

INDEX

TESTIMONY of

ANNICK E. CHALIER, DANIEL H. FISHER, and JOHN D. WELLSCHLAGER

Witnesses for Bonneville Power Administration

SUBJECT: TIER 2 AND RESOURCE SUPPORT SERVICES RATES	Page
Section 1: Introduction and Purpose of Testimony	1
Section 2: Tier 2 Rate Development.....	1
Section 2.1: Changes to the Tier 2 Rate Development.....	4
Section 2.2: Additions to the Tier 2 Rate Development.....	7
Section 2.2.1: Tier 2 Load Growth Rate Billing Adjustment (GRSP Appendix C).....	7
Section 2.2.2 Tier 2 Remarketing.....	11
Section 2.2.3 Charge to Reduce Tier 2 Amounts	14
Section 3: Resource Support Services (RSS) Rate Development (Including Related Services)	14
Section 3.1: Take-or-Pay RSS Charges.....	15
Section 3.2: Transmission Scheduling Service OATI Registration Fee.....	16
Section 3.3: Resource Remarketing Service.....	17
Section 4: Tier 2 and RSS Risk Issues	19

This page intentionally left blank

1 TESTIMONY of

2 ANNICK E. CHALIER, DANIEL H. FISHER, and JOHN D. WELLSCHLAGER

3 Witnesses for Bonneville Power Administration

4
5 **SUBJECT: TIER 2 AND RESOURCE SUPPORT SERVICES RATES**

6 **Section 1: Introduction and Purpose of Testimony**

7 *Q. Please state your names and qualifications.*

8 A. My name is Annick E. Chalier, and my qualifications are contained in BP-14-Q-BPA-09.

9 A. My name is Daniel H. Fisher, and my qualifications are contained in BP-14-Q-BPA-19.

10 A. My name is John D. Wellschlager, and my qualifications are contained in BP-14-Q-
11 BPA-64.

12 *Q. What is the purpose of your testimony?*

13 A. The purpose of this testimony is to sponsor portions of section 3 of the Power Rates
14 Study (PRS), BP-14-E-BPA-01; those aspects of PRS section 2 that address Tier 2 rate
15 development and Resource Support Services; and section 3 of the Power Rates Study
16 Documentation (Documentation), BP-14-E-BPA-01A. These subsections focus on Tier 2
17 rate development, Resource Support Services, Transmission Scheduling
18 Service/Transmission Curtailment Management Service, and Resource Remarketing
19 Service.

20
21 **Section 2: Tier 2 Rate Development**

22 *Q. Did you make any changes to the development of the Tier 2 rate alternatives?*

23 A. We continue to develop the Tier 2 rate alternatives in the same fashion as described in the
24 BP-12 rate proceeding except for the three changes described below. We updated certain
25 inputs to reflect costs that are applicable to the BP-14 rate period.

1 Q. *What are the three changes to the Tier 2 rate alternatives?*

2 A. First, we propose a formula rate for the Tier 2 alternatives. Second, we propose a change
3 to how we calculate the losses associated with Tier 2-priced deliveries. Third, we
4 propose setting the Tier 2 balancing adjustment between Tier 1 and Tier 2 to zero.

5 Q. *Did you make any additions to the Tier 2 rate alternatives?*

6 A. Yes. We are proposing four additions to the Tier 2 alternatives developed in the BP-12
7 proceeding.

8 Q. *What are the additions?*

9 A. First, we propose a new Tier 2 Vintage alternative, the VR1-2014 rate. Second, we
10 propose a billing adjustment for the Tier 2 Load Growth rate customers. Third, we
11 propose a methodology for providing remarketing credits for Tier 2 rate customers in
12 accordance with section 10 of the CHWM contract. Fourth, we propose expanding the
13 evaluation done for assessing the charge to reduce Tier 2 amounts.

14 Q. *Do these changes and additions constitute modifications to the general direction
15 regarding Tier 2 rate development provided by the Tiered Rate Methodology (TRM)?*

16 A. We believe that these changes and additions do not modify, and are consistent with, the
17 general direction regarding Tier 2 rate development provided by the TRM. BPA
18 deliberately chose to defer to the relevant rate case some of the decisions regarding the
19 design of the Tier 2 rates.

20 Q. *Do you anticipate updates between the Initial Proposal and the Final Proposal?*

21 A. Yes. We expect to have updated market purchase prices and other cost levels updated for
22 the Final Proposal. In addition, one customer exercised its right to reduce its Short-Term
23 service for FY 2015 by October 31, but only after we developed the rates for the Initial
24 Proposal. That customer's request will be reflected in a lower Tier 2 obligation for the
25 Final Proposal.

1 *Q. Has BPA conducted the process to determine the amount of load it will serve in the next*
2 *rate period at the Tier 2 rates?*

3 A. Yes. In accordance with TRM section 4.2, BPA conducted the Rate Period High Water
4 Mark (RHWM) Process in the summer of 2012 to calculate RHWMs and Above-RHWM
5 load values for FY 2014 and FY 2015 for all of its public customers. BPA was able to
6 assess how much of the customers' Above-RHWM load it should plan to serve at the
7 Tier 2 rates once the RHWM Process concluded, because the public customers had
8 already made their Above-RHWM load service elections.

9 *Q. When did customers make their elections regarding how they will meet any*
10 *Above-RHWM load?*

11 A. The FY 2014–2015 rate period spans two purchase periods. Prior to November 1, 2009,
12 customers made their elections regarding how they would meet their Above-RHWM load
13 during the first purchase period (FY 2012–2014). They made their elections prior to
14 September 30, 2011, regarding how they would meet their Above-RHWM load during
15 the second purchase period (FY 2015–2019). There have been only minor modifications
16 to those elections since those dates. Thus, we know how much of the Above-RHWM
17 load will be met by BPA at a Tier 2 rate for FY 2014–2015. BPA's Short-Term rate load
18 obligation is 16.117 aMW in FY 2014 and 30.457 aMW in FY 2015. As noted above,
19 the FY 2015 Short-Term amount will be updated for the Final Proposal. BPA's Load
20 Growth rate load obligation is 1.313 aMW in FY 2014 and 1.673 aMW in FY 2015.

21 *Q. Are you also planning to propose a Tier 2 Vintage rate for this rate period?*

22 A. Yes. We are proposing a Vintage rate in this rate proposal (VR1-2014). A process to
23 develop the Statement of Intent (SOI) associated with the VR1-2014 rate was conducted
24 from March through May 2011. The term of this VR1-2014 service is FY 2015–2019,
25 but the rate is reset every rate period based on updates to cost inputs. In the SOI, BPA
26 committed to propose the associated rate based on a market purchase cost if BPA could

1 purchase power for the stated term at or below a specific cost cap. Of the 23 eligible
2 customers, 13 customers ultimately subscribed to 46 aMW of service at this rate. BPA
3 completed the purchase in support of this rate in December 2011. This purchase met all
4 of the SOI specifications, and the costs associated with it were assigned to the VR1-2014
5 cost pool. Pursuant to section 2.3.1.6 of CHWM contract Exhibit C, by the September 15
6 immediately following the establishment of the VR1-2014 rate (September 15, 2013),
7 BPA will amend the applicable customers' CHWM contracts to reflect their conversion
8 from either Unspecified Resource Amounts or Short-Term rate service to VR1-2014 rate
9 service. BPA will continue to consider offering additional Vintage rates in future rate
10 cases, as specified in TRM section 6.1.

11 *Q. Why is this Vintage rate called the VR1-2014 rate?*

12 *A.* We have adopted that naming convention to convey the fact that this is the first Vintage
13 rate (VR1) proposed in the BP-14 (-2014) rate period. Its name will not change in future
14 rate periods. For example, if there had been a second Vintage rate in this rate period we
15 would name it VR2-2014. Similarly, the first Vintage rate offered to start in the BP-16
16 rate period would be called VR1-2016 regardless of how many rate periods its
17 application to a customer's load service might span. The separation of vintages is
18 important because the participants and costs among the vintage offerings will be
19 different.

20
21 **Section 2.1: Changes to the Tier 2 Rate Development**

22 *Q. How are the formula Tier 2 rates intended to work?*

23 *A.* During FY 2014–2015, BPA intends to meet virtually the entire Above-RHWM load
24 placed on it through flat block market purchases. However, at this time BPA has
25 procured only a portion of the needed power. BPA expects to purchase the remainder
26 prior to the year of delivery. The applicable rates will be computed using the updated

1 purchase cost information once BPA makes the remaining purchases. BPA will notify
2 Tier 2 customers of their specific Tier 2 rate no later than August 31 of the applicable
3 fiscal year.

4 *Q. What are the other cost components that you are proposing to include in the Short-Term,
5 Load Growth, and VRI-2014 cost pools in this rate period?*

6 A. In addition to the power purchase costs, we are proposing to allocate several categories of
7 costs to these cost pools: fractional megawatt balancing costs; overhead costs;
8 transmission scheduling service-type costs; and the transmission delivery losses costs.

9 *Q. In the last rate case the Tier 2 Balancing Adjustment was included, but in the BP-14
10 Initial Proposal it is not included. Why?*

11 A. The Tier 2 Balancing Adjustment accounted for differences between power purchase
12 amounts and customers' Tier 2 purchase amounts, using amounts of power supplied from
13 the Tier 1 system priced at a market price (either the augmentation price or the flat block-
14 equivalent AURORA price). We will continue to have fractional amounts of power
15 supplied from forecast purchases in the BP-14 rate period. Instead of assuming these
16 amounts are being supplied from Tier 1, however, we will forecast these amounts as
17 market purchases at the augmentation price.

18 *Q. Why do you propose to calculate the costs associated with transmission delivery losses
19 differently compared to BP-12?*

20 A. As noted in Chalier *et al.*, BP-12-E-BPA-19, BPA needs to ensure that if the contract
21 obligation is, for example, 20 MW to the customer's Point of Delivery, the full 20 MW is
22 delivered to that point. According to the CHWM contracts, BPA is responsible for the
23 real power losses necessary to deliver Firm Requirements Power to Block and Load
24 Following contract holders. The Tier 2 rates are one component of the Firm
25 Requirements Power deliveries for customers that have elected Tier 2 rate service.
26 Delivery losses associated with the Tier 1 System deliveries are treated as a Designated

1 System Obligation. BPA uses a loss factor of 2.82 percent (applied to generation) to
2 calculate losses associated with deliveries of Federal loads and obligations. Booth *et al.*,
3 BP-12-E-BPA-12. To ensure that Tier 2 rates are not subsidized by the Tier 1 System,
4 consistent with TRM section 6, losses associated with deliveries of power purchased at
5 Tier 2 rates must be calculated and the costs associated with covering those losses
6 allocated to the Tier 2 cost pools. In BP-12, the real power losses necessary to deliver the
7 firm power Tier 2 obligation were not correctly accounted for.

8 *Q. How do you calculate the costs of losses on Tier 2 rate deliveries?*

9 A. We are proposing to use the same loss factor for Tier 2 rate deliveries that is used for
10 delivery to Federal load priced at Tier 1 rates. To calculate losses in BP-12, 2.82 percent
11 was multiplied by the Tier 2 rate load obligations, and the product of the calculation was
12 added to those load obligations to arrive at the Tier 2 rate purchase obligations necessary
13 to cover both the load and real power losses. Chalier *et al.*, BP-12-E-BPA-19. But the
14 2.82 percent loss factor is appropriate for application to generation, not load. Thus, for
15 BP-14 we propose using the loss factor appropriate for application to load. The equation
16 $1/(1-0.0282)$ is the appropriate loss factor for loads. We use the formula applied to the
17 Tier 2 rate load obligations to calculate the proper amount of real power losses.

18 *Q. Please explain the difference in the loss factors.*

19 A. The 2.82 percent loss factor is calculated to be applied to generation. That is, if 100 MW
20 is generated, 2.82 MW is lost through deliveries, and 97.18 MW is delivered. The
21 formula above, which solves to ~2.90 percent, is to be applied to load. That is, if BPA's
22 obligation is to deliver 97.18 MW, 97.18 MW times ~1.029 or 100 MW needs to be
23 generated. Applying the 2.82 percent factor to 97.18 MW would yield 99.92 MW,
24 resulting in an understated generation requirement.

1 *Q. What are the resulting Tier 2 rate load obligations after adding in 2.82 percent in real*
2 *power losses?*

3 A. For the Short-Term rate, in FY 2014 the amount is 16.585 aMW, and in FY 2015 the
4 amount is 31.341 aMW. For the Load Growth rate, in FY 2014 the amount is
5 1.351 aMW, and in FY 2015 the amount is 1.722 aMW. For the VR1-2014 rate, in
6 FY 2015 the amount is 47.335 aMW. See Power Rates Study Documentation Table 3.12.

7 *Q. Has BPA acquired any power necessary to meet the Tier 2 rate load obligations,*
8 *including losses, for the FY 2014–2015 rate period?*

9 A. Yes. BPA made one market purchase for FY 2015. It is 51 aMW. At the time of the
10 purchase, the cost associated with 5 aMW was allocated to the Load Growth cost pool,
11 and the remaining 46 aMW was allocated to the VR1-2014 cost pool.

12
13 **Section 2.2: Additions to the Tier 2 Rate Development**

14 **Section 2.2.1: Tier 2 Load Growth Rate Billing Adjustment (GRSP Appendix C)**

15 *Q. What is the billing adjustment for the Tier 2 Load Growth rate alternative?*

16 A. As shown in GRSP Appendix C, the billing adjustment is either a one-month debit or a
17 one-month credit on applicable Load Growth customers' November 2014 bills. It is
18 intended to pass through the applicable Load Growth customers' share of the net
19 costs/credits that result from remarketing the portion of BPA's 5 aMW purchase that is
20 not needed in FY 2015 by the Load Growth customers. There is a net cost/credit when
21 the remarketed value is different from the original purchase price of the 5 aMW. The
22 portion of the 5 aMW purchase not needed is remarketed to other Tier 2 cost pools. We
23 propose to set the remarketed value equal to the price BPA pays for actual purchases
24 made to meet the remaining FY 2015 Tier 2 need, after accounting for all sources of
25 remarketed power.

1 Q. *What do you mean by “remarketed”?*

2 A. The term “remarketed” is used in the CHWM contracts and in the TRM. The TRM also
3 uses the term “reallocate” to mean the same thing. Both terms refer to a contractual
4 provision that allows a customer that has dedicated non-Federal resources to which
5 Diurnal Flattening Service applies or committed to purchase Tier 2 rate service, in excess
6 of its needs after its Above-RHWM load is established, to have BPA remarket the excess
7 power on its behalf, within certain parameters. This contractual provision is codified in
8 Section 10 of the CHWM contract. The remarketing could take many forms. BPA could
9 choose to sell the power into the market and assign the proceeds to the customer. BPA
10 could choose to purchase the power for its own inventory and determine a credit for the
11 customer. BPA could choose to assign the power for a specified use and determine a
12 credit for the customer. All of these options fall under the use of the term “remarket.”

13 Q. *Why are you proposing to include a Tier 2 Load Growth rate billing adjustment rather
14 than include the costs/credit of the remarketed power in the Tier 2 Load Growth rate?*

15 A. The reason for proposing this adjustment is twofold. First, TRM section 3.4 stipulates
16 that the costs must stay with the original cost pool, even though the power can be
17 reallocated to another Tier 2 cost pool (if needed), to Tier 1 (if needed), or to the market
18 at a market price forecast in the rate case. The FY 2015 Tier 2 Load Growth obligation
19 (1.673 aMW before real power losses) is significantly less than the 5 aMW of load that
20 was projected when the acquisition was made for the Load Growth cost pool, giving rise
21 to a cost that must stay with the Load Growth cost pool.

22 Second, the prevailing market price for forward transactions of flat blocks of
23 power for FY 2015 delivery has been substantially different from (less than) the price
24 paid for the 5 aMW acquisition. The combined effect of these circumstances results in a
25 forecast loss of as much as \$100,000, which, when spread over the relatively small Tier 2
26 Load Growth obligation, would create a significant rate impact for the one Load Growth

1 customer paying the Tier 2 rate. The Load Growth rate billing adjustment is designed to
2 distribute the net cost/credit to the Load Growth rate customer pool using those
3 customers' Above-RHWM load as the basis for the cost allocation. Solely adjusting the
4 rate would not have distributed the net cost/credit to the others in the Load Growth pool.

5 *Q. Does the TRM contemplate this type of situation?*

6 A. The TRM envisions the circumstance where the Tier 2 pool's planned load is less than
7 planned purchases, but it does not adequately address a situation that exists today where
8 only one customer might shoulder the entire burden.

9 *Q. How do you propose to calculate each customer's adjustment?*

10 A. First, we propose a methodology that would calculate the net cost/credit to be allocated.
11 To calculate the net cost/credit, \$39.12/MWh (which is the price of BPA's original
12 5 aMW power purchase) would be subtracted from the weighted average price of the
13 purchases for the remaining FY 2015 Tier 2 need. The result would be multiplied by
14 28,715 MWh (which is the total megawatthours remarketed to the other Tier 2 cost
15 pools). Using the augmentation price (\$34.81/MWh) as a proxy for the market price
16 BPA would pay, the net cost would be \$123,763 after accounting for rounding.

17 Once the total cost or credit is calculated, a cost allocator distributes the cost or
18 credit to the pool members. We are proposing to allocate the cost or credit to Load
19 Growth rate customers with Above-RHWM load greater than zero and less than
20 8,760 MWh. Each customer's share of the cost or credit would be its FY 2015
21 Above-RHWM load divided by the sum of the applicable customers' FY 2015
22 Above-RHWM load. Each customer's billing adjustment is the product of multiplying its
23 individual cost allocator by the dollar amount of the cost or credit. The same process for
24 adjusting customer bills would apply whether there is a net credit or cost. The proposal
25 does not contain a minimum threshold for the application of the Load Growth rate
26 adjustment.

1 Q. Do you propose any other steps in the calculation of the Load Growth rate billing
2 adjustment?

3 A. Yes. We propose to cap the billing adjustment based on a percentage of the customer's
4 forecast Tier 1 power bill. We propose to recompute customers' adjustment so that the
5 billing adjustment percentage for the customer with the highest share of costs relative to
6 its forecast Tier 1 bill is set to be no more than the percentage of the customer with the
7 second highest share. The cost difference will be redistributed to the other customers
8 with billing adjustments.

9 Q. Why are you including this bill cap?

10 A. In the course of developing this proposal we learned that the Above-RHWM load, as
11 computed in the RHWM Process, of one of our Load Growth customers erroneously
12 includes non-PF irrigation pumping loads. Stiffler *et al.*, BPA-14-E-BPA-14, section 3.4.
13 The RHWM Process concluded without anyone having identified this error, so we were
14 unable to reestablish its Above-RHWM load using a corrected Total Retail Load (TRL)
15 forecast. Absent this cap, this customer's Load Growth rate billing adjustment would
16 grossly overstate the portion of the net position for which this customer should be
17 responsible. Applying the uncapped billing adjustment to this customer would result in
18 its billing adjustment being 2.4 percent of its forecast Tier 1 bill, which clearly appears as
19 an outlier in the cost distribution. The second-highest customer is about 0.42 percent,
20 and there are two other customers close to 0.42 percent. Thus, 0.42 percent appears to be
21 a more mainstream amount than the 2.4 percent.

22 Q. Why are you adjusting the bills of only the customers with Above-RHWM load that is
23 greater than zero and less than 8,760 MWh?

24 A. This method is the best way to match costs to causation. These customers have actual
25 Above-RHWM load being served by BPA, albeit very small amounts and at the Load
26 Shaping rate. These customers subscribed to Load Growth rate service and thus are

1 members of the pool responsible for the costs BPA incurs on the pool's behalf. They
2 have an amount of Above-RHWM load but do not have a Tier 2 Load Growth rate billing
3 determinant. Their aggregate load is 11.833 aMW, which is larger than the 3.278 aMW
4 of over-purchase, and could therefore consume the power if not for the 1 aMW allowance
5 in the TRM. Others in the Load Growth pool either do not have an Above-RHWM load
6 amount or have arranged service to their Above-RHWM loads through means other than
7 the Load Shaping rate.

9 **Section 2.2.2 Tier 2 Remarketing**

10 *Q. Did you include a Tier 2 remarketing proposal in the BP-12 rates?*

11 A. No. We did not include a proposal to implement the Remarketing of Tier 2 Amounts
12 because the circumstances necessary to trigger such a remarketing event did not occur
13 during the FY 2012–2013 rate period.

14 *Q. What circumstances have changed to necessitate a proposal in BP-14?*

15 A. Unlike in BP-12, we now have Load Following customers that committed to a defined
16 amount of Tier 2 rate service, and their Above-RHWM load was calculated in the
17 RHWM Process to be less than that subscribed Tier 2 rate service amount. Customers
18 facing this circumstance may elect to have BPA remarket their Tier 2 rate service
19 amount, in accordance with section 10 of the CHWM contract. Five customers selected
20 this option for portions of their VR1-2014 rate service.

21 *Q. Is your proposal applicable only to Load Following customers with VR1-2014 rate
22 service in excess of their Above-RHWM load?*

23 A. No. It has a broader application. Section 10.5 of the CHWM contract directs BPA to
24 remarket amounts of non-Federal resources to which Diurnal Flattening Service (DFS)
25 applies, which the customer temporarily removes, in the same manner that BPA

1 remarks Tier 2 amounts. Our method for calculating CHWM contract section 10
2 remarketing credits also applies to the three customers that elected this option.

3 *Q. Could any other customers fall under this proposal?*

4 A. Yes. Our proposal includes a method for calculating remarketing credits for Slice/Block
5 customers electing to take Tier 2 rate service that also elect Tier 2 remarketing as defined
6 in CHWM contract section 10. One Slice/Block customer elected 1 aMW of Tier 2
7 Short-Term service for FY 2014. It has until August 31, 2013, to request Tier 2
8 remarketing pursuant to the CHWM contract, assuming certain contractual criteria are
9 met.

10 *Q. Briefly describe the Tier 2 remarketing proposal.*

11 A. Once a customer gives notice that it wants to exercise its Tier 2 remarketing right under
12 CHWM contract section 10, BPA will provide a remarketing credit for the amount of
13 power remarketed. For a Load Following customer, we propose using the price at which
14 it purchases power to meet its outstanding Tier 2 need as the rate to calculate the
15 applicable remarketing credits. For Slice/Block customers, we propose to use a market
16 price developed by BPA at the time notice is provided to BPA as the rate to calculate the
17 Tier 2 remarketing credit. Pursuant to section 10 of the CHWM contract, BPA will
18 provide remarketing credits in the same manner to customers applying a non-Federal
19 resource to load, with DFS, that temporarily remove their resource. In BP-14, this
20 application to non-Federal resources with DFS applies to only Load Following
21 customers.

22 *Q. Why are you proposing different rates to calculate the remarketing credits for Load*
23 *Following and Slice/Block customers?*

24 A. We are proposing two different rates because there are different notice requirements
25 between the two versions of CHWM contract section 10. Load Following customers
26 made their remarketing election prior to BPA completing the purchases to meet the Tier 2

1 needs. The Load Following customers' elections allow us to know how much remarketed
2 Tier 2 amounts of power there are. The elections also allow us to know the amount of
3 power to be remarketed from non-Federal resources to which DFS applies. Because the
4 amounts are known, the power to be remarketed can be reallocated the remaining Tier 2
5 load needs. This lowers the need to procure power from the market. We propose using
6 the weighted average price BPA ultimately incurs for the remaining power as the basis
7 for as the remarketing credit. This price reflects the price BPA likely would have paid
8 for power from the market.

9 For Slice/Block customers, the remarketed Tier 2 amounts will not be known until
10 after the final purchases are made for FY 2014 power deliveries. This timing precludes
11 reallocation to a Tier 2 pool and, consequently, a different price must be used. If this
12 remarketing occurs, it would mean that BPA would be purchasing for its Tier 1
13 inventory. Thus, we have proposed a price that is set once the customer's notice is
14 provided so as to provide an expectation of the forward market prices that is more closely
15 timed to the remarketing.

16 *Q. Are you including a remarketing fee in your proposal?*

17 *A. No, we have not included a remarketing fee. We do not believe there is a basis for*
18 *applying a fee to the remarketing of a small amount of power among existing cost pools*
19 *(in the case of Load Following customers) or possibly remarketing only 1 aMW of power*
20 *(in the case of the Slice/Block customer). Neither transaction is significant enough to*
21 *warrant a remarketing fee. We will revisit this aspect of ratesetting in future rate cases as*
22 *conditions warrant.*

1 **Section 2.2.3 Charge to Reduce Tier 2 Amounts**

2 *Q. Are you proposing to expand your assessment of the charge to reduce Tier 2 amounts?*

3 A. Yes. The BP-12 rate case included an assessment of whether or not to apply a charge to
4 customers that request to reduce their Tier 2 Short-Term rate amounts and replace with
5 non-Federal resources, pursuant to section 2.4.2 of Exhibit C of the Load Following
6 CHWM contract. For the BP-14 rate period, however, not only did customers exercise
7 their rights under section 2.4.2 of Exhibit C, but they also exercised their right to reduce
8 Tier 2 Short-Term rate amounts and replace them with Tier 2 VR1-2014 service, pursuant
9 to section 2.3.1.1 of Exhibit C of the Load Following CHWM contract.

10 *Q. Do you propose to change your approach toward evaluating whether or not a charge is*
11 *applicable by adding the customers converting Short-Term rate service to VR1-2014 rate*
12 *service?*

13 A. No. The same approach is applied to all customers that requested to reduce their
14 Short-Term amounts and replace them with either non-Federal resources or VR1-2014
15 service. In both cases, BPA did not forecast incurring stranded costs associated with
16 these customers' requests to reduce their Tier 2 Short-Term service, so we propose no
17 charges.

18
19 **Section 3: Resource Support Services (RSS) Rate Development (Including Related**
20 **Services)**

21 *Q. Did you propose any changes to the development of the rates for Resource Support*
22 *Services (RSS) and their related services?*

23 A. No. We continue to develop the rates associated with RSS and the related services as
24 described in the BP-12 rate case with updated inputs to reflect rates and costs that are
25 applicable to the BP-14 rate period. However, we are proposing three clarifications or
26 additions to services developed in the BP-12 proceeding.

1 Q. *What are the clarifications or additions to RSS that you are proposing?*

2 A. First, we propose clarifying the take-or-pay aspect of certain RSS charges. Second, we
3 propose adding a pass-through charge to the Transmission Scheduling Service (TSS)
4 associated with Open Access Technology International, Inc. (OATI) registration fees.
5 Third, we propose adding a pricing approach for the Resource Remarketing Service
6 (RRS).

7 Q. *Do you anticipate updates before the Final Proposal?*

8 A. Yes. We expect to have updated market price forecasts as well as the applicable cost
9 levels updated for the Final Proposal. In addition, we discovered several errors regarding
10 the years we assumed TSS applied to customers' non-Federal resources and the amounts
11 we assumed for customers' non-Federal resources after we developed the rates for the
12 Initial Proposal. The corrections are expected to be *de minimis* in total but do have
13 individual customer impacts. We will reflect the corrections in the Final Proposal.

14
15 **Section 3.1: Take-or-Pay RSS Charges**

16 Q. *What RSS charges do you propose be take-or-pay?*

17 A. We propose that the capacity charges associated with both DFS and Forced Outage
18 Reserve Service (FORS) be take-or-pay once they are established in the rate case or
19 subsequent to a rate case. This means that if a customer's resource is no longer to be
20 applied to load or is delayed in its application to load, then the DFS and FORS capacity
21 charges will still apply.

22 Q. *Why do you propose making these charges take or pay?*

23 A. These particular charges collect the capacity cost components of the Resource Support
24 Services. When a customer requests to purchase Resource Support Services, the capacity
25 needed to supply the services is planned for and set aside. Capacity to provide Resource
26 Support Services is also considered a Designated BPA System Obligation (TRM BP-12-

1 A-03 Table 3.4), which means it will affect the determination of the Slice portion of the
2 Slice/Block product. Additionally, when setting rates, BPA accounts for (through a
3 revenue credit to the Composite cost pool) the revenue received from the sale of
4 Resource Support Services. For these reasons, the capacity portion of the RSS charges
5 are fixed and do not vary with the actual output of the supported resource. Conversely,
6 the energy cost component of the DFS is applied to actual generation, because it collects
7 costs associated with moving energy from high generation periods to low generation
8 periods. A resource that is not generating does not require that BPA move energy from
9 high generation periods to low generation periods.

10 *Q. Could BPA use the capacity set aside for Resource Support Service in another way or*
11 *resell the capacity and credit the customer similar to the remarketing method used for*
12 *energy?*

13 *A. Yes, a design similar to the remarketing method for take-or-pay energy could work for*
14 *take-or-pay capacity, but this construct works best when BPA has access to a short-term*
15 *market. At this time, robust short-term markets are available for energy but not for*
16 *capacity. Staff proposes that this issue be revisited when such markets develop.*

17
18 **Section 3.2: Transmission Scheduling Service OATI Registration Fee**

19 *Q. Briefly describe the TSS OATI Registration Fee.*

20 *A. Most of the TSS customers have requested that BPA register with the North American*
21 *Energy Standards Board (NAESB) Electric Industry Registry (EIR) on their behalf.*
22 *OATI is the vendor NAESB has selected to develop and maintain the EIR. The EIR*
23 *charges BPA \$250 for the initial registration and \$150 per customer registration per year*
24 *thereafter. We propose to pass this cost through to the customers requesting this service.*

1 **Section 3.3: Resource Remarketing Service**

2 *Q. What is RRS?*

3 A. RRS is a supplemental service provided under the Firm Power Products and Services
4 (FPS) rate schedule that BPA will make available at its discretion to Load Following
5 customers when BPA remarkets non-Federal resources on the customer's behalf and
6 provides them with a remarketing credit net of any remarketing fees. RRS is required to
7 be paired with Diurnal Flattening Service.

8 *Q. What guidance does the TRM provide for the development of the RRS rates?*

9 A. The TRM does not discuss RRS. RRS is referenced in CHWM contract Exhibit D. To
10 date, no customer has taken RRS for its resource, but several customers have inquired
11 about its availability. RRS is a service provided under the FPS rate schedule. Our intent
12 for including an RRS pricing proposal in this Initial Proposal is to provide guidance
13 regarding how we would price this service should BPA grant a customer's RRS request
14 during the BP-14 rate period.

15 *Q. What is the purpose of RRS?*

16 A. BPA wishes to encourage resource development on the part of its customers, and this
17 service is designed to allow customers to acquire non-Federal resources in advance of
18 need. RRS provides such customers with the opportunity to have BPA remarket a
19 portion of their non-Federal resources if BPA is also providing DFS for the resource.

20 *Q. Since RRS is connected to DFS, do you propose a comparable value-based pricing
21 methodology for RRS, as you have adopted for DFS?*

22 A. Yes. BPA Staff is proposing to set the rate to calculate the remarketing credits in the
23 following manner. For each non-Federal resource, if the planned resource generation in
24 excess of the customer's Above-RHWM load can be counted by BPA toward use for
25 meeting a portion of the remaining Tier 2 load need, then the RRS rate will be the
26 weighted average price at which BPA purchases the remainder of its Tier 2 need. If the

1 amount is not needed to meet a portion of the remaining Tier 2 Short-Term load, then the
2 RRS rate will be the flat annual equivalent of the PF Load Shaping rates for each fiscal
3 year. This would be equivalent to the Resource Shaping rates used for DFS.

4 *Q. How will you set the amount for which a remarketing credit is provided?*

5 A. When a customer specifies a resource to meet its load, planned resource amounts are
6 listed in Exhibit A of the CHWM contract. If DFS and RRS are also provided by BPA,
7 then Exhibit D will include entries for DFS and RRS. The RRS section will list the
8 planned resource amounts in excess of what is specified in Exhibit A and remarketed by
9 BPA. The DFS section will list the planned amounts that the customer applies to load
10 and has BPA remarket for DFS pricing purposes.

11 *Q. Please elaborate on the connection to DFS.*

12 A. DFS must be applied to the entire resource, to both the part that is specified to meet the
13 customer's load and the part that is remarketed. DFS applies to the remarketed portion,
14 because BPA gives the customer a remarketing credit based on the value of a flat block of
15 power. Applying DFS to the remarketed portion enables BPA to convert the variable
16 resource into one that is equivalent to a flat block of power. Over time, as the customer's
17 Above-RHWM load grows, it may increase the amount for the non-Federal resource
18 specified in Exhibit A and concurrently lower the amount remarketed in the RRS section
19 of Exhibit D. The planned generation amounts in the DFS section of Exhibit D are
20 updated in conjunction with every rate case based on historical generation information for
21 the entire amount of resource the customer uses to meet its load and has BPA remarket.

22 *Q. What if the resource does not generate as planned?*

23 A. The Resource Shaping Charge Adjustment will true up the Resource Shaping Charges to
24 reflect changes between planned and actual generation levels.

1 Q. *Do you propose a fee for providing this remarketing service?*

2 A. We propose determining the fee for providing RRS to customers on a case-by-case basis.
3 Determining the fee on a case-by-case basis will allow BPA to take into consideration the
4 specific circumstances associated with the remarketed resource and allow the fee to
5 reflect the actual costs associated with the remarketing.

6

7 **Section 4: Tier 2 and RSS Risk Issues**

8 Q. *Do you propose a particular risk mitigation tool or set of tools in the pricing proposals*
9 *for Tier 2 rates and RSS rates?*

10 A. No. A discussion of risk can be found in the testimony of Lovell *et al.*, BP-14-E-
11 BPA-15. The general discussion of risk for Tier 2 and RSS rates can be found in the
12 Power Risk and Market Price Study, BP-14-E-BPA-04, sections 4.3 and 4.4.

13 Q. *Does this conclude your testimony?*

14 A. Yes.

15

16

17

18

19

20

21

22

23

24

25

This page intentionally left blank.