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November 6, 2009

Comments of the Pacific Northwest Investor-Owned Utilities <sup>1</sup>  
in response to  
BPA's Request for Comments on October 6, 2009 ASC Workshop

These comments are submitted on behalf of the Pacific Northwest Investor-Owned Utilities in response to BPA's October 22, 2009 e-mail regarding Follow Up from October 6, 2009 ASC Workshop requesting comments.

1. Rate Period High Water Mark (RHWM) ASC and Conservation:

BPA asked for suggestions on determining a consumer-owned utility's RPHWM ASC if load growth is met with conservation rather than new generating resources.

The consumer owned utility ("COU") must provide documentation, reviewable by BPA, of the amount of its conservation savings.

BPA's formula for determining the RHWM ASC, distributed in the BPA October 6, 2009 ASC Workshop presentation at page 6 of 42, is the following:

- › 
$$\text{RHWM ASC} = \frac{\text{Contract System Cost} - \text{NewRes\$}}{\text{Contract System Load} - \text{NewResMWh}}$$
- › NewRes\$ is the forecast cost of resources used to serve a customer's Above-RHWM Load. The costs included in NewRes\$ will be determined using a methodology similar to Appendix 1 Endnote d of BPA's 2008 ASC Methodology.
- › NewResMWh is the forecast generation from resources used to serve a customer's Above-RHWM Load.
- › For both NewRes\$ and NewResMWh, Existing Resources for CHWMs specified in Attachment C, Column D of the TRM, and purchases of power at Tier 1 rates from BPA are excluded.

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<sup>1</sup> For purposes of these comments, the Pacific Northwest Investor-Owned Utilities (sometimes referred to herein as the investor-owned utilities) are Puget Sound Energy, Inc, Portland General Electric Company, PacifiCorp, and Avista Corporation.

The general principle is that

(i) to the extent COU-funded conservation results in reduced power purchases at Tier 1 (Contract System Load is less than RHWL), the costs of such conservation may be included in the COU's RHWL ASC, and

(ii) to the extent COU-funded conservation results in reduced purchases at Tier 2 (Contract System Load is greater than RHWL), the costs of such conservation must be excluded from the RHWL ASC determination.

The treatment of COU-funded conservation costs thus depends on the relationship between Contract System Load and RHWL.

Therefore, for purposes of the formula, BPA should treat conservation costs of the RHWL utility as follows:

1. The cost of any conservation of the RHWL utility funded by BPA should not be treated as conservation costs of the utility and should not be included in the RHWL utility's Contract System Cost.
2. If projected Contract System Load is greater than or equal to the utility's RHWL, then the conservation has not reduced the power purchased at Tier 1 rates, so all of the conservation is serving Tier 2 Load. Therefore, all conservation costs of the RHWL utility are included in NewRes\$
3. If projected Contract System Load of the RHWL utility is less than the utility's RHWL, and (RHWL – Contract System Load) is greater than the amount of savings from conservation, then all of the conservation is serving Tier 1 loads, so no conservation costs are included in NewRes\$.
4. If projected Contract System Load is less than the utility's RHWL, and (RHWL – Contract System Load) is less than the amount of savings from conservation, then the conservation costs must be prorated between Tier 1 Load reduction and Tier 2 Load reduction. Exchangeable (Tier 1) conservation costs shall equal the following:

Tier 1 conservation costs =

$$\frac{(\text{RHWL} - \text{Contract System Load}) * \text{conservation costs of utility}}{\text{amount of savings from conservation}}$$

Accordingly, utility Tier 2 conservation costs included in NewRes\$ can be determined as follows:

utility conservation costs included in NewRes\$ =

conservation costs of utility - Tier 1 conservation costs

No adjustments for conservation are needed to the Contract System Load or NewResMWh.

## **2. Functionalization Framework**

The Pacific Northwest Investor-Owned Utilities do not object to Bonneville's proposal to allow a utility the option of using the software functionalization framework or direct analysis to functionalize Accounts 302 and 303. However, we recommend that BPA pay particular attention to ensure that the treatment in the software functionalization framework is consistent with related plant and expense items.

In item number 6 - Market Operations and Trading, Bonneville's apparent rationale is that this is for software to carry out these various work efforts and without the software more employees would be hired or with the software less employees are needed. Therefore the costs are functionalized by LABOR. This completely ignores the function or purpose of the activity. If you add an employee at a power plant the O&M expenses functionalized to production are increased. Only software that is of general applicability should be functionalized by LABOR like labor expenses of A&G employees. If software is purchased to aid a specific purpose and that purpose is functionalized entirely to a specific function, then that supporting software should also be functionalized to that specific function. Specifically:

- 6.1 Risk Management – Should be functionalized to PRODUCTION; it is not a function of or related to overall labor costs or number of employees. Risk management is a power supply operation function to optimize the power system and result in a lower net power supply cost position than without risk management.
- 6.5 Wholesale Billing and Settlement – Should be functionalized to PRODUCTION, since it is entirely related to sales for resale which are functionalized to production. These sales are netted for determination of customer rates and for calculation of ASC. They are not a function of or related to overall labor costs or number of employees.
- 6.6 Market Dispatch – Should be functionalized to PRODUCTION, because the activity is buying or selling into the power market which is done to reduce the overall net power supply cost included in rates as well as the ASC. These sales are netted for determination of customer rates and for calculation of ASC; they are not a function of or related to overall labor costs or number of employees.

## **3. Allocation of Overheads for NLSL Generating Resources**

The Pacific Northwest Investor-Owned Utilities do not object to Bonneville's proposal to group the post-1979 resources and allocate over-heads based on the post-1979 resource investment ratios in determining the total cost of a NLSL. The utilities would like to retain the option to direct assign these overheads, where specific costs can be identified and where costs differ from what the proposed overhead allocation methodology would calculate. In addition, since this proposed allocation methodology is new and untested, the investor-owned utilities would like to

reserve the right to make further adjustments to the methodology at the ASC workshop scheduled for the Spring of 2010.

#### **4. Timing of New Resource Materiality Threshold Based on BPA Update to Gas Price Forecasts**

The issue of when to cut off updating New Resource Additions for cost changes relating to natural gas price forecasts arose in connection with the ASC review process. The updated gas price forecasts will feed into both the Wholesale Power Rate Case and a utility's New Resource Additions in its ASC filing. This issue generally concerns when gas price forecasts change, and should these changes be allowed in the determination of the materiality test for New Resource Additions.

The materiality test determination should be made only when a utility initially files its ASC with BPA. If BPA changes the price forecasts that are used in the materiality test determination at any point in the ASC or corresponding Rate Case Process, those costs should be used, but the materiality of a new resource should not be re-evaluated.

If, however, BPA decides to allow the use of the updated price forecast to re-evaluate the materiality of a resource then the filing utility should be able to regroup any New Resource Additions to meet the materiality threshold using the updated price forecast.

#### **5. Confidentiality Provisions**

BPA's Rules Governing the Disclosure of Confidential Information in BPA's Average System Cost Review Proceedings contain processes and obligations with respect to confidential information that parties disclose to BPA during an ASC proceeding. These rules, however, do not adequately address the need to protect confidential information that is shared between or among parties other than BPA during an ASC proceeding. For example, participants to an ASC proceeding often include governmental or public entities that are subject to separate public disclosure laws than the Freedom of Information Act. BPA should conduct a process to develop standard forms of confidentiality agreement that parties to an ASC proceeding could use to share confidential information in a manner that protects the proprietary nature of such information. Such process should take into account differing disclosure requirements applicable to different jurisdictions.

Such confidentiality agreement should be a standard, bilateral form confidentiality agreement between the disclosing party and the receiving party, pursuant to which the receiving party would acknowledge the proprietary nature of the confidential information, agree to protect such confidential information, and agree to procedures to maintain the protection of such confidential information.

However, if BPA were to implement the ASC process on a secure website, that website should have the functionality to restrict access to any particular confidential information to specific

recipients. BPA should not allow access to any particular confidential information except to such specified recipients and should only allow such access if such specific recipients have entered into a standard form of confidentiality agreement with BPA and the disclosing party, tailored to use with the secure website. Such confidentiality agreement should be a standard form confidentiality agreement, pursuant to which the receiving party would acknowledge the proprietary nature of the confidential information, agree to protect such confidential information, and agree to procedures to maintain the protection of such confidential information.