

Date: July 20, 2012
To: Tech Forum (techforum@bpa.gov)
From: Henry Tilghman
Tilghman Associates
hrt@tilghmanassociates.com
Re: BPA Credit Requirements: Proposed Changes

On behalf of EDPR, Tilghman Associates offers the following comments to BPA's proposed changes to customer credit requirements.

INTRODUCTION

First, I would like to thank BPA staff for their presentation and written materials. BPA's exposure to delinquent customer payments and its decision to extend unsecured credit to certain classes of customers are significant issues worthy of careful consideration.

EDPR does not offer any comments on BPA's criteria for offering unsecured credit or its proposal to increase its maximum unsecured credit limits.

PROPOSAL TO INCREASE SECURITY REQUIREMENTS

EDPR is concerned with BPA's proposal to require increased security from customers who do not qualify for unsecured credit. (BPA's presentation suggests that requiring customers to provide increased security to BPA is a change to its credit requirements. This is a misnomer; BPA is expressly not providing credit to these customers. There is no outstanding unpaid balance -- secured or unsecured -- for services that have already been provided. Rather BPA is proposing to increase the security from customers to guarantee payment for future services)

As a preliminary matter, it is not clear that BPA's existing security requirements for customers, however, are inadequate. While BPA indicated that the number of customers who will need to provide security is expected to increase, that alone seems an inadequate reason to increase security for all customers. No single customer is more (or less) likely to become delinquent on payments simply because the number of customers is increasing. Anecdotally, BPA cited instances of customers who were delinquent on payment of their transmission bills. While late payment of customers is an occasional unfortunate element of commercial activity, it is significant that BPA staff did not report delinquent payments significant enough to warrant termination of the customers' contracts or that BPA suffered any actual financial impacts.

It is also noteworthy that BPA's benchmarking efforts did not reveal a large number of other transmission providers who impose significant security requirements on customers. BPA identified a single transmission provider who requires a deposit in the amount of five months of service; and one transmission provider who requires a deposit in the amount of four months of service (but only if a customer fails to prepay on time). But most transmission providers do not specify a security commitment from customers -

if they even require a security commitment at all. BPA's proposal to require customers to post a deposit of an amount equivalent to five months of service is not a standard for the industry. In the absence of demonstrated financial impacts to BPA, it seems unnecessary for BPA to match the single transmission provider with the most stringent security requirement in the industry.

EDPR does not object to BPA periodically re-evaluating its security requirements. Nor does EDPR object to BPA requiring customers to post reasonable security for service. EDPR does question, however, whether BPA is justified in increasing deposit requirements to the equivalent of five months of transmission service for all customers.

BPA's proposal focuses only on increasing customer deposits without exploring other ways to reduce BPA's exposure to customer non-payment. In its current credit requirements, BPA allows customers to amend their contracts to shorten BPA's exposure limit. BPA's proposal to modify its security requirements, however, appears to abandon this mechanism. BPA should consider modifications to its contracts to reduce its exposure to customer non-payment - presumably by accelerating provisions for contract termination in the event of non-payment as an alternative to larger security deposits.

Another mechanism that BPA does not appear to have considered is requiring higher deposits from customers who have fallen behind on their payments. BPA could require higher deposits from customers who have demonstrated difficulty in paying their bills without requiring that level of security from all customers.

Through the Large Generator Interconnection Process, some transmission customers have advanced (or will advance) significant funds for construction of network upgrades for which they will receive credits against their transmission bills. It is counterintuitive to require customers with a credit balance which BPA is obligated to return over time to provide additional deposits for transmission service. For customers who have advanced funds for Network Upgrades and who have an LGIA credit balance, BPA should consider waiving the security requirements or allowing those customers some mechanism to apply their credit balance to the deposit requirements.

TRANSITION ISSUES

If BPA does increase its security requirements for transmission customers, BPA should handle the transition carefully. Customers have planned their budgets and cash-flow based on BPA's current security requirements. BPA must be sure that customers have adequate time to prepare to meet the the additional security requirements (whether they post a letter of credit or cash deposit). BPA should avoid a scenario where customers who are meeting their current obligations for security and pre-payment are pushed into a default because they temporarily cannot meet BPA's proposed more stringent requirements. Neither BPA nor its current customers will benefit if the new security requirements accelerate terminations of current transmission contracts - or future NOS contracts.

CONCLUSION

EDPR does not dispute that BPA should periodically re-evaluate its credit and security requirements. Nor does EDPR necessarily disagree that BPA should request customers post additional security. EDPR does believe that the requirement for all customers to post a security deposit equivalent to five months service is an excessive cost on customers and is unnecessary to mitigate BPA's exposure to non-payment.

EDPR urges BPA to consider the suggestions listed above as alternative ways to limit BPA's exposure without requiring customers to post security in the magnitude of BPA's proposal. EDPR also urges BPA provide customers with sufficient notice of any new security requirements to allow them sufficient time to plan how to meet them.