THE RECORD:

BONNEVILLE POWER ADMINISTRATION'S

1990

PROPOSED EXTENSION OF THE

INDUSTRIAL FIRM POWER - PRIORITY FIRM POWER

RATE LINK METHODOLOGY

PROCEEDING

(IP-PF-90)

This Volume contains the Index and the Record of the 1990 Proposed Extension of Bonneville Power Administration's Industrial Firm Power - Priority Firm Power Rate Link Methodology

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Bonneville Power Administration

U. S. Department of Energy

INDEX TO THE RECORD

BONNEVILLE POWER ADMINISTRATION

PROPOSED EXTENSION OF THE

INDUSTRIAL FIRM POWER - PRIORITY FIRM POWER

RATE LINK METHODOLOGY

PROCEEDING

(IP-PF-90)

IP-PF-90-I-01

Index to the Record of the
Proposed Extension of the
Industrial Firm Power - Priority Firm Power
Rate Link Methodology
Proceeding

Bonneville Power Administration

U. S. Department of Energy

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The record : Bonneville Power
Administration's 1990 proposed extension
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Note to the Index

This index is divided into three sections. The first section contains a brief description on how to use the index, an explanation of the document numbering system and a list of document and party designation codes. The second section contains a list of all documents included in the official record organized in roughly chronological order by document designation code beginning with the Federal Register notice. The third section of the index contains documents listed alphabetically by party designation code or author.

The document designation code for the Index is IP-PF-90-I-01. This volume incorporates the Index, paginated from I-1 to I-16, and contains the official record of the Industrial Firm Power - Priority Firm Power Rate Link Methodology Proceeding (IP-PF-90). The record begins with the Federal Register Notice on page 1, and ends with the Service List.

John D. Ciminello, Hearing Clerk
November 23, 1990

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SECTION I. - HOW TO USE THIS INDEX

DOCUMENT NUMBERING SYSTEM
Industrial Firm Power - Priority Firm Power
Rate Link Methodology
Proceeding
IP-PF-90

Sample of a document designation code:

IP-PF-90-E-PA-01
(1) (2) (3)

The code consists of three components: (1) the BPA rate proceeding code, (2) the subject matter of the document, and (3) the party code.

(1) The first component, IP-PF-90 (in the sample above), indicates that the document is part of the record of Bonneville Power Administration's 1990 IP-PF Rate Link Methodology Proceeding.

(2) The second component, E (in the sample above), identifies the subject matter of the document. For instance, E represents all documents categorized as exhibits, studies, testimony, etc.. For a complete list of document types see attached Document Designation Codes (page 5).

(3) The third component, PA-01 (in the sample above), identifies the party and the numerical order of each document submitted. For instance, PA represents the Association of Public Agency Customers (APAC). The 01 designates that this document is the first exhibit submitted by the party. All party designations are listed on the attached Party Designation Codes (page 6), and Party Designation Code Index (page 6).

In sum, the code identifies the proceeding, the subject matter, the party, and the numerical order of the document submitted.

DOCUMENT DESIGNATION CODES

A	Final Documents A-01 Draft Record of Decision A-02 Hearing Officer's Certification of the Record A-03 Administrator's Final Record of Decision
B	Initial Briefs
E	Exhibits, Studies, Testimony
FR	Federal Register Notices
H	Hearing Schedules - Letters and Documents
I	Index
M	Procedural Matters - Motions to Strike, Responses thereto, Notices and Memoranda
O	Orders
PR	Informational Mailings
Q	Qualification Statements
R	Briefs on Exceptions
S	Party Status - Letters and Documents
TA	Transcripts of Oral Arguments
TE	Transcripts of Cross Examination
TPH	Transcripts of Prehearing Conference
W	Public Comments and Reply Comments

PARTY DESIGNATION CODES

BPA	Bonneville Power Administration
DS	Direct Service Industries (DSIs)
HC	Hearing Clerk
HO	Hearing Officer
PA	Association of Public Agency Customers (APAC)
PL	PacifiCorp
PP	Public Power Council (PPC)
PS	Puget Sound Power & Light Company
WA	Western Public Agencies Group (WPAG)

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IP-PF-90-S-PA-01	07/24/90	Petition to Intervene of Association of Public Agency Customers (Boise Cascade Corp., International Paper Corp., James River Corp., Longview Fiber Co., Occidental Chemical Corp., Pennwalt Corp., Scott Paper Co., Simpson Timber Co., The Boeing Company)	Page 20
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S - PARTY STATUS, LETTERS AND DOCUMENTS
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Q - QUALIFICATION STATEMENT

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PL - PACIFICORP

IP-PF-90-S-PL-01	07/20/90	Petition to Intervene of PacifiCorp, dba Pacific Power & Light and Utah Power & Light	Page 21

PP - PUBLIC POWER COUNCIL

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WA - WESTERN PUBLIC AGENCIES GROUP

IP-PF-90-S-WA-01	07/24/90	Petition to Intervene of Western Public Agencies Group (Canby Utility Board, Clallam PUD, Clark County PUD, Elmhurst Mutual Power & Light Co., Grays Harbor PUD, Lewis County PUD, Mason County PUD No. 1, Mason County PUD No. 3, Pacific County PUD, Parkland Light & Water Co., Peninsula Light Co., Ohop Mutual Light Co., Lakeview Light & Power, Snohomish County PUD, City of Ellensburg, Wahkiakum County PUD)	Page 30

FR - FEDERAL REGISTER NOTICE

U.S. DEPARTMENT OF ENERGY

Bonneville Power Administration

IP-PF Rate Link Extension and
Opportunity for Public Review and Comment

AGENCY: Bonneville Power Administration (BPA), DOE.

ACTION: Notice of opportunity for review and comment. BPA File No: IP-PF-90. BPA requests that all comments and documents intended to become part of the official record in the extension of the Industrial Firm Power (IP)-Priority Firm Power (PF) Rate Link (Link) contain the file designation IP-PF-90.

SUMMARY: BPA proposes to extend the IP-PF Link which is the methodology establishing the formal relationship between the rates charged to BPA's direct-service industrial (DSI) customers and the rates charged to BPA's public body and cooperative (preference) customers required by Section 7(c)(2) of the Pacific Northwest Electric Power Planning and Conservation Act (Pacific Northwest Power Act). The Link was instituted in 1986 and will expire with the current rates. The Link has achieved the goals of enhancing BPA's revenue stability and resource planning certainty by achieving greater rate predictability for the DSIs and reducing controversy in rate cases for all customers. In order to continue these benefits, BPA proposes to extend the use of the link methodology through rate periods commencing on or before the termination date of the Variable Industrial (VI) rate contract or September 30, 1995, whichever is later.

Responsible Official: Mr. Sydney D. Berwager, Director, Division of Contracts and Rates, is the official responsible for the development of BPA's wholesale power and transmission rates.

DATES: Persons wishing to become a party to the proceedings must notify BPA in writing of their intention to do so in accordance with requirements stated later in this notice. Petitions to intervene must be received by July 24, 1990, and should be addressed as follows: Honorable Dean F. Ratzman, Hearing Officer, c/o John Ciminello - APR, Hearing Clerk, Bonneville Power Administration, P.O. Box 12999, Portland, Oregon 97212. In addition, a copy of the intervention must be served on BPA's Office of General Counsel - APR, P.O. Box 3621, Portland, Oregon 97208.

BPA will prefile the testimony of its witnesses on July 19, 1990. Copies will be available in BPA's Public Information Center and will be mailed to all parties to BPA's 1989 general rate proceeding and to others who so request.

A prehearing conference will be held before the Hearing Officer at 9:30 a.m. on July 26, 1990, in the BPA Hearing Room, Room 223, 1002 NE. Holladay, Portland, Oregon. Registration for the prehearing conference will begin at 8:30 a.m. At the prehearing conference, the Hearing Officer will rule on all intervention petitions and oppositions to intervention petitions, establish additional procedures, establish a service list, establish a procedural schedule, and consolidate parties with similar

interests for purposes of filing jointly sponsored testimony and briefs, and expediting cross-examination. A notice of the dates and times of the hearings will be mailed to all parties of record. Objections to orders issued by the Hearing Officer at the prehearing conference must be made at the prehearing conference in person or through a representative.

The following proposed schedule is provided for informational purposes. A final schedule will be established by the Hearing Officer at the prehearing conference:

July 19, 1990	BPA direct case filed. Available at BPA's Public Information Center, 905 NE. 11th, 1st Floor, Portland, Oregon.
July 24, 1990	Deadline for petitions to intervene.
July 26, 1990	Prehearing conference to set schedule and act on petitions to intervene. A clarification session, if necessary, may be scheduled.
August 13, 1990	Parties' direct case and rebuttal to BPA direct testimony filed.
August 29, 1990	Litigants' rebuttal to parties' testimony filed.
September 5-6, 1990	Cross examination.
September 25, 1990	Draft Record of Decision.
October 17, 1990	Final Record of Decision.

ADDRESSES: Written comments should be submitted to the Public Involvement Manager - ALP, Bonneville Power Administration, P.O. Box 12999, Portland, Oregon 97212.

FOR FURTHER INFORMATION CONTACT: Mr. Paul Hansen, Public Involvement office, at the address listed above or at 503-230-3478. BPA has toll-free numbers available: Oregon callers may use 800-452-8429; callers in California, Idaho, Montana, Nevada, Utah, Washington, and Wyoming may use 800-547-6048. Information may also be obtained from:

Mr. George E. Gwinnutt, Lower Columbia Area Manager, Suite 243, 1500 NE. Irving Street, Portland, Oregon 97232, 503-230-4551.

Mr. Robert N. Laffel, Eugene District Manager, Room 206, 211 East Seventh Street, Eugene, Oregon 97401, 503-687-6952.

Mr. Wayne R. Lee, Upper Columbia Area Manager, Room 561, West 920 Riverside Avenue, Spokane, Washington 99201, 509-353-2518.

Mr. George E. Eskridge, Montana District Manager, 800 Kensington, Missoula, Montana 59801, 406-329-3060.

Mr. Ronald K. Rodewald, Wenatchee District Manager, Room 307, 301 Yakima Street, Wenatchee, Washington 98801, 509-662-4377, extension 379.

Mr. Terence G. Esvelt, Puget Sound Area Manager, Suite 400, 201 Queen Anne Avenue, Seattle, Washington 98109-1030, 206-442-4130.

Mr. Thomas V. Wagenhoffer, Snake River Area Manager, 101 West Poplar, Walla Walla, Washington 99362, 509-522-6225.

Mr. Richard J. Itami, Idaho Falls District Manager, 1527 Hollipark Drive, Idaho Falls, Idaho 83401, 208-523-2706.

Mr. Thomas H. Blankenship, Boise District Manager, Room 494, 550 West Fort Street, Boise, Idaho 83724, 208-334-9137.

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III. Relevant Statutory Provisions
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I. Background

A. History of the IP-PF Rate Link

In the early 1980's the amount of electric power demanded by BPA's DSI customers, particularly the aluminum plants, fluctuated dramatically. The changing demand for power caused problems for BPA and introduced uncertainty about BPA's resource planning, financial strength, and rate stability.

The Pacific Northwest Power Act required a change in the way rates to the DSIs were set after 1985. Section 7(c)(2) of the Act specifies that after July 1, 1985, the DSI rate shall be based upon the Administrator's applicable wholesale rates to public body and cooperative customers, and the typical margins included by these customers in their retail industrial rates. In the calculation of the DSI rate, other factors are to be taken into account, such as comparative character and size of the loads served, the relative cost of electric capacity, energy, transmission and related delivery facilities, and other service provisions as well as direct and indirect overhead costs. Given the complexity of the legislated provisions, it became clear that there was a need for a long term formula to formalize the link between the PF rate and the rate(s) applicable to the DSIs.

The issue of the DSIs' long-term viability was raised during the development of BPA's 1985 wholesale power rates. The DSIs argued that predictable and stable rates were necessary for them to make long-term investment decisions. The BPA Administrator recognized a need to establish a

formula for the link between the IP and PF rates in some formal, long-term fashion, to provide the DSIs with rate certainty for planning investments, and to reduce the contentiousness of future BPA rate cases. Such a long-term formula link was not established in the 1985 rate proceeding, but the Administrator pledged "to facilitate the development and adoption of a long-term policy" to link the two rates. 1985 Administrator's Record of Decision (ROD), WP-85-A-02, 245.

In 1985, BPA concluded an analysis of mid- to long-term policy and rate options available to the Administrator to address the problems caused by fluctuations in the DSI demand for electricity. The DSI Options Study announced BPA's decision to initiate a formal rate hearing to consider the design of a long-term link between rates to the DSIs and rates to BPA's preference customers.

In 1985 and 1986, a formal rate hearing was conducted and an IP-PF Link was developed based on the results presented in the Final 1985 Section 7(c)(2) Industrial Margin Study and the Final 1985 Wholesale Power Rate Design Study. The link methodology was first used in establisning the 1987 rates.

B. Development of the 1986 Link

For BPA's 1985 rate proposal, BPA developed methodologies for determining the IP rate according to the post-1985 rate directives contained in the Pacific Northwest Power Act. Section 7(c)(2) of the Pacific Northwest Power Act provides that beginning July 1, 1985, BPA's DSI rates are to be set at levels that are determined to be equitable in relation to the rates public agencies charge their industrial customers. 16 U.S.C. §839e(c)(2). The DSI rate is based on the applicable BPA wholesale rates to public agency customers and takes into account the typical margin included by these customers in their retail industrial rates. The DSI rates are also to be adjusted by a value of reserves (VOR) credit. The VOR credit accounts for the value of power system reserves provided through contractual rights which allow BPA to restrict portions of the DSI load.

In developing the 1985 rates, BPA calculated a value of reserves credit and, for the first time, a typical retail industrial margin. Two levels of the margin, the Premium and the Standard margin, were calculated. The Premium margin reflects contract service to the DSIs. It is available to a DSI that does not waive its contractual rights to first quartile service with Surplus Firm Energy Load Carrying Capability (FELCC). BPA calculated the Premium margin to be 2.82 mills per kilowatthour (kwh).

The Standard margin reflects a quality of service to the first quartile for which a DSI waives its contractual rights for first quartile service with Surplus FELCC; thus, service is dependent on nonfirm energy availability and provisional drafts. The Standard margin (2.28 mills per kwh) equals the Premium margin (2.82 mills per kwh) less a character of service adjustment (0.54 mills per kwh) to reflect a quality of service dependent on water conditions.

A value of reserves analysis also was prepared for the 1985 BPA rate filing. The VOR analysis quantifies the benefit resulting from BPA's

contractual rights to restrict the DSI load by examining the most feasible, least-cost alternatives to providing these reserves. The value of reserves credited for the 1985 rate filing was 1.90 mills per kwh.

The IP-PF Link is a formula composed of two components: (1) the net Premium and net Standard margins; and (2) an inflation adjustment. The net Premium and net Standard margin equal the Premium and Standard margin, respectively, less the value of reserves credit. Therefore, the net Premium margin is 0.92 mills per kwh (2.82 mills per kwh less 1.90 mills per kwh). The net Standard margin is 0.38 mills per kwh (2.28 mills per kwh less 1.90 mills per kwh). For the relevant rate test period, the net margins are adjusted by an inflation factor based on the latest Gross National Product (GNP) implicit price deflators.

The link methodology also provides a statement of terms and conditions regarding adjustment clauses and quality of service. First, DSIs purchasing power under the IP and VI rate schedules will be subject to all adjustment clauses, surcharges, or credits uniformly applicable under the PF rate schedule and, if applicable, the New Resource rate schedule. Second, for the duration of the Link, BPA will continue to make available to the DSIs the qualities of service specified in section 6 of the Variable Rate Contract. Section 6 provides that the DSIs will receive Base Rate Service, which is contract service to the first quartile, unless the customer selects Discounted Rate Service.

C. Proceedings before BPA and FERC

On July 2, 1986, BPA published in the FEDERAL REGISTER a notice describing the proposed IP-PF rate link methodology and commencing a rate proceeding pursuant to section 7(i) of the Pacific Northwest Power Act. 51 FED. REG. 24,197 (1986). A hearing officer conducted the rate proceeding, providing parties an opportunity to present direct cases, rebuttal, cross-examination, and submission of briefs. Comments on BPA's proposal were received from five participants. BPA issued a draft ROD in September, 1986, and issued a ROD on March 20, 1987, based upon the record compiled by the hearing officer.

The record of the 1986 IP-PF rate link methodology was included in BPA's 1987 wholesale power and transmission rate filing submitted to the Federal Energy Regulatory Commission (FERC) for confirmation and approval on July 31, 1987. On September 29, 1987, FERC granted interim approval of the 1987 rate filing. 40 F.E.R.C. ¶61,351 (1987).

D. Benefits of IP-PF Link

The extension of the IP-PF link methodology will continue to have several benefits. The Link meets BPA's primary objective of enhancing BPA's revenue stability, resource planning certainty, and ability to meet planned Treasury payments, by reducing the rate uncertainty perceived by the DSIs. Because it is generally supported by BPA's customer groups, the Link reduces controversy in rate cases for all customers. It is also understandable and administratively practical. Finally, the Link maintains consistency with provisions of the Pacific Northwest Power Act.

II. Proposal

The current Link expires with the current rates. BPA is proposing to extend the use of the link methodology through rate periods commencing on or before the termination date of the VI Rate contract or September 30, 1995, whichever is later.

A. IP-PF Rate Link

1. Terms and Definitions

Section 7(c)(1)(B) of the Pacific Northwest Power Act states that rates to BPA's direct-service industrial (DSI) customers after July 1, 1985, shall be equitable in relation to the industrial rates charged by BPA's preference customers. Section 7(c)(2) states that rates to the DSIs are to be based upon: (1) BPA's applicable wholesale power rates to its preference customers; and (2) typical margins above power and transmission costs included in the preference customers' rates to their industrial customers. The resulting rate levels are subject to the floor rate provision of section 7(c)(2), which provides for a minimum DSI rate level. Relevant terms are defined as follows:

a. Applicable Wholesale Rate. As provided in section 7(c)(2) of the Pacific Northwest Power Act, the BPA wholesale power rates developed for power purchases by BPA's public body and cooperative customers, adjusted for DSI load shape (time pattern of consumption).

b. Premium Margin. The typical margin above wholesale power costs referred to in section 7(c)(2) of the Pacific Northwest Power Act, adjusted for the size of DSI loads. As determined in the 1985 Administrator's ROD for BPA's rate adjustment proceeding, calculation of the Premium margin recognizes that, in the test year for which those rates were set, none of the service to the DSI first quartile under the IP Premium rate was dependent on the availability of nonfirm energy.

c. Standard Margin. The typical margin above wholesale power costs referred to in section 7(c)(2) of the Pacific Northwest Power Act, adjusted for the size of load and the character of service to the first quartile. As determined in the 1985 Administrator's ROD, calculation of the Standard margin recognizes that, in the test year for which those rates were set, service to a portion of the first DSI quartile under the IP Standard rate was dependent on the availability of nonfirm energy.

d. Value of Reserves Credit. The rate credit granted the DSIs for BPA's contractual rights to restrict their load under certain conditions.

e. Net Premium Margin. The Premium margin less the Value of Reserves Credit.

f. Net Standard Margin. The Standard margin less the Value of Reserves Credit.

g. IP-PF Link. The methodology for linking the rates for BPA's DSI customers to the rates for BPA's public body and cooperative customers on a long-term basis.

h. IP Premium Margin-Based Rate. The rate level defined by the following components: the applicable wholesale rate, the premium margin, and the value of reserves credit.

i. IP Standard Margin-Based Rate. The rate level defined by the following components: the applicable wholesale rate, the standard margin, and the value of reserves credit.

j. IP Premium Rate. The rate option contained in the IP rate schedule which includes first quartile service with Surplus FELCC. The level of the IP Premium Rate contained in the IP rate schedule may not necessarily equal the level of the IP Premium margin-based rate. The IP Premium rate is subject to further adjustments, specifically any section 7(b)(2) and section 7(b)(3) adjustments, or scaling to adjust for the rate period extending beyond the test year, to determine the IP Premium rate.

k. IP Standard Rate. The rate option contained in the IP rate schedule which includes first quartile service with nonfirm energy and/or provisional drafts. The level of the IP Standard rate contained in the IP rate schedule may not necessarily equal the level of the IP Standard margin-based rate. The IP Standard rate is subject to the floor rate test. Further, the IP Standard margin-based rate may be subject to further adjustments, specifically, any section 7(b)(2) and/or section 7(b)(3) adjustments, or scaling to adjust for the rate period extending beyond the test year, to determine the IP Standard rate. [NOTE: In BPA's 1987 rate filing, it was determined that the 7(b)(3) adjustment was zero. However, BPA has not received final approval of its 1987 rates from FERC.]

l. Floor Rate. The rate determined in BPA's wholesale rate case that forms the basis for computing a minimum DSI rate level that meets the requirements of section 7(c)(2) of the Pacific Northwest Power Act.

B. Formulas

The proposed IP-PF Link incorporates the following formulas:

1. $$IP_p = AWR + \left[.92 \times \frac{\text{GNP deflator (year)}}{\text{GNP deflator (1987)}}\right]$$

2. $$IP_S = AWR + \left[.38 \times \frac{\text{GNP deflator (year)}}{\text{GNP deflator (1987)}}\right]$$

Where:

"IP_p" is the IP Premium margin-based rate (mills per kilowatthour) or its successor, as determined by the Link.

"IP_S" is the IP Standard margin-based rate (mills per kilowatthour) or its successor, as determined by the Link.

"AWR" is the Applicable Wholesale Rate, as referred to in section 7(c)(2) of the Pacific Northwest Power Act, to BPA's public body and cooperative customers. The AWR is the weighted average of the PF demand and energy charges in the rates charged for firm power for the combined general requirements of public body and cooperative customers (weighted by PF energy sales to the public agencies) and NR demand and energy charges in the rates charged public body and cooperative customers applicable to their new large single loads (weighted by energy sales to public agencies for resale to new large single loads) applied to the DSIs' demand and energy billing determinants as forecasted in the section 7(i) proceeding in which the Link is applied.

".92" is the Fiscal Year (FY) 1987 net Premium margin, based on 100 percent service to the first quartile, none of which is dependent on the availability of nonfirm energy, as determined in the 1985 ROD.

".38" is the FY 1987 net Standard margin, based on service to the first quartile, a portion of which is dependent on the availability of nonfirm energy, as determined in the 1985 ROD.

"GNP deflator (1987)" is the GNP deflator Index for 1987.

"GNP deflator (year)" is the GNP deflator Index for the test year in subsequent section 7(i) proceedings where the IP rates are to be determined by the Link.

C. Other Terms and Conditions of the IP-PF Rate Link

1. Except as required by the floor rate provision of the Pacific Northwest Power Act, the IP test year rates shall be determined in any section 7(i) proceeding to establish rates effective on or before the termination date of the VI rate contract, or September 30, 1995, whichever is later, by the formulas in paragraph B. The purpose of the formulas is to eliminate the need to recalculate during the term of the Link the value of reserves (including the VOR credit) and the "typical margin," net of adjustments as set forth in sections 7(c)(2)(A), (B), and (C) of the Pacific Northwest Power Act. The only variables in the formulas are "AWR" and "GNP deflator (year)." That is, for each section 7(i) proceeding in which the Link is applied, "AWR" shall be calculated from the PF and NR rates as determined in that proceeding and "GNP deflator (year)" shall be the GNP Index for the test year used for all other purposes in that proceeding.

If the test year is a prospective period, then "GNP deflator (year)" will be the forecasted GNP deflator index used for all other purposes in the rate proceeding. Further, if the IP rates determined by the Link will be effective for periods other than the test year, then these rates may be scaled upward or downward to those future periods as appropriate.

2. In the event that the rates established as described in paragraph B, rather than the section 7(c)(2) floor rate, govern the applicable IP rates, then, in addition to any potential section 7(b)(3) obligations on the part of the DSIs, including surcharges arising from the "triggering" of the section 7(b)(2) rate test, the DSIs shall also be subject during the term of the Link to adjustment clauses, surcharges, or credits uniformly applicable

to the PF rate schedule. Such adjustments would include the Cost Recovery Adjustment Clauses uniformly applicable to purchases under the PF and NR rate schedules. For purposes of the prior sentence, the Low Density Discount and Irrigation Discount available to some customers and any surcharge for noncompliance with model conservation standards shall not be considered "uniformly applicable."

3. For the duration of the Link, BPA will continue to make available to the DSIs power of the quality to which the DSIs are entitled under their Power Sales Contracts with BPA, at the rates established as described in paragraphs B.1.a. and C.1. BPA will also make available to the DSIs, on an optional basis, service, the qualities of which shall be specified by the Variable Rate Contract and which shall remain unchanged while the contract is in force throughout the duration of the Link, at the rates established as described in paragraphs B.1.b and C.1.

III. Relevant Statutory Provisions

Rates for the DSIs are to be set according to provisions contained in section 7(c) of the Pacific Northwest Power Act. 16 U.S.C. §839e(c). Section 7(c)(2) of the Pacific Northwest Power Act provides that, beginning July 1, 1985, rates that apply to DSI customers:

> ". . . shall be based upon the Administrator's applicable wholesale rates to . . . public body and cooperative customers and the typical margins included by such public body and cooperative customers in their retail rates . . ."

Section 7(c)(2) further provides that the rate determination must take into account:

> ". . . (a) the comparative size and character of the loads served; (b) the relative costs of electric capacity, energy, transmission, and related delivery facilities provided and other service provisions; and (c) direct and indirect overhead costs, all as related to the delivery of power to industrial customers . . ."

Section 7(c)(2) also provides that DSI rates:

> ". . . shall in no event be less that the rate in effect for the contract year ending on June 30, 1985."

Section 7(c)(3) provides that DSI rates must be adjusted:

> ". . . to take into account the value of power system reserves made available to the Administrator through his rights to interrupt or curtail service to such direct service industrial customers."

IV. Procedures Governing Rate Adjustments and Public Participation

A. Expedited Rate Procedures

Section 7(i) of the Pacific Northwest Power Act, 16 U.S.C. § 839e(i), requires that rates be set according to certain procedures. These procedures include: issuance of a FEDERAL REGISTER notice announcing the proposed rates; one or more hearings; the opportunity to submit written views, supporting information, questions, and arguments; and a decision by the Administrator based on the record developed during the hearing process. This proceeding will be governed by BPA's "Procedures Governing Bonneville Power Administration Rate Hearings," 51 FED. REG. 7611 (March 5, 1986) which implement, and in most instances expand, these statutory requirements.

Pursuant to Rule 1010.3(c) of the Procedures Governing Bonneville Power Administration Rate Hearings (BPA Procedures), this hearing will be conducted under Rule 1010.10, which governs Expedited Rate Proceedings. The expedited procedures will be used rather than the procedures for General Rate Proceedings conducted under Rule 1010.9. The procedures for General Rate Proceedings are intended for use when the Administrator proposes to revise all, or substantially all, of BPA's wholesale power and transmission rates. The proposed extension of the link methodology deals with one rate design measure; therefore, the issues in this rate proceeding will be fewer and of more limited scope than the issues in a proceeding to adjust BPA rates. BPA believes that the 90-day Expedited Rate Proceeding will be adequate to develop a full and complete record and to receive public comment and argument relate to the proposed methodology. If more time is required, the Hearing Officer may request, under §1010.10 (b) of the BPA Procedures, that the BPA Administrator grant an extension.

B. Distinguishing Between "Participants" and "Parties"

BPA distinguishes between "participants in" and "parties to" the hearings. Apart from the formal hearing process, BPA will receive comments, views, opinions, and information from "participants," who are defined in the BPA Procedures as persons who may submit comments without being subject to the duties of, or having the privileges of, parties. Participants' written and oral comments will be made part of the official record and considered by the Administrator. Participants are not entitled to participate in the prehearing conference; may not cross examine parties' witnesses, seek discovery, or serve or be served with documents; and are not subject to the same procedural requirements as parties.

Written comments by participants will be included in the record if they are submitted on or before September 7, 1990. Participants' written views, supporting information, questions, and arguments should be submitted to BPA's Public Involvement Office.

The second category of interest is that of a "party" as defined in §§ 1010.2 and 1010.4 of the BPA Procedures. Parties may participate in any aspect of the hearing process.

C. Petitions for Intervention

Persons wishing to become a party to BPA's rate proceeding must notify BPA in writing of their request. Petitioners may designate no more than two representatives upon whom service of documents will be made. Petitions to intervene shall state the name and address of the person requesting party status and the person's interest in the hearing. Petitioners must explain their interests in sufficient detail to permit the Hearing Officer to determine whether they have a relevant interest in the hearing. Pursuant to Rule 1010.1(d) of BPA's Procedures, BPA waives the requirement in Rule 1010.4(d) that any opposition to an intervention petition be filed and served 24 hours before the prehearing conference. Any opposition to an intervention petition may instead be made at the prehearing conference. Any party, including BPA, may oppose a petition for intervention. Persons who have been denied party status in any past BPA rate proceeding shall continue to be denied party status unless they establish a significant change of circumstances. All timely applications will be ruled on by the Hearing Officer. Late interventions are strongly disfavored. Opposition to an untimely petition to intervene shall be filed and received by BPA within 2 days after service of the petition. Intervention petitions will be available for inspection in BPA's Public Information Center, 1st floor, 905 NE. 11th, Portland, Oregon.

Persons seeking to become parties may wish to obtain copies of BPA's testimony prior to the prehearing conference. The testimony will be available July 19, 1990.

To request the testimony by telephone, call BPA's toll-free document request line: 800-841-5867 for Oregon outside of Portland; 800-624-9495 for Washington, Idaho, Montana, California, Wyoming, Utah, and Nevada. You will reach a recorded message where you can leave your request for the testimony. Other callers should use 503-230-3478.

D. Developing the Record

Cross-examination will be scheduled by the Hearing Officer as necessary, following completion of the filing of all parties' and BPA's direct cases, rebuttal testimony, and discovery. Parties will have the opportunity to file initial briefs at the close of cross-examination.

After the close of the hearings, and following submission of initial briefs, BPA will file a draft ROD which will identify the issues BPA will resolve in the hearing, summarize the factual, legal, and policy arguments presented by BPA and the parties on each issue, and state the Administrator's tentative decision. Parties may file briefs on exceptions, or when all parties have previously agreed, oral argument may be substituted for briefs on exceptions. When oral argument has been scheduled in lieu of briefs on exceptions, the argument will be transcribed and made part of the record.

The record will include, among other things, the transcripts of any hearings, written material submitted by the participants, and evidence accepted into the record by the Hearing Officer. The Hearing Officer then will review the record, supplement it if necessary, and certify the record to the Administrator for decision.

The basis for the final rate will be expressed in the Administrator's ROD. The Administrator will serve copies of the ROD on all parties and will file the final proposed methodology, together with the record, with FERC for confirmation and approval.

V. Scope

The methodology extended in this rate proceeding will be used in future general rate proceedings, as it has for the last two rate proceedings, to determine the IP Standard margin-based rate and the IP Premium margin-based rate. The IP margin-based Premium and Standard rates resulting from the IP-PF rate link methodology would be subject to the floor rate test described in section 7(c)(2) of the Pacific Northwest Power Act. 16 U.S.C. §839e(c)(2). The IP-PF rate link, however, does not incorporate treatment of any charges or payments that may result from implementation of section 7(b)(2) or 7(b)(3) of the Pacific Northwest Power Act. 16 U.S.C. §§ 839e(b)(2) and 839e(b)(3).

Issues addressed in other BPA proceedings are not at issue in this rate link proceeding. Issues relating to the VI rate will be addressed in a separate process. Issues relating to other BPA processes, such as Surplus Power Marketing and System Operations Review, are beyond the scope of this rate link proceeding.

Issued in Portland, Oregon on July 3, 1990.

/s/ JAMES J. JURA
James J. Jura
Administrator

S - PARTY STATUS, LETTERS AND DOCUMENTS

HELLER, EHRMAN, WHITE & McAULIFFE
ATTORNEYS
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

333 BUSH STREET
SAN FRANCISCO, CALIFORNIA 94104-2878
FACSIMILE (415) 772-6268
TELEPHONE (415) 772-6000

3505 FIRST INTERSTATE BANK TOWER · 1300 S. W. FIFTH AVENUE
PORTLAND, OREGON 97201-5696
TELEPHONE (503) 227-7400 · FACSIMILE (503) 241-0950

525 UNIVERSITY AVENUE
PALO ALTO, CALIFORNIA 94301-1908
FACSIMILE (415) 324-0638
TELEPHONE (415) 326-7600

555 SOUTH FLOWER STREET
LOS ANGELES, CALIFORNIA 90071-2306
FACSIMILE (213) 614-1868
TELEPHONE (213) 689-0200

701 FIFTH AVENUE
SEATTLE, WASHINGTON 98104-7098
FACSIMILE (206) 447-0849
TELEPHONE (206) 447-0900

PAUL M. MURPHY
PARTNER

July 17, 1990

Honorable Dean F. Ratzman - Hearing Officer
c/o John Ciminello - Hearing Clerk
Bonneville Power Administration
PO Box 12999
Portland, OR 97212

Re: **Proposed Extension of the Industrial Firm Power - Priority Firm Power Rate Link Methodology**
BPA File No. IP-PF-90

Dear Judge Ratzman:

Enclosed is the Petition to Intervene of the Direct Service Industrial Customers in this proceeding.

Very truly yours,

Paul M. Murphy

PMM:slh
10706/4127

cc: Office of General Counsel

IP-PF-90-S-DS-01

000017

BEFORE THE
UNITED STATES DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION

Proposed Extension of the Industrial Firm Power - Priority Firm Power Rate Link Methodology	)))	BPA File No. IP-PF-90

PETITION OF THE
DIRECT SERVICE INDUSTRIAL CUSTOMERS
TO INTERVENE

Pursuant to Rule 1010.4, each of the following Direct Service Industrial Customers (DSIs) of the Bonneville Power Administration (BPA) petitions to intervene as a party in this proceeding:

Aluminum Company of America
Atochem North America
Columbia Aluminum Corporation
Columbia Falls Aluminum Company
Georgia-Pacific Corporation
Intalco Aluminum Corporation
Kaiser Aluminum & Chemical Corporation
Northwest Aluminum Company
Oregon Metallurgical Corporation
Reynolds Metals Company
Vanalco, Inc.

The pricing methodology adopted in this proceeding will affect the rate applicable to each DSI. Each DSI purchases power from BPA under a long-term contract at rates which will be affected directly by the Industrial Firm Power - Priority Firm Power Rate Link Methodology. Thus, each DSI has an interest in this proceeding.

While each DSI has standing and, therefore, the right to intervene and to exercise all rights as an individual party, the DSIs currently anticipate that they will coordinate their participation throughout this proceeding. Each DSI reserves its

right to participate individually through separate counsel if it later appears to be in the company's interest to do so.

The DSIs request that the following individuals be added to the official service list in this proceeding.[1]

John D. Carr
Executive Director
Direct Service Industries, Inc.
825 N.E. Multnomah, Suite 910
Portland, OR 97232

Paul M. Murphy
Michael B. Early
Heller, Ehrman, White & McAuliffe
1300 S.W. Fifth Avenue, Suite 3505
Portland, OR 97201

Donald W. Schoenbeck
Regulatory & Cogeneration Services, Inc.
Suite 1060
825 N.E. Multnomah
Portland, OR 97232

WHEREFORE, each of the above listed DSIs respectfully request that it be allowed to intervene in this proceeding.

DATED: July 17, 1990

Respectfully submitted,

Paul M. Murphy

PAUL M. MURPHY
MICHAEL B. EARLY
HELLER, EHRMAN, WHITE & McAULIFFE
3505 First Interstate Bank Tower
1300 S. W. Fifth Avenue
Portland, Oregon 97201-5696
Telephone: (503) 227-7400

Attorneys for Petitioners Direct Service Industrial Customers

10706\4502

[1]Each intervenor is allowed to add two names to the service list. Rule 1010.4(b). The 11 DSI companies intervene individually and could request as many as 22 names to be included in the service list within this rule.

UNITED STATES OF AMERICA

U. S. DEPARTMENT OF ENERGY

BEFORE THE

BONNEVILLE POWER ADMINISTRATION

Proposed Extension of Industrial Firm Power-Priority Firm Power Rate Link Methodology	IP-PF-90

APAC PETITION TO INTERVENE

The Association of Public Agency Customers (APAC) hereby petitions to intervene in this proceeding.

DATED: July 24, 1990

BOGLE & GATES
222 SW Columbia, Suite 1400
Portland, OR 97201
503 222 1515

By _____
Robert Greening

Attorneys for Association of Public Agency Customers

24 JUL 90 2:55

000020

IP-PF-90-PA-S-01

STOEL RIVES BOLEY
JONES & GREY

ATTORNEYS AT LAW
SUITE 2300
STANDARD INSURANCE CENTER
900 SW FIFTH AVENUE
PORTLAND, OREGON 97204-1268

Telephone (503) 224-3380
Telecopier (503) 220-2480
Cable Lawport
Telex 703455
Writer's Direct Dial Number
(503) 294-9434

July 20, 1990

VIA MESSENGER

Honorable Dean F. Ratzman, Hearing Officer
c/o John Ciminello-\APR, Hearing Clerk
Bonneville Power Administration
APR-7th Floor
905 NE 11th Avenue
Portland, OR 97232

Re: In the Matter of the Extension of the Industrial Firm Power (IP)-Priority Firm Power (PF) Rate Link No. IP-PF-90

Dear Hearing Officer Ratzman:

Enclosed please find Petition to Intervene of PacifiCorp in the above matter.

Sincerely,

Marcus Wood

Marcus Wood

MW:ld
Enclosure
cc (w/Enclosure): Geoffrey M. Kronick

IP-PF-90-S-PL-01

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DEPARTMENT OF ENERGY

Bonneville Power Administration

In the Matter of the Extension of the Industrial Firm Power (IP)-Priority Firm Power (PF) Rate Link	)))))	No. IP-PF-90 Petition to Intervene of PacifiCorp

PacifiCorp, dba Pacific Power & Light Company and Utah Power & Light Company, petitions to intervene as a party to this proceeding. PacifiCorp has an interest in this proceeding because it is a customer of the Bonneville Power Administration (BPA) and purchases power under various rate schedules that reflect revenues derived from sales to BPA's direct-service industrial (DSI) customers. The rate methodology applicable to sales to DSIs may affect future rates applicable to PacifiCorp.

The names and addresses of PacifiCorp's representatives to whom pleadings and other documents should be sent are:

Scott Brattebo
Pacific Power & Light Company
424 Public Service Bldg.
920 SW Sixth Avenue
Portland, OR 97204

IP-PF-90-S-PL-0

STOEL RIVES BOLEY JONES & GREY
ATTORNEYS AT LAW
900 SW FIFTH AVENUE PORTLAND, OREGON 97204-1268
(503) 224-3380

and

Marcus Wood
Stoel Rives Boley Jones & Grey
900 SW Fifth Avenue, Suite 2300
Portland, OR 97204

DATED this 20th day of July, 1990.

Respectfully submitted,

Marcus Wood
James F. Fell
Stoel Rives Boley Jones & Grey
Of Attorneys for PacifiCorp

IP-PF-90-S-PL-01

STOEL RIVES BOLEY JONES & GREY
ATTORNEYS AT LAW
900 SW FIFTH AVENUE PORTLAND, OREGON 97204-1268

Ciminello

July 19, 1990

Honorable Dean F. Ratzman, Hearing Officer
c/o John Ciminello, Hearing Clerk - APR
Bonneville Power Administration
Post Office Box 12999
Portland, Oregon 97212

RE: BPA File No. IP-PF-90

Dear Judge Ratzman:

Enclosed for filing are the original and five copies of Public Power Council's Petition to Intervene in the above matter.

Sincerely,

J. A. Bearzi

Judith A. Bearzi
GORDON, THOMAS, HONEYWELL,
MALANCA, PETERSON & DAHEIM

Attorney for the Public Power Council

Enclosures (5)
cc: BPA's Office of General Counsel - APR
LE:9:26

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IP-PF-90-S-PP-01

UNITED STATES OF AMERICA
U.S. DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

Extension of the Industrial Firm Power (IP)-Priority Firm Power (PF) Rate Link (Link)	)))	BPA File No. IP-PF-90

PUBLIC POWER COUNCIL
PETITION TO INTERVENE

Pursuant to the Administrator's Notice of Opportunity for Public Review and Comment dated July 3, 1990, the Public Power Council (PPC) respectfully petitions the Hearing Officer for an order granting PPC "party" status in this docket. PPC represents the common interests of 114 preference customers of BPA. According to the Administrator's Notice, rates for wholesale power and transmission chargeable to PPC members may be affected by these hearings.

PPC is represented by the following counsel:

Judith A. Bearzi
GORDON, THOMAS, HONEYWELL,
MALANCA, PETERSON & DAHEIM
600 University, 2101 One Union Square
Seattle, Washington 98101
(206) 447-9505

All material and communication relating to this proceeding should also be served on the following:

Lon L. Peters
Senior Economist
PUBLIC POWER COUNCIL
500 N.E. Multnomah, Suite 729
Portland, Oregon 97232
(503) 232-2427

DATED this 19th day of July, 1990.

Respectfully submitted,

Judith A. Bearzi
GORDON, THOMAS, HONEYWELL,
MALANCA, PETERSON & DAHEIM

Attorney for the Public Power Council

PERKINS COIE

A LAW PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS
ONE BELLEVUE CENTER, SUITE 1800 ▪ 411-108TH AVENUE NORTHEAST ▪ BELLEVUE, WASHINGTON 98004
TELEPHONE: (206) 453-6980

Donald G. Kari, P.S.
Partner

July 20, 1990

Honorable Dean F. Ratzman,
Hearing Officer
c/o John Ciminello - APR,
Hearing Clerk
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

Re: IP-PF Rate Link Extension
BPA File No. IP-PF-90

Dear Sir:

Enclosed please find the original and 30 copies of Puget Sound Power & Light Company's Petition to Intervene as a party to the above proceeding. Please stamp your filing indicia on the enclosed duplicate copy and return it to us.

Very truly yours,

PERKINS COIE

By: Donald G. Kari, P.S.

Donald G. Kari, Pres.

DGK/dmc

Enc.

IP-PF-90-S-PS-01

000027

TELEX: 32-0319 PERKINS SEA ▪ FACSIMILE (206) 453-7350
ANCHORAGE ▪ LOS ANGELES ▪ PORTLAND ▪ SEATTLE ▪ WASHINGTON, D.C.

BEFORE THE DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION

IP-PF RATE LINK EXTENSION	)	BPA FILE NO. IP-PF-90
	)	PUGET SOUND POWER &
	)	LIGHT COMPANY'S
	)	PETITION TO INTERVENE

Puget Sound Power & Light Company ("Puget") is a power and transmission service customer of the Bonneville Power Administration ("Bonneville") and, pursuant to Section 1010.4 of the Procedures Governing Rate Hearings, hereby petitions to intervene as a party to the above proceeding.

Puget is a scheduling utility in the region which is a purchaser of power and transmission services from Bonneville. The pricing for sale of Bonneville power, including any IP-PF rate link methodology, will affect Bonneville's revenues and costs and its revenue requirements. As a customer of Bonneville, Puget will be directly affected by the outcome of this proceeding and clearly has a relevant interest in this proceeding.

The name and address of Puget are as follows:

Puget Sound Power & Light Company
P. O. Box 97034
Bellevue, WA 98009-9734

Puget will be represented by the following:

IP-PF-90-S-PS-01

Company Representative: R. G. Bailey
Vice President
Power Systems
Puget Sound Power & Light Company
P. O. Box 97034
Bellevue, WA 98009-9734

Attorney Representative: Donald G. Kari
Perkins Coie
One Bellevue Center
Suite 1800
411 - 108th Avenue N.E.
Bellevue, WA 98004

DATED this 20th day of July, 1990.

PERKINS COIE

By _____
Donald G. Kari
Of Attorneys for Puget Sound Power & Light Company

0566K

IP-PF-90-S-PS-01

MARSH MUNDORF & PRATT
ATTORNEYS AT LAW · A PROFESSIONAL SERVICE CORPORATION

MILL CREEK CITY CENTER BUILDING
16000 BOTHELL-EVERETT HIGHWAY SUITE 160
MILL CREEK, WASHINGTON 98012
(206) 337-2384
SEATTLE (206) 742-4545
TELEFAX (206) 337-2386

July 24, 1990

Honorable Dean Ratzman
Hearing Officer
c/o John Ciminello, Hearing Clerk - APR
Bonneville Power Administration
P. O. Box 12999
Portland, Oregon 97212

Re: Motion For Leave To Intervene
BPA File No. IP-PF-90

Dear Judge Ratzman:

Enclosed you will please find the original and four copies of the Motion for Leave to Intervene submitted on behalf of the Western Public Agencies Group.

Your attention to this motion is appreciated.

Very truly,

MARSH, MUNDORF & PRATT

Terence L. Mundorf

TLM:ps
enclosures
cc: Bonneville Power Administration
Office of General Counsel - APR
P. O. Box 12999
Portland, Oregon 97232

IP-PF-90-WA-S-01

UNITED STATES DEPARTMENT OF ENERGY

BONNEVILLE POWER ADMINISTRATION

Proposal To Extend the IP-PF Rate Link	)	BPA File No. IP-PF-90

Motion For Leave
To Intervene
And Party Status

Pursuant to Bonneville's Procedures Governing Bonneville Power Administration Rate Hearings, and the Notice of Opportunity for Review and Comment dated July 3, 1990, the utilities which comprise the Western Public Agencies Group (WPAG) move for leave to intervene in the above-captioned matter, and for designation as a formal party. In support of this motion, the following information is submitted:

1. The WPAG is comprised of fifteen publicly owned utilities [1/] located in Washington State. These utilities engage

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[1/] The utilities of the WPAG include the Public Utility Districts of Clallam, Clark, Grays Harbor, Lewis, Mason No. 1, Mason No. 3, Pacific, Snohomish and Wahkiakum Counties, Washington, Elmhurst Mutual Power and Light Company, Lakeview Light and Power Company, Ohop Mutual Light Co., Parkland Light and Water Company, Peninsula Light Company and the City of Ellensburg.

IP-PF-90-WA-S-01

000031

at the retail level. They are responsible for supplying the electrical needs of over 300,000 retail customers.

2. Although a number of the WPAG utilities have access to electric power other than that sold by Bonneville, including generating resources, all of these utilities rely on Bonneville for the bulk of their power supply. Each has in effect a Power Supply Contract with Bonneville under which such purchases are made.

3. The WPAG utilities have a direct and immediate interest in the subject matter of this proceeding. The proposed extension of the proposed IP-PF Rate link will directly affect the level of the Bonneville rates under which the WPAG purchase power from Bonneville.

4. The interest of the WPAG utilities will not be adequately represented by other parties. The WPAG is the only association of Washington utilities which have generating resources, yet still rely on Bonneville for the preponderance of their power supply. These utilities have an interest in ensuring that the proposed IP-PF Rate link does not adversely impact the rates under which WPAG utilities purchase power from Bonneville.

5. Service of all documents, pleadings and testimony should be made to:

Terence L. Mundorf
16000 Bothell Everett Highway
Suite 160
Mill Creek, WA 98012

Gary Saleba
Economic and Engineering Services
12011 Bel-Red Road, Suite 201
Bellevue, WA 98009

Based on the foregoing information, the WPAG utilities request leave to intervene and designation as a formal party.

Respectfully submitted,

Terence L Mundorf

TERENCE L. MUNDORF
Attorney for the Western
Public Agencies Group

IP-PF-90-WA-S-01

CERTIFICATE OF SERVICE

I certify that the foregoing Motion for Leave To Intervene And Party Status has been mailed, postage prepaid, to the parties on the service list for this proceeding on this 24th day of July, 1990.

Terence L. Mundorf
Western Public Agencies Group

IP-PF-90-WA-S-01

TPH - TRANSCRIPTS OF PREHEARING CONFERENCE
(18 pages)

ORIGINAL

BEFORE THE
U. S. DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION
PORTLAND, OREGON

PREHEARING CONFERENCE In the Matter of: IP-PF LINK EXTENSION 1990	IP-PF-90

2nd Floor Hearing Room,
1002 NE Holladay,
Portland, Oregon.

Thursday, July 26, 1990.

Pursuant to Notice, the above-entitled matter came on for Hearing at 9:30 o'clock a.m.,

BEFORE:

JUDGE DEAN F. RATZMAN - Hearing Officer.

APPEARANCES:

C. CLARK LEONE, Esq. and MARYBETH VAN BUREN, Esq., Office of General Counsel, BPA; appearing on behalf of BPA.

PAUL MURPHY, Esq., Heller, Ehrman, White & McAuliffe, 1300 SW 5th Avenue, Portland, OR 97201-5696; appearing on behalf of DSIs.

ROBERT GREENING, Esq., Bogle & Gates, 222 SW Columbia, Portland, OR 97201; appearing on behalf of APAC.

JAMES FELL, Esq., Stoel, Rives, Boley, Jones & Gray, 900 SW 5th Avenue, Portland, OR 97204-1268; appearing on behalf of Pacificorp;

LON PETERS, 500 NE Multnomah, Portland, OR 97232; appearing on behalf of Public Power Council;

DON KARI, Esq., Perkins Coie, 422 - 108th Avenue NE, Bellevue, WA 98004; appearing on behalf of Puget Sound Power & Light Co.;

AUSTIN COLLINS, Portland, OR; appearing as a Participant.

1 **I N D E X**

	NAME OF WITNESS	DIRECT
3	Haig Revitch	16

1 P R O C E E D I N G S

2 JUDGE RATZMAN: The hearing will be in order.

3 This is the time and place for commencement of the

4 IP-PF 90 rate case, which is concerned with the extension of

5 the IP-PF Link.

6 John Ciminello, the Hearing Clerk, has provided me

7 with the petitions for intervention, which are, I take it 6 in

8 number. I see the counsel for some of the intervenors and

9 Bonneville counsel in attendance and also Mr. Austin Collins.

10 MR. COLLINS: Could I be included in the list of

11 intervenors, please?

12 JUDGE RATZMAN: Is there any objection to Mr.

13 Collins being on the list of intervenors?

14 MS. LEONE: If I could speak with him for a moment,

15 Your Honor?

16 JUDGE RATZMAN: We'll be off the record.

17 (Off-the-record period)

18 JUDGE RATZMAN: On the record.

19 MR. COLLINS: Your Honor, I would settle for a

20 participant status.

21 JUDGE RATZMAN: You are entitled to participate in

22 that capacity and I will have the record noted now that Mr.

23 Collins is a participant in this matter and is entitled to all

24 rights that a participant has, including filing written

25 materials, which will become part of the record and will be

examined by the Administrator with all of the other materials in the case.

Since we have relatively few parties, I would request that any party that Mr. Collins may wish to discuss facts and issues in this case with, be as cooperative as possible with Mr. Collins as a participant and as a member of the public and a citizen of the Pacific Northwest.

You might advise any of the parties off the record, Mr. Collins, as to specific documents that you wish to have and I assume that you probably want virtually all of the materials that are issued by Bonneville Power in this case.

MR. COLLINS: That's correct.

JUDGE RATZMAN: Yes. All right. Since we have relatively few parties, and in order to have it all in one place, I will go through the interventions and request the counsel who are in attendance to provide their identities for the record.

Direct Services Industries?

MR. MURPHY: Paul Murphy of Heller, Ehrman, White & McAuliffe, on behalf of each of the 11 companies which we have listed on our petition to intervene. Our petition requested for individual intervention. Each of the companies has or purchases power from Bonneville at rates which would be directly affected by the outcome of this proceeding and I think they are entitled to intervention as a matter of right.

1 JUDGE RATZMAN: Hearing no objection, the interven-
2 tion as described by Mr. Murphy of the DSIs and the individual
3 clients is approved.
4 Association of Public Agency Customers?
5 MR. GREENING: Robert Greening for APAC, Your Honor.
6 JUDGE RATZMAN: The APAC intervention is approved.
7 Pacificorp?
8 MR. FELL: James Fell for Stoel, Rives, Boley, Jones
9 & Gray, on behalf of Pacificorp.
10 JUDGE RATZMAN: Intervention for Pacificorp is
11 similarly approved.
12 Public Power Council?
13 MR. PETERS: This is Lon Peters on behalf of the
14 Public Power Council.
15 JUDGE RATZMAN: Yes. The petition is filed by
16 Judith Bearzi and that request of Mr. Peters then, in
17 accordance with the petition filed by the counsel for PPC,
18 that petition to intervene is approved.
19 Puget Sound Power & Light?
20 MR. KARI: Good morning, Your Honor. Donald Kari on
21 behalf of Puget Sound Power & Light Company.
22 JUDGE RATZMAN: The Puget Sound Power & Light
23 Company petition to intervene is approved.
24 Western Public Agencies Group. Apparently, there is
25 no representative. That petition is filed by Mr. Mundorf and

is in proper form and describes the interest of the WPAG utilities. That petition is approved.

So there are 6 customer class parties in this matter, plus Mr. Collins as an approved participant.

Would the counsel for the Bonneville Power Administration please note their appearance for the record?

MS. LEONE: Yes, Your Honor. I'm C. Clark Leone for Bonneville Power and my co-counsel is Marybeth Van Buren.

JUDGE RATZMAN: Thank you.

The service list or proposed service list has been prepared by John Ciminello and I believe has been made available to the parties. Is there any comment or requested modification to the proposed service list? I believe that it contains all of the parties who have requested intervention.

(List distributed)

JUDGE RATZMAN: We'll be off the record for 2 or 3 minutes while counsel look at the service list that's proposed.

(Off-the-record period)

JUDGE RATZMAN: On the record. Are there any comments or suggestions for modification of the proposed service list?

MS. LEONE: Yes, Your Honor, my name ought to be on there.

(Laughter)

1 JUDGE RATZMAN: You can take that up with John
2 Ciminello. Your request is approved.
3 (Laughter)
4 JUDGE RATZMAN: Some people just don't get any
5 respect.
6 (Laughter)
7 JUDGE RATZMAN: In a case of this type, in the last
8 few matters that we have had, we have utilized special rules
9 of practice to govern this proceeding, which have been stream-
10 lined to some extent from longer special rules used earlier.
11 I believe that the Bonneville counsel wish to have these
12 special rules applicable in this matter?
13 MS. LEONE: Yes. We so move, Your Honor. I believe
14 Mr. Ciminello has prepared some proposed rules.
15 JUDGE RATZMAN: He indicated to me that the ones
16 that were utilized in IP-PF 90 earlier this year would be
17 satisfactory after he had had discussions with BPA counsel and
18 I believe he has made copies of those special rules available
19 to the intervenors.
20 HEARING CLERK: Your Honor, these are the same as
21 used in the 3rd AC proceedings.
22 JUDGE RATZMAN: That's 3ACP?
23 HEARING CLERK: Yes, same rules.
24 JUDGE RATZMAN: Have the counsel had an opportunity
25 to review those special rules?

(No response)

JUDGE RATZMAN: Is there any objection to the use of those rules in this matter?

(No response)

JUDGE RATZMAN: It is ordered that the rules, although they don't have the designation of this case on them, but the ones that are on the Hearing Clerk's table, and have been disseminated this morning will be adopted as the special rules in this proceeding and they will be in addition to the standard procedures governing BPA rate hearings, which were approved 3 or 4 years ago.

As the Administrator's notice of hearing indicates, this proceeding will go ahead under the rules for expedited rate hearings, inasmuch as it is, in effect, a one-issue matter. There are certain provisions for tightening up the schedule in a case of this kind.

John Ciminello once again has made available a proposed schedule for the IP-PF Link Extension, the beginning date of July 26th, the prehearing conference and it proceeds from there from August 2, data requests to BPA and goes through October 17th, which would be the proposed date for the final record of decision.

Do counsel have copies of that document?

(No response)

JUDGE RATZMAN: Are there any comments of requested

1 modifications of the proposed schedule.

2 MS. LEONE: Your Honor, Mr. Kari and I were

3 talking earlier. I believe we have 2 requested changes at

4 this time. The date of August 13 for the direct and rebuttal

5 testimony of parties -- Mr. Kari proposes and I have no

6 objection, that that be the 15th -- Wednesday, the 15th

7 instead of Monday the 13th.

8 The next date, data request to parties, now appear-

9 ing as August 16th, Thursday, would be changed to August 17,

10 Friday.

11 All else would remain the same.

12 JUDGE RATZMAN: Mr. Kari, did she say that right?

13 MR. KARI: Yes, Your Honor.

14 MR. MURPHY: Your Honor, I have no objection to the

15 specific proposals made. I do have a comment, however. This

16 particular issue has been one on which there have been a num-

17 ber of informal meetings prior to this formal rate proceeding,

18 during which there has been a fair amount of informal exchange

19 of information.

20 During the course of those meetings, nothing was

21 ever submitted that suggested that there is anything about the

22 proposal that any party specifically objects to and there was

23 a fair amount of support for the proposal for an extension of

24 the existing IP-PF Link for the period proposed by Bonneville.

25 If it turns out that something comes up in the course of this

1 proceeding, on which there is in fact a genuine issue of fact,
2 we won't know that until the direct testimony of any party's
3 on August 15th.
4 I don't have any specific proposals going forward,
5 but if it turns out that there is any substantial evidence
6 submitted on August 15th, I would like to leave open the
7 possibility of re-evaluating the schedule from that point
8 forward, because conceivably -- I think you probably recall in
9 the '85 rate case, the underlying issues were the subject of
10 quite a bit of evidentiary presentation and the collection of
11 the underlying data was an extremely time-consuming and
12 voluminous exercise. If it turns out that somebody has been
13 collecting information along those lines for a long period of
14 time and we are unaware of it, it may turn out that this
15 schedule won't work and I just wanted to alert Your Honor of
16 that possibility at this time.
17 JUDGE RATZMAN: Well, I try to be flexible if one
18 of these unexpected happenings does take place and ordinarily
19 the parties in Bonneville rate cases have been cooperative
20 when it's obvious that the time established has not been rea-
21 sonable. As I recall, in one of these expedited cases, it is
22 necessary for the Hearing Officer to go to the Administrator
23 with a request for extension of the matter, but I have had no
24 problem with that, again, when there has been good cause.
25 The other possibility, Mr. Collins does maintain an

1 active interest in these matters and it's possible that
2 someone might want to put in some testimony, even in response
3 to something that a participant has said or averred.
4 Mr. Collins, when would you be able to place your
5 statement as a participant? I am not trying to rush you
6 because you have quite a long time under the rules to put your
7 statement in but it might help everyone in the case if you
8 could have your statement in by say August 12th, which is a
9 Monday. I guess August 13th is a Monday. You think you could
10 have your statement in by August 13th?
11 MR. COLLINS: I believe I can. And may I say at
12 this time that my reservations, my problem with this pro-
13 ceeding was pretty well stated by Paul. I have had a feeling
14 for a good number of years that the public generally is
15 excluded from these matters unnecessarily and I, as a rate-
16 payer, low income, fixed income ratepayer, have taken quite a
17 whipping on it.
18 But I must say at this time, not being an attorney
19 or not having a lot of time to work in developing my pre-
20 sentation on this, that I am definitely at a disadvantage.
21 JUDGE RATZMAN: Well, I ask that you submit your
22 written material as a participant on or before August 13th.
23 If you do not, if you wait until the last date specified in
24 the rules, you will understand that there is no way that these
25 parties can respond to your statement or answer allegations

1 that you might make and that you can expect that they will.
2 MR. COLLINS: Your Honor, I believe I understand and
3 I am aware of that and I want to say now that I have no
4 quarrel.
5 JUDGE RATZMAN: All right. The proposed schedule
6 which has been made available to the parties is adopted as the
7 schedule in this proceeding with the 2 changes that have been
8 referred to by BPA counsel and by counsel for Puget Sound
9 Power & Light.
10 There was one document that I saw and I don't have
11 it in front of me right now that indicated that there might be
12 the possibility of further streamlining of this matter. Would
13 it be best to wait until we hit that August 15th date before
14 there are further motions, Ms. Leone?
15 MS. LEONE: I have been considering that in
16 talking to some of the other attorneys. I was thinking of
17 proposing a couple of alternatives. I can do that and then we
18 can go off the record and talk about them. It would now also
19 include proposals as to the dates.
20 One alternative would be to enter Mr. Revitch's
21 testimony on the record today -- now or after a technical
22 session, if we need one. That would be in the event there is
23 no cross-examination desired of him and I think, for example,
24 Puget is not sure whether it will want to. So that might be a
25 non-viable alternative.

1 The other one would be that at some point, and
2 August 15 might be a good date, that if there is no factual
3 dispute, no testimony or no cross-examination desired of Mr.
4 Revitch, no opposition to Bonneville's proposal, in other
5 words, that Bonneville simply by affidavit, after the 15th of
6 August, enter Mr. Revitch's testimony into the record. It may
7 be that if anyone does want testimony -- wants cross-
8 examination, that that party file a motion by the 15th. But I
9 think by the 15th, we would probably know, by the fact that
10 they filed direct testimony.
11 JUDGE RATZMAN: I think the Hearing Clerk can take
12 care of that by simply contacting the small number of parties
13 in this case. John, if you would, early in the week in which
14 August 15th falls, say on Tuesday the 14th, if you would con-
15 tact each of the parties to find out where they stand on the
16 question of how formal the rest of the case would be at that
17 point and perhaps it would stand in the light of eliminating
18 some of these dates and some of the activities specified for
19 those dates at that time, similar to what happened in the last
20 case that we had.
21 It seems that there are parties and of course, Mr.
22 Collins, who do want to think about this case a little bit
23 more. I don't think that we'll try to cut out any of the
24 items on this proposed schedule, or adopted schedule, today.
25 Is there any other matter to be taken up this

1 morning in the IP-PF Link case?

2 MR. MURPHY: I would like to follow Ms. Leone's

3 suggestion that we have a brief off-the-record discussion

4 among counsel before we terminate this proceeding. I think

5 her suggestion makes a lot of sense, that is, to go through

6 the preliminaries of getting the testimony sworn to. Typi-

7 cally, testimony is admitted in any event in these proceed-

8 ings, subject to subsequent motions to compel and cross-

9 examination, if anything develops. If it turned out that

10 there were no issues in this case, we could all avoid the need

11 to come back on September 5th, and I think that would be a

12 worthwhile exercise, if, in fact, there is a substantial

13 probability that we wouldn't have to do that.

14 JUDGE RATZMAN: We'll go off the record for 15

15 minutes and counsel can discuss how this should be handled and

16 whether or not there can be some time saved, in particular

17 with respect to Mr. Revitch's testimony.

18 We're off the record.

19 (Off-the-record period)

20 JUDGE RATZMAN: We'll be on the record.

21 Have counsel agreed or not as to how the questions

22 which we left pending should be handled?

23 MS. LEONE: Yes. What we propose is that the

24 schedule continue as is through the 15th of August, when

25 direct and rebuttal testimony of parties is due.

1 Now, right after this prehearing conference, we are
2 going to have a technical session. It won't be reported and
3 it won't be clarification.
4 On August 13, Mr. Collins will file his statement,
5 if he has one. On the 14th, Mr. Ciminello will contact all
6 counsel, find out if they have a desire to either cross-
7 examine Mr. Revitch or to file testimony on their own behalf.
8 If the answer to both those questions is "no," then after the
9 15th of August, we, Bonneville, will file an affidavit to
10 enter Mr. Revitch's testimony on the record.
11 Then all dates thereafter, up until the 25th of
12 September, will vanish from this procedural schedule.
13 A draft record of decision will be issued on Septem-
14 ber 25.
15 On October 5, there will be the opportunity for
16 either briefs or oral argument. As you may recall, there is,
17 in the rules of practice, the requirement that the parties
18 specify which, in an expedited hearing, they wish, briefs or
19 oral arguments.
20 Then the final record of decision will be issued on
21 October 17.
22 I have not committed to what date an affidavit of
23 Mr. Revitch would be filed. I assume it would be some time
24 the week of the 12th or the week of the 20th.
25 JUDGE RATZMAN: Would you want to have Mr. Revitch

1 sworn this morning and sponsor his testimony under oath, and
2 simply have cross-examination either orally or in writing
3 deferred by the parties, to eliminate the need for an affi-
4 davit?
5 MS. LEONE: That would probably expedite matters.
6 Whereupon,
7 HAIG REVITCH
8 was called as a witness by and on behalf of BPA, and first
9 having been duly sworn, was examined and testified as fol-
10 lows:
11 JUDGE RATZMAN: You may be seated. Counsel?
12 DIRECT EXAMINATION
13 Q (By Ms. Leone) Will you state your name and address
14 for the record, please?
15 A My name is Haig Revitch. My business address is 905
16 N.E. 11th Avenue, Portland, Oregon 97232. I work for Bonne-
17 ville Power Administration.
18 Q And do you have before you, a document entitled
19 "Bonneville Power Administration Testimony, IP-PF Link Exten-
20 sion 1990," which has been marked for identification as "IP-
21 PF-90-E-BPA-01"?
22 A I do.
23 Q Was this testimony prepared under your direction,
24 supervision or control?
25 A Yes.

1 Q Do you have any additions, corrections or deletions
2 to that testimony?
3 A No.
4 Q If I asked you today the same questions that appear
5 in Exhibit E-BPA-01, would your answers be the same?
6 A Yes.
7 MS. LEONE: I'll offer Exhibit E-BPA-01 into evi-
8 dence and the witness will be available for cross-examination
9 on the 5th and 6th of September, should anyone so desire.
10 JUDGE RATZMAN: Yes. The statements of the witness
11 regarding his qualifications and his testimony concerning the
12 IP-PF Link have been submitted under oath and I will defer my
13 ruling on admission of Mr. Revitch's testimony until counsel
14 in this matter have had the opportunity to cross-examine the
15 witness.
16 (Witness excused)
17 JUDGE RATZMAN: Is there any other matter to be
18 taken up?
19 (No response)
20 JUDGE RATZMAN: This prehearing conference is at an
21 end and I wish to thank the counsel and Mr. Collins for
22 appearing this morning and the witness as an expert.
23 Thank you.
24 (Thereupon, at 10:10 o'clock a.m., the prehearing
25 conference was concluded.)

BEFORE THE
U. S. DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION
PORTLAND, OREGON

- :
PREHEARING CONFERENCE :
In the Matter of: : IP-PF-90
IP-PF LINK EXTENSION 1990 :
- :

I, the undersigned Wm. Chun, hereby certify that I was Official Reporter in the above-captioned proceedings; that these proceedings were then and there recorded by me on the date and at the place set forth in Captioned Page 1 hereof; that thereafter, these proceedings were reduced to a computer printout by me and/or under my direction; that the foregoing transcript, Pages 1 to 17, both inclusive, constitutes a full, true and accurate transcript of said proceedings, so recorded by me and produced to the best of my ability.

IN WITNESS WHEREOF, I have hereunto set my hand this 27th day of July, 1990.

WM. CHUN,
Official Reporter.

E - EXHIBITS

Bonneville Power Administration Testimony

IP-PF Link Extension 1990

BPA Exhibit No.	**Witness**
IP-PF-90-E-BPA-01	Haig Revitch

Bonneville
POWER ADMINISTRATION

000057

July 19, 1990

ORGANIZATION OF TESTIMONY OF

HAIG REVITCH

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Attachments

1. FY 1987 IP-PF Rate Link Derivation
2. BPA IP-PF Rate Link Extension Proposal

Testimony

of

Haig Revitch

SUBJECT: IP-PF Rate Link Continuation

Section 1: Qualifications

Q. Please state your name and business address.

A. My name is Haig Revitch. My business address is Bonneville Power Administration, 905 NE 11th Avenue, Portland, Oregon 97232.

Q. In what capacity are you employed?

A. I am a Public Utilities Specialist (Rates), Division of Contracts and Rates, Branch of Rates.

Q. Would you please describe your education and professional work experience prior to employment with BPA.

A. I graduated from the Florida State University with a Bachelor of Science degree in business administration in 1970. I received a Master of Business Administration degree from the George Washington University in 1975. During 1975 I worked as a cost accountant for a major Florida land developer. From 1976 through 1980, I was employed by the Potomac Electric Power Company, performing tasks related to rate filings, budgeting, financial analysis, and financial administration.

Q. Describe your responsibilities and assignments since you started work with BPA.

A. I was hired by BPA in 1981 as a rate analyst. In that capacity I was responsible for preparation of BPA's Cost of Service Analysis (COSA). I have testified on various cost-of-service issues in BPA's rate filings of 1982, 1983, 1985 and 1987. I am currently responsible for dealing with a

variety of rate related issues, primarily in the areas of rate design and rate administration.

Section 2: Purpose and Summary

Q. What is the purpose of your testimony?

A. My purpose is to explain and support the continuation of the existing formal relationship of the Industrial Firm Power (IP) premium and standard rates (and their successors) and the Variable Industrial (VI) rate (and its successors) with the Priority Firm Power (PF) rate. This formal relationship is referred to as the IP-PF rate link.

Q. What objectives guide your proposal to continue the existing IP-PF rate link?

A. The proposal to continue the existing IP-PF rate link seeks to achieve two goals. The first is to maintain BPA's planning certainty by continuing to provide BPA's direct service industrial customers (DSIs), who buy power at the IP and VI rates, with predictable and stable rates through the period in which the rate link is effective. Because the cost of electric power is a major cost of production for the DSIs, predictable and stable rates would reduce the uncertainties associated with their plant operations. BPA thus would be able to forecast more accurately its resource and revenue needs. The second goal is to reduce both data collection requirements and the controversy associated with setting the Industrial Firm Power rate and the Variable Industrial rate in future rate filings.

Q. Please summarize your testimony.

A. Section 3 discusses the purpose of the IP-PF rate link, the development of the link, and the duration of the proposed continuation of the link period. Section 4 describes the major features and calculation of the

IP-PF rate link. Section 5 describes reasons for continuing the existing IP-PF rate link.

Section 3: Purpose of the IP-PF Rate Link

Q. What factors led to the proposed IP-PF rate link?

A. In the 1985 wholesale power rate proceeding, the DSIs proposed that the IP demand and energy charges be set equal to the PF demand and energy charges on a long-term basis in order to provide the DSIs with rate stability for long-term planning (Initial Brief, DSI, WP-85-B-DS-01, at 67; Reply Brief, DSI, WP-85-R-DS-01, at 6). The DSIs argued that there are technical problems and a significant degree of discretion associated with the implementation of the DSI rate provisions of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). These factors caused the DSIs concern about the predictability of their power rates in the future. The DSIs argued that rate instability inhibits the DSIs' ability to plan plant investment, operating levels, and power purchases with a reasonable degree of certainty. By fixing a relationship between the DSI rate and rates to BPA's public agency and cooperative customers, the DSIs would be provided the rate predictability and enhanced planning certainty they have indicated they need in order to remain in business.

Q. Were there any other factors?

A. Yes. The studies prepared to establish the IP rate and its relationship to the PF rate in the 1985 rate case engendered considerable controversy over the data, the study methodologies, and the interpretation of section 7(c)(2) of the Northwest Power Act. A formal link between the IP and PF rates removes a great deal of the controversy from future BPA rate cases, as it did in the 1987 rate case.. The fixed relationship between

the rates removes much of the uncertainty about how provisions in sections 7(c)(2) and 7(c)(3) of the Northwest Power Act that determine the DSI rates that will be implemented over time. Sections 7(c)(2) and 7(c)(3) of the Northwest Power Act describe the fundamental relationship between rates applicable to the DSIs and BPA's Priority Firm rate in BPA's ratemaking processes after June 30, 1985.

Q. Is the IP-PF rate link consistent with BPA's development of the DSI rate in the 1985 rate proceeding in which BPA interpreted and implemented sections 7(c)(2) and 7(c)(3) of the Northwest Power Act?

A. Yes. The rate directives of section 7(c)(2) of the Northwest Power Act require an equitable relationship between the rates to the DSIs and the rates charged by BPA's preference customers to their industrial customers. In BPA's 1985 rate filing, all the components of the link methodology were established (Section 7(c)(2) Industrial Margin Study, 1985 Rate Filing, WP-85-FS-BPA-4, established the Applicable Wholesale Rate, Net Standard, and Net Premium Margins; Documentation for Wholesale Power Rate Design Study, 1985 Rate Filing, WP-85-FS-BPA-08A, established the Value of Reserves methodology, and credit).

A formal long-term link was not established in that rate filing, although the Administrator supported the development and adoption of a methodology to link the two rates on a long term basis (Administrator's Record of Decision, WP-85-A-02, at 245) In 1986 BPA developed a formal proposal for a long-term IP-PF rate link and incorporated that proposal in its 1987 rate filing. Under the IP-PF rate link methodology, the DSI rates continue to be a function of the PF rate (and, if applicable, the NR rate), the typical margins charged industrial consumers of preference customers, and the value of reserves.

The existing methodology maintains the relationship between the IP and PF rates established in the 1985 rate proceeding and maintained through the 1987 and 1989 rate proceedings. While some conditions have changed in the intervening period, the IP-PF rate link is still a reasonable representation of the directives contained in section 7(c)(2) of the Northwest Power Act.

Q. Does BPA's proposal to continue the IP-PF rate link differ from the link methodology implemented in BPA's 1987 rate proceeding?

A. No. BPA proposes to extend and continue the IP-PF rate link methodology that was implemented in the 1987 rate proceedings. However, the terminology currently used in BPA's Wholesale Power Rate Schedules differs slightly. The Rate Schedules now refer to the IP Premium rate as the IP Rate, and the IP Standard rate as the IP discounted rate.

Q. When does the current IP-PF rate link expire?

A. The current methodology expires with the expiration of rates in effect on June 30, 1990. Unless the IP-PF rate link methodology is extended, it will expire with the expiration of BPA's current rates.

Q. For what time period does BPA propose to extend the IP-PF rate link?

A. BPA proposes to extend and continue the use of the existing link methodology through rate periods commencing on or before the termination of the VI rate contract, or September 30, 1995, whichever is later.

Q. Why is BPA proposing this period?

A. The 5-year period proposed is sufficient to provide medium-term rate and revenue predictability for BPA. It covers a reasonable horizon in which the DSIs can plan for investments and operations under conditions of rate predictability. The proposed period also allows revisitation within a reasonable time to assure that the link is still appropriate. Moreover,

the period proposed covers the remaining period for which the VI rate will be in effect. Both the IP-PF rate link and the VI rate are intended to provide stability to DSI loads and it is logical for these methodologies to be coterminous.

Q. To what extent will the DSIs be subject to the adjustment and surcharge provisions applicable to BPA's preference customers?

A. The DSIs, during the term of the IP-PF rate link, would be subject to all adjustment clauses, surcharges, or credits uniformly applicable under the PF rate schedule (and, if applicable, under the NR rate schedule). The DSIs will be subject to these provisions if the IP Premium rate and the IP Standard rate levels are defined by the IP-PF rate link itself, rather than through the triggering of the DSI floor rate. The rate design adjustment resulting from the triggering of the DSI floor rate test is performed after the adjustment for the IP-PF link is made, and therefore causes a change in the levels of the IP Premium and Standard rates not related to the IP-PF rate link methodology.

Section 4: Application of the IP-PF Rate Link

Q. Please describe the components of the IP-PF rate link.

A. The components of the IP-PF rate link are described in Attachment 2, under the heading Terms and Definitions.

Q. Is BPA proposing to predetermine the applicable wholesale rate through the proposed period during which the IP-PF link is sought to be extended?

A. No. The applicable wholesale rate would be determined for each separate general rate filing. BPA's IP-PF rate link proposal simply provides a method for quantifying the differences between the IP Premium and Standard rate margins and the value of reserves credit (i.e., the net Premium and

net Standard margins). These differences, in effect, constitute the link between the rates to BPA's preference customers and to the DSIs.

Q. What are the major features of BPA's proposed IP-PF rate link?

A. The first feature is the effective rate link, or net Premium and Standard margins, which was determined in the 1985 rate case. As Attachment 1 shows, the IP Premium rate margin from the Final 7(c)(2) Industrial Margin Study was 2.82 mills per kilowatthour and the value of reserves credit from BPA's final proposal was 1.90 mills per kilowatthour. Therefore, the difference of .92 mills per kilowatthour is the effective net Premium margin for the period during which the 1985 rates were in effect. The character of service adjustment was .54 mills per kilowatthour. Therefore, the net Standard margin was .38 mills per kilowatthour (.92 mills per kilowatthour minus .54 mills per kilowatthour).

Q. Are these margins fixed over time?

A. No. The net margins are escalated at the general rate of inflation as shown in Attachment 2 under the heading 'Formulas'. For each subsequent rate filing beyond fiscal year 1987 (the test year used in the 1985 rate case), the effective net Premium and Standard margins would be adjusted by an inflation factor based on the latest available information concerning GNP implicit price deflators for the relevant test period. The resulting amounts would then be added to the applicable wholesale rate as determined in a general rate filing, to determine the IP Premium and Standard rates.

V. <u>Reasons for Extending the IP-PF Rate Link</u>

Q. Why were the IP Premium and Standard rate margins and value of reserves credit from the 1985 rate proceeding chosen as the basis of the IP-PF rate link?

A. The IP Premium rate margin, the IP Standard rate margin, and the value of reserves credit were evaluated in the 1985 rate proceeding. They were developed in an extensive hearings and public review process and were determined by the Administrator to be based on reasonable analyses and assumptions. The Premium and Standard rate margins were calculated using a data base sponsored by two of BPA's major customer groups, which demonstrates the substantial support the data base carried. The long-term link methodology developed in 1986, and implemented in the 1987 rate filing used the same data used in the 1985 rate proceeding.

Q. Has BPA updated results from the 1985 7(c)(2) Industrial Margin Study with respect to values for the IP Premium and Standard rate margins, the character of service adjustment, or the value of reserves credit?

A. No new studies have been performed. Although there have been some modest changes in circumstances, the link is still a reasonable representation of BPA's interpretation of the requirements of section 7(c)(2) of the Northwest Power Act. Updates of the analyses might result in changes to individual components of the net margins, however, these updates would require extensive effort by BPA and its customers, and may create some controversy. Moreover, there is no reason a priori to expect that any changes in the components of the net margins would be systematic, and that the resulting net margins would be significantly different from those resulting from the IP-PF Link.

Q. In summary, what are the potential benefits of BPA's proposed IP-PF rate link extension?

A. First, the proposal meets the primary objective of enhancing BPA's planning certainty by reducing rate uncertainty perceived by the DSIs. Second, extension of the link would reduce controversy in future rate

cases. Finally, the rate link is simple and straightforward, while maintaining consistency with the provisions of the Northwest Power Act.

Q. Does this conclude your testimony?

A. Yes.

ATTACHMENT 1

FY 1987 IP-PF RATE LINK DERIVATION

Line No.	Item Description	Amount Mills/kWh
1.	FY 1987 Premium Rate Margin	2.82 1/
2.	Less: Value of Reserves Credit	1.90 2/
3.	FY 1987 net Premium margin	.92 3/
4.	Less: Character of Service Adjustment	.54 4/
5.	FY 1987 net Standard Margin	.38 5/

1/ Source: 1985 Final Section 7(c)(2) Industrial Margin Study, May 1985, WP-85-FS-BPA-4, p 12 of 20.

2/ Source: 1985 Final WholesalePower Rate Design Study, May 1985, WP-85-FS-BPA-08, p 109 Of 161; energy component of VOR Credit of 1.4 mills/kwh and demand component of VOR credit of $ .36/kW/mo yields average VOR credit of 1.9 mills/kWh at 98 percent load factor.

3/ Line 1 minus line 2.

4/ Source: 1985 Final Section 7(c)(2) Industrial Margin Study, May 1985, WP-85-FS-BPA-4, p 12 of 20.

5/ Line 3 minus line 4.

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ATTACHMENT 2

IP-PF Rate Link Extension Proposal

The current link expires with the current rates. BPA is proposing to extend the use of the link methodology through rate periods commencing on or before the termination date of the VI Rate contract or September 30, 1995, whichever is later.

A. Terms and Definitions

Section 7(c)(1)(B) of the Northwest Power Act states that rates to BPA's direct-service industrial (DSI) customers after July 1, 1985, shall be equitable in relation to the industrial rates charged by BPA's preference customers. Section 7(c)(2) states that rates to the DSIs are to be based upon: (1) BPA's applicable wholesale power rates to its preference customers; and (2) typical margins above power and transmission costs included in the preference customers' rates to their industrial customers. The resulting rate levels are subject to the floor rate provision of section 7(c)(2), which provides for a minimum DSI rate level. Relevant terms are defined as follows:

a. Applicable Wholesale Rate. As provided in section 7(c)(2) of the Pacific Northwest Power Act, the BPA wholesale power rates developed for power purchases by BPA's public body and cooperative customers, adjusted for DSI load shape (time pattern of consumption).

b. Premium Margin. The typical margin above wholesale power costs referred to in section 7(c)(2) of the Northwest Power Act, adjusted for the size of DSI loads. As determined in the 1985 Administrator's ROD for BPA's rate adjustment proceeding, calculation of the Premium margin recognizes

that, in the test year for which those rates were set, none of the service to the DSI first quartile under the IP Premium rate was dependent on the availability of nonfirm energy.

c. Standard Margin. The typical margin above wholesale power costs referred to in section 7(c)(2) of the Northwest Power Act, adjusted for the size of load and the character of service to the first quartile. As determined in the 1985 Administrator's ROD, calculation of the Standard margin recognizes that, in the test year for which those rates were set, service to a portion of the first DSI quartile under the IP Standard rate was dependent on the availability of nonfirm energy.

d. Value of Reserves Credit. The rate credit granted the DSIs for BPA's contractual rights to restrict their load under certain conditions.

e. Net Premium Margin. The Premium margin less the Value of Reserves Credit.

f. Net Standard Margin. The Standard margin less the Value of Reserves Credit.

g. IP-PF Link. The methodology for linking the rates for BPA's DSI customers to the rates for BPA's public body and cooperative customers on a long-term basis.

h. IP Premium Margin-Based Rate. The rate level defined by the following components: the applicable wholesale rate, the premium margin, and the value of reserves credit.

i. IP Standard Margin-Based Rate. The rate level defined by the following components: the applicable wholesale rate, the standard margin, and the value of reserves credit.

j. IP Premium Rate. The rate option contained in the IP rate schedule which includes first quartile service with Surplus Firm Energy Load Carrying Capability (FELCC). The level of the IP Premium Rate contained in the IP rate schedule may not necessarily equal the level of the IP Premium margin-based rate. The IP Premium rate is subject to further adjustments, specifically any section 7(b)(2) and section 7(b)(3) adjustments, or scaling to adjust for the rate period extending beyond the test year, to determine the IP Premium rate. [NOTE: BPA's current Wholesale Power Rate Schedules refer to the IP Premium rate as the IP rate.]

k. IP Standard Rate. The rate option contained in the IP rate schedule which includes first quartile service with nonfirm energy and/or provisional drafts. The level of the IP Standard rate contained in the IP rate schedule may not necessarily equal the level of the IP Standard margin-based rate. The IP Standard rate is subject to the floor rate test. Further, the IP Standard margin-based rate may be subject to further adjustments, specifically, any section 7(b)(2) and/or section 7(b)(3) adjustments, or scaling to adjust for the rate period extending beyond the test year, to determine the IP Standard rate. [NOTE 1: In BPA's 1987 rate

filing, it was determined that the 7(b)(3) adjustment was zero. However, BPA has not received final approval of its 1987 rates from FERC. NOTE 2: The IP Standard rate is currently referred to as the IP discounted rate in BPA's Wholesale Power Rate Schedules.]

l. Floor Rate. The rate determined in BPA's wholesale rate case that forms the basis for computing a minimum DSI rate level that meets the requirements of section 7(c)(2) of the Northwest Power Act.

m. Character of Service Adjustment. Under the IP Standard rate, the DSI first quartile is served with nonfirm powerand borrowed energy.. The IP Premium rate assumes firm power is used to provide first quartile service to the DSIs The character of service adjustment is applied to the IP Premium rate margin to reflect the risks associated with nonfirm service under the IP Standard rate.

B. FORMULAS

The proposed IP-PF Link incorporates the following formulas for inflating the FY 1987 net Premium and net Standard margin:

1. $IP_p = AWR + [.92 \times \frac{\text{GNP deflator (year)}}{\text{GNP deflator (1987)}}]$

2. $IP_S = AWR + [.38 \times \frac{\text{GNP deflator (year)}}{\text{GNP deflator (1987)}}]$

Where:

"IP_p" is the IP Premium margin-based rate (mills per kilowatthour) or its successor, as determined by the Link.

"IP_S" is the IP Standard margin-based rate (mills per kilowatthour) or its successor, as determined by the Link.

"AWR" is the Applicable Wholesale Rate, as referred to in section 7(c)(2) of the Northwest Power Act, to BPA's public body and cooperative customers. The AWR is the weighted average of the PF demand and energy charges in the rates charged for firm power for the combined general requirements of public body and cooperative customers (weighted by PF energy sales to the public agencies) and NR demand and energy charges in the rates charged public body and cooperative customers applicable to their new large single loads (weighted by energy sales to public agencies for resale to new large single loads) applied to the DSIs' demand and energy billing determinants as forecasted in the section 7(i) proceeding in which the Link is applied.

".92" is the Fiscal Year (FY) 1987 net Premium margin, based on 100 percent service to the first quartile, none of which is dependent on the availability of nonfirm energy, as determined in the 1985 ROD.

".38" is the FY 1987 net Standard margin, based on service to the first quartile, a portion of which is dependent on the availability of nonfirm energy, as determined in the 1985 ROD.

"GNP deflator (1987)" is the GNP deflator Index for 1987.

"GNP deflator (year)" is the GNP deflator Index for the test year in subsequent section 7(i) proceedings where the IP rates are to be determined by the Link.

C. OTHER TERMS AND CONDITIONS OF THE IP-PF RATE LINK

1. Except as required by the floor rate provision of the Northwest Power Act, the IP test year rates shall be determined in any section 7(i) proceeding to establish rates effective on or before the termination date of the VI rate contract, or September 30, 1995, whichever is later, by the formulas in paragraph B. The purpose of the formulas is to eliminate the need to recalculate during the term of the Link the value of reserves (including the VOR credit) and the "typical margin," net of adjustments as set forth in sections 7(c)(2)(A), (B), and (C) of the Northwest Power Act. The only variables in the formulas are "AWR" and "GNP deflator (year)." That is, for each section 7(i) proceeding in which the Link is applied, "AWR" shall be calculated from the PF and NR rates as determined in that proceeding and "GNP deflator (year)" shall be the GNP Index for the test year used for all other purposes in that proceeding.

If the test year is a prospective period, then "GNP deflator (year)" will be the forecasted GNP deflator index used for all other purposes in the rate proceeding. Further, if the IP rates determined by the Link will be effective for periods other than the test year, then these rates may be scaled upward or downward to those future periods as appropriate.

2. In the event that the rates established as described in paragraph B, rather than the section 7(c)(2) floor rate, govern the applicable IP rates, then, in addition to any potential section 7(b)(3) obligations on the part of the DSIs, including surcharges arising from the "triggering" of the section 7(b)(2) rate test, the DSIs shall also be subject during the term of the Link to adjustment clauses, surcharges, or credits uniformly applicable to the PF rate schedule. Such adjustments would include the Cost Recovery Adjustment Clauses uniformly applicable to purchases under the PF and NR rate schedules. For purposes of the prior sentence, the Low Density Discount and Irrigation Discount available to some customers and any surcharge for noncompliance with model conservation standards shall not be considered "uniformly applicable."

3. For the duration of the Link, BPA will continue to make available to the DSIs power of the quality to which the DSIs are entitled under their Power Sales Contracts with BPA, at the rates established as described in paragraphs B.1.a. and C.1. BPA will also make available to the DSIs, on an optional basis, service, the qualities of which shall be specified by the Variable Rate Contract and which shall remain unchanged while the contract is in force throughout the duration of the Link, at the rates established as described in paragraphs B.1.b and C.1.

H - HEARING SCHEDULE - Letters and Documents

PROPOSED SCHEDULE

IP-PF Link Extension 1990

Thursday	July 26	Prehearing conference (and technical session, if requested)
Thursday	August 2	Data requests to BPA
Monday	August 6	Clarification of BPA; objections to data requests
Tuesday	August 7	Data requests to BPA resulting from clarification
Thursday	August 9	Data responses from BPA
Friday	August 10	Motions to compel
Monday	August 13	Direct/rebuttal testimony of parties
Thursday	August 16	Data requests to parties
Monday	August 20	Clarification of parties; objections to data requests
Tuesday	August 21	Data requests to parties resulting from clarification
Thursday	August 23	Data responses from parties
Friday	August 24	Motions to compel
Wednesday	August 29	Rebuttal testimony of litigants
Friday	August 31	Data requests to litigants
Tuesday	September 4	Data responses from litigants
Wed./Thur.	September 5-6	Cross-examination
Friday	September 14	Briefs of parties
Tuesday	September 25	Draft Record of Decision
Friday	October 5	Briefs on exceptions or oral argument of parties
Wednesday	October 17	Final Record of Decision

IP-PF-90-H-01 (7/26/90)

jdc/VS9 (CIMINELO:265)

DATE: August 14, 1990

FROM: John D. Ciminello, Hearing Clerk

SUBJECT: Schedule

TO: Parties of Bonneville Power Administration's Proposed Extension of the Industrial Firm Power - Priority Firm Power Rate Link Methodology

Pursuant to an agreement by attorneys for all parties and consistent with discussions held during the prehearing conference, direct testimony will not be submitted by any party. Thus, deadlines listed for data requests, responses and clarification will be dropped from the schedule. Also by agreement of the parties, cross-examination will be eliminated. However, the schedule will resume with the initial brief date of September 14, 1990. Please see schedule summary below.

IP-PF-90 Schedule

Friday	September 14	Briefs of parties
Tuesday	September 25	Draft Record of Decision
Friday	October 5	Briefs on exceptions or oral argument of parties
Wednesday	October 17	Final Record of Decision

B - INITIAL BRIEF

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BEFORE THE

U. S. DEPARTMENT OF ENERGY

BONNEVILLE POWER ADMINISTRATION

PROPOSED EXTENSION OF THE INDUSTRIAL FIRM POWER -- PRIORITY FIRM POWER RATE LINK METHODOLOGY	BPA File No. IP-PF-90

BRIEF OF THE DIRECT SERVICE INDUSTRIAL CUSTOMERS IN SUPPORT OF PROPOSED EXTENSION

Aluminum Company of America
Columbia Aluminum Corporation
Columbia Falls Aluminum Company
Georgia-Pacific Corporation
Intalco Aluminum Corporation
Kaiser Aluminum & Chemical Corporation
Northwest Aluminum Company
Oregon Metallurgical Corporation
Pennwalt Corporation
Reynolds Metals Company
Vanalco, Inc.

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September 14, 1990

IP-PF-90-B-DS-01

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

PROPOSED EXTENSION OF THE INDUSTRIAL FIRM POWER -- PRIORITY FIRM POWER RATE LINK METHODOLOGY	BPA File No. IP-PF-90

BRIEF OF THE
DIRECT SERVICE INDUSTRIAL CUSTOMERS
IN SUPPORT OF PROPOSED EXTENSION

This brief is submitted by the Direct Service Industrial Customers (DSIs) of the Bonneville Power Administration (BPA) in support of the proposed extension of the IP-PF Link through rate periods commencing on or before termination of the Variable Industrial rate contracts or September 30, 1995, whichever is later. The DSI have consistently supported development of a predictable link between their power rates and BPA's Priority Firm (PF) rate. The DSIs believe that a predictable connection between the DSIs' power rate and the rate based on BPA's overall costs (the Priority Firm rate) brings considerable stability to their rate. Because power costs are a critical portion of total production costs for the DSIs, rate stability is important for the DSIs when they make plant investment decisions and decisions whether to continue operations through market downturns. Because the DSIs are a significant portion of BPA's total load, stable DSI operations

also benefit BPA by providing BPA with a reliable source of revenues and with increased load planning certainty.

The DSIs support extension of the existing IP-PF Link because it remains critical to DSI rate stability, is consistent with the DSI statutory rate directives, and will continue to produce a reasonable approximation of the IP rate required by these rate directives. In short, the IP-PF Link should be extended for the same reasons that it was adopted in 1987.

In the 1987 Record of Decision (ROD) initially adopting the IP-PF Link Methodology, the Administrator found that (1) the IP-PF Link Methodology incorporates all the elements of the section 7(c)(2) and (3) rate directives for setting the IP rate; (2) reasonably approximates specific elements of these rate directives (the "margin" and value of reserve (VOR) credit); and (3) achieves the dual goals of increasing BPA's load planning certainty by providing the DSIs with improved rate predictability and reducing the need for collection of data in rate cases and the controversy associated with setting rates.

These findings apply to the proposed extension of the IP-PF Link as well. First, the Administrator's legal interpretation of the section 7(c)(1)(2) and (3) rate directives remains correct. Second, BPA staff's uncontroverted testimony in this proceeding is that the IP-PF Link Methodology still provides

a reasonable representation of the margin and VOR credit components required by these rate directives. Revitch (IP-PF-90-E-BPA-01) at 8. Third, extending the IP-PF Link would maintain BPA's planning certainty and reduce data collection requirements and rate setting controversy. Revitch at 2. For the same reasons that the IP-PF Link was adopted in 1987, it should now be extended.

I. The IP-PF Link Methodology Implements The Section 7(c)(2) and (3) Rate Directives.

In the 1987 ROD initially adopting the IP-PF Link Methodology, the Administrator found that "[t]he development of post-1985 rates to the DSIs is defined to a large extent already by sections 7(c)(2) and 7(c)(3) of the... Northwest Power Act. The proposed rate link simply predetermines two components, the margin and the VOR credit..." ROD at 10. The Administrator's interpretation of section 7(c)(2) and (3) was correct and supports the proposed extension of the IP-PF Link.

Congress directed that the IP rate "shall be based upon the Administrator's applicable wholesale rates to... public body and cooperative customers and the typical margins included by such public body and cooperate customers in their retail rates..." adjusted "to take into account the value of power system reserves made available to the Administrator through his rights to interrupt or curtail service to such direct service industrial customers."

Sections 7(c)(2) and (3). Implementing this statute, the IP-PF Link Methodology calculates the IP rate as the applicable wholesale rate (i.e., the Priority Firm (PF) rate adjusted for DSI load shape), plus the margin (i.e., the typical margin above wholesale power costs charged by BPA's preference customers to their industrial consumers, adjusted for the size of the DSI loads and character of top quartile service), and less the value of reserves credit (i.e., the value to BPA of its restriction rights to the other DSI quartiles). The IP rate is recalculated when the PF rate changes and in that recalculation the net margin (margin less VOR) is adjusted by the GNP deflator.

II. The Net Margin of the Initial IP-PF Link Remains A Reasonable Approximation of the Requirements of the Section 7(c)(2) and (3).

The IP-PF Link Methodology quantified the net margin at .38 for standard IP service and .92 for premium IP service (now called discount and base service, respectively). These numbers were based on extensive data collected in the 1985 rate case. Staff's undisputed testimony in this proceeding is that these net margins (with GNP escalation) remain reasonable approximations of these elements of sections 7(c)(2) and (3) during the proposed extension of the IP-PF Link. Revitch at 9. "BPA has no reason to believe that the results of the IP-PF Link would be significantly different from the results of redoing the studies developed to establish the

link in the 1985 rate case." BPA Data Responses PS/BPA - 2. Nor is any significant change in circumstances expected during the proposed extension period (though rate periods commencing on or before termination of the VI contract or September 30, 1995, whichever is later) which would produce a significantly different net margin.

III. The Policy Reasons for Adopting the IP-PF Link Remain Strong Reasons to Extend the Link.

Important policy reasons lead BPA to adopt the IP-PF Link. The rate predictability and stability provided to the DSIs by linking the IP rate to the PF rate would allow the DSIs to make long-term investment and operating decisions and would increase BPA's planning certainty. Further, the IP-PF Link would reduce the need to collect margin and VOR data in each rate case and would eliminate unproductive rate disputes between the customers.

The IP-PF Link has been an unqualified success. The IP-PF Link has been crucial to the success of BPA's PIP process. The potentially divisive questions of the margin and VOR have been resolved, allowing BPA to streamline its rate process significantly. Since adoption of the IP-PF Link (and the Variable Industrial Rate), the DSIs have had very stable, high level operations and revenues on DSI power sales have assisted BPA in providing its customers an unprecedented period (under the Regional

Act) of rate stability. Extending the link will allow the DSIs, BPA and the region to continue to enjoy these benefits. Revitch at 2.

WHEREFORE, the DSIs respectfully request that the IP-PF Link methodology be extended for the proposed period.

DATED: September 14, 1990.

Respectfully submitted,

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Attorneys for Direct
Service Industrial Customers

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the original plus 30 copies of the foregoing **BRIEF OF THE DIRECT SERVICE INDUSTUSTRIAL CUSTOMERS IN SUPPORT OF PROPOSED EXTENSION** to be filed by hand delivery to Bonneville Power Administration. I have also caused two copies of the foregoing Brief to be served by first class mail on all parties on the attached Official Service List.

DATED: September 14, 1990.

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A-01 - DRAFT RECORD OF DECISION

Draft Record of Decision

1990 IP-PF Rate Link Extension

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Bonneville
POWER ADMINISTRATION

September 1990

DRAFT RECORD OF DECISION

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1990 IP-PF RATE LINK EXTENSION PROPOSAL

Draft Record of Decision

CHAPTER I

BACKGROUND

A. Introduction

Bonneville Power Administration (BPA) sells electric power to its direct service industrial (DSI) customers under the Industrial Firm Power (IP) rate schedule and, for those DSI aluminum smelters electing to participate, the Variable Industrial Power (VI) rate schedule and contracts. BPA's public body and cooperative (preference) customers purchase power under the Priority Firm Power (PF) rate schedule and, potentially, under the New Resource Firm Power (NR) rate schedule.

In 1987, BPA adopted a methodology establishing a formal relationship between rates charged to DSI customers and rates charged to preference customers. This relationship is referred to as the IP-PF rate link. Administrator's Record of Decision, 1986 IP-PF Rate Link Proposal, March 1987, (1987 Link ROD) confirmed and approved in United States Dep't of Energy - Bonneville Power Admin., 40 F.E.R.C. ¶61,351 (1987). The link expires upon the expiration of BPA's current rates, that is, on September 30, 1991.

On July 19, 1990, BPA published a notice proposing to extend the IP-PF link through rate periods commencing on or before the termination date of the VI rate contracts or September 30, 1995, whichever is later. 55 Fed. Reg. 29,402. This Draft Record of

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Decision (ROD) concludes, based on the record developed during a rate hearing process, that the link should be so extended.

B. History of the IP-PF Rate Link

In the 1985 wholesale power rate proceeding, the DSIs proposed that the IP Standard rate be set equal to the PF rate on a long-term basis to provide the DSIs with increased rate stability. DSI Initial Brief, WP-85-DS-01 at 67; DSI Reply Brief, WP-85-R-DS-01 at 1. The BPA Administrator pledged "to facilitate the development and adoption of a long-term policy" to link the two rates. 1985 Administrator's Record of Decision, WP-85-A-02 at 245.

Later in 1985, BPA concluded an analysis of mid- to long-term policy and rate options available to the Administrator to address the problems caused by fluctuations in the DSI demand for electricity. BPA examined five options to assist the DSIs in maintaining their load levels. The final DSI Options Study, issued in June of 1985, announced BPA's decision to initiate a formal rate hearing to consider the design of a long-term link between rates to the DSIs and rates to BPA's preference customers.

BPA conducted a hearing pursuant to Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) § 7(i), 16 U.S.C. § 839e(i), which resulted in the adoption in 1987 of a formal link between the IP and PF rates. The link methodology is effective "in rates established before June 30, 1990, through the end of the rate period." 1987 Link ROD at 13. The methodology is described in detail in Chapter II, § B.

C. Procedural History of This Rate Proceeding

In accordance with Northwest Power Act § 7(i), 16 U.S.C. § 839e(i), BPA announced a hearing on the proposed link extension. 55 Fed. Reg. 29,402 (1990). Six interventions were filed on behalf of the following: Public Power Council; PacifiCorp, dba Pacific Power & Light Company and Utah Power & Light Company; Puget Sound Power & Light Company; Association of Public Agency Customers; Western Public Agencies Group; and Direct Service Industrial Customers. Dean F. Ratzman, Hearing Officer, commenced the proceeding with a prehearing conference on July 26, 1990, wherein he ruled upon matters of interventions and scheduling. Judge Ratzman also issued his "Special Rules of Practice to Govern This Proceeding". IP-PF-90-O-02 (hereafter, citations to pleadings and exhibits in this record will be shortened thus: "O-02").

BPA's direct testimony, sponsored by Haig Revitch, was filed on July 19, 1990. E-BPA-01. During the course of discovery, BPA responded to eleven data requests.

No litigant other than BPA filed testimony. The parties waived cross examination of BPA's witness (see M-04, O-03). The DSIs filed an initial brief (B-DS-01). No comments were received from participants. This Draft ROD, therefore, is based on the initial proposal as described in the direct testimony of the BPA witness.

D. Organization of Draft Record of Decision

The ROD contains four chapters. The procedural and legal background forms the first chapter; the second discusses the rate link proposal. Chapter III addresses environmental impact matters, while Chapter IV presents the draft conclusions on the proposal.

E. Legal Guidelines Governing Establishment of Rates

1. Statutory Guidelines

Ratemaking standards governing BPA's transmission rates are found exclusively in the Northwest Power Act and the Federal Columbia River Transmission System Act, 16 U.S.C. §§ 838g, h (1974) (Transmission System Act). The directives contained in each of these statutes are described below.

Section 7(a) of the Northwest Power Act directs the Administrator to establish, and periodically review and revise, rates for the sale and disposition of electric energy and capacity and for the transmission of non-federal power. Rates are to be set to recover collectively, over a reasonable period of years, in accordance with sound business principles, the costs associated with the acquisition, conservation and transmission of electric power, including the amortization of the federal investment in the Federal Columbia River Power System (FCRPS) (including irrigation costs required to be repaid by power revenues). 16 U.S.C. § 839e(a)(1).

Northwest Power Act § 7(a) also directs that these rates be set in accordance with both §§ 9 and 10 of the Transmission System Act and Flood Control Act of 1944 § 5, 16 U.S.C. § 825s. Section 9 of the Transmission System Act requires, among other things, that BPA's power and transmission rates be established with a view to encouraging the widest possible diversified use of federal power at the lowest possible rates to consumers consistent with sound business principles, while having regard to recovery of costs and repayment of the U.S. Treasury. 16 U.S.C. § 838g. See also

16 U.S.C. § 839e(a)(2)(C). Substantially the same requirement is set out in § 5 of the Flood Control Act, 16 U.S.C. § 825s. Transmission System Act § 10, 16 U.S.C. § 838h, provides that the recovery of transmission system costs be equitably allocated between federal and non-federal power utilizing the system.

2. Specific Rate Guidelines

Rates for the DSIs are to be set according to the provisions of Northwest Power Act § 7(c), 16 U.S.C. § 839e(c). This section provides that, beginning July 1, 1985, rates that apply to DSIs shall be set at "a level which the Administrator determines to be equitable in relation to the retail rates charged by [preference] customers to their industrial consumers in the region." 16 U.S.C. § 839e(1)(B). That determination

> ... shall be based upon the Administrator's applicable wholesale rates to ... [preference] customers and the typical margins included by such [preference] customers in their retail industrial rates ...

16 U.S.C. § 839e(2).

Section 7(c)(2) further directs that the rate determination must take into account

> ... (a) the comparative size and character of the loads served; (b) the relative costs of electric capacity, energy, transmission, and related delivery facilities provided and other service provisions; and (c) direct and indirect overhead costs, all as related to the delivery of power to industrial customers ...

16 U.S.C. § 839e(2)(A)-(C).

Finally, § 7(c)(2) requires that DSI rates

> ... shall in no event be less than the rates in effect for the contract year ending on June 30, 1985.

Section 7(c)(3), 16 U.S.C. § 839e(c)(3), directs that DSI rates must be adjusted

> ... to take into account the value of power system reserves made available to the Administrator through his rights to interrupt or curtail service to such direct service industrial customers.

3. Ratemaking Discretion Vested in the Administrator

The Administrator has broad discretion to interpret and implement statutory standards applicable to ratemaking. These standards focus on cost recovery and do not restrict the Administrator to any particular rate design method or theory. See Pacific Power & Light Co. v. Duncan, 499 F. Supp. 672, 683 (D. Ore. 1980). Accord, City of Santa Clara v. Andrus, 572 F.2d 660, 668 (9th Cir. 1978) ("widest possible use" standard is so broad as to permit "the exercise of the widest administrative discretion"); Electricities of North Carolina v. Southeastern Power Admin., 774 F.2d 1262, 1266 (4th Cir. 1985).

The United States Court of Appeals for the Ninth Circuit has specifically recognized the Administrator's ratemaking discretion. Central Lincoln Peoples' Util. Dist. v. Johnson, 735 F.2d 1101, 1116, 1120-1129 (9th Cir. 1984) (Central Lincoln) (upheld BPA on the merits of every rate issue and declared that "[b]ecause BPA helped draft and must administer the Act, we give substantial deference to BPA's statutory interpretation"); PacifiCorp v. Federal Energy Regulatory Comm'n, 795 F.2d 816, 821 (9th Cir. 1986) ("BPA's interpretation is entitled to great deference and must be upheld unless it is unreasonable"); Atlantic Richfield Co. v. Bonneville Power Admin., 818 F.2d 701, 705 (9th Cir. 1987) (BPA's

rate determination upheld as a "reasonable decision in light of economic realities"); cf. Aluminum Co. of America v. Central Lincoln Peoples' Util. Dist., 467 U.S. 380, 389 (1984) ("[t]he Administrator's interpretation of the Regional Act is to be given great weight"); Department of Water and Power of the City of Los Angeles v. Bonneville Power Admin., 759 F.2d 684, 690 (9th Cir. 1985) ("[i]nsofar as agency action is the result of its interpretation of its organic statutes, the agency's interpretation is to be given great weight"); Aluminum Co. of America v. Bonneville Power Admin., 903 F.2d 585, 590 (9th Cir. 1989) (Alcoa) ("We defer to the interpretation of a statute by the agencies charged with administering it ... Because BPA drafted the [Northwest Power] Act, its interpretation is to be given 'great weight' and should be upheld if reasonable.")

4. Confirmation and Approval of Rates

BPA's rates become effective upon confirmation and approval by the Federal Energy Regulatory Commission (Commission). 16 U.S.C. § 839e(a)(2). The Commission's review is appellate in nature, based on the record developed by the Administrator. Central Lincoln, 735 F.2d at 1116; Alcoa, 903 F.2d at 590; United States Dep't of Energy - Bonneville Power Admin., 13 F.E.R.C. ¶61,157, 61,339 (1980). The Commission may not modify rates proposed by the Administrator, but may only confirm, reject or remand them. United States Dep't of Energy - Bonneville Power Admin., 23 F.E.R.C. ¶61,378, 61,801 (1983). See also 18 C.F.R. § 300.21(e). The purpose of Commission review of BPA's power rates is to ensure that those rates are sufficient to repay the federal investment in the

FCRPS over a reasonable number of years after first meeting BPA's other costs; and are based on BPA's total system costs. 16 U.S.C. § 839e(2).

Pursuant to Northwest Power Act § 7(i)(6), 16 U.S.C. § 839e(i)(6), the Commission has promulgated rules establishing procedures for the approval of BPA rates. 18 C.F.R. 300 (1984). The Commission adopted a final rule amending these procedures effective July 6, 1987. 52 Fed. Reg. 20,704 (1987).

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CHAPTER II

IP-PF RATE LINK EXTENSION PROPOSAL

A. Derivation and Application of the Existing IP-PF Rate Link

1. Development of the IP-85 Rates

Beginning in the 1985 rate case, and continuing through all subsequent BPA wholesale power rate filings, BPA developed and applied new methodologies for determining the IP rate to comply with the post-1985 rate directives contained in the Northwest Power Act. Before July 1, 1985, the IP rate was based on costs allocated to the DSI customer class as directed in § 7(c)(1) of the Northwest Power Act. Those costs were then reduced by the value of system reserves the DSIs provide through BPA's contractual rights to interrupt portions of their loads. 1987 Link ROD at 5.

The post-1985 rate directives provide for the IP rate to be derived by adding a margin, as adjusted, to an average rate based on the applicable wholesale rates to BPA's preference customers. The resulting DSI rate level is subject to the floor rate provisions of § 7(c)(2) which provide for a minimum DSI revenue recovery. If the margin-based IP rate level is less than the floor rate, the IP rates are defined by the floor rate. The value of reserves credit is then subtracted. 1987 Link ROD at 5-6.

In implementing the post-1985 directives for determining the IP Premium and IP Standard rate levels for the 1985 wholesale rate filing, BPA first derived a fiscal year (FY) 1987 unadjusted margin for preference customers. The calculation used historical and prospective cost of service data for 19 utilities having 49 retail

industrial customers with a minimum of 3.5 megawatts of peak demand per consumer. 1987 Link ROD at 6.

The size of load adjustment was then made to the FY 1987 unadjusted margin. The result was the Premium margin, the margin which recognizes quality of service provided under the IP Premium rate. The size of load adjustment accounts for the lower per-kilowatthour costs of delivery (distribution) facilities installed to serve the larger DSI loads. 1987 Link ROD at 6.

To derive the IP Standard margin, the margin that recognizes the quality of service to the DSI first quartile under the IP Standard rate, BPA subtracted the character of service adjustment from the IP Premium margin. The character of service adjustment accounts for the lower quality of service provided the DSI first quartile under the IP Standard rate relative to the IP Premium rate. 1987 Link ROD at 6.

The IP Premium rate margin derived for the 1985 wholesale power rate filing was 2.82 mills per kilowatthour (kWh). The character of service adjustment to the IP Premium margin was .54 mills/kWh, resulting in an IP Standard rate margin of 2.28 mills/kWh. 1987 Link ROD at 6.

To determine the applicable wholesale rate in the 1985 wholesale rate proceeding, BPA applied the PF rate charges for demand and energy (prior to the floor rate adjustment and other adjustments) to the forecasted DSI demand and energy billing determinants. Had BPA's preference customers been expected to purchase power under the NR rate schedule, the expected sales under

the NR rate charges would also have been factored into the applicable wholesale rate calculation. 1987 Link ROD at 6.

The IP Standard margin was then added to the applicable wholesale rate to obtain the margin-based IP Standard rate. The margin-based IP Standard rate was lower than the DSI floor rate. Therefore the IP Standard rate was set at the floor rate. The differential between the IP Premium margin and the IP Standard margin, .54 mills/kWh, was added to the IP Standard rate to determine the level of the IP Premium rate. 1987 Link ROD at 6.

Finally, BPA calculated the value of reserves (VOR) credit to reflect the value of BPA's contractual rights to restrict the DSI loads under certain specified conditions. The federal generation system can use the rights to restrict the DSI load as part of its system reserve requirement. The federal system reserves provided by the DSI restriction rights are categorized into forced outage reserves, stability reserves and plant delay reserves. The VOR analysis quantifies the benefit resulting from BPA's contractual rights to restrict the DSI load by examining the most feasible, least cost alternatives to providing these reserves. 1987 Link ROD at 6.

The actual amount of the VOR credit to the DSIs was calculated using a share-the-savings concept. The sum of the alternative cost of providing system reserves and the cost of a restriction to the DSIs is divided by two. The VOR credit to the DSIs reflected in BPA's 1985 final wholesale rate filing is 1.90 mills/kWh. This amount was applied to the final IP-85 Premium and IP-85 Standard rates. 1987 Link ROD at 7.

2. Development and Implementation of the IP-PF Rate Link Methodology

In its 1986 IP-PF Rate Link Proposal, BPA proposed a formula for the IP-PF rate link which consisted of two components: (1) the effective rate link, or the net Premium and net Standard margins, determined in the 1985 rate case; and (2) an inflation adjustment. 1987 Link ROD at 7.

The link methodology adopted in the IP-PF-86 proceeding was based on the results presented in the Final 1985 Section 7(c)(2) Industrial Margin Study and the Final Wholesale Power Rate Design Study. WP-85-FS-BPA-04 and -05; 1987 Link ROD at 7. The link was proposed to be effective for the period beginning July 1, 1985 (the effective date of the 1985 rates), through the last rate period commencing on or before June 30, 1990. The link was first applied in BPA's 1987 wholesale power rate filing. In the 1985 rate filing, the net Premium margin was .92 mills/kWh, the difference between the IP Premium margin of 2.82 mills/kWh and the VOR credit of 1.90 mills/kWh. The character of service adjustment was .54 mills/kWh. Therefore, the net Standard margin was .38 mills/kWh (.92 mills/kWh less .54 mills/kWh). 1987 Link ROD at 7.

The link methodology was first implemented in BPA's 1987 wholesale power rate filing. See WP-87-FS-BPA-06A at 317. The IP Premium rate was set equal to the Applicable Wholesale Rate (BPA's wholesale power rates developed for power purchases by preference customers, adjusted for DSI load shape, as determined for the 1987 rate filing) plus the inflation-adjusted net Premium margin (.92 mills/kWh). The IP Standard rate was set equal to the Applicable

Wholesale Rate (determined for the 1987 rate filing) plus the inflation-adjusted net Standard margin (.38 mills/kWh). (The net Premium and net Standard margins are inflated by the Gross National Product (GNP) deflator for the test period relative to the GNP deflator for FY 1987, which was used in the 1985 rate filing and which is the base for inflation adjustments in future rate filings. See Attachment 1 at 2.) The same values for the VOR credit and the character of service adjustment developed in the 1985 rate filing were used in the 1987 rate filing.

B. Evaluation of Proposal to Extend the IP-PF Rate Link

The purpose of the proposal to extend the existing IP-PF rate link is to maintain a mid-term (5-year) ratemaking method based on results derived in BPA's 1985 rate filing. E-BPA-01 at 3, lines 5-9. Extending the link will continue BPA's load planning certainty by providing BPA's DSI customers with improved rate predictability for the mid-term. Improved rate predictability reduces the likelihood of plant closures. BPA thus would be able to forecast more accurately its resource and revenue needs. E-BPA-01 at 2, lines 19-20. Extending the link will also reduce the need for data collection requirements and the controversy associated with setting the IP rate level in future BPA rate cases. E-BPA-01 at 2, lines 20-22.

The existing link methodology is effective through the last rate period commencing on or before June 30, 1990. In order for the link to continue to achieve its purpose and goals, the methodology must be extended. BPA proposes to extend and continue

the use of the existing methodology through rate periods commencing on or before the termination of the existing VI rate contracts, or September 30, 1995, whichever is later. E-BPA-01 at 5, lines 19-21.

BPA believes the extension will provide medium-term rate and revenue predictability for BPA. Moreover, it covers a reasonable time horizon in which the DSIs can plan for investments and operations under conditions of rate predictability. See B-DS-01 at 1-2, 6-7. The proposed extension, covering the remaining period for which the VI rate will be in effect, also allows revisitation within a reasonable time to assure that the link is still appropriate. Both the IP-PF rate link and the VI rate are intended to provide stability to DSI loads. E-BPA-01 at 5-6.

In the 1985 wholesale power rate proceeding, BPA determined that the IP-PF rate link is consistent with Northwest Power Act §§ 7(c)(2) and 7(c)(3). Neither the legislative directives nor the proposed methodology has changed, so BPA's proposal is consistent with statute. E-BPA-01 at 4, line 7, through 5, line 6; B-DS-01 at 4-5.

BPA has not performed new studies to update the factors contained in the methodology. Although there have been some modest changes in circumstances since 1985, in the judgment of BPA's witness, the link is still a reasonable representation of BPA's interpretation of the requirements of § 7(c)(2) of the Northwest Power Act. Updates of analyses might result in changes to individual components of the net margins, but these updates would require extensive effort both by BPA and its customers, and could create considerable controversy. Moreover, BPA does not expect

that changes in the margins, VOR credit and character of service adjustment would change the resulting link significantly from the net margins calculated in the 1985 rate case. This expectation derives from the inherent stability of the factors themselves, and the off-setting nature of changes in the various factors. E-BPA-01 at 8, lines 13-22; see also B-DS-01 at 5-6.

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CHAPTER III

ENVIRONMENTAL IMPACTS

A. Introduction

The National Environmental Policy Act of 1969, 42 U.S.C § 4321 (1970), requires that environmental impact analyses be performed before making decisions on major federal actions that significantly affect the environment. In April of 1986, BPA completed the DSI Options Final Environmental Impact Statement (DOE/EIS-0123F) (Final EIS) which analyzed the potential effects of three options (actions) that BPA was considering at the time. The purpose of those options was to stabilize the electrical load of BPA's DSI customers in order to enhance BPA's revenue stability and facilitate resource planning. The three options were (1) a variable rate to the aluminum smelter DSIs based on market prices for aluminum; (2) a conservation/modernization (Con/Mod) program directed toward the aluminum smelter DSIs; and (3) the IP-PF rate link. These options were not alternatives to each other since each could be implemented independently. BPA implemented all three options.

The following discussion pertains only to the extension of the IP-PF rate link. It does not resolve issues pertinent to the continuation of the VI rate or to the Con/Mod program. However, in making its decision on the link extension, BPA considered the same potential impacts identified in the EIS that were considered in the initial implementation of the link when it was adopted in 1987.

B. Environmental Impact Considerations

The Final EIS still serves as an adequate basis for providing environmental information relative to the decision to extend the

IP-PF rate link. The Final EIS addressed the impacts of the link qualitatively because the effects of the rate link result from the DSIs' perception of the degree of rate and planning certainty the link would provide. The value of this perception cannot be quantified, nor can its effects be modelled. Final EIS at 114.

Experience with the IP-PF rate link, coupled with the VI rate and the Con/Mod program which were also implemented, has demonstrated a stabilizing effect on DSI loads, as was projected in the EIS and as was intended. To the extent that the link has stabilized DSI load, socio-economic benefits projected by the EIS have been achieved. Closure of certain at-risk DSIs, which presumably the link helped prevent, would have resulted in locally significant adverse socio-economic effects in some smaller communities in which the DSI plant was and is a major economic force in terms of employment, payment of taxes and the like.

The DSIs continue to have adverse effects on the physical environment (for example, discharge of air and water pollutants, production of solid waste and the like) as reported in the Final EIS, but these effects are regulated by appropriate state, federal and local environmental agencies, and remain governed by environmental laws, regulations and permit conditions. It appears that some of the specific environmental problems, primarily dealing with past solid waste disposal practices, with the DSI aluminum smelters reported in the Final EIS are being dealt with, reducing environmental impacts. The Final EIS included consideration of the entire range of expected physical and socio-economic effects of the operation of the aluminum smelters in the sense that it addressed both

impacts which would result from operation of the plants at their full production capacity as well as the impacts which would result from their closure. Thus the continued stabilizing effect on DSI loads expected as a consequence of extending the link is not expected to result in environmental impacts beyond the range of potential impacts projected for the aluminum smelter DSIs in the Final EIS.

The extension of the IP-PF rate link is not likely to affect operations, and therefore, environmental impacts, of the least or most efficient aluminum smelters since rate certainty alone would not affect their plant investment or closure decisions. For the smelters intermediate in efficiency, the continued rate and planning certainty provided by an extension of the IP-PF rate link may encourage additional investment in plant modernization and forestall plant closures because of greater assurance of investment recovery. Final EIS at 115. In general, operation of the smelters does not result in environmental damage which has been found unacceptable by the appropriate regulatory agencies. Continued operation of smelters which otherwise would close would preclude or forestall significant localized adverse socio-economic effects.

The IP-PF rate link is not likely to affect non-aluminum DSIs significantly, since electricity costs are, for most of those industries, less important in their business decisions than for the aluminum companies. Final EIS at 28. However, extension of the link is likely to continue the stabilizing, beneficial effects on the rates of all non-aluminum smelter customers of BPA and may thus have positive regional socio-economic benefits. Final EIS at 115.

BPA has implemented the VI rate and the Con/Mod program for aluminum smelters. Continuing the link will augment the impacts of these other two BPA actions, both of which are directed at stabilizing aluminum smelter loads. Final EIS at 122.

BPA believes that the initial formulation of the link is still reasonable, and that the values for the margins and the VOR are expected to remain stable throughout the period of the proposed extension of the link. The stability of the factors comprising the link reduces the risk that the aluminum smelter DSI customers, or BPA's other customers, will experience inequities resulting from discrepancies between the true values of the margins and the VOR credit, and those embodied in the link methodology.

CHAPTER IV

CONCLUSION

The proposed IP-PF Rate Link methodology is consistent with the rate directives of the Northwest Power Act and other applicable legislation. It has and will continue to provide BPA with greater revenue stability, and therefore enhances BPA's ability to meet its planned payments to the U.S. Treasury. The underlying methodology used in determining the link is sound, and would yield similar results in the face of modest changes in circumstances. Extending the link will reduce controversy in future rate cases. In addition, based on the analysis in the Final EIS, an extension is not expected to result in environmental impacts which are unforeseen or unacceptable. Finally, as evidenced by the absence of opposition to BPA's proposal, BPA's customer groups support the proposed IP-PF rate link extension.

In performing his duties under Northwest Power Act § 7(i), the Hearing Officer has assured that a full and fair evidentiary hearing, open to all interested parties and participants, has been conducted on all issues relevant to this case.

Based upon the record of this proceeding, the Administrator proposes to adopt as BPA's final rate proposal the attached IP-PF Rate Link methodology.

ATTACHMENT A

PROPOSED IP-PF RATE LINK EXTENSION

A. Terms and Definitions

Section 7(c)(1)(B) of the Pacific Northwest Power Act states that rates to BPA's direct-service industrial (DSI) customers after July 1, 1985, shall be equitable in relation to the industrial rates charged by BPA's preference customers. Section 7(c)(2) states that rates to the DSIs are to be based upon: (1) BPA's applicable wholesale power rates to its preference customers; and (2) typical margins above power and transmission costs included in the preference customers' rates to their industrial customers. The resulting rate levels are subject to the floor rate provision of section 7(c)(2), which provides for a minimum DSI rate level. Relevant terms are defined as follows:

1. Applicable Wholesale Rate. As provided in section 7(c)(2) of the Pacific Northwest Power Act, the BPA wholesale power rates developed for power purchases by BPA's public body and cooperative customers, adjusted for DSI load shape (time pattern of consumption).

2. Premium Margin. The typical margin above wholesale power costs referred to in section 7(c)(2) of the Pacific Northwest Power Act, adjusted for the size of DSI loads. As determined in the 1985 Administrator's ROD for BPA's rate adjustment proceeding, calculation of the Premium margin recognizes that, in the test year for which those rates were set, none of the service to the DSI first quartile under the IP Premium rate was dependent on the availability of nonfirm energy.

3. Standard Margin. The typical margin above wholesale power costs referred to in section 7(c)(2) of the Pacific Northwest Power Act, adjusted for the size of load and the character of service to the first quartile. As determined in the 1985 Administrator's ROD, calculation of the Standard margin recognizes that, in the test year for which those rates were set, service to a portion of the first DSI quartile under the IP Standard rate was dependent on the availability of nonfirm energy.

4. Value of Reserves Credit. The rate credit granted the DSIs for BPA's contractual rights to restrict their load under certain conditions.

5. Net Premium Margin. The Premium margin less the Value of Reserves Credit.

6. Net Standard Margin. The Standard margin less the Value of Reserves Credit.

7. IP-PF Link. The methodology for linking the rates for BPA's DSI customers to the rates for BPA's public body and cooperative customers on a long-term basis.

8. IP Premium Margin-Based Rate. The rate level defined by the following components: the applicable wholesale rate, the premium margin, and the value of reserves credit.

9. IP Standard Margin-Based Rate. The rate level defined by the following components: the applicable wholesale rate, the standard margin, and the value of reserves credit.

10. IP Premium Rate. The rate option contained in the IP rate schedule which includes first quartile service with Surplus FELCC. The level of the IP Premium Rate contained in the IP rate schedule may not necessarily equal the level of the IP Premium margin-based rate. The IP Premium rate is subject to further adjustments, specifically any section 7(b)(2) and section 7(b)(3) adjustments, or scaling to adjust for the rate period extending beyond the test year, to determine the IP Premium rate.

11. IP Standard Rate. The rate option contained in the IP rate schedule which includes first quartile service with nonfirm energy and/or provisional drafts. The level of the IP Standard rate contained in the IP rate schedule may not necessarily equal the level of the IP Standard margin-based rate. The IP Standard rate is subject to the floor rate test. Further, the IP Standard margin-based rate may be subject to further adjustments, specifically, any section 7(b)(2) and/or section 7(b)(3) adjustments, or scaling to adjust for the rate period extending beyond the test year, to determine the IP Standard rate. [NOTE: In BPA's 1987 rate filing, it was determined that the 7(b)(3) adjustment was zero. However, BPA has not received final approval of its 1987 rates from FERC.]

12. Floor Rate. The rate determined in BPA's wholesale rate case that forms the basis for computing a minimum DSI rate level that meets the requirements of section 7(c)(2) of the Pacific Northwest Power Act.

B. Formulas

The proposed IP-PF Link incorporates the following formulas:

1. $$IP_p = AWR + \left[.92 \times \frac{\text{GNP deflator (year)}}{\text{GNP deflator (1987)}}\right]$$

2. $$IP_S = AWR + \left[.38 \times \frac{\text{GNP deflator (year)}}{\text{GNP deflator (1987)}}\right]$$

Where:

"IP_p" is the IP Premium margin-based rate (mills per kilowatthour) or its successor, as determined by the Link.

"IP_S" is the IP Standard margin-based rate (mills per kilowatthour) or its successor, as determined by the Link.

"AWR" is the Applicable Wholesale Rate, as referred to in section 7(c)(2) of the Pacific Northwest Power Act, to BPA's public body and cooperative customers. The AWR is the weighted average of the PF demand and energy charges in the rates charged for firm power for the combined general requirements of public body and cooperative customers (weighted by PF energy sales to the public agencies) and NR demand and energy charges in the rates charged public body and cooperative customers applicable to their new large single loads (weighted by energy sales to public agencies for resale to new large single loads) applied to the DSIs' demand and energy billing determinants as forecasted in the section 7(i) proceeding in which the Link is applied.

".92" is the Fiscal Year (FY) 1987 net Premium margin, based on 100 percent service to the first quartile, none of which is dependent on the availability of nonfirm energy, as determined in the 1985 ROD.

".38" is the FY 1987 net Standard margin, based on service to the first quartile, a portion of which is dependent on the availability of nonfirm energy, as determined in the 1985 ROD.

"GNP deflator (1987)" is the GNP deflator Index for 1987.

"GNP deflator (year)" is the GNP deflator Index for the test year in subsequent section 7(i) proceedings where the IP rates are to be determined by the Link.

C. Other Terms and Conditions of the IP-PF Rate Link

1. Except as required by the floor rate provision of the Pacific Northwest Power Act, the IP test year rates shall be determined in any section 7(i) proceeding to establish rates effective on or before the termination date of the VI rate contract, or September 30, 1995, whichever is later, by the formulas in paragraph B. The purpose of the formulas is to eliminate the need to recalculate during the term of the Link the value of reserves (including the VOR credit) and the "typical margin," net of adjustments as set forth in sections 7(c)(2)(A), (B), and (C) of the Pacific Northwest Power Act. The only variables in the formulas are "AWR" and "GNP deflator (year)." That is, for each section 7(i) proceeding in which the Link is applied, "AWR" shall be calculated from the PF and NR rates as determined in that proceeding and "GNP deflator (year)" shall be the GNP Index for the test year used for all other purposes in that proceeding.

If the test year is a prospective period, then "GNP deflator (year)" will be the forecasted GNP deflator index used for all other purposes in the rate proceeding. Further, if the IP rates determined by the Link will be effective for periods other than the test year, then these rates may be scaled upward or downward to those future periods as appropriate.

2. In the event that the rates established as described in paragraph B, rather than the section 7(c)(2) floor rate, govern the applicable IP rates, then, in addition to any potential section 7(b)(3) obligations on the part of the DSIs, including surcharges arising from the "triggering" of the section 7(b)(2) rate test, the DSIs shall also be subject during the term of the Link to adjustment clauses, surcharges, or credits uniformly applicable to the PF rate schedule. Such adjustments would include the Cost Recovery Adjustment Clauses uniformly applicable to purchases under the PF and NR rate schedules. For purposes of the prior sentence, the Low Density Discount and Irrigation Discount available to some customers and any surcharge for noncompliance with model conservation standards shall not be considered "uniformly applicable."

3. For the duration of the Link, BPA will continue to make available to the DSIs power of the quality to which the DSIs are entitled under their Power Sales Contracts with BPA, at the rates established as described in paragraphs B.1.a. and C.1. BPA will also make available to the DSIs, on an optional basis, service, the qualities of which shall be specified by the Variable Rate Contract and which shall remain unchanged while the contract is in force throughout the duration of the Link, at the rates established as described in paragraphs B.1.b and C.1.

M - PROCEDURAL MATTERS

DATE: July 23, 1990

FROM: John D. Ciminello, Hearing Clerk

SUBJECT: Document Numbering System; Pre-marking of Exhibits and Briefs; Service of Exhibits on Litigants

TO: Petitioners Seeking "Party Status" in Bonneville Power Administration's 1990 IP-PF Rate Link Extension Proceeding

In the 1990 IP-PF Rate Link Extension Proceeding, the Bonneville Power Administration will adhere to the same document designation code used in previous rate proceedings. All testimony, exhibits, and briefs must have a document designation code. The number and character designations are used to prepare the official record which is submitted to the Administrator and then to the Federal Energy Regulatory Commission.

A. DOCUMENT DESIGNATION SYSTEM

Every document that will become part of the 1990 IP-PF Rate Link Extension Proceeding must be marked with a document designation code. The code consists of three component parts: (1) the BPA rate proceeding code, (2) the subject matter of the document, and (3) the party code. For example:

IP-PF-90-E-WA-01
(1) (2) (3)

(1) The first part, IP-PF-90 (in the sample above), indicates that the document is part of the record of Bonneville Power Administration's 1990 IP-PF Rate Link Extension Proceeding.

(2) The second part, E (in the sample above), identifies the subject matter of the document. For instance, E represents all documents categorized as testimony, exhibits, or studies. For a complete list of document types see attached Document Designation Codes.

(3) The third part, WA-01 (in the sample above), identifies the party and the order of each document submitted. For instance, WA represents the Western Public Agency Group, and 01 designates the first exhibit, submitted by the party. All party designations are listed on the attached Party Designation Codes.

In sum, the code identifies the proceeding, the subject matter, the party, and the numerical order of the document submitted. This code is absolutely necessary in organizing the diverse material submitted for the official record.

B. PRE-MARKING OF EXHIBITS AND BRIEFS

The Hearing Clerk requests that all exhibits and briefs be pre-marked before submission. The code should be marked in the lower right hand corner of each page of the document including certificates of service. Exhibit numbers should be assigned to every item of separate testimony and numbered sequentially (e.g. IP-PF-90-E-WA-01, IP-PF-90-E-WA-02, etc.).

When documentation, addendum or errata is submitted under a separate cover from the original testimony, an additional designation follows the standard code. For example, IP-PF-90-E-BPA-02 designates the second exhibit submitted by BPA. If a table contained in this exhibit is subsequently revised, the code for the submitted revision would be IP-PF-90-E-BPA-02A1. If a second table in the exhibit is revised, the code for the second table would be IP-PF-90-E-BPA-02A2 and so forth.

Similarly, if BPA's third exhibit contains more than one volume, the documents would be designated:

IP-PF-90-E-BPA-03A1	Revenue Study - Volume 1
IP-PF-90-E-BPA-03A2	Revenue Study - Volume 2

An errata to the Revenue Study - Volume 1 would be designated IP-PF-90-E-BPA-03A3. A second errata, submitted as a separate item, would be designated IP-PF-90-E-BPA-03A4.

The standard code enables the Hearing Clerk to catalog each exhibit with its documentation, addendum, errata etc. Parties that wish to reserve an exhibit designation number are requested to contact the Hearing Clerk before filing.

Please note that motions, answers, memoranda and other procedural documents submitted need not contain your party designation code. Each filing should be designated:

IP-PF-90-M-__.

The Hearing Clerk chronologically assigns a number to the document as it is submitted to the Hearing Officer. For instance, this memo is marked IP-PF-90-M-01. It represents the first document classified as a procedural matter in the 1990 IP-PF Rate Link Extension Proceeding. If you wish the Hearing Clerk to pre-assign a number to your document, simply call beforehand. Otherwise the Hearing Clerk will fill in the appropriate number.

C. SERVICE OF EXHIBITS ON LITIGANTS

Each party is assigned a two letter party designation code. The service list will identify addressees by way of the designation code. Address labels should also reflect this designation.

Service to the Hearing Officer will be made through the Hearing Clerk no later than 5 p.m. on each filing date established at the prehearing conference. Service to all parties may be accomplished by direct mail postmarked the date of filing. If parties wish to make arrangements other than direct mail, they should contact the filing party prior to noon of the deadline date and specify an alternate mode of service.

Parties who wish to receive mailings from the Hearing Clerk via Federal Express or other courier services may do so by providing an adequate supply of envelopes acceptable to the chosen courier service. Further, the envelopes supplied to the Hearing Clerk should be properly prepared and addressed. Please be aware of postal regulations governing the use of postal meters.

Finally, all testimony not picked up by 5 p.m. on the designated dates for testimony distribution will be mailed the next morning. If you prefer to make other arrangements, please contact the Hearing Clerk no later than noon on the day of distribution.

D. FINAL NOTE:

Because of the expedited nature of this proceeding, the Hearing Clerk requests that all parties carefully follow these guidelines. Also, as directed by the Special Rules of Practice, each party must file with the Hearing Clerk 30 copies of all testimony, motions, exhibits, briefs and other documents. The copies are assembled for the official record that goes on to the Federal Energy Regulatory Commission in Washington D.C. Your cooperation will be greatly appreciated.

DOCUMENT DESIGNATION CODE

A	Final Documents Draft Record of Decision Administrator's Final Record of Decision Hearing Officer's Certification of the Record
B	Initial Briefs
E	Exhibits, Studies, Testimony, Rebuttal Testimony, Surrebuttal Testimony and Cross Examination Exhibits
FR	Federal Register Notices
FS	Final Studies
H	Hearing Schedule
I	Indices
M	Procedural Matters: Motions to Strike, Responses thereto, Notices and Memoranda
O	Orders
P	Prehearing Briefs
PR	Informational Mailings
Q	Qualification Statements
R	Briefs on Exceptions
S	Party Status: Letters and Documentation
TA	Transcripts of Oral Arguments
TB	Transcripts of Field Hearings
TE	Transcripts of Cross Examination
TPH	Transcripts of Prehearing Conference
W	Public Comments and Reply Comments

PARTIES' DESIGNATION CODES*

BPA	Bonneville Power Administration
CC	California Energy Commission
CH	Chelan County PUD
CO	Cowlitz County PUD
CP	California Public Utilities Commission (CPUC)
DS	Direct Service Industries (DSIs)
EW	Eugene Water & Electric Board (EWEB)
GE	Portland General Electric (PGE)
GR	Grant County PUD
HC	Hearing Clerk
HO	Hearing Officer
IP	Idaho Power Company
IU	Idaho Cooperative Utilities Association, Inc.
NG	Non-Generating Public Utilities
OP	Oregon Public Utilities Commission (OPUC)
PA	Association of Public Agency Customers (APAC)
PG	Public Generating Pool (PGP)
PL	PacifiCorp (Pacific and Utah Power & Light Companies)
PN	Pacific Northwest Generating Company (PNGC)
PP	Public Power Council (PPC)
PS	Puget Sound Power & Light Company (PSPL)
SL	City of Seattle, City Light Department
TC	Transmission Agency of Northern California (TANC)
TU	City of Tacoma (Tacoma City Light)
WA	Western Public Agencies Group
WP	Washington Water Power Company

* The Hearing Clerk assembled this list from a previous rate case. It does not represent the intervenors to the current proceeding.

DATE: July 23, 1990

FROM: John D. Ciminello, Hearing Clerk

SUBJECT: Procedures for Data Requests

TO: Petitioners Seeking "Party Status" in Bonneville Power Administration's 1990 IP-PF Rate Link Extension Proceeding

PROCEDURES FOR DATA REQUESTS

This memorandum details the procedures for submitting data requests in the above entitled proceeding. Failure to follow the proper procedure and format when submitting a data request will make the request subject to rejection. Upon rejection, reformulation and resubmission would be necessary.

Ordinarily there will be no modification to the hearing schedule on the grounds that a party has not received a timely response to a data request initially rejected for insufficiency and then resubmitted.

Because of the quantity of data requests and the significant amounts of staff time devoted to preparing data responses it has become increasingly difficult for both BPA and parties to provide timely responses to each other. Consequently, the time for analyzing often voluminous and highly technical discovery materials has been effected, making it difficult to digest the materials in advance of preparing testimony. This in turn has prompted parties to seek modifications to the hearing schedule, in turn reducing the time available for extended analysis, preparation and briefing. It is hoped that by implementing and insisting on uniform procedures and format for data requests that the response time will be greatly improved and the integrity of the hearing schedule preserved.

Following is a list of the procedures for submitting data requests and a sample request.

(1) Each data request should be submitted on a separate piece of paper <u>and</u> numbered serially using the discovery designation codes. (Please see the attached sheet "Discovery Designation Code System" and the sample data request.)
<u>No subsections or subparts will be permitted</u>. If the party desires to ask several subquestions the party should restate the basic question with each individual subquestion on a separate piece of paper and numbered serially using the discovery designation codes. Each request must be complete within itself and not make reference to other data requests previously submitted.

(2) Two copies of each separate request should be submitted.

(3) Each data request should make reference to a particular study or piece of testimony (or clarification session) and should make reference to the specific page and line numbers (and witness where appropriate).

(4) Each data request should contain the name and telephone number of a contact person who is readily available to provide clarification of a request.

(5) Each separate request should be dated.

(6) A copy of each data request must be served upon all other parties' representatives on the official service list established by the Hearing Officer.

(7) A copy of each data request will be returned with the completed response.

(8) All data requests to BPA should be submitted only to:

by mail: Marybeth Van Buren - APR
Office of General Counsel
Bonneville Power Administration.
P. O. Box 3621
Portland, OR. 97208

by personal delivery: Marybeth Van Buren - APR
Office of General Counsel
Bonneville Power Administration
905 NE 11th St. - 7th Floor
Portland, OR. 97232

(9) If the requester desires to send a courier to pick up the response this must be indicated on the request. Otherwise all responses will be mailed by direct mail.

(10) Two copies of the completed data responses should be submitted to the Hearing Clerk by 5 p.m. of the deadline date. The Hearing Clerk will make copies available to the litigants through the Public Information Center of the Office of Public Involvement [1st Floor, Bonneville Power Administration Headquarters Building, 905 N.E. 11th Street, Portland, Oregon 97232]. The data responses may be checked out for 48 hours for duplication and examination. The hours of the reference room are 9 a.m. to 4 p.m. Monday through Friday.

(11) Parties are urged to review the copies of data requests submitted by other litigants before they initiate their own request. They may find that they are merely duplicating a request that has already been made and perhaps answered, and that copies of the data they seek are already available in the Public Reference Room.

DISCOVERY DESIGNATION CODE SYSTEM

The discovery designation code system will utilize the same party designation codes that were used in the 1987 general rate proceeding. These are the same codes used in the premarking of testimony and briefs. All parties have already been pre-assigned a two letter code. (Please see below.)

The system will utilize both the code of the requesting party and the party to whom the request is being directed.

Example: The first data request from the Direct Service Industries to Bonneville Power Administration would be:

DS/BPA:1 "DS" being the requester's party designation code and "BPA" being the party designation code of the party from whom the response is sought.

Example: The first request from the Public Power Council to the Direct Service Industries would be:

PP/DS:1 "PP" being the requester's party designation code and "DS" being the party designation code of the party from whom the response is sought.

Each separate request should be numbered serially. In the example above, the next request from the Public Power Council to the Direct Service Industries would be:

PP/DS:2

Each request code should be located at the lower right hand corner of the page. Please see the attached "Sample Data Request" on page 5.

The following is a list of the party designation codes.*

PARTY DESIGNATION CODES

BPA	Bonneville Power Administration
CC	California Energy Commission
CO	Cowlitz County PUD
DS	Direct Service Industries (DSIs)
EW	Eugene Water & Electric Board (EWEB)
GE	Portland General Electric Company (PGE)
GR	Grant County
IP	Idaho Power Company
IU	Idaho Cooperative Utilities Association
OP	Oregon Public Utility Commissioner (OPUC)
PA	Association of Public Agency Customers (APAC)
PL	PacifiCorp
PN	Pacific Northwest Generating Company (PNGC)
PP	Public Power Council (PPC)
PS	Puget Sound Power & Light Company (PSPL)
SL	City of Seattle, City Light Department
TC	Transmission Agency of Northern California (TANC)
TU	Tacoma City Light
WA	Western Public Agencies Group
WP	Washington Water Power Company

* The Hearing Clerk assembled this list from a previous rate case. It does not represent the intervenors to the current proceeding.

SAMPLE DATA REQUEST

Marybeth Van Buren - APR
Office of Gen. Counsel
Bonneville Power Administration
P. O. Box 3621
Portland, Or. 97208

July 30, 1990

DATA REQUEST

Exhibit IP-PF-90-E-BPA-01, Testimony of Tom and Ray Magliottzi, Attachment 1, page 1 of 1, line 25.

Please describe the difference between "alternate-regulator" and "fuzzy dice".

Direct any questions to: J. Jeffrey Dudley
Assistant General Counsel
Portland General Electric Co.
121 S.W. Salmon St. 1WTC-13
Portland, Oregon 97204

Telephone number: (503) 464-8860

cc All parties on service list

DATA REQUEST - GE/BPA:1

IP-PF-90-M-02 (07/23/90)

DATE: July 27, 1990

FROM: John D. Ciminello, Hearing Clerk

SUBJECTS: Procedures for Checking Out Data Responses from the BPA Public Involvement Office

TO: Intervenors and Participants in Bonneville Power Administration's 1990 IP-PF Rate Link Extension Proceeding

Procedures for Checking Out Data Responses:

Pursuant to the Special Rules of Practice governing this proceeding (IP-PF-90-O-02 at pg. 7), copies of each data response submitted to the Hearing Clerk will be available to all litigants through the Public Information Center of the Office of Public Involvement [1st Floor, Bonneville Power Administration Headquarters Building, 905 N.E. 11th Street, Portland, Oregon 97232]. The Public Information Center is open 9 a.m. to 4 p.m., Monday through Friday.

Before going to the Public Information Center, please check the list of what responses have been answered to date. A call to Jill Lewis, (503) 230-7334, will confirm whether the data request has been answered and is available for check out. When checking out a data response please conform to the following steps:

1. Locate the file folder containing the response you seek. Please note that the file contains two copies of each response as well as one blue check out card.
2. Fill out the blue check out card for each data response that you intend to take out of the building.
3. Place the completed check out card back in the file folder. Please do not remove the file folder.
4. Return the Data Response within 48 hours.

If you have any questions or problems, I can be reached at (503) 230-4201.

IP-PF-90-M-03 (7/30/90)

jdc/VS9 (CIMINELO:267)

UNITED STATES DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION

Proposed Extension of the IP-PF Rate Link	))	No. IP-PF-90

MOTION TO ADMIT TESTIMONY

Bonneville Power Administration (BPA) moves the Hearing Officer to admit into evidence BPA Exhibit No. IP-PF-90-E-BPA-01, Testimony of Haig Revitch. This exhibit was offered at the prehearing conference on July 26, 1990, subject to cross examination by the parties on September 5-6, 1990. TR 16-17.

No party filed direct/rebuttal testimony in this matter. Moreover, BPA represents that attorneys for all parties have been contacted by telephone, and no party desires to cross examine Mr. Revitch.

WHEREFORE BPA requests that BPA Exhibit No. IP-PF-90-E-BPA-01 be admitted and that cross examination, scheduled for September 5-6, 1990, be cancelled.

BONNEVILLE POWER ADMINISTRATION

Dated August 28, 1990.

C. Clark Leone
Attorney
P.O. Box 3621
Portland, Oregon 97208
Telephone: (503) 230-4201

IT IS SO ORDERED. Dated _____, 1990.

_____
Dean F. Ratzman, Hearing Officer

CERTIFICATE OF SERVICE

I hereby certify that I have this day served one copy of the Motion to Admit Testimony by first-class mail, postage prepaid, on August 30, 1990, upon all parties as follows:

(PA) ASSOCIATION OF PUBLIC AGENCY CUSTOMERS
MR ROBERT GREENING
BOGLE & GATES
222 SW COLUMBIA SUITE 1400
PORTLAND OR 97201

MR AUSTIN COLLINS PARTICIPANT
3125 NE SCHUYLER ST
PORTLAND OR 97212

(DS) DIRECT SERVICE INDUSTRIES
MR PAUL M MURPHY
MR MICHAEL B EARLY
HELLER EHRMAN WHITE & MCAULIFFE
FIRST INTERSTATE TOWER SUITE 3505
1300 SW FIFTH AVENUE
PORTLAND OR 97201

(DS) DIRECT SERVICE INDUSTRIES
MR JOHN D CARR
EXECUTIVE DIRECTOR
825 NE MULTNOMAH SUITE 910
PORTLAND OR 97232-2150

PS) PUGET SOUND POWER & LIGHT CO
MR DONALD G KARI
PERKINS COIE
ONE BELLEVUE CENTER SUITE 1800
411 - 108TH AVENUE NE
BELLEVUE WA 98004

(WA) WESTERN PUBLIC AGENCIES GROUP
MR TERENCE L MUNDORF
MARSH MUNDORF & PRATT
SUITE 160
16000 BOTHELL-EVERETT HIGHWAY
MILL CREEK WA 98012

(DS) DIRECT SERVICE INDUSTRIES
MR DONALD W SCHOENBECK
REGULATORY & COGENERATION SERVICES INC
SUITE 1060
825 NE MULTNOMAH
PORTLAND OR 97232

(PL) PACIFICORP
MR MARCUS WOOD
STOEL RIVES BOLEY JONES & GRAY
900 SW FIFTH AVENUE SUITE 2300
PORTLAND OR 97204-1268

(PL) PACIFICORP
MR W SCOTT BRATTEBO
PACIFIC POWER & LIGHT COMPANY
424 PUBLIC SERVICE BUILDING
920 SW SIXTH AVENUE
PORTLAND OR 97204

(PP) PUBLIC POWER COUNCIL
MS JUDITH A BEARZI
GORDON THOMAS HONEYWELL MALANCA PETERSON & DAHEIM
600 UNIVERSITY 2101 ONE UNION SQUARE
SEATTLE WA 98101

(PP) PUBLIC POWER COUNCIL
MR LON L PETERS SENIOR ECONOMIST
500 NE MULTNOMAH SUITE 729
PORTLAND OR 97232

(PS) PUGET SOUND POWER & LIGHT CO
MR R G BAILEY VICE PRESIDENT
POWER SYSTEMS
P O BOX 97034
BELLEVUE WA 98009-9734

(WA) WESTERN PUBLIC AGENCIES GROUP
MR GARY SALEBA
ECONOMIC AND ENGINEERING SERVICES
12011 BEL-RED ROAD SUITE 201
BELLEVUE WA 98009

C. Clark Leone
Of Attorneys for Bonneville
Power Administration

UNITED STATES DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION

IP/PF Rate Link Extension 1990) No. IP-PF 90

MOTION AND ORDER TO AMEND SCHEDULE

Bonneville Power Administration (BPA) moves for an order amending the remainder of the schedule in the above docket. Specifically, BPA requests the Hearing Officer to continue the date set for the final Record of Decision (ROD) from October 17, 1990, to November 19, 1990.

The reason for this request is that the Department of Energy (DOE) must review the draft ROD for environmental content. The Administrator cannot issue a final ROD until DOE approves of the environmental content. DOE has informed BPA that DOE's review will not be completed until November 16, 1990. BPA therefore proposes that the final ROD be issued on November 19.

BPA has contacted the attorneys for all parties (Western Public Agencies Group, Puget Sound Power & Light, Direct Service Industries, Association of Public Agency Customers, Public Power Council and PacifiCorp), and none of them object to the proposed new schedule.

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WHEREFORE BPA requests that the Hearing Officer amend the existing schedule to provide that the final Record of Decision will be published and issued on November 19, 1990.

BONNEVILLE POWER ADMINISTRATION

Dated October 2, 1990.

C. Clark Leone
Attorney
P.O. Box 3621
Portland, Oregon 97208
Telephone: (503) 230-4201

SO ORDERED. Any party who has a comment or objection to the proposed new schedule should advise the Hearing Clerk by Monday, October 11, 1990.

Dated October ___, 1990.

Dean F. Ratzman
Hearing Officer

O - ORDERS

UNITED STATES OF AMERICA
U. S. DEPARTMENT OF ENERGY
BEFORE
BONNEVILLE POWER ADMINISTRATION

In the Matter of the Proposed Extension of the Industrial Firm Power - Priority Firm Power Rate Link Methodology	))))	IP-PF-90

ORDER ESTABLISHING SCHEDULE

The following procedural schedule is established, (See Attachment for Summary):

A. Data Requests to BPA

Data Requests: Deadline Thursday, August 2, 1990.
Objections to data requests: On or before Monday, August 6, 1990.
BPA written responses to data requests: Deadline Thursday, August 9, 1990.
Motions to Compel: Friday, August 10, 1990.

Data requests arising from clarification of BPA witness: Deadline Tuesday, August 7, 1990.

Responses to data requests arising from clarification: Deadline Thursday, August 9, 1990.

B. Data Requests to Parties

Data requests: Deadline Friday, August 17, 1990.
Objections to data requests: On or before Monday, August 20, 1990.
Parties written response to data requests: Deadline Thursday, August 23, 1990.
Motions to Compel: Friday, August 24, 1990.

Data requests arising from clarification of parties' witnesses: Deadline Tuesday, August 21, 1990.

Responses to Data requests arising from clarification: Deadline Thursday, August 23, 1990.

C. Motions to Strike

No Dates Provided.

D. Prehearing Stage

Clarification of BPA Witness: Monday, August 6, 1990.

Parties' Direct Case and Rebuttal to BPA's Direct Testimony filed: Wednesday, August 15, 1990.

Clarification of Parties' Witnesses: Monday, August 20, 1990.

Litigants File Rebuttal Testimony: Wednesday August 29, 1990.

E. Hearing Stage

Cross Examination: Wednesday & Thursday, September 5, 1990 - September 6, 1990.

F. Briefing and Decision Stage

Initial Briefs Filed: Friday, September 14, 1990.

BPA Draft Record of Decision: Tuesday, September 25, 1990

Briefs on Exceptions or Oral Argument: Friday, October 5, 1990.

BPA Final Record of Decision: Wednesday, October 17, 1990.

All documents must be filed with the Hearing Clerk at 5 p.m. on the appropriate deadlines.

SO ORDERED.

Dean F. Ratzman
Dean F. Ratzman
Hearing Officer (by J. Ciminello)

Dated July 26, 1990

IP-PF-90-O-01 (07/26/90)

Schedule Summary
(IP-PF-90-H-01 rev. 07/26/90)

In the Matter of the Proposed)
Extension of the Industrial) IP-PF-90
Firm Power - Priority Firm Power)
Rate Link Methodology)

Thursday	July 26	Prehearing conference (and technical session, if requested)
Thursday	August 2	Data requests to BPA
Monday	August 6	Clarification of BPA; objections to data requests
Tuesday	August 7	Data requests to BPA resulting from clarification
Thursday	August 9	Data responses from BPA
Friday	August 10	Motions to compel
Wednesday	August 15	Direct/rebuttal testimony of parties
Friday	August 17	Data requests to parties
Monday	August 20	Clarification of parties; objections to data requests
Tuesday	August 21	Data requests to parties resulting from clarification
Thursday	August 23	Data responses from parties
Friday	August 24	Motions to compel
Wednesday	August 29	Rebuttal testimony of litigants
Friday	August 31	Data requests to litigants
Tuesday	September 4	Data responses from litigants
Wed./Thur.	September 5-6	Cross-examination
Friday	September 14	Briefs of parties
Tuesday	September 25	Draft Record of Decision
Friday	October 5	Briefs on exceptions or oral argument of parties
Wednesday	October 17	Final Record of Decision

IP-PF-90-O-01 (7/26/90)

UNITED STATES OF AMERICA
U.S. DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

In the Matter of the Proposed Extension of the Industrial Firm Power - Priority Firm Power Rate Link Methodology	))))	IP-PF-90

SPECIAL RULES OF PRACTICE
TO GOVERN THIS PROCEEDING

DEFINITIONS

As used herein: BPA refers to Bonneville Power Administration; parties refers to all persons admitted as parties to the proceeding; litigants refers to BPA and all parties.

GROUPING

Parties with common interests or positions in this proceeding should group themselves to make a joint presentation including oral representation, presentation of evidence, cross-examination, and briefing. Such grouping will be without derogation to the right of any party to represent a separate point of view where its position differs from that of the group in which it is participating.

EVIDENCE

Direct, rebuttal and surrebuttal testimony should be presented in writing and in advance of the hearing.

Expert witnesses may testify in terms of opinion, provided that their testimony includes the reasons and the underlying data in support of their conclusions.

Relevance Evidence should be keyed to specific contentions or subjects. This relationship should be indicated by a heading or statement for the evidence (or portion of evidence) presented, specifying the contention or topic in support of which or in opposition to which the evidence is submitted, or the purpose for which the evidence is offered. However, these headings and statements will not constitute evidence.

Self-Explanatory Evidence should be self-explanatory. Exhibits should contain appropriate narrative or be accompanied by testimony explaining the source of the information used, how the exhibit is constructed, and the support for the conclusions. Methods used in statistical compilations should be stated, explained, and justified. Assumptions, estimates, and judgments should be expressly stated, and the basis for their adoption justified. Methods of allocation or other division of costs or revenues should be explained and justified. The consequences of the methods adopted should be spelled out. Where appropriate, standard statistical tests should be made and their results stated. Work papers showing calculations should accompany evidence.

Computers Notations should be made where computers are used to obtain statistical results. The programs and codes should be furnished and the assumptions made should be specifically listed and justified. Where calculations or printouts are too extensive for general distribution, they should be described and a statement made of their availability at the Public Involvement Office, by limited distribution or by examination prior to hearing at an

office in Portland, Oregon. Objections to the adequacy of the opportunity for prehearing examination and discovery of these materials should be raised promptly. These materials should be available at the hearing unless a seasonable request is made and granted for good cause not to do so. However, no delay at the hearing will be permitted for a party to analyze these materials.

Where one part of a multi-page exhibit is based on another part, appropriate cross-references should be made.

A witness' evidence should indicate wherever his evidence is based on the evidence of another witness.

Official Notice Parties requesting official notice should refer to the page and paragraph of such material and should furnish copies of the reference item for the record and for the other parties.

DISCOVERY

Clarification Discovery refers to informal inquiries about the basic facts of a witness' testimony or exhibits, such as: how an exhibit is constructed, sources of date, assumptions and bases for assumptions, how conclusions were derived, description of methods used in technical or statistical studies or in allocations, or the affirmative reasons for using these methods. The litigants are authorized to engage in Clarification Discovery to raise and resolve all such basic matters before the witness' appearance. Clarifying Discovery, and not cross-examination, is to be used to understand prepared testimony and exhibits.

Clarifying sessions specified by the Hearing Officer will be held for inquiries regarding BPA's presentation. Witnesses to be called by the agency or BPA employees with information that may be germane will be available for these inquiries.

After the parties file their direct cases, a second set of clarifying sessions will be held, if required, at which the litigants may inquire about the presentations of the parties. Any litigant may, on five days notice, request the appearance of any party's witness at these sessions; however, witnesses residing outside the region may be made available for telephone inquiries.

The testimony of witnesses not produced for Clarifying Discovery in response to a request will be stricken.

The litigants may also submit Data Requests to each other. Data requests should indicate the specific use to which the information sought will be put.

Upon objection to a Clarifying Discovery question or to a Data Request, the proponent should discuss the matter with opposing counsel in an attempt to resolve the differences. If the litigants cannot reach agreement after consultation, the proponent may file a written motion for a ruling. The motion should contain a Statement of Relevance and a statement that after personal consultation and sincere attempts to resolve differences with opposing counsel, they are unable to reach an accord; the pleading should also recite the date, time, and place of the conference, and the names of the litigants participating. The opponent may file a written reply to the motion.

CROSS-EXAMINATION

Oral cross-examination should not be used to discover clarifying facts, or to repeat questions and answers from the clarifying sessions.

However, the results of Clarifying Discovery may be introduced into the record by presenting selected written questions and answers of a witness developed through Clarifying Discovery for adoption by the witness at the hearing; or by the witness's adopting an agreed-upon answer to a question summarizing the Clarifying Discovery; or by a supplementary statement in the witness's direct testimony; or by a written request for an admission. Where material from clarifying sessions is submitted, it should be purged of irrelevant matters or edited, with the approval of the witness. Also, all proposed answers and statements incorporating the results of Clarifying Discovery should be served on the witness's counsel for verification, and other litigants, at least two days before the witness testifies.

Calculations Witnesses should not be asked to perform calculations on the stand. If calculations and their results are submitted to a witness on cross-examination, they should be in writing, should state the source of the data used, and explain how the results are obtained. Also, such documents should be served on all counsel two days before the witness is to appear, and copies should be available at the hearing. (It is preferable for such documents to be introduced into evidence through the cross-examiners' own witness.)

Cross-examination will be limited to witnesses whose testimony is adverse to the party wishing to cross-examine.

REBUTTAL

Rebuttal and surrebuttal evidence should refer to the specific evidence being refuted (pages, lines, topic). Such topical references should be neutral.

New affirmative matter (not in reply to another litigant's direct case or not a proper response to relevant cross-examination) should not be included in rebuttal evidence.

ADDITIONAL PROCEDURES

a. Filing and Serving Testimony

1) Service to Hearing Clerk Parties should file 30 copies of all testimony and exhibits with the Hearing Clerk for use by BPA and for filing with the Federal Energy Regulatory Commission.

2) Service to Parties In addition, all parties should serve two copies of all testimony and exhibits upon all other parties on the Hearing Officer's service list by one of the following methods:

Where testimony and exhibits are being distributed at the hearing site, service will be accomplished by providing the Clerk with the required number of copies in envelopes with mailing labels and postage affixed at the hearing site by 5 p.m. on the required filing date. The Clerk will distribute the copies received among the boxes reserved for each Party at the hearing site. All copies not picked up by 6 p.m. of the filing date will be mailed by the Clerk.

Where testimony and exhibits are not being distributed at the hearing site, service will be accomplished by direct mail of the required number of copies to each of the parties, and where appropriate, participants, on the service list.

Service to parties should include service to courtesy copy recipients and participants where appropriate.

3) Other Litigants should bring two copies of the prefiled testimony and exhibits of each witness to the hearing for the Reporter on the day the witness appears.

b. Data Requests and Responses

Data requests should be in writing and directed to the lead counsel for the litigant of whom the data request is made. Whenever possible, requests should mention the name of the witness of whom inquiry is made. A copy should be served on the lead counsel of other litigants. Two copies should be served on the Hearing Clerk, who will assign a Data Request number to the request and notify the party to whom the request is directed of the number. For requests consisting of more than ten items, the requester should list the requests in order of their priority.

Responses to Data Requests should be made within the period scheduled. The Response should be served on the requesting party; also, two copies should be served on the clerk. Reasons for not providing requested items should be stated in writing. The clerk will make the Response available to all parties, who shall have the right to reproduce it.

c. Material from Clarification Sessions

The cross-examiner should serve the witness's counsel and all parties of record with references to the volume, page, and line numbers of the material from the clarification sessions to be introduce into the record. Such service should be made two days before the witness is scheduled to appear.

Material from the clarification sessions to be introduced into the record by a cross-examiner should be in writing. The material may consist of either typed statements from the clarification sessions or of pages photocopied from the transcript record with unrelated portions crossed out. The Hearing Clerk should be given five copies (one for the Hearing Office, one for the witness, one for the Reporter, and two for the Hearing Clerk) at the time the material is to be introduced and the witness is asked to adopt the material. (The Hearing Officer's copy should be given to him by 8:30 a.m. of the day the witness is to appear.)

d. Documents

Documents to be presented to the witness on cross-examination should be served on counsel for the witness one day before the witness is scheduled to appear.

Documents to be used on cross-examination should be served before noon of the due date: e.g., for a witness appearing on a Thursday, documents required to be served two days before the witness is to appear shall be served by the preceding Tuesday noon; for witnesses appearing on a Monday, the due date for both two-day and one-day documents is the preceding Friday noon; for

witnesses appearing on Tuesday, the due date is the preceding Friday noon for two-day documents and Monday noon for one-day documents.

GENERAL

Objections and motions to strike shall state briefly the specific grounds for objection.

No party shall be a participant and vice versa.

Argument and legal opinions will not be received into evidence; they are the province of the lawyer, not the witness. They should be presented in brief or legal memoranda. Legal memoranda, where appropriate, will be welcome.

COMMUNICATIONS

All communications and documents for the Hearing Officer should be filed with the Hearing Clerk.

Mailing address:	John D. Ciminello Hearing Clerk, APR Bonneville Power Administration P.O. Box 3621 Portland, OR 97208-3621
Personal Service:	John D. Ciminello Hearing Clerk, APR Bonneville Power Administration 905 NE. 11th Avenue Portland, OR 97232
Telephone:	503-230-4201

SO ORDERED.

Dean F. Ratzman
Hearing Officer

Dated: July 26, 1990

UNITED STATES DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION

Proposed Extension of the IP-PF Rate Link	))	No. IP-PF-90

MOTION TO ADMIT TESTIMONY

Bonneville Power Administration (BPA) moves the Hearing Officer to admit into evidence BPA Exhibit No. IP-PF-90-E-BPA-01, Testimony of Haig Revitch. This exhibit was offered at the prehearing conference on July 26, 1990, subject to cross examination by the parties on September 5-6, 1990. TR 16-17.

No party filed direct/rebuttal testimony in this matter. Moreover, BPA represents that attorneys for all parties have been contacted by telephone, and no party desires to cross examine Mr. Revitch.

WHEREFORE BPA requests that BPA Exhibit No. IP-PF-90-E-BPA-01 be admitted and that cross examination, scheduled for September 5-6, 1990, be cancelled.

BONNEVILLE POWER ADMINISTRATION

Dated August 28, 1990.

C. Clark Leone
Attorney
P.O. Box 3621
Portland, Oregon 97208
Telephone: (503) 230-4201

IT IS SO ORDERED. Dated August 29, 1990.

Dean F. Ratzman, Hearing Officer

UNITED STATES DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION

IP/PF Rate Link Extension 1990) No. IP-PF 90

MOTION AND ORDER TO AMEND SCHEDULE

Bonneville Power Administration (BPA) moves for an order amending the remainder of the schedule in the above docket. Specifically, BPA requests the Hearing Officer to continue the date set for the final Record of Decision (ROD) from October 17, 1990, to November 19, 1990.

The reason for this request is that the Department of Energy (DOE) must review the draft ROD for environmental content. The Administrator cannot issue a final ROD until DOE approves of the environmental content. DOE has informed BPA that DOE's review will not be completed until November 16, 1990. BPA therefore proposes that the final ROD be issued on November 19.

BPA has contacted the attorneys for all parties (Western Public Agencies Group, Puget Sound Power & Light, Direct Service Industries, Association of Public Agency Customers, Public Power Council and PacifiCorp), and none of them object to the proposed new schedule.

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WHEREFORE BPA requests that the Hearing Officer amend the existing schedule to provide that the final Record of Decision will be published and issued on November 19, 1990.

BONNEVILLE POWER ADMINISTRATION

Dated October 2, 1990.

C. Clark Leone
Attorney
P.O. Box 3621
Portland, Oregon 97208
Telephone: (503) 230-4201

SO ORDERED. Any party who has a comment or objection to the proposed new schedule should advise the Hearing Clerk by Monday, October 15, 1990.

Dated October 9, 1990.

Dean F. Ratzman
Hearing Officer

PR - INFORMATIONAL MAILINGS

July 11, 1990

PMLC

Dear Interested Parties:

We are enclosing for your information a copy of the FEDERAL REGISTER Notice, to be published on or before July 19, 1990. This Notice announces the opening of a Public Involvement process, in accordance with section 7(i) of the Pacific Northwest Electric Power Planning and Conservation Act, on extension of the IP-PF rate link, and an opportunity for public review and comment.

The current IP-PF rate link methodology expires with BPA's current rates. BPA is proposing to extend the use of the link methodology through rate periods commencing on or before the termination of the Variable Industrial Rate contract, or September 30, 1995, whichever is later.

Please note that information regarding BPA's proposed schedule for the Public Involvement process, as well as procedures governing rate adjustments and public participation are described in the FEDERAL REGISTER Notice.

Sincerely,

David J. Armstrong

David J. Armstrong
Chief, Power Rates Branch

Enclosure

HRevitch:jab:4039:7-10-90 (VS6-PMLC-8845m)

cc:
P. Hansen - APL
R. Roach - APR
M. VanBuren - APR
S. Melton - DR
J. Curtis - P
W. Pollock - P
S. Berwager - PM
N. Parker - PMLC
H. Revitch - PMLC
W. Roghair - PMLC
J. Kiley - YB
Area Managers - L, T, U, W
Area Power Managers - LC, TC, UC, WC
District Managers - LG, UM, UW, WI, WL
Official File - PMLC (PM-13-13-7)

IP-PF-90-PR-01

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A-03 HEARING OFFICER'S CERTIFICATION OF THE RECORD

UNITED STATES OF AMERICA
U. S. DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

In the Matter of the Proposed	)	
Extension of the Industrial Firm	)	IP-PF-90
Power - Priority Firm Power	)	
Rate Link Methodology	)	

CERTIFICATION OF THE OFFICIAL RECORD

James J. Jura
Administrator
Bonneville Power Administration

Pursuant to Section 7(i)(2) of the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. §839e(i)(2), (Northwest Power Act), the Bonneville Power Administration (BPA) conducted a hearing to extend the Industrial Firm Power - Priority Firm Power (IP-PF) Rate Link Methodology. The BPA rate staff has concluded that the Link has resulted in rate predictability for the Direct Service Industries and reduced controversy in rate cases for all customers. BPA proposes to extend the use of the link methodology through rate periods commencing on or before the termination date of the Variable Industrial (VI) rate contract or September 30, 1995, whichever is later.

A prehearing conference was held on Thursday, July 26, 1990. At that time dates were set for the presentation of direct cases, rebuttal, cross examination and the submission of briefs.

IP-PF-90-A-02

Parties were given the opportunity to rebut material submitted by the Administrator's staff (or any other party), and a reasonable opportunity for cross examination. No party filed testimony in this matter. By motion dated August 28, 1990, BPA requested admission of that Agency's testimony and cancellation of scheduled cross examination. BPA represented that attorneys for all parties were contacted by telephone and that no party desired cross examination.

Under the Northwest Power Act, the Administrator's decision establishing a rate is to be based upon a review of the record which includes BPA studies, party responses to the studies, public comments, transcripts of the hearing sessions, exhibits and briefs.

Attachment 1 to this Certification is the Index to the IP-PF Rate Link Methodology Proceeding (IP-PF-90-I-01). This Index contains a catalog of all written material from the proceeding. The documents listed in the Index comprise the official record of the IP-PF-90 proceeding. The record is hereby certified to you for decision.

November 15, 1990

Dean F. Ratzman

Dean F. Ratzman
Hearing Officer

IP-PF-90-A-02

A-03 - ADMINISTRATOR'S FINAL RECORD OF DECISION

1990 IP-PF Rate Link Extension

Administrator's Record of Decision

Bonneville
POWER ADMINISTRATION

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November 1990

ADMINISTRATOR'S FINAL RECORD OF DECISION

1990 IP-PF RATE LINK EXTENSION

No. IP-PF-90

November 1990

IP-PF-90-A-03

ADMINISTRATOR'S FINAL RECORD OF DECISION

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1990 IP-PF RATE LINK EXTENSION PROPOSAL

Administrator's Final Record of Decision

CHAPTER I

BACKGROUND

A. Introduction

Bonneville Power Administration (BPA) sells electric power to its direct service industrial (DSI) customers under the Industrial Firm Power (IP) rate schedule and, for those DSI aluminum smelters electing to participate, the Variable Industrial Power (VI) rate schedule and contracts. BPA's public body and cooperative customers (preference customers) purchase power under the Priority Firm Power (PF) rate schedule and, potentially, under the New Resource Firm Power (NR) rate schedule.

In 1987, BPA adopted a methodology establishing a formal relationship between rates charged to DSI customers and rates charged to preference customers. This relationship is referred to as the IP-PF rate link. Administrator's Record of Decision, 1986 IP-PF Rate Link Proposal, March 1987, (1987 Link ROD) confirmed and approved in United States Dep't of Energy - Bonneville Power Admin., 40 F.E.R.C. ¶61,351 (1987). The link expires upon the expiration of BPA's current rates, that is, on September 30, 1991.

On July 19, 1990, BPA published a notice proposing to extend the IP-PF link through rate periods commencing on or before the termination date of the VI rate contracts or September 30, 1995, whichever is later. 55 Fed. Reg. 29,402. This Record of Decision

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(ROD) concludes, based on the record developed during a rate hearing process, that the link should be so extended.

B. History of the IP-PF Rate Link

In the 1985 wholesale power rate proceeding, the DSIs proposed that the IP Standard rate be set equal to the PF rate on a long-term basis to provide the DSIs with increased rate stability. DSI Initial Brief, WP-85-DS-01 at 67; DSI Reply Brief, WP-85-R-DS-01 at 1. The BPA Administrator pledged "to facilitate the development and adoption of a long-term policy" to link the two rates. 1985 Administrator's Record of Decision, WP-85-A-02 at 245.

Later in 1985, BPA concluded an analysis of mid- to long-term policy and rate options available to the Administrator to address the problems caused by fluctuations in the DSI demand for electricity. BPA examined five options to assist the DSIs in maintaining their load levels. The final DSI Options Study, issued in June of 1985, announced BPA's decision to initiate a formal rate hearing to consider the design of a long-term link between rates to the DSIs and rates to BPA's preference customers.

BPA conducted a hearing pursuant to Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) § 7(i), 16 U.S.C. § 839e(i), which resulted in the adoption in 1987 of a formal link between the IP and PF rates. The link methodology is effective "in rates established before June 30, 1990, through the end of the rate period." 1987 Link ROD at 13. The methodology is described in detail in Chapter II, § B.

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C. Procedural History of This Rate Proceeding

In accordance with Northwest Power Act § 7(i), 16 U.S.C. § 839e(i), BPA announced a hearing on the proposed link extension. 55 Fed. Reg. 29,402 (1990). Six interventions were filed on behalf of the following: Public Power Council; PacifiCorp, dba Pacific Power & Light Company and Utah Power & Light Company; Puget Sound Power & Light Company; Association of Public Agency Customers; Western Public Agencies Group; and Direct Service Industrial Customers.1/ Dean F. Ratzman, Hearing Officer, commenced the proceeding with a prehearing conference on July 26, 1990, wherein he ruled upon matters of interventions and scheduling. Judge Ratzman also issued his "Special Rules of Practice to Govern This Proceeding". IP-PF-90-O-02 (hereafter, citations to pleadings and exhibits in this record will be shortened thus: "O-02").

BPA's direct testimony, sponsored by Haig Revitch, was filed on July 19, 1990. E-BPA-01. During the course of discovery, BPA responded to eleven data requests.

No litigant other than BPA filed testimony. The parties waived cross examination of BPA's witness (see M-04, O-03). The DSIs filed an initial brief (B-DS-01). No comments were received from participants. A Draft ROD was published on September 25, 1990; no briefs on exception were filed.

1/ The DSIs intervened as an entity and through the following individual members: Aluminum Company of America; Atochem North America; Columbia Aluminum Corporation; Columbia Falls Aluminum Company; Georgia-Pacific Corporation; Intalco Aluminum Corporation; Kaiser Aluminum & Chemical Corporation; Northwest Aluminum Company; Oregon Metallurgical Corporation; Reynolds Metals Company; and Vanalco, Inc.

D. Organization of Final Record of Decision

The ROD contains four chapters. The procedural and legal background forms the first chapter; the second discusses the rate link proposal. Chapter III addresses environmental impact matters, while Chapter IV presents the conclusions on the proposal.

E. Legal Guidelines Governing Establishment of Rates

1. Statutory Guidelines

Ratemaking standards governing BPA's transmission rates are found exclusively in the Northwest Power Act and the Federal Columbia River Transmission System Act, 16 U.S.C. §§ 838g, h (1974) (Transmission System Act). The directives contained in each of these statutes are described below.

Section 7(a) of the Northwest Power Act directs the Administrator to establish, and periodically review and revise, rates for the sale and disposition of electric energy and capacity and for the transmission of non-federal power. Rates are to be set to recover collectively, over a reasonable period of years, "in accordance with sound business principles, the costs associated with the acquisition, conservation and transmission of electric power, including the amortization of the federal investment in the Federal Columbia River Power System [FCRPS] (including irrigation costs required to be repaid by power revenues) ... " 16 U.S.C. § 839e(a)(1).

Northwest Power Act § 7(a) also directs that these rates be set in accordance with both §§ 9 and 10 of the Transmission System Act and § 5 of the Flood Control Act of 1944, 16 U.S.C. § 825s. Section 9 of the Transmission System Act requires, among other

things, that BPA's power and transmission rates be established with a view to encouraging the widest possible diversified use of federal power at the lowest possible rates to consumers consistent with sound business principles, while having regard to recovery of costs of producing and transmitting the power and to repayment of the U.S. Treasury. 16 U.S.C. § 838g. See also 16 U.S.C. § 839e(a)(2)(C). Substantially the same requirement is set out in § 5 of the Flood Control Act, 16 U.S.C. § 825s. Transmission System Act § 10, 16 U.S.C. § 838h, provides that the recovery of transmission system costs be equitably allocated between federal and non-federal power utilizing the system.

2. Specific Rate Guidelines

Rates for the DSIs are to be set according to the provisions of Northwest Power Act § 7(c), 16 U.S.C. § 839e(c). This section provides that, beginning July 1, 1985, rates that apply to DSIs shall be set at "a level which the Administrator determines to be equitable in relation to the retail rates charged by [preference] customers to their industrial consumers in the region." 16 U.S.C. § 839e(c)(1)(B). That determination

> ... shall be based upon the Administrator's applicable wholesale rates to ... [preference] customers and the typical margins included by such [preference] customers in their retail industrial rates ...

16 U.S.C. § 839e(c)(2).

Section 7(c)(2) further directs that the rate determination must take into account

> ... (a) the comparative size and character of the loads served; (b) the relative costs of electric capacity, energy, transmission, and related delivery facilities

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> provided and other service provisions; and (c) direct and indirect overhead costs, all as related to the delivery of power to industrial customers ...

16 U.S.C. § 839e(c)(2)(A)-(C).

Finally, § 7(c)(2) requires that DSI rates

> ... shall in no event be less than the rates in effect for the contract year ending on June 30, 1985.

Section 7(c)(3), 16 U.S.C. § 839e(c)(3), directs that DSI rates must be adjusted

> ... to take into account the value of power system reserves made available to the Administrator through his rights to interrupt or curtail service to such direct service industrial customers.

3. Ratemaking Discretion Vested in the Administrator

The Administrator has broad discretion to interpret and implement statutory standards applicable to ratemaking. These standards focus on cost recovery and do not restrict the Administrator to any particular rate design method or theory. See Pacific Power & Light Co. v. Duncan, 499 F. Supp. 672, 683 (D. Ore. 1980). Accord, City of Santa Clara v. Andrus, 572 F.2d 660, 668 (9th Cir. 1978) ("widest possible use" standard is so broad as to permit "the exercise of the widest administrative discretion"); Electricities of North Carolina v. Southeastern Power Admin., 774 F.2d 1262, 1266 (4th Cir. 1985).

The United States Court of Appeals for the Ninth Circuit has specifically recognized the Administrator's ratemaking discretion. Central Lincoln Peoples' Util. Dist. v. Johnson, 735 F.2d 1101, 1116, 1120-1129 (9th Cir. 1984) (Central Lincoln) (upheld BPA on the merits of every rate issue and declared that "[b]ecause BPA helped draft and must administer the Act, we give substantial

deference to BPA's statutory interpretation"); PacifiCorp v. Federal Energy Regulatory Comm'n, 795 F.2d 816, 821 (9th Cir. 1986) ("BPA's interpretation is entitled to great deference and must be upheld unless it is unreasonable"); Atlantic Richfield Co. v. Bonneville Power Admin., 818 F.2d 701, 705 (9th Cir. 1987) (BPA's rate determination upheld as a "reasonable decision in light of economic realities"); cf. Aluminum Co. of America v. Central Lincoln Peoples' Util. Dist., 467 U.S. 380, 389 (1984) ("[t]he Administrator's interpretation of the Regional Act is to be given great weight"); Department of Water and Power of the City of Los Angeles v. Bonneville Power Admin., 759 F.2d 684, 690 (9th Cir. 1985) ("[i]nsofar as agency action is the result of its interpretation of its organic statutes, the agency's interpretation is to be given great weight"); Aluminum Co. of America v. Bonneville Power Admin., 903 F.2d 585, 590 (9th Cir. 1989) (Alcoa) ("We defer to the interpretation of a statute by the agencies charged with administering it ... Because BPA drafted the [Northwest Power] Act, its interpretation is to be given 'great weight' and should be upheld if reasonable.")

4. Confirmation and Approval of Rates

BPA's rates become effective upon confirmation and approval by the Federal Energy Regulatory Commission (Commission). 16 U.S.C. § 839e(a)(2). The Commission's review is appellate in nature, based on the record developed by the Administrator. Central Lincoln, 735 F.2d at 1116; Alcoa, 903 F.2d at 590; United States Dep't of Energy - Bonneville Power Admin., 13 F.E.R.C. ¶61,157, 61,339 (1980). The Commission may not modify rates proposed by the

Administrator, but may only confirm, reject or remand them. United States Dep't of Energy - Bonneville Power Admin., 23 F.E.R.C. ¶61,378, 61,801 (1983). See also 18 C.F.R. § 300.21(e). The purpose of Commission review of BPA's power rates is to ensure that those rates are sufficient to repay the federal investment in the FCRPS over a reasonable number of years after first meeting BPA's other costs; and are based on BPA's total system costs. 16 U.S.C. § 839e(2).

Pursuant to Northwest Power Act § 7(i)(6), 16 U.S.C. § 839e(i)(6), the Commission has promulgated rules establishing procedures for the approval of BPA rates. 18 C.F.R. 300 (1984). The Commission adopted a final rule amending these procedures effective July 6, 1987. 52 Fed. Reg. 20,704 (1987).

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CHAPTER II

IP-PF RATE LINK EXTENSION PROPOSAL

A. Derivation and Application of the Existing IP-PF Rate Link

1. Development of the IP-85 Rates

Beginning in the 1985 general rate case, and continuing through all subsequent BPA wholesale power rate filings, BPA developed and applied new methodologies for determining the IP rate to comply with the post-1985 rate directives contained in the Northwest Power Act. Before July 1, 1985, the IP rate was based on costs allocated to the DSI customer class as directed in § 7(c)(1) of the Northwest Power Act. Those costs were then reduced by the value of system reserves the DSIs provide through BPA's contractual rights to interrupt portions of their loads. 1987 Link ROD at 5.

The post-1985 rate directives provide for the IP rate to be derived by adding a margin, as adjusted, to an average rate based on the applicable wholesale rates to BPA's preference customers. The resulting DSI rate level is subject to the floor rate provisions of § 7(c)(2) which provide for a minimum DSI revenue recovery. If the margin-based IP rate level is less than the floor rate, the IP rates are defined by the floor rate. The value of reserves credit is then subtracted. 1987 Link ROD at 5-6.

In implementing the post-1985 directives for determining the IP Premium and IP Standard rate levels for the 1985 wholesale rate filing, BPA first derived a fiscal year (FY) 1987 unadjusted margin for preference customers. The calculation used historical and prospective cost of service data for 19 utilities having 49 retail

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industrial customers with a minimum of 3.5 megawatts of peak demand per consumer. 1987 Link ROD at 6.

The size of load adjustment was then made to the FY 1987 unadjusted margin. The result was the Premium margin, the margin which recognizes quality of service provided under the IP Premium rate. The size of load adjustment accounts for the lower per-kilowatthour costs of delivery (distribution) facilities installed to serve the larger DSI loads. 1987 Link ROD at 6.

To derive the IP Standard margin, the margin that recognizes the quality of service to the DSI first quartile under the IP Standard rate, BPA subtracted the character of service adjustment from the IP Premium margin. The character of service adjustment accounts for the lower quality of service provided the DSI first quartile under the IP Standard rate relative to the IP Premium rate. 1987 Link ROD at 6.

The IP Premium rate margin derived for the 1985 wholesale power rate filing was 2.82 mills per kilowatthour (kWh). The character of service adjustment to the IP Premium margin was .54 mills/kWh, resulting in an IP Standard rate margin of 2.28 mills/kWh. 1987 Link ROD at 6.

To determine the applicable wholesale rate in the 1985 wholesale rate proceeding, BPA applied the PF rate charges for demand and energy (prior to the floor rate adjustment and other adjustments) to the forecasted DSI demand and energy billing determinants. Had BPA's preference customers been expected to purchase power under the NR rate schedule, the expected sales under

the NR rate charges would also have been factored into the applicable wholesale rate calculation. 1987 Link ROD at 6.

The IP Standard margin was then added to the applicable wholesale rate to obtain the margin-based IP Standard rate. The margin-based IP Standard rate was lower than the DSI floor rate. Therefore the IP Standard rate was set at the floor rate. The differential between the IP Premium margin and the IP Standard margin, .54 mills/kWh, was added to the IP Standard rate to determine the level of the IP Premium rate. 1987 Link ROD at 6.

Finally, BPA calculated the value of reserves (VOR) credit to reflect the value of BPA's contractual rights to restrict the DSI loads under certain specified conditions. The federal generation system can use the rights to restrict the DSI load as part of its system reserve requirement. The federal system reserves provided by the DSI restriction rights are categorized into forced outage reserves, stability reserves and plant delay reserves. The VOR analysis quantifies the benefit resulting from BPA's contractual rights to restrict the DSI load by examining the most feasible, least cost alternatives to providing these reserves. 1987 Link ROD at 6.

The actual amount of the VOR credit to the DSIs was calculated using a share-the-savings concept. The sum of the alternative cost of providing system reserves and the cost of a restriction to the DSIs is divided by two. The VOR credit to the DSIs reflected in BPA's 1985 final wholesale rate filing is 1.90 mills/kWh. This amount was applied to the final IP-85 Premium and IP-85 Standard rates. 1987 Link ROD at 7.

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2. Development and Implementation of the IP-PF Rate Link Methodology

In its 1986 IP-PF Rate Link Proposal, BPA proposed a formula for the IP-PF rate link which consisted of two components: (1) the effective rate link, or the net Premium and net Standard margins, determined in the 1985 rate case; and (2) an inflation adjustment. 1987 Link ROD at 7.

The link methodology adopted in the IP-PF-86 proceeding was based on the results presented in the Final 1985 Section 7(c)(2) Industrial Margin Study and the Final Wholesale Power Rate Design Study. WP-85-FS-BPA-04 and -05; 1987 Link ROD at 7. The link was proposed to be effective for the period beginning July 1, 1985 (the effective date of the 1985 rates), through the last rate period commencing on or before June 30, 1990. The link was first applied in BPA's 1987 wholesale power rate filing. In the 1985 rate case, the net Premium margin was .92 mills/kWh, the difference between the IP Premium margin of 2.82 mills/kWh and the VOR credit of 1.90 mills/kWh. The character of service adjustment was .54 mills/kWh. Therefore, the net Standard margin was .38 mills/kWh (.92 mills/kWh less .54 mills/kWh). 1987 Link ROD at 7.

The link methodology was first implemented in BPA's 1987 wholesale power rate filing. See WP-87-FS-BPA-06A at 317. The IP Premium rate was set equal to the Applicable Wholesale Rate (BPA's wholesale power rates developed for power purchases by preference customers, adjusted for DSI load shape, as determined for the 1987 rate filing) plus the inflation-adjusted net Premium margin (.92 mills/kWh). The IP Standard rate was set equal to the Applicable

Wholesale Rate (determined for the 1987 rate filing) plus the inflation-adjusted net Standard margin (.38 mills/kWh). (The net Premium and net Standard margins are inflated by the Gross National Product (GNP) deflator for the test period relative to the GNP deflator for FY 1987, which was used in the 1985 rate filing and which is the base for inflation adjustments in future rate filings. See Attachment 1 at 2.) The same values for the VOR credit and the character of service adjustment developed in the 1985 rate filing were used in the 1987 rate filing.

B. Evaluation of Proposal to Extend the IP-PF Rate Link

The purpose of the proposal to extend the existing IP-PF rate link is to maintain a mid-term (5-year) ratemaking method based on results derived in BPA's 1985 rate filing. E-BPA-01 at 3, lines 5-9. Extending the link will continue BPA's load planning certainty by providing BPA's DSI customers with improved rate predictability for the mid-term. Improved rate predictability reduces the likelihood of plant closures. BPA thus would be able to forecast more accurately its resource and revenue needs. E-BPA-01 at 2, lines 19-20. Extending the link will also reduce the need for data collection requirements and the controversy associated with setting the IP rate level in future BPA rate cases. E-BPA-01 at 2, lines 20-22.

The existing link methodology is effective through the last rate period commencing on or before June 30, 1990. In order for the link to continue to achieve its purpose and goals, the methodology must be extended. BPA proposes to extend and continue

the use of the existing methodology through rate periods commencing on or before the termination of the existing VI rate contracts, or September 30, 1995, whichever is later. E-BPA-01 at 5, lines 19-21.

BPA believes the extension will provide medium-term rate and revenue predictability for BPA. Moreover, it covers a reasonable time horizon in which the DSIs can plan for investments and operations under conditions of rate predictability. See B-DS-01 at 1-2, 6-7. The proposed extension, covering the remaining period for which the VI rate will be in effect, also allows revisitation within a reasonable time to assure that the link is still appropriate. Both the IP-PF rate link and the VI rate are intended to provide stability to DSI loads. E-BPA-01 at 5-6.

In the 1985 wholesale power rate proceeding, BPA determined that the IP-PF rate link is consistent with Northwest Power Act §§ 7(c)(2) and 7(c)(3). Neither the legislative directives nor the proposed methodology has changed, so BPA's proposal is consistent with statute. E-BPA-01 at 4, line 7, through 5, line 6; B-DS-01 at 4-5.

BPA has not performed new studies to update the factors contained in the methodology. Although there have been some modest changes in circumstances since 1985, in the judgment of BPA's witness, the link is still a reasonable representation of BPA's interpretation of the requirements of § 7(c)(2) of the Northwest Power Act. Updates of analyses might result in changes to individual components of the net margins, but these updates would require extensive effort both by BPA and its customers, and could create considerable controversy. Moreover, BPA does not expect

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that changes in the margins, VOR credit and character of service adjustment would change the resulting link significantly from the net margins calculated in the 1985 rate case. This expectation derives from the inherent stability of the factors themselves, and the off-setting nature of changes in the various factors. E-BPA-01 at 8, lines 13-22; see also B-DS-01 at 5-6.

CHAPTER III

ENVIRONMENTAL IMPACTS

A. Introduction

The National Environmental Policy Act of 1969, 42 U.S.C § 4321 (1970), requires that environmental impact analyses be performed before making decisions on major federal actions that significantly affect the environment. In April of 1986, BPA completed the DSI Options Final Environmental Impact Statement (DOE/EIS-0123F) (Final EIS) which analyzed the potential effects of three options (actions) that BPA was considering at the time. The purpose of those options was to stabilize the electrical load of BPA's DSI customers in order to enhance BPA's revenue stability and facilitate resource planning. The three options were (1) a variable rate to the aluminum smelter DSIs based on market prices for aluminum; (2) a conservation/modernization (Con/Mod) program directed toward the aluminum smelter DSIs; and (3) the IP-PF rate link. These options were not alternatives to each other since each could be implemented independently. BPA implemented all three options.

The Final EIS considered alternate forms of the IP-PF rate link as well as the no action alternative. Alternatives considered in the EIS related to the duration of the IP-PF rate link and the means by which it might be implemented. The 1987 Link ROD selected the environmentally preferable alternative, i.e., implementation through policy rather than through contract, and an approximate 5-year initial duration, because this combination minimized the potential for adverse rate impacts to customers while still affording the desired rate predictability to the DSIs.

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The following discussion pertains only to the extension of the IP-PF rate link. It does not resolve issues pertinent to the continuation of the VI rate or to the Con/Mod program. However, in making its decision on the link extension, BPA considered the same potential impacts identified in the EIS that were considered in the initial implementation of the link when it was adopted in 1987.

B. Environmental Impact Considerations

The Final EIS still serves as an adequate basis for providing environmental information relative to the decision to extend the IP-PF rate link. The Final EIS addressed the impacts of the link qualitatively because the effects of the rate link result from the DSIs' perception of the degree of rate and planning certainty the link would provide. The value of this perception cannot be quantified, nor can its effects be modelled. Final EIS at 114.

In deciding to extend the IP-PF rate link, it was not necessary to consider alternatives other than to extend the link in its current form for approximately five years and to let the current rate link expire. The consequences of other alternatives analyzed in the Final EIS would still be as projected in the Final EIS. A duration of approximately five years and implementation through policy remains the environmentally preferred alternative for the extension of the link for the same reasons described in the 1987 Link ROD.

Experience with the IP-PF rate link, coupled with the VI rate and the Con/Mod program which were also implemented, has demonstrated a stabilizing effect on DSI loads, as was projected in

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the EIS and as was intended. To the extent that the link has stabilized DSI load, socio-economic benefits projected by the EIS have been achieved. Closure of certain at-risk DSIs, which presumably the link helped prevent, would have resulted in locally significant adverse socio-economic effects in some smaller communities in which the DSI plant was and is a major economic force in terms of employment, payment of taxes and the like.

The DSIs continue to have adverse effects on the physical environment (for example, discharge of air and water pollutants, production of solid waste and the like) as reported in the Final EIS, but these effects are regulated by appropriate state, federal and local environmental agencies, and remain governed by environmental laws, regulations and permit conditions. It appears that some of the specific environmental problems, primarily dealing with past solid waste disposal practices, with the DSI aluminum smelters reported in the Final EIS are being dealt with, reducing environmental impacts. The Final EIS included consideration of the entire range of expected physical and socio-economic effects of the operation of the aluminum smelters in the sense that it addressed both impacts which would result from operation of the plants at their full production capacity as well as the impacts which would result from their closure. Thus the continued stabilizing effect on DSI loads expected as a consequence of extending the link is not expected to result in environmental impacts beyond the range of potential impacts projected for the aluminum smelter DSIs in the Final EIS.

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The extension of the IP-PF rate link is not likely to affect operations, and therefore, environmental impacts, of the least or most efficient aluminum smelters since rate certainty alone would not affect their plant investment or closure decisions. For the smelters intermediate in efficiency, the continued rate and planning certainty provided by an extension of the IP-PF rate link may encourage additional investment in plant modernization and forestall plant closures because of greater assurance of investment recovery. Final EIS at 115. In general, operation of the smelters does not result in environmental damage which has been found unacceptable by the appropriate regulatory agencies. Continued operation of smelters which otherwise would close would preclude or forestall significant localized adverse socio-economic effects.

The IP-PF rate link is not likely to affect non-aluminum DSIs significantly, since electricity costs are, for most of those industries, less important in their business decisions than for the aluminum companies. Final EIS at 28. However, extension of the link is likely to continue the stabilizing, beneficial effects on the rates of all non-aluminum smelter customers of BPA and may thus have positive regional socio-economic benefits. Final EIS at 115.

BPA has implemented the VI rate and the Con/Mod program for aluminum smelters. Continuing the link will augment the impacts of these other two BPA actions, both of which are directed at stabilizing aluminum smelter loads. Final EIS at 122.

BPA believes that the initial formulation of the link is still reasonable, and that the values for the margins and the VOR are expected to remain stable throughout the period of the proposed

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extension of the link. The stability of the factors comprising the link reduces the risk that the aluminum smelter DSI customers, or BPA's other customers, will experience inequities resulting from discrepancies between the true values of the margins and the VOR credit, and those embodied in the link methodology.

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CHAPTER IV

CONCLUSION

The proposed IP-PF Rate Link methodology is consistent with the rate directives of the Northwest Power Act and other applicable legislation. It has and will continue to provide BPA with greater revenue stability, and therefore enhances BPA's ability to meet its planned payments to the U.S. Treasury. The underlying methodology used in determining the link is sound, and would yield similar results in the face of modest changes in circumstances. Extending the link will reduce controversy in future rate cases. In addition, based on the analysis in the Final EIS, an extension is not expected to result in environmental impacts which are unforeseen or unacceptable. Finally, as evidenced by the absence of opposition to BPA's proposal, BPA's customer groups support the proposed IP-PF rate link extension.

In performing his duties under Northwest Power Act § 7(i), the Hearing Officer has assured that a full and fair evidentiary hearing, open to all interested parties and participants, has been conducted on all issues relevant to this case.

Based upon the record of this proceeding, I adopt as BPA's final rate the attached IP-PF Rate Link methodology.

Issued at Portland, Oregon, on November 19th, 1990.

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ATTACHMENT 1

IP-PF RATE LINK METHODOLOGY

A. Terms and Definitions

Section 7(c)(1)(B) of the Northwest Power Act provides that rates to BPA's direct service industrial (DSI) customers after July 1, 1985, shall be equitable in relation to the industrial rates charged by BPA's preference customers. Section 7(c)(2) provides that rates to the DSIs are to be based upon the following: (1) BPA's applicable wholesale power rates to its preference customers; and (2) typical margins above power and transmission costs included in the preference customers' rates to their industrial customers. The resulting rate levels are subject to the floor rate provision of § 7(c)(2), which provides for a minimum DSI rate level. Relevant terms are defined as follows:

a. Applicable Wholesale Rate. As provided in § 7(c)(2) of the Northwest Power Act, the BPA wholesale power rates developed for power purchases by BPA's public body and cooperative customers, adjusted for DSI load shape (time pattern of consumption).

b. Premium Margin. The typical margin above wholesale power costs referred to in § 7(c)(2) of the Northwest Power Act, adjusted for the size of DSI loads. As determined in the 1985 Administrator's Record of Decision for BPA's rate adjustment proceeding, calculation of the Premium margin recognizes that, in the test year for which those rates were set, none of the service to the DSI first quartile under the IP Premium rate was dependent on the availability of nonfirm energy.

c. Standard Margin. The typical margin above wholesale power costs referred to in § 7(c)(2) of the Northwest Power Act, adjusted for the size of load and the character of service to the first quartile. As determined in the 1985 Administrator's Record of Decision, calculation of the Standard margin recognizes that, in the test year for which those rates were set, service to a portion of the first DSI quartile under the IP Standard rate was dependent on the availability of nonfirm energy.

d. Value of Reserves Credit. The rate credit granted the DSIs for BPA's contractual rights to restrict their load under certain conditions.

e. Net Premium Margin. The Premium margin less the Value of Reserves Credit.

f. Net Standard Margin. The Standard margin less the Value of Reserves Credit.

g. IP-PF Link. The methodology for linking the rates for BPA's DSI customers to the rates for BPA's public body and cooperative customers on a long-term basis.

h. IP Premium Margin-Based Rate. The rate level defined by the following components: the applicable wholesale rate, the premium margin, and the value of reserves credit.

i. IP Standard Margin-Based Rate. The rate level defined by the following components: the applicable wholesale rate, the standard margin, and the value of reserves credit.

j. IP Premium Rate. The rate option contained in the IP rate schedule which includes first quartile service with Surplus FELCC. The level of the IP Premium rate contained in the IP rate schedule may not necessarily equal the level of the IP Premium margin-based rate. The IP Premium rate is subject to further adjustments, specifically any § 7(b)(2) and § 7(b)(3) adjustments, or scaling to adjust for the rate period extending beyond the test year, to determine the IP Premium rate.

k. IP Standard Rate. The rate option contained in the IP rate schedule which includes first quartile service with nonfirm energy and/or provisional drafts. The level of the IP Standard rate contained in the IP rate schedule may not necessarily equal the level of the IP Standard margin-based rate. The IP Standard rate is subject to the floor rate test. Further, the IP Standard margin-based rate may be subject to further adjustments, specifically, any § 7(b)(2) and/or § 7(b)(3) adjustments, or scaling to adjust for the rate period extending beyond the test year, to determine the IP Standard rate. [NOTE: In BPA's 1987 rate filing, it was determined that the 7(b)(3) adjustment was zero. However, BPA has not received final approval of its 1987 rates from FERC.]

l. Floor Rate. The rate determined in BPA's wholesale rate case that forms the basis for computing a minimum DSI rate level that meets the requirements of § 7(c)(2) of the Northwest Power Act.

B. Formulae

The proposed IP-PF Link incorporates the following formulae:

1. $$IP_p = AWR + \left[.92 \times \frac{\text{GNP deflator (year)}}{\text{GNP deflator (1987)}}\right]$$

2. $$IP_S = AWR + \left[.38 \times \frac{\text{GNP deflator (year)}}{\text{GNP deflator (1987)}}\right]$$

Where:

"IP_p" is the IP Premium margin-based rate (mills per kilowatthour) or its successor, as determined by the Link.

"IP_S" is the IP Standard margin-based rate (mills per kilowatthour) or its successor, as determined by the Link.

"AWR" is the Applicable Wholesale Rate, as referred to in § 7(c)(2) of the Northwest Power Act, to BPA's public body and cooperative customers. The AWR is the weighted average of the PF demand and energy charges in the

rates charged for firm power for the combined general requirements of public body and cooperative customers (weighted by PF energy sales to the public agencies) and NR demand and energy charges in the rates charged public body and cooperative customers applicable to their new large single loads (weighted by energy sales to public agencies for resale to new large single loads) applied to the DSIs' demand and energy billing determinants as forecasted in the § 7(i) proceeding in which the Link is applied.

".92" is the Fiscal Year (FY) 1987 net Premium margin, based on 100 percent service to the first quartile, none of which is dependent on the availability of nonfirm energy, as determined in the 1985 ROD.

".38" is the FY 1987 net Standard margin, based on service to the first quartile, a portion of which is dependent on the availability of nonfirm energy, as determined in the 1985 ROD.

"GNP deflator (1987)" is the GNP deflator Index for 1987.

"GNP deflator (year)" is the GNP deflator Index for the test year in subsequent § 7(i) proceedings where the IP rates are to be determined by the Link.

C. Other Terms and Conditions of the IP-PF Rate Link

1. Except as required by the floor rate provision of the Northwest Power Act, the IP test year rates shall be determined in any § 7(i) proceeding to establish rates effective on or before the termination date of the VI rate contract, or September 30, 1995, whichever is later, by the formulae in paragraph B. The purpose of the formulae is to eliminate the need to recalculate during the term of the Link the value of reserves (including the VOR credit) and the "typical margin", net of adjustments as set forth in §§ 7(c)(2)(A), (B) and (C) of the Northwest Power Act. The only variables in the formulae are "AWR" and "GNP deflator (year)." That is, for each § 7(i) proceeding in which the Link is applied, "AWR" shall be calculated from the PF and NR rates as determined in that proceeding and "GNP deflator (year)" shall be the GNP Index for the test year used for all other purposes in that proceeding.

If the test year is a prospective period, then "GNP deflator (year)" will be the forecasted GNP deflator index used for all other purposes in the rate proceeding. Further, if the IP rates determined by the Link will be effective for periods other than the test year, then these rates may be scaled upward or downward to those future periods as appropriate.

2. In the event that the rates established as described in paragraph B, rather than the § 7(c)(2) floor rate, govern the applicable IP rates, then, in addition to any potential § 7(b)(3) obligations on the part of the DSIs, including surcharges arising from the "triggering" of the § 7(b)(2) rate test, the DSIs shall also be subject during the term of the Link to adjustment clauses, surcharges, or credits uniformly applicable to the PF rate schedule. Such adjustments would include the Cost Recovery Adjustment Clauses uniformly applicable to purchases under the PF and NR rate schedules. For

purposes of the prior sentence, the Low Density Discount and Irrigation Discount available to some customers and any surcharge for noncompliance with model conservation standards shall not be considered "uniformly applicable".

3. For the duration of the Link, BPA will continue to make available to the DSIs power of the quality to which the DSIs are entitled under their Power Sales Contracts with BPA, at the rates established as described in paragraphs B.1.a. and C.1. BPA will also make available to the DSIs, on an optional basis, service, the qualities of which shall be specified by the Variable Rate Contract and which shall remain unchanged while the contract is in force throughout the duration of the Link, at the rates established as described in paragraphs B.1.b and C.1.

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SERVICE LIST

Industrial Firm Power - Priority Firm Power
Rate Link Extension Proceeding
IP-PF-90

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SERVICE LIST

IN THE MATTER OF BONNEVILLE POWER ADMINISTRATION'S INDUSTRIAL FIRM POWER - PRIORITY FIRM POWER RATE LINK METHODOLOGY (IP-PF-90)

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