

IX. AVERAGE SYSTEM COST METHODOLOGY APPENDIX 1 ENDNOTES

a/ Contract System Costs shall reflect the costs and the revenues arising from conservation and/or retail rate schedules.

b/ The overall rate of return (ROR) to be applied to a Utility's Exchange Period rate base as shown in Appendix 1 shall be equal to its weighted cost of capital (WCC), including debt, preferred stock and equity, from its most recently approved Regulatory Body Rate Order. For multi-Jurisdictional Utilities, a Utility will first determine the WCC for each Jurisdiction. The Utility will then determine a region-wide WCC based on applying the WCC times the Regulatory Body approved rate base from the same rate order used for the WCC.

| The **return on equity** ROE used in the WCC calculation will then be grossed up for Federal income taxes at the marginal Federal income tax rate using the following formula to determine the percentage increase in the ROE used for ASC determination:

FIT Adder = $\{(WCC - (\text{Cost of Debt} * (\text{Debt} / (\text{Total Capital})))\} * \{(Federal Tax Rate / (1 - Federal Tax Rate))\}$

The sum of the FIT Adder plus the ROE equals the Federal income tax adjusted ROE (TAROE). The TAROE will replace the ROE in the WCC calculation to determine a Federal income tax adjusted weighted cost of capital (TAWCC). The TAWCC will be multiplied by the total rate base from Schedule 1 to determine the return component on Schedule 2.

For Utilities that do not use depreciation for Jurisdictional rate setting, the return will be equal to the weighted cost of debt times the rate base included in the ASC filing.

c/ A tax-exempt Utility may include in-lieu taxes up to an amount that is comparable, for each unit of government paid in-lieu taxes, with taxes that would have been paid by a non-tax exempt utility to that unit of government. In no event shall the Utility's regional total be greater than the actual amount paid or the amount used to determine the total revenue requirement. In-lieu taxes shall be functionalized according to the PTDG ratio.

d/ The cost of additional resources sufficient to serve any New Large Single Load (NLSL) that was not contracted for, or committed to, prior to September 1, 1979, is to be determined as follows:

1). To the extent that any NLSLs are served by dedicated resources at the cost of those resources, including applicable transmission;

2) In the amount that NLSLs are not served by dedicated resources, at BPA's New Resources (NR) rates as established from time to time pursuant to section 7(f) of the Northwest Power Act, and as applicable to the Utility, and applicable BPA transmission charges if transmission costs are excluded in the determination of BPA's NR rate, to the extent such costs are recovered by the Utility's retail rates in the applicable Jurisdiction; and

3) To the extent that NLSLs are not served by dedicated resources plus the Utility's purchases at the NR rate, the costs of such excess load shall be determined by multiplying the kilowatt-hours not served under subsections (1) and (2) above, by the cost (annual fixed plus variable cost, including an appropriate portion of general plant, administrative and general expense and other items not directly assignable) per kilowatt-hour of all resources and long term power purchases (five years or more in duration), as allowed in the regulatory Jurisdiction to establish retail rates during the Exchange Period, exclusive of the following resources and purchases: (a) purchases at the NR rate; (b) purchases at the PF Exchange rate, pursuant to section 5(c) of the Northwest Power Act; (c) resources sold to BPA, pursuant to section 6(c)(1) of the Northwest Power Act; (d) dedicated resources specified in endnote d(1) of this Methodology; (e) resources and purchases committed to the Utility's load as of September 1, 1979, under a power requirements contract or that would have been so committed had the Utility entered into such a contract; and (f) experimental or demonstration units or purchases therefrom. Transmission needed to carry power from such generation resources or power purchases shall be priced at the average cost of transmission during the Exchange Period.

The above three paragraphs shall determine the Base Period cost of resources used to serve NLSLs. BPA will escalate the Base Period cost of resources used to serve NLSLs to the Exchange Period using the following steps:

- i. Escalate the components of the Base Period fully allocated resource costs to the Exchange Period using the general method for escalation of all Base Period costs.
- ii. Adjust the projected resource costs by the projected transmission costs.
- iii. Add the fully allocated costs for major resource additions/retirements to the Exchange Period fully allocated costs.
- iv. The cost to serve NLSLs will change when the ASC changes due to resource additions/retirements.
- v. The Exchange Period NLSL load will equal the Base Period NLSL load.

e/ The losses shall be the distribution energy losses occurring between the transmission portion of the Utility's system and the meters measuring firm energy load. The distribution loss can be measured using one of the following 3 methods:

Method 1, Distribution Loss Study: Losses shall be established according to a study (engineering, statistical and other) that is submitted to BPA by the Utility which will be subject to review by BPA. This study shall be in sufficient detail so as to accurately identify average distribution losses associated with the Utility's total load, excluded loads, and the residential load. Distribution losses shall include losses associated with distribution substations, primary distribution facilities, distribution transformers, secondary distribution facilities and service drops.

Method 2, Revenue Grade Meters: If a Utility does not have a loss study, but it has sufficient revenue grade meters in its distribution system, BPA will permit the Utility to directly measure its distribution losses subject to BPA review and approval. A Utility that does not possess the capability to directly measure its distribution losses will be required to submit a distribution loss study every seven years.

Method 3, Default: If a Utility does not have a current loss study or grade meters, BPA will accept the following method for determining a Utility's distribution loss factor.

- i. Calculate a 5-year average total system loss factor, using data from the Base Period plus the preceding 4 years. IOUs will use data from the FERC Form 1. COUs will use a comparable data source.
- ii. From this 5-year total system loss factor, subtract the loss factor for BPA's transmission system.
- iii. The resulting loss factor will be deemed to be the exchanging Utility's distribution loss factor for calculating Contract System Load and exchange loads under the REP.

f/ Cash working capital (CWC) is a ratemaking convention that is not included in the Form 1, but a part of all electric utility rate filings as a component of rate base. For determining the allowable amount of cash working capital in rate base for a Utility, BPA will allow no more than 1/8 of the functionalized costs of total production expenses, transmission expenses and Administrative and General expenses less purchased power, fuel costs, and Public Purpose Charge.

g/ Conservation costs are costs of energy audits and actual or planned load reduction resulting from direct application of a conservation measure (Northwest Power Act, section 3(19)(B)) by means of physical improvements, alterations, devices, or other installations which are measurable in units. Conservation costs funded by the Utility will be functionalized to Production in the Utility's Average System Cost. Conservation costs incurred to promote changes in consumer behavior including costs attributable to brochures, advertising, pamphlets, leaflets, and similar items will be functionalized by Direct Analysis with a default to Distribution/Other. Conservation surcharges imposed pursuant to section 4(f)(2) of the Northwest Power Act or other similar surcharges or penalties imposed on a Utility for failure to meet required conservation efforts will also be functionalized to Distribution/Other. Conservation and associated costs must be generally consistent with the Council's resource plan as determined by the Administrator.

h/ Public Purpose Charges collected by Utilities and distributed to independent third party non-profit organizations or state and local entities (recipient organizations) for the purposes of acquiring conservation and renewable resources shall be determined on a utility-by-utility basis through Direct Analysis. The ASCM will only allow the costs of conservation and renewable

resource development, acquisition and implementation. Allowable costs include costs associated with energy audits and advertising and promotion of conservation and renewable resources.

In order to be included in Contract System Costs, the renewable resources acquired by the recipient must be included in the Utility's Integrated Resource Plan or similar document and, in the case of dispatchable resources, must be included in the Utility's resource stack. BPA will treat expenditures of Public Purchase Charge funds similar to Utility conservation costs.

i/ If a Utility has a ruling from its Regulatory Body that separates its transmission and distribution lines using FERC's seven factor test contained in Order 888, and its Form 1 filing is consistent with the Regulatory Body's order, the Utility will include the transmission-related costs and wheeling revenues directly from its Form 1 filing. However, if a Utility is not required to file a Form 1, or it has not received an order from its Regulatory Body separating its lines between transmission and distribution, then it must perform a Direct Analysis on its transmission costs and wheeling revenues. The Direct Analysis must allocate transmission costs and wheeling revenues so that only the costs and revenues of transmission lines rated at 115kV or above are included as transmission. Alternatively, the Direct Analysis may use FERC's seven factor test for separating transmission and distribution lines to determine the costs attributable to transmission.

j/ All revenues associated with the production and transmission function of a Utility will be functionalized to production or transmission respectively.

k/ Customer Assistance Expenses (Major only) requires DIRECT analysis of conservation related expenses; all exchangeable conservation costs may be functionalized to Production (PROD); all other costs will be functionalized to Distribution/Other (DIST).

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