WRAP
POWERED BY WPP

Western Resource Adequacy Program

RAPC Meeting

April 14, 2022 10am-12pm

Participant	Name	Participant	Name
APS	Brian Cole	NorthWestern	Joe Stimatz
Avangrid		NV Energy	
Avista	Scott Kinney	PacifiCorp	Mike Wilding
Basin Electric	Garrett Schilling	PGE	Sarah Edmonds
Black Hills		Powerex	Mike Goodenough
BPA	Rachel Dibble	PSE	Phil Haines
Calpine	Mark Smith	SRP	Grant Smedley
Chelan	Shawn Smith	Seattle	Emeka Anyanwu – joined at 10:16
Clatskanie	Paul Dockery	Shell	Ian White
Douglas	Jeff Johnson	SnoPUD	Jeff Kallstrom
EWEB	Matt Schroettnig	Tacoma	Ray Johnson
Grant	Rich Flanigan	TEA	Ed Mount
Idaho	Ben Brandt – joined at 10:12	TID	

Objectives

1. Provide the RAPC with updates on project progress.
2. Seek RAPC input on progress and any administrative actions

Meeting Agenda

Call to Order	
10:00	1. Attendance 2. Agenda Overview *Request to add a brief item on adding discussion of QCCs for ESR to tariff sections* *Agenda approved unanimously as amended at 10:09* 3. Approve Minutes from last meeting *Motion to approve minutes unanimously accepted at 10:10*
PA/PO Report	
10:10	4. Tariff Timing *Discussion of in-person meeting week of May 16*
	5. PO Update *No updates provided*

External Affairs	
	No updates
Ongoing Business	
10:26	6. Cost Allocation *Motion to approve proposal* *Discussion on proposal* *Proposal approved unanimously as amended at 11:11*
New Business	
11:15	7. Tariff Topics *Discussion of QCC methodology for ESR*
Upcoming	
11:32	8. Recommendations from RAOC on Punchlist items 9. WRAP tariff review
Adjourned at 11:34	

Current 3A Participants: APS, Avangrid; Avista; Basin Electric*; Black Hills; BPA; Calpine; Chelan; Clatskanie*; **Douglas**; EWEB*; Grant*; Idaho Power; NorthWestern; NV Energy; PacifiCorp; PGE; Powerex; PSE; SRP; SCL; Shell; SnoPUD; Tacoma Power; TEA; TID

*opted out of OC/work group participation

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Western Resource Adequacy Program
Cost Allocation and Cost Control – DRAFT Proposal

Steve Bellcoff, Edison Elizeh - BPA	Andrew McLain - NorthWestern
Ray Johnson - Tacoma	Jeff Johnson - Douglas
Mark Holman – Powerex	Rebecca Sexton, Ryan Roy, Lisa Hardie - WPP
Matt Binette, Paul Flynn – W&T	

Background

To set a budget for Phase 3A it was necessary to determine how to allocate the program costs. These costs included both the fixed costs of Program Coordination Services and the estimated costs for binding program preparation (Binding Program Preparation Services). Although there was some limited ability to opt-out of the Binding Program Preparation Services the general cost allocation strategy was based on allocating 50% of costs to participants on a pro-rata basis and allocating 50% of costs to participants based on an estimate of their P50 as a percentage of the total estimated P50s. This is referred to as a senate / house style of cost allocation.

Although this strategy was sufficient for Phase 3A, there have been several issues identified that may make it less suitable for Phase 3B.

1. The Phase 3A per-participant cost was seen as a barrier to participation for smaller entities and may be viewed by FERC as an undue barrier to program participation.
    a. Given the voluntary nature of the program, this type of cost barrier must be considered in light of the business cases all participants will be considering when deciding to join.
    b. This may be addressed either through cost allocation or through the ways in which a small entity might participate through alternative participations arrangements (aggregation)
2. The allocation of fixed costs was not backed by a cost causation methodology where costs generally caused by all participants equally were divided equally (FERC's cost causations requirements are discussed in greater detail in the next section).
    a. Even under a cost causation approach it is believed that because of the uniqueness of the program a very broad range of fixed cost from near-zero to the majority of the costs could be reasonable and justifiable.
3. The resulting per-participant payment is higher than is seen in other like programs although given the size and nature of the program this may well be justifiable at FERC.
    a. Note that most other programs involve many more participants to share costs; examples of RTO/ISO cost structures with costs split amongst hundreds of entities are challenging to apply to a program with participation on the order of 20-40 participants.

Ultimately, the RAPC would like to revisit whether the appropriate balance has been struck between fixed costs, variable costs, impacts to senate voting when fixed costs are very small and impacts to program viability when variable costs are relatively high (given the high concentration of load in a small number of participants)

FERC Requirements

In general FERC's cost causation principle requires the Commission to ensure that the costs allocated to a beneficiary under a cost allocation method are at least roughly commensurate with the benefits that are expected to accrue to that entity. Or said slightly differently, there is a duty of "comparing costs assessed against a party to the burdens imposed or benefits drawn by that party."[1] In the case of the WRAP, cost causation would be based on the costs incurred by the program because of the entity's participation (burden imposed).

There is some flexibility as under the cost causation principle, "it has been traditionally required that all approved rates reflect to some degree the costs actually caused by the customer who must pay them."[2] The courts, recognizing that cost allocation is "not a matter for the slide rule,"[3] have never "required a ratemaking agency to allocate costs with exacting precision;"[4] rather, "the cost allocation mechanism must not be 'arbitrary or capricious' in light of the burdens imposed or benefits received."[5]

Cost Control

FERC-Filed Rates

As part of the WRAP Tariff, the WPP will include maximum rates for participation in the program. These rates will be Conservatively high rates covering all potential charges for participation; this will effectively give participants a 'not-to-exceed' for their organization when signing the Western Resource Adequacy Agreement (WRAA). The WPP will track actual costs and will true up actual costs to the filed costs on a quarterly basis.

Changing the rates filed with FERC will necessitate a 205 filing by the WPP board and would not be done with any regularity. In the case that rates must be updated/increased, WPP would notice of the likely increase with sufficient notice for participants to exit the program through the standard exit provisions prior to a maximum rate increase if at all practicable.

Annually, WPP will provide participants two-year forward estimates of rates, budgets, and contingencies based on available information for use in planning and decision-making.

Budget Approval

[1] Id. at 476, 477, (citing Midwest ISO TOs v. FERC, 373 F.3d at 1368).
[2] KN Energy, Inc. v. FERC, 968 F.2d 1295, 1300 (D.C. Cir. 1992) (KN Energy).
[3] Colorado Interstate Gas Co. v. FPC, 324 U.S. 581, 589 (1945)
[4] Midwest ISO Transmission Owners v. FERC, 373 F.3d 1361, 1369 (D.C. Circuit 2004) (Midwest ISO TOs v. FERC) (citing Sithe/Independence Power Partners, L.P. v. FERC, 285 F.3d 1 (D.C. Cir. 2002)).
[5] d. at 1369. See also Alcoa Inc. v. FERC, 564 F.3d 1342 (D.C. Cir. 2009) (in ratemaking matters, the court's review is highly deferential since issues of rate design are fairly technical and, if not technical, involve agency policy judgments) (Alcoa Inc.).

Ultimate authority for the WRAP budget will fall to the WPP Board of Directors, which will approve a budget for the program annually. The total budget for the WRAP will necessarily fall below the amount owed by all current WRAP participants per the FERC-filed rates.

Preparation of the budget will be managed by WPP staff with support from the PO for technical costs.

The RAPC will be provided the proposed budget in advance of BOD review and approval. RAPC will review the budget in an open RAPC meeting with opportunity to comment by all stakeholders (as with all RAPC meetings, materials will be posted in advance of RAPC meetings to ensure public has opportunity to review and prepare comments). RAPC will take an advisory vote on the proposed budget prior to the BOD reviewing and approving the budget; the outcome of the RAPC advisory vote will be shared with the BOD as they consider the proposed budget. Participants may also elect to speak at the BOD's meeting to review the WRAP budget, or to provide written comment on the budget for BOD consideration.

All proposed design changes and updates will include cost estimates and resource implications, such that when RAPC is considering updates participants understand the likely impact of such a change to the overall cost of the program.

Cost Allocation Methodology

Costs will be allocated to participants in one of two ways:

- Costs generally caused by all participants equally (i.e. those for which the services generally benefit all participants equally) will be divided equally on a per-participant basis.
- All other costs will be split amongst participants based on their share of the total regional P50 noncoincidental peak load (as a proxy for the participants' level of participation and corresponding diversity benefits derived).

Each of these two rates would be filed with FERC within the WRAP tariff.

Assigning Costs

Program cost centers will be assigned to one of the two categories; the WRAP tariff formula rate will rely on such assignments. Generally, costs for participant facilitation and engagement (e.g., facilitation of RAPC meetings, onboarding of new participants, maintenance of documentation and program interfaces, participant trainings) will be allocated equally to each participant. All other costs (e.g., modeling, forward showing program design and workbook review, Operations Program operations, non-participant committee facilitation, BOD engagement on WRAP issues) will be allocated to participants based on their share of the regional P50 load.

Example Cost Allocation

Important: these costs are illustrative. The figures came partially from the 3A Implementation Plan (and then were rounded) and should serve only as example. Budgets will later be discussed in greater detail.

Budget Estimates: post-implementation	Cost per year	Notes	Equal Per-Participant	% Share of P50
WPP				
Program Management (non-participant)	$750k	Stakeholder engagement, external communications, PRC management		✓
RAPC Management, participant engagement	$1M	RAPC facilitation, analytics and support of participants	✓	
WRAP portion of BOD costs	$350k	BOD salaries, facilitation, travel	50%	50%
SPP				
Staffing	$1.8M	FS and Ops program staff		✓
Technology	$200k	Programs to run FS and Ops Programs		✓
Overhead	$1.2M			✓
Legal				
In-house	$300k			✓
FERC Attorney	$100k			✓
Independent Evaluator				
Personnel	$300k	Annual assessment		✓
Total	$6M			

Assuming this (*roughly estimated!*) budget and approximately the same participation in future phases of the program as in Phase 3A (26 participants and about 65,000 MW of peak load), costs would be approximately $40k per participant plus $77/MW of peak P50 load. Example cost profiles are provided below:

Peak P50 Load	Example, Approx Annual Payment
250MW	$60k
1,000MW	$120k
2,500MW	$230k
7,500MW	$620k
12,000MW	$960k

Default Cost Recovery

In the case where a participant defaults on funds owed to WPP (administrative costs) as a non-profit without significant reserves to draw upon, WPP must have the ability to recover such costs from other program participants. If a participant is in breach of its payment obligation, WPP will notify the participant and provide an opportunity to remedy the issue. If the participant does not remedy (and they and WPP are not in dispute resolution), the WPP BOD may move to collect via appropriate collections/legal actions. The defaulting participant will be responsible for costs associated with these actions.

While legal actions are undertaken, the WPP will allocate the unpaid administrative expenses to non-delinquent participants, using a % share in alignment with the cost allocation methodology described. If costs are later recovered, they will be credited back to participants, less the cost of collection (if the debt is not fully recovered).