

# **Washington Utilities and Transportation Commission Briefing ASC Methodology Proposal and WP-07 Supplemental Proposal**

## **Overview of the Proposals**

**April 2008**



# Purpose of WP-07 Supplemental Proposal

- Respond to the May and October, 2007 Court rulings
  - GNA
  - PGE
  - Snohomish
- Establish an REP for FY 2009 and beyond
  - Proposed new 7(b)(2) methodology and legal interpretation
  - Proposed new Average System Cost (ASC) Methodology
- Revise rates for FY 2009



# Response to the Court's Opinions



# Outline of the Response to the Court's Opinions

There are four major components to BPA's proposal for responding to the Court's opinions

1. Calculate what each IOU received, or would have received, under the Settlement
2. Calculate what each IOU would have received under an active Residential Exchange Program (REP)
  - Assume the 84 ASC Methodology for FY 2002-2008 ASCs
  - Calculate PF Exchange rate for FY 2002-2006 and FY 2007-2008 according to the 7b2 rate test
  - Assume certain 7b2 issues would have been "live" and assume decisions by BPA
  - Use "backcast" ASCs and exchange loads to calculate what each IOU would have received thru an active REP
3. Calculate the appropriate differences for each IOUs
  - Account for Deemer Balances
  - Account for the Load Reduction Agreements (LRAs)
4. Define how to recover the difference and return it to preference ratepayers



# The Difference = “Lookback Amounts”

- The Lookback Amount is the amount that PF Preference customers were overcharged and therefore should be recovered from IOUs and returned to PF Preference customers
- The Lookback Amount is determined annually for each IOU using the following “rules”:
  1. First, calculate the amount the IOU keeps
    - This is the lesser of
      - Total Settlement benefits (sum of REP settlement benefits, LRA payments, CRD, CRC, value of power purchase)
      - OR-
      - Greater of LRA or “backcast” REP benefits calculated in the absence of the REP settlements
  2. Second, subtract the amount the IOU keeps from the total settlement benefits received to get the annual Lookback Amount



# Summary of Lookback Results for each IOU

	FY02-07 Lookback (in 2007 Dollars) <i>\$ millions</i>
Avista	62.1
Idaho Power	96.6
Northwestern Energy	7.7
Portland General Electric	64.1
PacifiCorp	239.4
Puget Sound Energy	150.5
<b>Total (<i>including inflation</i>)</b>	<b>620.4</b>

- Assumes that the IOUs sign interim agreements that provide payments in 2008, subject to later true-up.
- If an IOU does not receive interim payments, then the REP benefits it is entitled to for FY08 will be applied to its accumulated Lookback Amount and will reduce the above amounts accordingly.



# Recovering The Past Overpayments and Returning to the PF ratepayers

- Recover \$620 million Lookback Amount for FY 02-07 from IOUs by reducing future REP benefits
- Return \$316 million to the PF ratepayers through cash payments in FY 08 and/or FY 09 for their overpayments made through FY 2007-2008 power rates
- IOUs have received no REP benefits for the latter half of FY 2007 and all of FY 2008. They can receive payments via the Interim Agreements for FY 2008, or fold the REP benefits they otherwise would have received into the Lookback calculations, which would reduce their Lookback obligation.



# Proposed Changes to the ASC Methodology



# Major Proposed Changes to ASC Methodology

- Major proposed changes to the ASC Methodology include:
  - Format for filing ASCs
    - Replaces “jurisdictional approach” with a simpler and more uniform and transparent approach that relies on FERC Form 1 data
    - Alleviates administrative burden and expense for BPA and exchanging utilities
  - Changes to the treatment of transmission costs, taxes and return on equity
  - Sets an exchanging utility’s ASC in a public process prior to a BPA rate case
    - ASCs used in setting the PF Exchange rate during a rate case will be the same ASCs used to calculate actual benefits paid to the exchanging utility
    - Exchange loads used to calculate actual benefits paid will be based on actual loads



# Putting all the Pieces Together for FY 2009



# Changes to FY09 Power Rates

- Reduction to non-REP program costs of \$10M
- Change to REP costs
  - Decreased IOU REP cost by \$134 million (from \$336 to \$202 million)
  - Increased Public REP cost by \$2.6 million (from \$6.8 to \$9.4 million)
- Changes to Risk
  - Changed Thresholds for CRAC and DDC
  - Cap on the CRAC now \$36M instead of \$300M
- PF rate declines from \$27.3/MWh to \$26.2/MWh - ~ 4% decrease



# FY 2009 IOU REP Benefits

- Assumptions
  - The new 7(b)(2) Implementation Methodology
  - New approach to allocating 7(b)(3) costs resulting in utility specific PF Exchange rates – the calculated REP benefits for FY 2009 total \$250M
  - Proposed revised ASC Methodology used for FY 09 ASC forecasts
- Results for IOU REP Benefits for FY 2009
  - IOU REP benefits after applying rate test is \$250 million
  - However, \$202 million of IOU REP costs in PF rates due to:
    - \$39 million of Lookback Amount applied to reduce IOU REP benefits
    - \$9 million of Idaho's forecast REP benefits goes to reduce its Deemer Balance so it does not have to be recovered in PF rates
  - Lookback amount of \$39 million chosen to be applied to FY09 rates
    - Reasonable amount that results in forecast of paying it off over 20 years
    - Reduces benefits to the middle of the proposal range

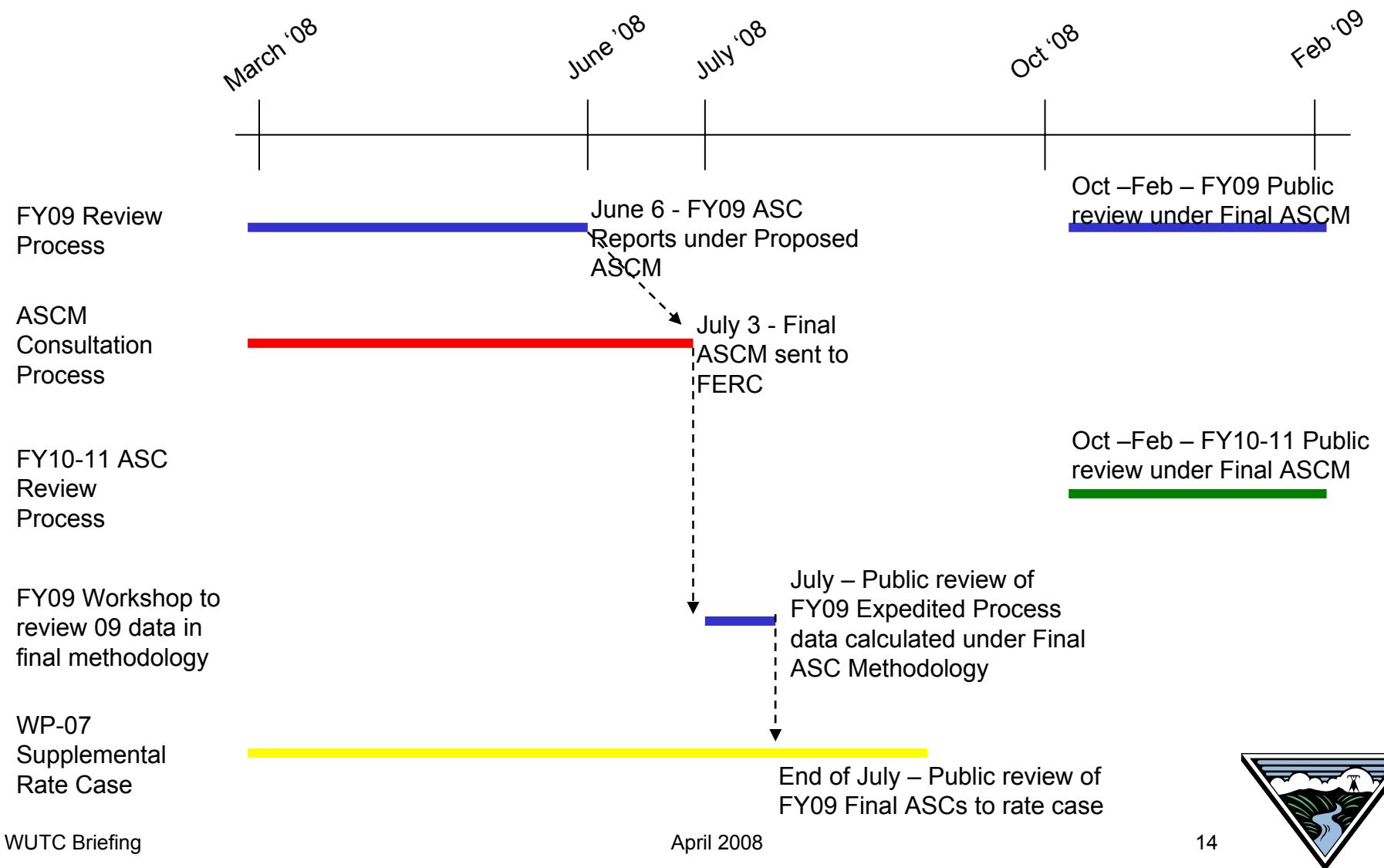


# FY 2009 REP Benefits for each IOU

	<b>FY09 REP Settlement Benefits \$ millions</b>	<b>FY09 REP Benefits (before Deemer and Lookback) \$ millions</b>	<b>FY09 REP Benefits (after Deemer and Lookback) \$ millions</b>
Avista	21	27.8	23.3
Idaho Power	31.6	9.2	0
Northwestern Energy	4	7.6	6.4
Portland General Electric	79	54.6	45.8
PacifiCorp	92.6	50.8	42.7
Puget Sound Energy	108.3	100.2	84.1
<b>Total</b>	<b>336.4</b>	<b>250.2</b>	<b>202.3</b>



# ASC Process Schedule



# ASC Methodology Consultation Schedule

February 7, 2008	Start of comment period on ASC Methodology
March 13, 2008	Workshop - ASC Methodology Issues
March 21, 2008	ASCM Issues List Due
March 31, 2008	Workshop - ASC Methodology Issues
April 16-18, 2008	Workshops - ASC Methodology Issues
April 23, 2008	Workshop - ASC Methodology Issues
April 25, 2008	Workshop – ASC Methodology Issues (Tentative)
May 2, 2008	Close of comment period on ASC Methodology
May 16, 2008	Draft ASC Methodology ROD out for comment
May 30, 2008	Comments due on draft ASC Methodology ROD
June 27, 2008	Final ASC Methodology ROD published
July 3, 2008	ASC Methodology FERC filing
July 8, 2008	Start of comment on Public Review on Conforming Expedited Process ASC Report to Final ASC Methodology for WP-07 Supplemental Rate Case
July 10, 2008	Workshop on Expedited Process ASC calculation to final ASC Methodology
July 22, 2008	Close of comment on conforming Expedited Process ASC to final ASC Methodology
September 2008	Interim approval by FERC



# Next Steps

## Consultation with the Washington Utilities and Transportation Committee

- Involvement level
- Briefings
- Feedback methods

