

# 2003 Safety-Net Cost Recovery Adjustment Clause

## Rebuttal Testimony

SN-03-E-BPA-12 LOADS AND RESOURCES

May 2003

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REBUTTAL TESTIMONY OF

JON A. HIRSCH, TIMOTHY C. MISLEY, JANET ROSS KLIPPSTEIN, HARRY W. CLARK,

STEVEN R. KERNS, AND ROGER P. SCHIEWE

Witnesses for Bonneville Power Administration

**SUBJECT: Loads and Resources**

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3 STEVEN R. KERNS, AND ROGER P. SCHIEWE

4 Witnesses for Bonneville Power Administration

5  
6 **SUBJECT: LOADS AND RESOURCES**

7 **Section 1. Introduction and Purpose of Testimony**

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

9 A. My name is Jon A. Hirsch and my qualifications are contained in SN-03-Q-BPA-05.

10 My name is Timothy C. Misley and my qualifications are contained in SN-03-Q-BPA-17.

11 My name is Janet Ross Klippstein and my qualifications are contained in

12 SN-03-Q-BPA-09.

13 My name is Harry W. Clark and my qualifications are contained in SN-03-Q-BPA-18.

14 My name is Steven R. Kerns and my qualifications are contained in SN-03-Q-BPA-08.

15 My name is Roger P. Schiewe and my qualifications are contained in SN-03-Q-BPA-26.

16 *Q. What is the purpose of your rebuttal testimony?*

17 A. The purpose of our testimony is to respond to the direct testimony of the Coalition

18 Customers, the Joint Customers, Columbia River Intertribal Fisheries Commission and

19 Yakama Nation (CRITFC), and Save Our Wild Salmon/NW Energy Coalition (SOS)

20 regarding Bonneville Power Administration's (BPA) load and resource forecast

21 contained in Chapter 2 of the Safety-Net Cost Recovery Adjustment Clause (SN CRAC)

22 Study (SN-03 Study), SN-03-E-BPA-01, and in Chapter 2 of the Documentation for

23 SN-03 Study, SN-03-E-BPA-02.

24 *Q. How is your testimony organized?*

25 A. This testimony has three sections, including this introductory section. The second section

26 responds to Coalition Customers' comments that BPA did not adequately address the

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1 impact of the rate increase on customer loads. *See Faddis, et al., SN-03-E-CC-01, at 11,*  
2 *14, and 18. It also addresses CRITFC's concern regarding the uncertainty of future*  
3 *loads. See Sheets, et al., SN-03-E-CR/YA-01 at 16. The third section notes that an*  
4 *update to the DSI forecast will be included in the final study. The fourth section*  
5 *addresses the Joint Customers', CRITFC's and SOS's concerns related to the Hydro*  
6 *Regulation Study. See Bliven, et al., SN-0-E-JC-01, at 11, Sheets, et al.,*  
7 *SN-03-E-CR/YA-01, at 13 and 14 and Weiss, SN-03-E-SA-01, at 26.*

## 8 **Section 2. Public Agency Load Forecasts**

9 *Q. The Coalition Customers contend that BPA "deliberately chose to ignore" the impact of*  
10 *the proposed rate increase on end-use loads of its utility customers. Faddis, et al.,*  
11 *SN-03-E-CC-01, at 11 and 14. The Coalition Customers contend that BPA failed to*  
12 *consider the falloff in BPA's requirements and contract loads. Id. Please respond.*

13 *A. BPA has not deliberately chosen to ignore the impact of the proposed rate increase on its*  
14 *customers and their consumers. As proposed, the design of the SN CRAC is a variable*  
15 *one, which could entail a contingent approach, and which is to minimize the rate impact*  
16 *by applying over the remaining years of the rate period. See Keep, et al.,*  
17 *SN-03-E-BPA-04, at 13. In analyzing its loads and resources, BPA determined that the*  
18 *level of load reduction in the Public Agency sales due to the increased wholesale rates*  
19 *would not be significant, particularly considering BPA's intent to minimize the impact of*  
20 *any rate increase on the region's economy.*

21 *Q. The Coalition Customers state that when a utility raises rates, loads go down; however,*  
22 *BPA assumed no significant change in loads. The problem, the Coalition Customers*  
23 *contend, became apparent in the amount of BPA over-augmentation. BPA augmented*  
24 *too much and with the exceedingly high costs of that augmentation reflected in LB CRAC*  
25 *charges the expected utility load growth has not materialized. Faddis, et al.,*  
26 *SN-03-E-CC-01, at 18. BPA compounds its error by predicting no change in its*

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1            *requirements and partial requirements loads as a result of this proposed SN CRAC rate*  
2            *increase. Id. Please respond.*

3            A.     BPA does not agree with the conclusions in the above cited testimony. First of all, Public  
4            Agency load forecasts for the June 2001 rate case were produced using loads as of  
5            calendar year 2000. The forecasts included the reasonable assumption, given the then  
6            healthier national and regional economies and data supplied by BPA's customers, that  
7            consumer loads of BPA's utility customers would grow. Toward that end many BPA  
8            utility customers requested BPA to serve load that had previously been served by other  
9            power suppliers. Consequently, BPA acquired sufficient resources to meet its expected  
10           regional firm requirements load obligations. Second, a national recession began in March  
11           of 2001, making its impact felt on this region's economy. BPA believes that the  
12           recession has had a greater impact on load growth not materializing than rate impacts  
13           given that the first LB CRAC was not implemented until October 2001.

14                      Similarly, DSI aluminum smelter loads, which were expected to be served with  
15           power purchased to augment the system, have been adjusted downward to reflect their  
16           idled operations. Idled operations, along with some individual corporate bankruptcies,  
17           resulted from a combination of continued low global aluminum prices and the increased  
18           electricity prices that make the region's smelter operations uneconomic. For an  
19           explanation of the rationale for not including an elasticity response for the full and partial  
20           requirements load forecasts, see the data response to data request CR-YA/BPA:115.

21           Q.     *CRITFC implies that there is significant uncertainty about BPA loads because BPA's*  
22           *forecasts have not assumed any elasticity of demand for electricity. Sheets, et al.,*  
23           *SN-03-E-CR/YA-01, at 16. Please respond.*

24           A.     BPA expects little load response from the Public Agencies to the projected rate increase  
25           (elasticity of demand) for the reasons explained in data response CR&YA/BPA:115. The  
26           major drivers of load and the subsequent load risk are weather and the economy, which

1 are modeled in the Risk Analysis.

2 **Section 3. Investor-Owned Utilities and Direct-Service Industrial Customer**

3 **Sales Forecast**

4 *Q. In BPA's direct testimony on Loads and Resources, Hirsch et al., SN-03-E-BPA-05, at*  
5 *page 5, BPA indicated that it continues to review the DSI sales forecast, which may be*  
6 *revised to reflect reductions. Has BPA revised the sales forecast, and if so, what are the*  
7 *impacts of the revisions?*

8 A. Yes, BPA has subsequently revised the DSI sales forecast. The forecast for the  
9 remainder of FY 2003 is left unchanged at 35 MW. The 350 MW that was forecast for  
10 FY 2004 through FY 2006 was revised as follows: 31 MW for FY04, 81 MW FY05, and  
11 138 MW FY06. After taking into account this change in forecasted DSI sales BPA  
12 believes there is no, or very little, impact relating to whether an individual DSI customer  
13 decides to purchase and consume power or elects to curtail load under its Subscription  
14 Contract. This is because BPA anticipates any damages associated with take-or-pay of  
15 such power will be paid by the DSI.

16 **Section 4. Hydro Regulation Study**

17 *Q. The Joint Customers state that the latest April 8th (2003) Northwest River Forecast*  
18 *Center run-off forecast is 85.3 MAF. This MAF is greater than the Initial Proposal*  
19 *assumption of 75 MAF. Using a "rule of thumb" that each MAF will yield \$10 million to*  
20 *BPA this translates into \$103 million more in revenues than in 2003 if the 85.3 MAF*  
21 *figure is sustained. Bliven, et al., SN-0-E-JC-01, at 11. Please respond.*

22 A. While it is true that \$10 million per MAF is a rough approximation, i.e., "rule of thumb,"  
23 to a potential increase in BPA's net revenues, it is important to point out that there are a  
24 number of variables that could occur, any one of which could affect the size of dollar  
25 amount realized. These variables include, but are not limited to, the shape of the runoff,  
26 the physical location of where the increase occurred, and market prices. Also, as

1 provided in BPA's data response to CR-BPA-026 (at CR-BPA-026A), fish passage spill  
2 at Ice Harbor, Bonneville, and John Day dams were incorrectly modeled in the initial  
3 proposal which will be corrected in the Final Proposal. Finally, it is also important to  
4 point out that the value of the increase in volume may be distributed across more than one  
5 fiscal year since improved snowpack conditions will translate into higher elevations at the  
6 Canadian projects to start the next fiscal year. Thus, while BPA agrees that the river run-  
7 off forecast appears to be improving, BPA cannot safely assume that the \$103 million in  
8 additional revenues suggested in the Joint Customer testimony will necessarily be  
9 realized in this fiscal year.

10 *Q. The Joint Customers recommend that BPA include the latest projections of run-off*  
11 *available when doing the final calculations in considering the size of any SN CRAC.*  
12 *Bliven, et al., SN-0-E-JC-01, at 11. Please respond.*

13 *A. Analysis for the Final Proposal will be based upon weighting the historical water years*  
14 *such that the mean approximates the April Mid-Month Forecast for April-September*  
15 *volume at The Dalles.*

16 *Q. Does this conclude your testimony?*

17 *A. Yes.*