



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER SERVICES

FEB 2 2010

In reply refer to: P-6

BPA Subscription Power Sales Customers:

I am requesting your review and thoughts on a recently discovered matter regarding how the benefits are provided to customers currently participating in the Irrigation Rate Mitigation Program (IRMP) have been calculated (Enclosure 1).

As you know, the IRMP was developed to mitigate significant rate increases for the customers with large irrigation loads due to BPA's change in seasonal rates in the first rate period of the Subscription Contracts. The change in winter and summer rates would have caused some irrigation customers to see a 50 percent or more increase due to rate design changes. The IRMP established a rate differential, for a set amount of eligible MWh, covering the months of May, June, July, and August. The rate differential was not subject to CRAC adjustments during FY 2002 - FY 2006. When charged on the eligible MWh, the rate differential limited the rate increase to no more than 7.5 percent above the 1996 PF rate including a Summer Seasonal Product applied to qualifying irrigation loads for the FY 1996 - FY 2001 period.

The IRMP was offered as a separate FPS agreement to eligible irrigating customers under the Subscription Contract. The rate differential formula and inputs were not vetted in a rate case or another public process. No customer has questioned the correctness of the calculations of benefits for 8 years during the contract. The IRMP has 28 customers participating in the program with the first 8 years of the program providing close to \$80 million in benefits.

In a recent review of the IRMP, BPA developed a need to change some inputs when calculating the individual rate differentials. BPA believes these new inputs better reflect the intent behind the program. The first proposed adjustment is to the calculation of benefits for Slice/Block customers. In calculating the benefits, the Load Variance charge was included as one of the inputs to calculate their rate differential. BPA now believes the Load Variance Charge should not have been included because Slice/Block customers do not pay the Load Variance rate. The retroactive application of this adjustment to the calculation to Slice/Block customers would result in an undercharge of \$1,943,000 over the 8 year period. The second proposed change relates to the inputs for the Load Following customers' rate differential calculation. Previously, the Low Density Discount was only credited on 25 percent of the eligible irrigation MWh for Load Following Customers. BPA now believes the Low Density Discount should be credited based on 100 percent of that load. The retroactive application of this adjustment to the calculation would result in the Load Following customers collectively being overcharged \$1,995,000 over the 8 year period.

As you can see the discovery of these unrelated adjustments resulted in similar undercharge and overcharge amounts. If the inputs were corrected for the remaining 2 years of the IRMP, the Slice/Block customers would receive \$390,000 less in each year and the Load Following customers would receive \$380,000 more in each year.

As a means of addressing this issue on a going forward basis BPA proposed to the IRMP customers that the historic over and undercharges would be forgiven, and that the necessary corrections to the inputs resulting in the last 2 years of the IRMP, FY 2010 and FY 2011 would be calculated under the proposed new methodology. From BPA's perspective this proposal is rate neutral for the Agency. The IRMP is to be eliminated at the end of FY 2011 and has been replaced with an Irrigation Discount in the new Regional Dialogue contracts.

All Slice/Block customers and three Load Following customers agreed with the BPA proposed approach. The Northwest Irrigation Utilities (NIU), customers have sent a November 13, 2009, letter to the Administrator asking for further consideration and compensation for the amounts overcharged (Enclosure 2). NIU has identified other alternatives in resolving the issue in their letter, including potentially receiving compensation for overcharged amounts over a period of time. NIU basically asserts their members' consumers have been harmed and a correction is necessary to achieve the financial results the IRMP was intended to deliver.

BPA is requesting your thoughts on its original rate neutral proposal described in this letter and the alternatives identified in the NIU letter. If you have an alternative you think would be worth considering, please submit it with your comments.

This is your opportunity to consider this issue and provide your written comments no later than February 26, 2010. Comments can be submitted on-line at: www.bpa.gov/comments; via e-mail to comment@bpa.gov; via mail to: Bonneville Power Administration, Public Affairs Office-DKC-7, P.O. Box 14428, Portland, OR 97293-4428; or faxed to 503-230-3285. You can also call us with your comments, toll free at 1-800-622-4519. Please reference "Irrigation Rate Mitigation Program" with your comments. Please note all comments will be posted on BPA's external web site.

Sincerely,



Mark Gendron
Acting Senior Vice President
Power Services

Enclosures