

keeping

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CURRENT

SHARING THE BENEFITS

BPA'S INITIAL PROPOSAL FOR THE 2002 POWER RATE CASE

In mid-August 1999, the Bonneville Power Administration published its initial rate proposal in the Federal Register for FY 2002-2006 wholesale power rates. The initial rate proposal describes how BPA intends to develop rates to implement BPA's Power Subscription Strategy, published in December 1998. The Power Subscription Strategy outlined a process that will enable the people of the Northwest to share the benefits of the Federal Columbia River Power System after 2001 when current rates and most firm power contracts expire. BPA will make a final decision on its rates in early to mid-2000 after the administrator considers the record developed through the formal rate hearing process. For more information about the rate case process, see the section titled "Need more information?" at the end of this document.



The initial rate proposal presents BPA's pricing approach for sale of wholesale power to achieve the goals and implement the overall policy described in the Power Subscription Strategy released in December 1998. A wide range of regional stakeholders including customers, state, local and tribal governments, as well as other federal agencies are affected by BPA's decisions. In developing the initial rate proposal, BPA has

BPA sets rates to recover its costs. Although it is a federal agency, BPA does not receive tax money. It must cover all its costs with revenues it earns by selling its goods and services. From these revenues, BPA funds, among other things, fish and wildlife, conservation and renewable energy programs. It also uses its revenues to meet its repayment obligations to the U.S. Treasury on the federal investment in the Northwest's dams and the transmission system.

The initial rate proposal contains BPA's proposed wholesale electric power rates for the FY 2002-2006 period. It includes various studies, documentation and supporting testimony that are the basis for developing the proposed rates. Altogether, the initial rate proposal contains over 4,000 pages in 15 bound volumes.

Because of wholesale electricity deregulation, BPA is splitting its rate-making activities into two parts to

determine rates for BPA's Power Business Line and Transmission Business Line for the post-2001 period. Certain issues will be addressed in the power rate case that affect whether costs are recovered in power, transmission or ancillary service rates. BPA plans to decide these "interbusiness line" issues in the power rate case and apply those decisions in the transmission rate case. These interbusiness line issues include assignment of generation integration and corporate overhead costs; the determination of the generation input costs that will become the basis for ancillary service rates (the actual ancillary service rates will be developed in the transmission rate case); and the determination of certain other generation costs for services required by the Transmission Business Line. Other transmission-related issues to be addressed in the power rate case include general transfer agreement and general transfer agreement replacement costs for federal and nonfederal power deliveries. (A general transfer agreement is a contract in which BPA pays a fee to transfer BPA power over another utility's transmission system for delivery to a BPA customer.)



HELPING WITH JOBS

The direct service industries, primarily aluminum plants, have long been an important part of the Northwest economy. BPA's initial rate proposal would make available to them a meld of low-cost federal power and purchased power that should contribute to their continued viability in the competitive world market.

received comments reflecting many points of view. The proposal represents an important effort to arrive at a balance among these varied interests. The initial rate proposal is designed to be consistent with the four principal goals of the Power Subscription Strategy:

- Spread the benefits of the Federal Columbia River Power System as broadly as possible, with special attention given to the residential and rural customers of the region;
- Avoid rate increases through a creative and businesslike response to markets and additional aggressive cost reductions;
- Allow BPA to fulfill its fish and wildlife obligations while assuring a high probability of U.S. Treasury payment; and
- Provide market incentives for the development of energy conservation and renewable resources as part of a broader BPA leadership role in the regional effort to capture the value of these and other emerging technologies.

The primary means of sharing the benefits of the Federal Columbia River Power System (FCRPS) with the people of the Northwest is through the sale of low-cost power. In the initial rate proposal, BPA intends to meet its pledge to the region's preference customers to keep power rates below market and, on average, at the same level as 1996 power rates. This would give the region 10 years of rate stability during a period of enormous uncertainty as the electric utility industry undergoes fundamental change. Low, stable rates provide an economic catalyst for the Northwest economy, since much of the region's productivity depends on an affordable and plentiful supply of electricity. They also provide an incentive for a continuing long-term customer commitment to help ensure that BPA is able to fund other public benefits such as fish and wildlife and programs promoting conservation and renewables.

In addition to rate stability for BPA's preference customers, the initial rate proposal envisions sharing the benefits of the FCRPS with other regional stakeholders, as well. BPA is proposing to provide substantial benefits to investor-owned utilities (IOUs) through a settlement of the Residential Exchange Program. As described later in this *Keeping Current*, BPA's proposed settlement would provide the IOUs with greater access to low-cost federal power than they would otherwise receive under the expected implementation of the existing program. In the initial rate proposal, the Residential Load rate BPA would charge IOUs is equivalent to the Priority Firm rate proposed for preference customers. In other words according to the proposal, the benefit of BPA's pledge to keep the Priority Firm rate stable for preference customers is passed on to residential and rural customers of IOUs.

BPA is also recommending a significant benefit to its direct service industry (DSI) customers by proposing to make available to them a meld of low-cost federal power and purchased power that will contribute to the continued viability of this important Northwest industry in the competitive world market.

The DSIs have stated that their survivability hinges on the price BPA will charge them for power for the FY 2002-2006 rate period. BPA is committed to work-

ing with the DSIs to help them continue to operate successfully as well as preserve the thousands of jobs in Northwest aluminum and related industries. The agency is proposing to make available 1,440 average megawatts. Of this amount, 1,210 average megawatts will be available at the Industrial Firm Power (IP) rate with a targeted adjustment charge to DSI customers at an average rate of 2.3 cents per kilowatt-hour for those DSIs that participate in the 0.05 cent conservation and renewables discount rate and at 2.35 cents per kilowatt-hour for those DSIs that do not participate in the discount. The balance of 230 average megawatts would be available at an IP rate of 2.45 cents per kilowatt-hour which includes a targeted adjustment charge for those DSIs that participate in the 0.05 cent conservation and renewables discount rate or 2.5 cents per kilowatt-hour for those that don't. An option of a variable rate pegged to the price of aluminum is also included. This proposal is contingent on DSI agreement to be exposed to the Cost Recovery Adjustment Charge (CRAC) as well as a transmission surcharge, if one is applied, and a commitment to not oppose the settlement of the residential exchange.

R A T E D E F I N I T I O N S

Priority Firm (PF) Preference power rate: The rate BPA charges for firm power to be used within the Pacific Northwest by public bodies, cooperatives and federal agencies. These are sometimes called "preference" utilities because they have statutory rights to federal power.

PF Exchange Program rate: The rate BPA charges IOUs and other utilities in the Residential Exchange Program.

Residential Load (RL) and PF Exchange Subscription rates: The rates BPA will offer to investor-owned utilities who agree to a settlement of the Residential Exchange Program in which they would purchase a specified amount of power under subscription for their residential and small farm consumers.

Industrial Firm Power (IP) rate: The rate for BPA's direct service industry customers, primarily aluminum companies. The IP rate includes a charge to the direct service industries to recover the costs of BPA acquiring additional power to serve their load.

BENEFITING RURAL AND RESIDENTIAL CUSTOMERS

In addition to maintaining stable rates for another five years for preference customers, BPA is proposing to share the benefits of the FCRPS by:

- Providing low-cost power to investor-owned utilities for their residential and small farm customers;
- Mitigating inordinate rate impacts of summer peaking on utilities with large irrigation loads;
- Aiding small, mainly rural customers by continuing existing general transfer agreement service to

As part of its effort to bring the benefits of low-cost federal power to Northwest residential and small farm customers, BPA is proposing a settlement of the Residential Exchange Program in which IOUs will be assured access to the equivalent of 1,800 average megawatts of federal power for the FY 2002–2006 period for their residential and small farm loads. Of this amount, at least 1,000 average megawatts will be met with actual BPA power deliveries. The remainder may be provided through either a financial arrangement or additional power deliveries,

depending on which approach is most cost-effective for BPA. The initial proposal would provide enough low-cost federal power to serve at least 40 percent of the region's residential and rural customers compared to about 25 percent in the current rate period.

BPA's proposal would allow an IOU to participate in the existing Residential Exchange Program or to participate in a settlement of the program through subscription. To implement this strategy, BPA is developing the

Priority Firm Exchange Program rate, the Residential Load rate and the PF Exchange Subscription rate (see "Rate Definitions" box on page 3). BPA's proposed settlement of the Residential Exchange Program is equivalent to offering IOUs an estimated \$140 million per year in affordable federal power for residential and rural consumers compared to \$75 million per year worth of benefits in the current rate period under the Residential Exchange Program.



GETTING POWER TO THE PEOPLE

BPA's proposed settlement of the Residential Exchange Program would provide enough low-cost federal power to serve at least 40 percent of the region's residential and rural customers compared to about 25 percent in the current rate period.

customers for delivery of federal power through the term of their subscription contracts. Also in this rate case, the Transmission Business Line is proposing to pay up to a capped amount for nonfederal transmission service associated with the delivery of general transfer agreement customers' nonfederal power purchases; and

- Continuing the Low Density Discount (a discount on power that BPA grants to utilities with a small number of widely dispersed customers).

AVOID RATE INCREASES

One of the ways BPA is avoiding rate increases is by implementing the recommendations of the Cost Review (see box titled "Policies Decided in Public Processes").

BPA continues to reduce costs by reducing staffing and overhead costs, reducing debt service expenses, and working with the Corps of Engineers and the Bureau of

The rate-making process is a vehicle for implementing BPA policies that were decided in four public review processes. Decisions made during these public processes will not be revisited in this rate case. The policies that were developed in these other processes include:

BPA Business Plan – in which BPA announced its response to the changing electricity market. For the first time, in 1996 projections of future BPA costs appeared to exceed market prices, placing BPA in a much more competitive environment. It responded in 1996 with products and services that were competitively priced, with more flexible terms. The goal of these early changes was to give customers lower prices, stability and flexible new choices, while giving BPA greater certainty about its expected loads and revenues. Unbundling products allowed customers to pay for only those products and services that they needed.

Cost Review – a process initiated in September 1997 by BPA and the Northwest Power Planning Council, formally referred to as the Cost Review of the Federal Columbia River Power System. The objective of the Cost Review was to ensure that BPA's long-term power and transmission costs would be as low as possible, consistent with sound business practices, so that BPA could maximize its ability to fully recover costs through power rates that are competitive with market prices. The Cost Review process began with the establishment of a panel of five executives from the private sector with considerable experience managing large organizations during periods of competitive transition.

The Cost Review said that short-term power purchases, the Residential Exchange Program, general transfer agreements, federal interest and depreciation and inter-business line expenses were subject to significant change in the rate development process. Costs associated with fish and wildlife recovery efforts were excluded from the scope of the Cost Review. A draft of the panel's recommendations was circulated throughout the region, and public comments were received during a month-long period that included public meetings and briefings with various interest groups. Based on comments received during this public consultation process, the draft recommendations were modified and presented to BPA's administrator, the region's governors, the Northwest Congressional delegation and the House and Senate Committees on Appropriations in March 1998.

Power Subscription Strategy – In December 1996, the final report of the Comprehensive Review recommended that BPA capture and deliver the low-cost benefits of the federal hydropower system to Northwest energy customers through a subscription-based power sales approach. The Comprehensive Review was a process led by the four Northwest governors to define how and to whom the region's federal power should be sold. A public process to develop a Power Subscription Strategy began in 1997. This process brought together all the regional stakeholders in an ongoing series of workgroups and meetings. BPA issued a final Power Subscription Strategy and Record of Decision in December 1998.

The Power Subscription Strategy provides a marketing policy framework for the power rate case. It reflects agency decisions on equitable distribution of the electric power generated by the FCRPS to its customers, within the framework of existing law. Although it did not establish any rates or rate designs, it suggested general rate design approaches to be considered in the formal rate-making process. After going through the extensive public process, BPA stated in its Power Subscription Strategy decision that it planned to provide approximately 1,800 average megawatts worth of benefits for the residential and small farm consumers of IOUs while meeting all public agency net firm load requirements. The strategy also stated that BPA expected to be able to meet all DSI customer loads that such customers asked BPA to serve (see the "Sharing the benefits" section on page 3).

Fish and Wildlife Funding Principles – developed in consultation with constituents, customers, other federal agencies, the Northwest Congressional delegation and Columbia Basin tribes in an extensive public involvement process. The parties focused on guidelines for structuring BPA's approach to subscription and FY 2002-2006 power rates to ensure that the agency could meet its financial obligations, including those for fish and wildlife, given hydro conditions, market prices, fish recovery costs and other uncertainties. The principles specify that BPA will take into account the full range of potential fish and wildlife costs, as reflected in 13 long-term alternatives for configuration of the FCRPS that are assumed to be equally likely to occur. These principles were published on Sept. 16, 1998, in a document entitled "Fish and Wildlife Funding Principles for Bonneville Power Administration Rates and Contracts." Vice President Gore announced the establishment of the principles on Sept. 21, 1998.

Reclamation on an integrated capital/asset management strategy for the FCRPS power projects to help eliminate inefficiencies that occur when FCRPS decisions are made independently by each agency pursuing its own objectives. BPA staffing is the lowest it's been since 1965. BPA is working with the Department of Energy and the Northwest congressional delegation to pursue legislation to improve BPA's administrative effectiveness and efficiency.

Rates are calculated for different classes of customers and services. In calculating a rate, many different

costs are factored in such as charges for energy, demand and load variance. The total of all the costs for a class of customers is divided by the total energy BPA expects to sell them. The result is the average cost per kilowatt-hour. The average power rate BPA is proposing for its preference customers remains unchanged. The actual rate charged a specific customer will vary from the average because of variations in that customer's particular service needs.

F U L F I L L F I S H A N D W I L D L I F E O B L I G A T I O N S

The initial rate proposal meets the guidelines described in the "Fish and Wildlife Funding Principles for Bonneville Power Administration Rates and Contracts." These principles are the product of a thorough collaboration among BPA, Columbia Basin tribes, Northwest states, other federal agencies and stakeholders throughout the region. The principles are a set of guidelines for BPA's subscription and power rates processes. The principles are designed to keep the options open for future Northwest fish and wildlife decisions. Guided by the Fish and Wildlife Funding Principles, BPA expects to maintain a high probability that it will cover all of its costs.

The best indicator of BPA's ability to meet all of its costs is U.S. Treasury payment probability. By law, if BPA does not have enough revenues to meet all of its obligations, it can defer annual payments to the Treasury in favor of meeting its nonfederal obligations. These nonfederal obligations include debt service on Washington Public Power Supply System bonds and funding for the region's fish and wildlife programs other than amounts included in the payments to the U.S. Treasury. Thus, the probability that BPA will make its annual payment to the Treasury on time and in full is a crucial measure of the agency's financial health and of its ability to cover all of its costs.

To ensure that BPA meets both the letter and the spirit of the Fish and Wildlife Funding Principles, the initial rate proposal includes:

- The most sophisticated financial risk management package BPA has ever attempted, coupled with contract provisions to allow a more robust response to financial uncertainty. These provisions include offering incentives for shorter-term and longer-term purchases, offering the Slice of the System¹ product, and cost-based market-indexed sales.
- For the first time ever, BPA is implementing its policy standard of 88 percent Treasury payment probability. This standard is met, in part, by increasing planned net revenues for risk to \$127 million per year and by reserves remaining from the current rate period of nearly \$700 million.
- Including a Cost Recovery Adjustment Clause (CRAC) in rates that will require customers to pay up to a capped amount annually if necessary to meet financial obligations.

BPA believes that the initial rate proposal demonstrates a firm commitment to fulfilling all of our fish and wildlife obligations.

¹ Slice purchasers pay a share of the actual costs of the power system in exchange for the same percentage of its power production and capabilities, including the right to determine how their share of the system is operated within nonpower constraints.

THE TARGETED ADJUSTMENT CHARGE

The subscription window will open early in 2000 and will remain open for contract negotiations until 120 days after the Record of Decision in the 2002-2006 power rate case.

BPA is proposing that new sales made after the subscription window will be subject to a targeted adjustment charge that would recover the costs BPA may incur to serve the load. The targeted adjustment charge will be determined for each individual purchaser placing new load on BPA and would apply for the duration of the customer's contract or until 2006, whichever occurs first. For five-year contracts that guarantee rates for multiple periods (for example, contracts that have a portfolio of both three- and five-year components), the targeted adjustment charge applies until the end of the five-year



PROMOTING ECONOMIC GROWTH

In addition to maintaining stable rates for another five years for preference customers, in its initial rate proposal BPA proposes to share the benefits of the federal hydrosystem by mitigating inordinate rate impacts of summer peaking on utilities with large irrigation loads.

rate period. Customers that have uncommitted loads in 2001 (primarily those who diversified their loads in the 1996 rate case) will pay the 1996 PF rate plus a tar-

geted adjustment charge for uncommitted loads until the 2002 rates take effect.

STAIR-STEPPED RATES

BPA is proposing incentives for customers to choose between contract lengths of three years, five years or longer. BPA expects its costs will be higher in the later years of the 2002-2006 rate period because of uncertainty due to market volatility, fish and wildlife funding and resource capability. Therefore BPA is proposing a two-part, stair-stepped rate. Customers who commit to five-year contracts will pay a lower rate for the first three years and a higher rate in years four

and five. These rates will be established in this (2002) rate case. Customers that sign three-year contracts will pay the lower stair-stepped rate established in this rate case. If these customers subsequently sign contracts for years four and five, they will pay a rate that will be established in a separate 7(i) process after the 2002 rate case. Only customers that sign contracts longer than five years will be guaranteed BPA's lowest cost-based rate after 2006.

PROVIDE MARKET INCENTIVES TO DEVELOP CONSERVATION AND RENEWABLES

BPA is proposing a rate discount as an incentive for customers to support conservation and renewables through local action. BPA is proposing a discount of up to 0.05 cents per kilowatt-hour (a total annual discount of approximately \$30 million). In addition, if regional

annual customer spending, initiated by the conservation and renewables discount, falls below \$6 million for renewables or \$4 million for low-income weatherization, BPA will provide additional funding that makes up the shortfall.

BPA is proposing certain other market mechanisms to encourage development of energy conservation and renewable technologies without placing significant upward pressure on BPA rates. Another mechanism

being introduced in this rate case is the development of a Green Energy Premium rate for sale of environmentally preferred power products from BPA's system and renewable resources.

SHARING THE BENEFITS THROUGH DIVIDENDS

If net revenues exceed a threshold level, BPA is proposing to distribute "dividends" to key stakeholders. The threshold for triggering a dividend distribution would be based on accumulated net revenues and set at a level substantially above the rate case plan. The mechanism would not trigger if the higher reserves were necessary to cover risks. The dividends would be distributed in the form of rebates to firm power cus-

tomers and potentially to the U.S. Treasury, conservation and renewable initiatives (beyond the \$15 million mentioned above) and other public purposes. The first \$15 million in dividends would go to customers who carry out incremental conservation and renewables activities beyond the \$30 million covered under the conservation and renewables discount.

WHAT HAPPENS NEXT?

Following is a list of major milestones in the proposed rate case schedule. We will keep you informed of any changes.

June 23, 1999 Ex parte began: All communications with BPA on or after this date about the merits of any issue pending in the rate proceeding must be made on the record.

August 1999 Initial power rate proposal released

October 1999 Field hearings

March 2000 Draft Record of Decision issued

April 2000 Final Record of Decision and final studies released

August 2000 Subscription window closes 120 days after final Record of Decision is released.

More information on the rate case schedule is available on BPA's Web site at <http://www.bpa.gov/Power/PSP/rates/RateCase/>.

NEED MORE INFORMATION?

For more information on why BPA sets rates, what the rate process involves and how rates are set, please refer to:

- "1999 Power Rate Case: The process and how to participate," and
- "1999 Power Rate Case: Studies used to develop the rates."

These are available on the BPA Web site at <http://www.bpa.gov/Power/PSP/rates/RateCase/publications.htm> or may be requested from BPA's Public Information Center by calling 1-800-622-4519.

For more information about the initial rate proposal, please contact your account executive or district office. If you do not know who your account executive is, contact the nearest BPA office listed below.

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Burley, Idaho (208) 678-9481	Portland, Ore. (503) 230-7597	Spokane, Wash. (509) 358-7409
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