rate request the utility filed in Washington two weeks earlier, although in that case the increases were spread over three years (CU No. 1802 [13]).

Both filings seek revenue to cover investments that include major upgrades at the 32-MW Little Falls and 36-MW Nine Mile hydro projects; generator maintenance at the 51-MW Kettle Falls biomass plant; and ongoing replacement of older natural gas distribution pipes.

Other investments focus on the transmission and distribution system and asset maintenance, such as wood pole replacements, feeder upgrades, and substation and transmission line rebuilds to maintain reliability. ***[Rick Adair]***

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