

Tiered Rate Methodology Rate Case

# REBUTTAL TESTIMONY

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August 2008

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**BPA Exhibit No.**

**Witness**

TRM-12-E-BPA-15

Cherry, Bliven, Wilson

TRM-12-E-BPA-16

Bliven, Kintz, Lee

TRM-12-E-BPA-17

Roberts, Miskey, Bliven

TRM-12-E-BPA-18

Stene, Davis, Warner, Wilson

TRM-12-E-BPA-19

Fisher, Bolden, Chalier, Bliven



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Tiered Rate Methodology Rate Case

# Rebuttal Testimony

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August 2008

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**OVERVIEW:**  
Cherry, Bliven, Wilson

TRM-12-E-BPA-15



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DIANE CHERRY, RAYMOND D. BLIVEN, and SCOTT K. WILSON

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REBUTTAL TESTIMONY of  
DIANE CHERRY, RAYMOND D. BLIVEN, and SCOTT K. WILSON  
Witnesses for Bonneville Power Administration

**SUBJECT: REBUTTAL TESTIMONY FOR OVERVIEW**

**Section 1: Introduction and Purpose of Rebuttal Testimony**

*Q. Please state your names and qualifications.*

A. My name is Diane Cherry, and my qualifications are contained in TRM-12-Q-BPA-04.

A. My name is Raymond D. Bliven, and my qualifications are contained in TRM-12-Q-BPA-01.

A. My name is Scott K. Wilson, and my qualifications are contained in TRM-12-Q-BPA-19.

*Q. What is the purpose of your rebuttal testimony?*

A. The purpose of our rebuttal testimony is to sponsor the revised TRM document TRM-12-E-BPA-20 and to overarching and policy issues related to the TRM.

*Q. How is your testimony organized?*

A. Our testimony is organized in 9 sections, including this first introduction and purpose section. Section 2 describes how BPA has managed updates to the TRM study document since the Supplemental Proposal. Section 3 describes BPA’s response to customers’ proposed edits regarding secondary energy revenue. Section 4 discusses BPA’s response to proposals on cost control and cost allocation issues. Section 5 discusses issues related to several of the Northwest Power Act Section 7 rate directives. Section 6 addresses issues related to New Publics. Section 7 addresses specific issues related to sections 12 and 13 of the TRM. Section 8 addresses several miscellaneous issues. Section 9 addresses

1 certain issues that are outside the scope of this TRM rate proceeding.  
2

3 **Section 2: Changes to the TRM Since the Supplemental Proposal**

4 *Q. Has BPA made any changes to the TRM that was filed with the Supplemental*  
5 *Proposal in July?*

6 A. Yes. We have issued a redlined version of the TRM (TRM-12-E-BPA-20) that  
7 reflects changes agreed to during settlement negotiations with customers,  
8 corrections of errors, and other modifications to the TRM that resulted from  
9 internal BPA discussions related primarily to matters where parties proposed  
10 changes to the TRM in their direct cases that went beyond the language BPA staff  
11 agreed to in negotiations.

12 *Q. How are these changes reflected in this version of the TRM?*

13 A. BPA started with the version contained in the PPG direct case, which was an  
14 edited version of BPA's Supplemental Proposal. If BPA agreed with the  
15 proposed edits in the PPG version, they were left in the document as redlined  
16 changes. If BPA was unwilling to agree to the proposed change, the edit was  
17 rejected, and those rejected edits are also reflected in the document. To the extent  
18 BPA made new edits, those changes are also contained in the redlined version, but  
19 in a different redlined color. As noted, these BPA changes reflect edits that are  
20 primarily corrections and counter proposals to the version in the PPG direct case.  
21

22 **Section 3: Secondary Energy Revenues**

23 *Q. What is the Parties' position on secondary energy revenues?*

24 A. PPG and WPAG are concerned that the TRM fails to protect Public customers  
25 from legislative or administrative intervention that could increase costs or  
26 decrease revenues and fails to provide assurance that BPA's costs stay as low as

1 practicable. WPAG believes that the TRM highlights that BPA's Tier 1 rate is  
2 below market and conversely that customers are willing to pay a market rate for a  
3 portion of their power. PPG, TRM-12-E-PPG-01, at 3-7; Saleba and Falcon,  
4 TRM-12-E-WA-01, at 10-12.

5 *Q. What do the Parties propose to address their concerns?*

6 A. To address their concerns, PPG and WPAG propose two new principles to be  
7 added to the TRM, section 2.1:

8 8) All forecast revenues from the sale by BPA of secondary energy  
9 produced by FBS and new resources will be, for rate making purposes,  
10 applied as an offset to costs that are properly allocable to rates for  
11 BPA sales of power for use within the region.

12 9) Costs or benefits associated with the sales of or inability to sell excess  
13 power allocated under section 7(g) of the Northwest Power Act will be  
14 allocated to the Cost Pools to which the costs of the resources  
15 generating such excess power are allocated.

16 PPG, TRM-12-E-PPG-01, at 7. These Parties contend that the first proposed  
17 principle assures that the forecast of secondary energy revenues offsets costs for  
18 BPA power sold in the Pacific Northwest. The second proposed principle  
19 attempts to assure that the costs and benefits associated with the ability or  
20 inability to sell excess power under section 7(g) of the Northwest Power Act are  
21 allocated to the Cost Pools to which the costs of the resources generating such  
22 power are allocated. PPG, TRM-12-E-PPG-01, at 3-7; Saleba and Falcon, TRM-  
23 12-E-WA-01 at 10-12.

24 *Q. Do you believe these new principles are necessary or appropriate?*

25 A. BPA is sympathetic to and supportive of the Parties' interest in low rates and the  
26 role that secondary revenues have in contributing to that outcome. However,

1 BPA does not agree with the principles as proposed.

2 *Q. Please explain.*

3 A. PPG argues that proposed principles 8 and 9 are “consistent with BPA’s  
4 longstanding ratemaking practices.” PPG, TRM-12-E-PPG-01, at 4-5. First and  
5 generally consistent with the PPG argument, we note that BPA has never  
6 historically used or earmarked secondary energy revenues to pay only certain  
7 costs, either in ratemaking or in actual practice. BPA agrees that it will continue  
8 to act to assure that the benefit or crediting of such revenues is aligned with and  
9 follows Tier 1 and Tier 2 customer responsibility for the costs of the underlying  
10 resource(s) producing the secondary energy. That is, customers will receive the  
11 benefits of revenues produced by the FBS and other resources that the  
12 section 7(b) rates are based upon, and for which the customer is responsible for  
13 paying. However, the Parties’ proposal appears overly narrow in its treatment of  
14 secondary revenues; i.e., whether all secondary energy revenues must be credited  
15 directly to the Cost Pool that includes the resources producing the secondary  
16 energy, or may be used in other ways that would benefit customers of the relevant  
17 Cost Pool.

18 *Q. What are other possible treatments of secondary energy revenues?*

19 A. Although BPA does not believe that an accelerated debt repayment plan that is  
20 based on net secondary revenues is an optimal approach, secondary energy  
21 revenues could be used to pay costs that the customer would otherwise pay that  
22 are associated with debt repayment; e.g., advance payment options. Secondary  
23 revenues could also be used to pay for other costs that are legitimate and which  
24 BPA has recovered in power rates before, but which parties might argue do not fit  
25 under the rubric of “properly allocable to rates for BPA sales of power . . . .” An  
26 example of this use would be an inter-functional loan from generation to

1 transmission that would be done with repayment provisions that provided for full  
2 compensation to tiered rate customers. They could also be used for revenue  
3 financing purposes. Finally, BPA must retain the discretion it possesses under  
4 section 7(b)(3) of the Northwest Power Act that provides for recovering 7(b)(2)  
5 trigger amounts from secondary energy.

6 *Q. Would the Parties' proposed language affect BPA's ability to use secondary*  
7 *revenues for accelerating BPA's debt repayment?*

8 A. PPG clarifies that its proposal "does not allow the use of secondary revenues for  
9 accelerating BPA's prepayment of Treasury," unless the TRM is changed in  
10 accordance with sections 12 and 13. PPG, TRM-12-E-PPG-01, at 6. PPG  
11 allows that an accelerated repayment plan may be an option, but argues that BPA  
12 in consultation with customers could incorporate such a plan "into its repayment  
13 study wholly independent of how it allocates secondary revenue credits." *Id.*  
14 PPG also contends that their proposal would avoid creating equity issues  
15 between Slice and non-Slice customers. *Id.*

16 *Q. Is the PPG's proposal acceptable to BPA?*

17 A. Although BPA agrees that it would consult with customers on any plan to  
18 accelerate debt repayment, BPA is unwilling to limit its options to accomplish  
19 accelerated debt repayment given a looming access to capital problem. In  
20 general, BPA does not believe that an accelerated debt repayment plan that is  
21 based on secondary energy revenues is an optimal approach. However, BPA  
22 does not want to confront arguments in the future, should it choose to pursue  
23 accelerated debt repayment, that the source of the funds may have been  
24 secondary energy revenues. Nor does BPA believe such policies addressing  
25 access to capital issues should be subject to the provisions of Section 12 and 13.  
26 BPA agrees that any proposal for accelerated debt repayment should require all

1 customers who are allocated the cost of the resources to be responsible for costs  
2 of accelerated debt repayment associated with those resources.

3 *Q. WPAG also states that it is the intention of the preference customers to use the*  
4 *TRM not just to replicate the existing protections to cost based rates, but rather*  
5 *to enhance those protections and memorialize that right to power at cost “in*  
6 *order to immunize it from legislative and administrative change.” Saleba and*  
7 *Falcon, TRM-12-E-WA-01, at 9; see also, Id. at 4. How do you respond?*

8 A. Providing 20 years of certainty and stability in customers’ access to power at  
9 cost-based rates that are highly likely to be substantially below market is one of  
10 BPA’s primary objectives in offering new contracts and putting the TRM in  
11 place. BPA believes it is accomplishing this to the maximum extent it has  
12 authority to do so. For example, the very substantial protections of the 1996  
13 Refinancing Act which WPAG appears to take for granted are secured by  
14 contracts between BPA and its customers. The concerns about secondary energy  
15 revenues expressed by WPAG are exaggerated in our view, but nonetheless as  
16 indicated elsewhere in this testimony BPA is willing to attempt to address them,  
17 to the extent we have authority to do so.

18 *Q. Do PPG and WPAG propose any additional revisions to the TRM to address their*  
19 *concerns?*

20 A. The Parties propose revisions to TRM section 2.4:

21  
22 **2.4 Tier 1 Secondary Energy Credit**

23 The Slice Product includes an advance sale of surplus energy, which is  
24 delivered when and if available. As a consequence, the Composite Cost  
25 Pool and Slice Cost Pools do not contain any **[[revenue]] [[cost or]]**  
26 credit associated with **[[the]]** Tier 1 Secondary Energy **[[Credit]].** The  
27 Load Following and Block Products do not receive any Tier 1 Secondary  
28 Energy. Therefore, the Non-Slice Cost Pool will be allocated a Tier 1  
29 Secondary Energy Credit **[[equivalent to the advance sale of surplus**  
30 **power included as part of the Slice Product.]]**

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PPG, TRM-12-E-PPG-01, at 5-6; Saleba and Falcon, TRM-12-E-WA-01, at 12. PPG states that the proposed language will “make clear that the secondary energy credit allocated to the Non-Slice Cost Pool is to be the equivalent of the advance sale of surplus energy under the Slice Product” and “that on a forecast basis the credit should have a per kilowatt hour value equal to the surplus sale.” PPG, TRM-12-E-PPG-01, at 5-6.

*Q. Do you agree?*

A. BPA does not agree that the secondary revenue credit and the advance surplus sale are necessarily equivalent. Ultimately, the relative value of the energy is dependent on marketing actions of BPA and each Slice customer. However, BPA agrees with what we believe to be the intent underlying the Parties’ proposal. In addition, BPA anticipates that if secondary sales revenues that would otherwise be credited to non-Slice customers are used to pay a cost that they would otherwise be responsible for, then or later, the Slice Customers’ responsibility for the same cost would be achieved through recovery of the cost from the Slice Customers.

*Q. What is BPA’s position on pursuing alternative language regarding the use of secondary energy revenues?*

A. Although BPA cannot accept the proposed principles, BPA is willing to continue to explore TRM language that specifies that secondary energy revenues will be used only for purposes related to the FCRPS, which would include the uses that BPA describes above. BPA is also willing to work with customers to assure that any charge for issues such as accelerated debt repayment, revenue financing, inter-functional loans or 7(b)(3) allocations will be allocated fairly between Slice and non-Slice customers.

1 **Section 4: Cost Control and Cost Allocation Issues**

2 *Q. WPAG believes that the TRM fails to address the need for customers to have a*  
3 *meaningful voice in BPA cost decisions before such decisions are made and*  
4 *provides no incentive for BPA to continue its cost management efforts. WPAG*  
5 *acknowledges that processes for cost review exist and contends that the TRM*  
6 *should memorialize these matters. Saleba and Falcon, TRM-12-E-WA-01, at 12-*  
7 *13. In addition, PPG states that “customers have been provided no real control*  
8 *over BPA’s spending.” PPG, TRM-12-E-PPG-01, at 3. How do you respond?*

9 *A. This issue was fully discussed in the Long-Term Regional Dialogue Record of*  
10 *Decision (July 2007) (RD ROD) at 253-261. The TRM does not address this*  
11 *issue because in the RD ROD BPA determined that it would conduct a cost*  
12 *review process and these issues would continue to be addressed outside of a rate*  
13 *proceedings.*

14           The RD ROD listed several reasons why BPA chose the regional cost  
15 review was the process to address cost control concerns. These reasons are also  
16 reasons why a rate case is not the appropriate forum for cost control. The stated  
17 reasons were that the “regional cost review is the only process that allows any  
18 interested party to participate free of administrative hurdles. Customers and non-  
19 customers would have an equal voice. It allows for on-going review of BPA  
20 spending and long-term trends. In the event of disagreement, it would allow for  
21 informal debate before the Administrator.” RD ROD at 256. BPA was not  
22 persuaded by comments addressed in the RD ROD that the 7(i) Process should  
23 be a forum to determine cost levels. As stated in the RD ROD: “This is an issue  
24 that has been repeatedly addressed in rate case records of decisions. BPA  
25 decisions there were to not make budgets and revenue requirements rate case  
26 issues. That decision has not changed.” RD ROD at 253. Since the TRM is a

1 rate design methodology, and cost control and budget levels are not rate case  
2 issues, it would not be appropriate to address them in the TRM.

3 Q. *In the redlined version of the TRM they submitted with their testimony, PPG and  
4 WPAG have proposed changes to section 2.2. What are these changes?*

5 A. PPG and WPAG’s testimony includes the following proposed language, with the  
6 different color font, reflecting their edits to the version in BPA’s Supplemental  
7 proposal.

8  
9 The Cost Allocation Table, Table 2, sets out the cost allocations that will  
10 be used for allocating costs in future **7(i) Processes. Any** changes to the  
11 Cost Allocation Table to accommodate New Expenses or New Credits  
12 will be pursuant to section 2.3. **Any** changes to the Cost Allocation  
13 Table to accommodate a need to allocate a Tier 2 Cost to a Tier 1 Cost  
14 Pool will be pursuant to section 2.6. All other changes to the Cost  
15 Allocation Table will be pursuant to sections 12 and 13. All BPA costs  
16 functionalized by BPA to power **with respect to service at Tier 1 and**  
17 **Tier 2 Rates** will be included in the Cost Allocation Table. The addition  
18 of new Tier 2 Cost Pools will not be considered changes to the Cost  
19 Allocation Table for purposes of sections 12 and 13. BPA will conform  
20 the description or grouping of costs in the Cost Allocation Table to the  
21 grouping of costs in the Power Services Statement of Revenues and  
22 Expenses, **but changes to cost groupings or descriptions in BPA’s**  
23 **Power Services Statement of Revenues and Expenses will not change**  
24 **the Cost Pools to which the underlying costs are assigned. If**  
25 modifications to BPA's Power Services Statement of Revenues and  
26 Expenses **change the categorization of costs, then the manner of**  
27 **maintaining the separation of costs for purposes of the TRM** will be  
28 addressed in **the next 7(i) Process following the modification.**  
29 **[BPA considering restoration of last sentence that was deleted.]**  
30

31 Q. *What does the bracket sentence at the end refer to?*

32 A. The last sentence, which PPG and WPAG refer to in brackets, read: “Such  
33 modifications will not change the underlying allocation of costs to the respective  
34 Cost Pools, which will form the basis for setting Tier 1 and Tier 2 rates.” This  
35 sentence was inadvertently deleted from the TRM included in the Supplemental  
36 filing in July and we support including the restoration of that last sentence.

1 Q. Do you agree with other proposed changes?

2 A. We can agree with most of them, with one exception. We do not support the  
3 addition of the phrase “with respect to service at Tier 1 and Tier 2 Rates.”

4 Q. Why do you not support this proposed change?

5 A. Without this edit, the sentence reads “All BPA costs functionalized by BPA to  
6 power will be included in the Cost Allocation Table.” This is a true statement.  
7 The step of the ratemaking process where the Cost Allocation Table is populated  
8 will be the step that allocates costs. Tier 1 and Tier 2 rates will be developed  
9 later. Therefore, the phrase “with respect to service at Tier 1 and Tier 2 Rates” is  
10 not relevant or appropriate to include.

11 Q. PPG proposed a change to how the TRM should treat a situation where the power  
12 from any resource acquired for a Tier 2 Cost Pool exceeds the loads that pay  
13 such costs. PPG has proposed that the excess may be forecast to be remarketed,  
14 but that such remarketing occur at the forecast market price of power, rather than  
15 at the cost of the resource during the period when the remarketing occurs; and  
16 the revenues resulting from such remarketing will be credited to the Cost Pool(s)  
17 to which the cost of such resource is allocated. PPG, TRM-12-E-PPG-01, at 12-  
18 13. PPG proposes the following changes to TRM section 3.4:

19  
20 **3.4 Allocation of Costs for New Federal System Resource**  
21 **Acquisitions**

22 Costs of a Federal resource acquisition made after September 30, 2006,  
23 will be allocated to one or more Cost Pools. Such costs will remain as  
24 allocated for the duration of the resource purchase or the CHWM  
25 Contract, whichever ends sooner. If the available power from such  
26 resources exceeds the loads that pay such costs, however, then the excess  
27 may be forecast to be remarketed. ~~Such remarketing may be to another~~  
28 ~~Cost Pool at the cost of the resource. Any revenues resulting from the~~  
29 ~~remarketing of such resource will be credited to the Cost Pool to which the~~  
30 ~~cost of such resource is allocated.~~ **For ratemaking purposes, such**  
31 **remarketing will be forecast to occur at the market price of power**  
32 **during the period when the remarketing occurs, as forecast in the**

1                   **applicable 7(i) Process, and the revenues resulting from such**  
2                   **remarketing will be credited, in proportion to their contribution of**  
3                   **excess power, to the Cost Pool(s) to which the cost of such resource is**  
4                   **allocated.**  
5

6                   *PPG, TRM-12-E-PPG-01, at 14. Does BPA agree with PPG's proposal to*  
7                   *remarket the excess at prevailing market prices?*

8                   A. No, we do not agree with the PPG proposal to remarket the “excess” power at  
9                   forecast market prices. We believe that any remarketed power between Cost  
10                  Pools should be at the actual cost of the resources plus any additional costs that  
11                  may be associated with that resource (*e.g.*, RSS, transmission).

12                  One of the essential principles underlying tiered rates is the fact that  
13                  tiering is a ratemaking construct that allocates costs and is not an allocation of  
14                  power. TRM, Section 2.1, Principle 1. As such, customers are allocated the cost  
15                  associated with service, including in some cases the cost associated with  
16                  particular resources, but the actual resources remain Federal resources. The PPG  
17                  proposal to remarket the excess power at prevailing market prices established in  
18                  the 7(i) Process and crediting the original Cost Pool with the net revenues  
19                  undermines this cost allocation principle. As noted, the remarketed resource is a  
20                  Federal resource and is not a potential profit center (if proceeds from  
21                  remarketing exceed the resource costs) for the Cost Pool from which the resource  
22                  is transferred. The resource is acquired only to the extent it is necessary to meet  
23                  the net requirements of the utilities in the Cost Pool and is not an asset of that  
24                  Cost Pool. Similarly, and for the same reasons, BPA's resource acquisition  
25                  strategy to buy the output of a particular resource that is in excess of a particular  
26                  Tier 2 Cost Pool's short-term need and to allocate the cost associated with the  
27                  excess amount of power to another Cost Pool on a temporary basis should not  
28                  create any additional obligation for the original Cost Pool, if for some reason, the

1 forecast remarketed proceeds fail to cover the costs of the resource. The costs  
2 should be assigned to the Cost Pools in need of the energy. Assigning costs  
3 associated with these resources ensures that the Cost Pools are allocated only  
4 those costs for which they are responsible.

5

6 **Section 5: Section 7 Rate Directive Issues**

7 *Q. PPG believes that the TRM fails to delineate the distinction between the*  
8 *allocation of costs under BPA's statutory rate directives and under this TRM.*  
9 *PPG states that aspects of the TRM confuse the distinction and that the TRM*  
10 *should describe with more vigor the distinction between these two steps. PPG,*  
11 *TRM-12-E-PPG-01, at 24-27. Do you agree with PPG's assessment?*

12 *A. We agree that there needs to be a better distinction between the allocation of*  
13 *costs, as described in the TRM, and how BPA's statutory rate directives will be*  
14 *implemented through the TRM. To ensure that BPA allocates costs consistent*  
15 *with both BPA's rate directives under the Northwest Power Act and this TRM,*  
16 *BPA will conduct a series of workshops with customers and other interested*  
17 *parties to provide an understanding of how BPA will implement tiered rates*  
18 *under these rate directives.*

19 *Q. PPG and Clark Public Utilities (CPU) both recommend modifications to*  
20 *section 10.5 to establish that the application of any 7(b)(3) surcharge be done in*  
21 *a manner that recognizes the differing cost basis of the PF Exchange Rates for the*  
22 *IOUs and Publics. McGary, TRM-12-E-CC-01, at 8; PPG, TRM-12-E-PP-01, at*  
23 *17-19. Do you agree with the modifications?*

24 *A. Not entirely. We acknowledge that under a tiered rate construct there may be*  
25 *differences between the manner in which the 7(b)(3) surcharge, if any, is applied*  
26 *to IOU and Public REP participants. However, the proposed changes to the*

1 TRM recommended by PPG and CPU go further than we believe is appropriate.  
2 The proposed language would in effect have the Administrator pre-decide issues  
3 that are more properly left for resolution in a future 7(i) Process. As a  
4 consequence, we believe that it is appropriate to modify section 10.5  
5 accordingly:

6  
7 BPA will develop a PF Exchange Rate for customers that have a CHWM  
8 Contract based on all costs as appropriate under sections 7(b) and 7(g) of  
9 the Northwest Power Act that are allocated to the Tier 1 Cost Pools.  
10 BPA will establish an exchange for customers that have a CHWM  
11 Contract where Existing Resources for CHWM are exchanged against the  
12 Tier 1 System resource costs. All issues pertaining to calculation of the  
13 section 7(b)(2) rate test and allocation of the section 7(b)(3) surcharge  
14 will be determined in the applicable 7(i) Process.  
15

16 This modification should provide CHWM Contract holders an  
17 understanding of how the Exchange Rate will be developed, without predeciding  
18 matters that are outside the scope of this proceeding.

19 *Q. In its testimony CPU discusses the current status of Preference Customer*  
20 *participation in the Residential Exchange Program (REP). McGary, TRM-12-E-*  
21 *CC-01, at 2-3. What is the REP?*

22 A. The REP was established in section 5(c) of the Northwest Power Act to provide  
23 access to benefits from the Federal system to Northwest residential and small-  
24 farm consumers.

25 *Q. What is the relevance of the REP to the TRM?*

26 A. Simply put, the TRM does not address the REP. Certain rate-related aspects of  
27 the REP are mentioned briefly in the two sentences that comprise section 10.5 of  
28 the TRM (TRM-12-E-BPA-20, section 10.5) but, as a whole, the TRM is not  
29 intended to comment on or in any way alter the REP. In fact, the reason section  
30 10.5 of the TRM refers to those rate aspects of the REP (*i.e.*, the 7(b)(2) rate test

1 and calculation of the PF Exchange rate(s)) is to specifically point out that they  
2 will be addressed *somewhere else*—namely, in a 7(i) Process in the future. Thus,  
3 CPU’s testimony on the REP, ASC, and ASCM is not relevant to this TRM  
4 proceeding.

5 *Q. CPU proposes that along with the changes to section 10.5, there should be a*  
6 *corresponding change to section 12.2. The result of this change would be that*  
7 *section 10.5 could be revised only to ensure cost recovery or to comply with a*  
8 *court ruling. CPU states that there will be a minority of preference customers*  
9 *participating in the REP, and there is a possibility that the majority of customers*  
10 *could force a change in section 10.5, thereby not giving those customers*  
11 *participating in the REP certainty. McGary, TRM-12-E-CC-01, at 8-9. How do*  
12 *you respond to this proposal?*

13 *A.* We do not support adding section 10.5 to the items listed in section 12.2.  
14 Section 12.2 lists provisions of the TRM that may be revised only to ensure cost  
15 recovery or to comply with a court ruling. There are many issues related to how  
16 BPA will conduct the 7(b)(2) rate test in the future that still need to be worked  
17 out. The TRM leaves those issues to the applicable future 7(i) Process. It would  
18 be inappropriate to lock in how certain aspects of the 7(b)(2) rate test will be  
19 conducted in the future, and even less appropriate to lock that in now, before all  
20 of those issues have been resolved. In any event, a majority of customers could  
21 not force a change in section 10.5, that could adversely impact any customer  
22 group Any proposed future changes would still need to go through a section 7(i)  
23 rate proceeding and be decided by the Administrator on the merits of the case

24 *Q. Alcoa requests that BPA include language in the TRM that costs of power*  
25 *purchases to serve DSIs may be included in the Composite Cost Pool “as*  
26 *sanctioned by the Ninth Circuit Court of Appeals in the Golden Northwest case.”*

1 *Speer, TRM-12-E-AL-1, at 3. How do you respond?*

2 A. Alcoa’s request raises a legal issue, i.e., how BPA interprets the *Golden*  
3 *Northwest* case. This issue is not within the scope of this TRM rate proceeding.  
4 Suffice to say, however, that BPA has and will continue to operate in accordance  
5 with the standards articulated by the Ninth Circuit, as interpreted by BPA’s  
6 General Counsel. This is true regardless of whether the TRM contains explicit  
7 language to that effect.

8 *Q. Alcoa is concerned about what rate will be charged should DSIs receive power*  
9 *deliveries and whether the PF rate will include a credit from the revenue of*  
10 *secondary energy sales, since such sales are credited to only Tier 1 energy sales.*  
11 *Speer, TRM-12-E-AL-1, at 4-6. How do you respond?*

12 A. Alcoa’s testimony states that “BPA’s testimony could be construed as being  
13 ambiguous on the question of whether for purposes of calculating the DSI rate,  
14 the applicable base-PF rate might exclude a revenue credit for Secondary Energy  
15 Sales.” *Speer, TRM-12-E-AL-1, at 4-5.* We have already stated that such  
16 decisions will be made in an applicable 7(i) Process, consistent with the  
17 requirements of section 7(c) of the Northwest Power Act. *See Cherry, et al.,*  
18 *TRM-12-E-BPA-10, at 9.* Because section 7(c) requires that the IP rate be set  
19 using the applicable PF Preference rate as a starting point, the IP rate will receive  
20 the benefit of the secondary energy revenue credit to the same extent that such  
21 credit is included in the applicable wholesale rate, which has been BPA’s  
22 historical practice. However, since this issue will be decided in a 7(i) Process,  
23 no final determination can be made in this proceeding.

24 *Q. Alcoa states that power should be offered to DSIs at cost before being sold*  
25 *outside the region. Speer, TRM-12-E-AL-1, at 6. How do you respond to this*  
26 *position?*

1 A. As Alcoa acknowledges in its testimony, “the actual means of providing the  
2 DSIs with power service are outside the scope of this [TRM] proceeding.”  
3 Speer, TRM-12-E-AL-1, at 7. This rate proceeding is not the proper venue to  
4 debate such issues. Alcoa may take such a position in future 7(i) Processes  
5 specifically addressing the pricing of DSI service, and BPA will fully consider  
6 Alcoa’s recommendation at the appropriate time.  
7

8 **Section 6: New Publics**

9 *Q. In its testimony ATNI lists “a number of improvements that could be made to the*  
10 *TRM to meet the letter and the spirit of the BPA legal obligations.” ATNI, TRM-*  
11 *12-E-AT-01, at 7. In general, what is your response to this portion of ATNI’s*  
12 *testimony?*

13 A. We note that ATNI has cited various provisions of law in its testimony, and this  
14 portion of its testimony appears to be an interpretation of those legal provisions as  
15 applied to the TRM. BPA’s legal briefing in this proceeding will respond to the  
16 legal citations and arguments that ATNI has raised in testimony. Our purpose  
17 here is solely to address the substantive aspects of ATNI’s testimony.

18 *Q. ATNI’s first suggested “improvement” reads: “Given the Federal laws and*  
19 *policies supporting the development of tribal utilities and the historical inequities*  
20 *in the FCRPS-related costs borne by tribal communities and lack of FCRPS*  
21 *benefits to these communities; the tribes believe that BPA’s methodology should*  
22 *allow the formation and expansion of any new tribal utility using Tier I power.”*  
23 *ATNI, TRM-12-E-AT-01, at 7. Do you agree?*

24 A. BPA has taken great pains to accommodate the needs of potential new tribal  
25 utilities in the TRM and the new contracts. The TRM has been designed in a way  
26 that will in most circumstances allow the formation and expansion of new tribal

1 utilities using power sold at the Tier 1 rate. We note that the ability to buy federal  
2 power by any tribal entity that qualifies as a preference customer is not for the  
3 purpose of redressing social or historical wrongs. Most tribes and reservation  
4 lands in the Pacific Northwest have and will continue to receive the benefit of the  
5 FCRPS through the low cost power supplied to them by their existing retail  
6 utility. In our opinion, it is always an economic decision that is made by any  
7 entity contemplating the formation of an electric utility. What the wholesale  
8 power cost will be is an important factor, but there are other factors to consider as  
9 well that when summed up make the prospect of forming and operating a utility a  
10 costly enterprise.

11 We expect that the 50 aMW Rate Period limit and the 250 aMW contract  
12 limits for New Publics will be sufficient to meet most of the loads of New Publics  
13 that will request service. In addition, we have recognized the unique situations of  
14 small New Publics, particularly utilities formed by tribes. First, the TRM would  
15 provide full CHWM amounts to New Publics that are 10 aMW or less, if their  
16 CHWMs were scaled downward in the RHWM Process, and make these CHWM  
17 increases not subject to the 50 aMW Rate Period limit. The TRM would also  
18 provide up to 40 aMW for the load growth or expansion of new tribal utilities and  
19 would additionally allow small New Publics a far shorter notice period than larger  
20 utilities to receive service under tiered rates.

21 *Q. ATNI states that “[t]he 250 aMW limit for augmentation for new publics will*  
22 *likely be insufficient over the twenty year course of the TRM to meet the needs of*  
23 *new publics wishing to form and receive a CHWM” and that “Tribal governments*  
24 *are concerned that once the 250 aMW is used up, no further utilities will be able*  
25 *to form and take power at Tier 1 rates.” ATNI, TRM-12-E-AT-01, at 7. Do you*  
26 *agree?*

1 A. No we do not. We recognize that there is a possibility that the 250 aMW New  
2 Public CHWM allowance could be used up during the term of the Regional  
3 Dialogue Contracts. This amount was carefully considered and chosen based on  
4 amounts of New Public load that came on during the previous 20 years. As was  
5 stated in the RD ROD, the 250 aMW limit provides “a reasonable way to supply  
6 some power at Tier 1 rates to new publics while gaining the benefit of being able  
7 to plan for their power needs in advance.” RD ROD at 82.

8 We would like to respond to ATNI’s contention that the 250 aMW is too  
9 limited because Indian tribes were not determined to be preference entities until  
10 2001 under Subscription. *ATNI, TRM-12-E-AT-01, at 7*. ATNI is incorrect and  
11 we note that tribes have always had the right to purchase power on a preference  
12 basis by forming a cooperative utility. *See* Final Policy on Standards for Service,  
13 Administrator’s Record of Decision, at 19. Therefore, based on BPA’s  
14 experience in meeting requests to serve new public utility customers, including  
15 utilities formed and operated by tribes, it is reasonable to project 250 aMW of  
16 potential new public load may form during the term of the TRM. ATNI also  
17 claims that if not provided access to Tier 1 rates tribal utilities may never form.  
18 As we note above, if tribes do not form and operate a utility they will be served  
19 with power supplied through their existing local utility. It is reasonable,  
20 therefore, to conclude that those tribes that are served by a BPA preference  
21 customer will receive the benefit of power that is priced at the Tier 1 rate. Those  
22 served by an IOU may receive benefits from the FCRPS through the residential  
23 exchange program. We do not agree with the inference that if a tribe does not  
24 form a utility and hence does not purchase power at Tier 1 rates it will not receive  
25 benefits from the FCRPS. It is simply not the case.

26 Q. *ATNI discusses the 50 aMW limit per Rate Period and the exception thereto*

1 *(concerning the first five small utilities to form). ATNI, TRM-12-E-AT-01, at 8.*  
2 *Regarding this 50 aMW limit, ATNI states that “[b]ecause the small amount of*  
3 *augmentation that will be needed for small utilities will not impact BPA’s*  
4 *acquisition of power, and will only impact the other customers’ Tier 1 rate in a de*  
5 *minus fashion, we request that the exception for new small utilities be*  
6 *expanded such that the Administrator have discretion to accept any new small*  
7 *[utility] that will not significantly impact the Tier 1 rates or BPA’s ability to*  
8 *augment the system: at a minimum, the Administrator should have the discretion*  
9 *to provide Tier 1 power to any new tribal utility.” Id., at 8. How do you respond*  
10 *to this request?*

11 A. As noted earlier and acknowledged by ATNI, BPA has already proposed a special  
12 accommodation for small utilities of 10 aMW or less if their CHWM amount  
13 would have been limited by the 50 aMW Rate Period limit. We are not persuaded  
14 by the hypothetical scenarios expressed by ATNI in its testimony describing ways  
15 a large new public could circumvent the proposed exception. It appears that what  
16 ATNI wants is an express protection given to tribal utilities to purchase power at  
17 Tier 1 rates. BPA does not agree to propose such a rate protection. As preference  
18 eligible entities, a tribe is granted access to the supply of power marketed by  
19 BPA; however, there is not a guarantee of the price for such power. Having said  
20 that, BPA has proposed in the TRM an exception to assist small public utilities  
21 that could form during the period the TRM will be in effect. This exception  
22 reflects the input BPA received from tribal interests and we believe it is a  
23 reasonable one.

24 In Rate Periods where requests by New Publics can be accommodated  
25 within the 50 aMW limit, the exception will not be used, so while the exception is  
26 available only five times, it will likely accommodate more small utilities than the

1 limit implies. BPA provided the exception partially based on a de minimus test  
2 such as that recommended by ATNI; however, in aggregate such amounts do add  
3 up to become relevant to resource planning. The original five-utility limit already  
4 provides significant benefits for small utilities, and we do not propose to increase  
5 the application of this exception.

6 *Q. ATNI refers to BPA's establishment of a three-year binding notice period for New*  
7 *Publics forming with loads previously served by an entity other than an Existing*  
8 *Public. ATNI asserts that "[i]t is unduly restrictive and expensive to require a*  
9 *utility to form, and acquire all infrastructure and then wait up to three years to be*  
10 *eligible for Tier 1 power." ATNI, TRM-12-E-AT-01, at 9. ATNI states it*  
11 *understands the need for appropriate notice; however, the notice should not*  
12 *require that all standards for service be met. How do you respond to ATNI's*  
13 *views regarding the three-year notice period?*

14 *A. This proceeding is not the appropriate forum to make decisions concerning BPA's*  
15 *Standards for Service Policy and its requirements for receiving power from BPA.*  
16 *Rather, this proceeding pertains to establishment of the TRM which will be*  
17 *applied to the setting of rates. The Standards for Service, on the other hand,*  
18 *govern the requirements that must be met before BPA will recognize an entity as*  
19 *being eligible and qualified to buy power from BPA. We understand the concerns*  
20 *raised by ATNI; however, BPA's obligation to supply power to a new public*  
21 *arises when the entity has met all the Standards for Service requirements. As*  
22 *ATNI understands, the notice period is necessarily tied to including costs in a 7(i)*  
23 *Process and the time it takes to make arrangements to acquire power to serve the*  
24 *load. We believes that the three-year notice strikes a balance between giving*  
25 *timely access to the Tier 1 power and providing adequate time to arrange for*  
26 *necessary power supplies.*

1 BPA has stated that it will provide power even before the CHWM is  
2 provided but at rates applicable for unanticipated load that reflect the cost of  
3 providing the service on shorter-term notice. This assures any new small public  
4 utility that requests power from BPA of a power supply. The shorter notice  
5 period that BPA has proposed for small New Publics would reduce the amount of  
6 time that they would be exposed to this interim rate.

7 *Q. Are there other provisions that BPA has taken to address ATNI's concerns about*  
8 *new tribal utilities forming?*

9 *A. Yes. In our Supplemental Testimony, we indicated that "Section 2605 of Title*  
10 *XXVI (Indian Energy) of the Energy Policy Act of 2005 expresses a policy that*  
11 *the Administrators of the Federal Power Marketing Administrations use their*  
12 *authorities to encourage Tribal energy development. Because strict adherence to*  
13 *BPA's policy regarding notice and standards of service could serve as a possible*  
14 *disincentive to Tribal energy development, BPA reserves its discretion to, in*  
15 *appropriate circumstances, work with potential small Tribal utilities to explore*  
16 *ways to facilitate the development of those utilities."* Cherry *et al.*, TRM-12-E-  
17 BPA-10 at 6.

18

19 **Section 7: Issues Related to Sections 12 and 13 of the TRM**

20 *Q. Section 3 of ATNI's testimony addresses section 12 of the TRM (Criteria and*  
21 *Conditions For Revising The TRM) and section 13 (Process For TRM Revisions).*  
22 *See, generally, ATNI, TRM-12-E-AT-01, at 9-11. ATNI states that these sections*  
23 *give BPA's existing customers, to the exclusion of public bodies who may be*  
24 *eligible to become new publics, a "veto" over changes to the TRM. Id. at 9.*  
25 *ATNI states that this so-called "'veto' improperly gives existing customers*  
26 *control over the use of the federal system." Id. at 10. ATNI further argues that*

1            *this “veto is an improper delegation of the Administrator’s statutory obligations*  
2            *to entities with commercial interests.” Id. at 10-11. How do you respond to this*  
3            *position?*

4            A.        The concern about improper delegation of the Administrator’s statutory  
5            obligations will be addressed in briefs.

6                        However, we do not believe that sections 12 and 13 improperly give  
7            existing customers control over the use of the Federal system. We assume that,  
8            in the context of this issue, when ATNI refers to “Federal System,” ATNI means  
9            the Tier 1 System Resources. As we stated in our direct case, “the tiered rates  
10           proposal seeks to afford both customers and BPA long-term certainty and  
11           predictability in terms of the rate design that will govern establishment of BPA’s  
12           rates for customers with CHWM Contracts for the next 20 years. If adopted, it  
13           will be BPA’s policy to revise the TRM as little as possible. TRM sections 12  
14           and 13 are key components of providing that long-term certainty and  
15           predictability.” Cherry, *et al.*, TRM-12-E-BPA-02, at 27.

16                        However, the “voting” mechanisms in section 13 that ATNI complains of  
17           do not apply to customers who do not sign CHWM Contracts, including those  
18           who desire to be such customers in the future, or interest groups who are not  
19           BPA customers. Section 13 defines, for purposes of that section, that “Customer  
20           means a Public that purchases power from BPA at a Tier 1 Rate under a CWHM  
21           Contract,” and “Customer Group means a group comprised of not less than 45  
22           percent of the Customers (utility count).” TRM-12-E-BPA-20 section 13.  
23           Therefore, the requirements for a “vote” prior to BPA or a Customer Group  
24           “proposing” an improvement or enhancement does not apply in the situation  
25           posited by ATNI. The new public seeking to form retains all of its current rights  
26           to raise appropriate rate issues in 7(i) Processes, and BPA must then decide the

1 issues based on the 7(i) Process record. The TRM does not change or alter these  
2 rights.

3 Certainly, in light of the certainty that the Administrator has decided to  
4 afford with the TRM, compelling reasons would have to be advanced for a  
5 change in the TRM to be made. This is all fully consistent with section 13.1 of  
6 the TRM, which provides that “[n]othing in this section 13 ... precludes any  
7 party to a BPA 7(i) process, *other than a Customer*, from making any proposal or  
8 offering any testimony or other evidence on any matter that may otherwise be  
9 raised in a BPA 7(i) Process . . .” (emphasis added).

10 *Q. ATNI states that the procedures in sections 12 and 13 of the TRM create*  
11 *“expensive and unduly burdensome processes [that] inappropriately restrict the*  
12 *access of non-customers to the federal system and to federal processes.” ATNI,*  
13 *TRM-12-E-AT-01, at 11. How do you respond to this position?*

14 *A.* We disagree. There is nothing in sections 12 or 13 that limits non-customers’  
15 existing procedural protections to either the Federal system or to Federal  
16 processes. As indicated in the last answer, non-Customers are not precluded  
17 from raising issues in a 7(i) Process, and the Administrator must decide those  
18 issues based on the 7(i) Process record. The Administrator’s decisions are  
19 likewise still subject to review by the Ninth Circuit Court of Appeals.

20 The procedural enhancements contained in sections 12 and 13 are in  
21 response to concerns raised by customers who expect to sign CHWM Contracts.  
22 Certain procedures, such as reference of issues to the Hearing Officer, are  
23 intended to better ensure that issues are fully vetted when it comes to revising the  
24 TRM. They also ensure that if there is disagreement over whether BPA is  
25 changing, or seeking to change, the TRM, the issues are fully assessed by the  
26 Hearing Officer. The procedures strike an appropriate balance between, on the

1 one hand, ensuring that the TRM recovers costs while continuing to work as  
2 intended, and, on the other hand, providing Customers a level of certainty by  
3 ensuring that changes really are necessary and meet the TRM criteria the  
4 Administrator decides in this case should apply as a precondition to change.  
5 Given the reliance that customers are placing on the TRM and CHWM  
6 Contracts, the extraordinary time and effort parties have devoted to developing  
7 them and the significance of both documents to future resource and other  
8 investment decisions, any additional expense of process pales by comparison. It  
9 is not unreasonable to erect procedural hurdles calculated to protect the decisions  
10 being made now from being lightly dismissed at some later date.

11 *Q. PPG and WPAG have suggested language changes to section 13.10. Some are*  
12 *editorial, and two are substantive. How do you respond to their substantive*  
13 *edits?*

14 A. The first substantive change was to add the following language:

15  
16 “Within 3 days of the conclusion of the public meeting described in (3)  
17 below, Customers shall submit to BPA a written statement describing any  
18 issues for which it may request neutral third party review. Failure to  
19 submit such a list by a Customer will constitute a waiver of the right of  
20 such Customer to request neutral third party review.”  
21

22 We agree with this edit, as the dispute resolution process should be  
23 appellate in nature.

24 *Q. What is the second substantive language change?*

25 A. The second proposed change is as follows:

26  
27 “Within ten (10) Calendar days of BPA reposting its determinations, a  
28 Customer may seek a non-binding decision by the neutral on factual  
29 matters, subject to any materiality requirement contained in this TRM,  
30 concerning BPA’s initial determination of 1) a CHWM, 2) a RHWM, or  
31 3) ~~Tier 1 System Capability, but only~~ if the neutral is concurrently

1 provided with the written votes in support of the neutral providing such a  
2 non-binding decision by at least 70 percent of Customers (utility count),  
3 as measured by the individual written vote of each Customer, then the  
4 RHWM Tier 1 System Capability.”  
5

6 Q. How would you revise this language?

7 A. We proposed two revisions. The first is to clarify what materiality requirement  
8 will apply to the CHWM and RHWM Processes. We would propose the  
9 following language:

10 A material factual matter must be one that, if decided in the requesting  
11 customer’s favor, would result in an adjustment to the subject CHWM or  
12 RHWM of ten percent or more.

13 Q. Are there aspects of the proposed revision that should be modified?

14 A. The last part of the paragraph is very awkward. We would propose the following  
15 language with the hopes of being clearer about what is meant, without changing  
16 our understanding of what is meant.

17  
18 3) RHWM Tier 1 System Capability. Such request for a non-binding  
19 decision by the third-party neutral regarding BPA’s determination of  
20 RHWM Tier 1 System Capability will be considered only if the  
21 neutral is concurrently provided with the written votes in support of such  
22 request by at least 70 percent of Customers (utility count), as measured  
23 by the individual written vote of each Customer.  
24

25 Q. Please state the final proposed language to this paragraph.

26 A. Within ten (10) Calendar days of BPA reposting its determinations, a Customer  
27 may seek a non-binding decision by the neutral on material factual matters  
28 concerning BPA’s initial determination of 1) a CHWM, 2) a RHWM, or  
29 3) RHWM Tier 1 System Capability. A material factual matter must be one that,  
30 if decided in the requesting customer’s favor, would result in an adjustment to  
31 the subject CHWM or RHWM of ten percent or more. In the case of RHWM

1 Tier 1 System Capability, the materiality requirement is deemed to be met if the  
2 following voting requirement is met. Such request for a non-binding decision by  
3 the third-party neutral regarding BPA's determination of RHWMTier 1 System  
4 Capability will be considered only if the neutral is concurrently provided with  
5 the written votes in support of such request by at least 70 percent of Customers  
6 (utility count), as measured by the individual written vote of each Customer.

7

8 **Section 8: Miscellaneous Issues Raised**

9 *Q. Tacoma Power proposes that specific language that had been included in a pre-*  
10 *Initial Proposal draft of the TRM be included in the final TRM language*  
11 *(section 6.4 from the March 7, 2008, draft TRM). Metcalfe, TRM-12-E-TU-1, at*  
12 *7. That language states: "At this time BPA is not including a load following*  
13 *charge or ramping charge in the Tier 1 rate design. Therefore, BPA will not*  
14 *include a methodology for calculating a load following charge and/or ramping*  
15 *charge in the TRM. BPA will continue to monitor the use and amount of capacity*  
16 *provided for hour-to- hour ramping and within-hour load following. If, in*  
17 *monitoring this capacity, BPA determines that an explicit charge should be*  
18 *developed to foster external investment and/or to address cost causation, BPA*  
19 *will develop the methodology and make its proposal in a future rate proceeding."*  
20 *Metcalfe, TRM-12-E-TU-1, at 4. Tacoma proposes that language be included to*  
21 *recover costs associated with capacity used for load following be recovered from*  
22 *those customers that use that capacity. How do you respond?*

23 *A. As stated in the language quoted above, BPA will continue to monitor issues*  
24 *concerning the use and amount of capacity. BPA has committed to work on*  
25 *these issues through the Resource Program and through the Wind Integration*  
26 *Team that arose out of the Transmission Settlement. See 2009 Wind Integration*

1 Rate Case Revised Proposal, Attachment A, WI-09-E-BPA-1-E1. This work  
2 will result in a better understanding of these capacity issues for both BPA and  
3 our customers. However, just because the language requested by Tacoma is no  
4 longer in the TRM, the TRM does not prohibit developing additional charges in  
5 the future, if the need arises. BPA will develop these charges, such as a Load  
6 Following Charge, in a manner consistent with sections 12 and 13 of the TRM.

7 We would also like to clarify an apparent misconception of Tacoma.  
8 Many of the costs that are currently collected through the Load Variance Charge  
9 will now be collected through the proposed Load Shaping Charge. In addition,  
10 the reference Tacoma makes to the December 21, 2007, Discussion Paper on  
11 Tiered Rates Methodology (Metcalf, TRM-12-E-TU-1, at 4) was referring to  
12 capacity provided to Transmission Services by Power Services for within-hour  
13 Load Following support as well as ramping capacity used by all products. At  
14 this time BPA recognizes that all products, including the Block product, use this  
15 capacity. Currently BPA does not have a measure of how much capacity is  
16 being used by each product; therefore, it would be inappropriate to charge one  
17 group of customers (through a Load Shaping Charge) and not charge all  
18 customers for their use of this capacity.

19 *Q. PPG suggested a change to the language in Section 9.3 in their red-lined version*  
20 *of the TRM. Do you agree with this suggestion?*

21 *A.* No. PPG did not submit testimony describing its reasons for making this  
22 suggestion. The suggestion introduces very specific language defining energy  
23 deliveries to Slice purchasers, and the risk chapter of the TRM is not the  
24 appropriate place for such definitions. The main purpose of section 9 is to state  
25 that BPA's financial risk standard will be applied independently to Tier 1 and  
26 Tier 2 rates, and to point to 7(i) Processes as the primary forum for deciding risk

1 assessment and mitigation issues. We do agree to change “Tier 1 Slice product”  
2 to “Slice Product” and to change “Slice True-up” to “Slice True-Up Adjustment.”  
3 In addition, the suggested red-line changes prompted greater scrutiny of  
4 section 9.3, and we will change “secondary revenue” to “net secondary revenue”  
5 in the two places this phrase occurs in section 9.3.  
6

7 **Section 9: Issues Raised that are Outside the Scope of this TRM**

8 *Q. NRU raises a concern about the disposition of resources acquired to serve Tier 2*  
9 *loads after the end of the Regional Dialogue contracts in FY 2028. NRU states*  
10 *that BPA must work with utilities to develop a strategy to deal with the potential*  
11 *“resource cliff” prior to the end of the contracts. Carr and Saven, TRM-12-E-*  
12 *NR-01, at 8-9. How do you respond?*

13 A. This is not a rate design issued covered in the TRM. Nevertheless, BPA  
14 understands NRU’s concern regarding the allocation of the costs of resources  
15 acquired specifically to serve Above-RHWM Loads after CHWM Contracts end.  
16 It is possible the BPA may acquire the output of some resources to serve Above-  
17 RHWM Loads that have contractual commitments that extend beyond FY 2028.  
18 Under the TRM, the costs associated with such resource acquisitions are borne  
19 solely by those customers who purchase at that Tier 2 Rate to which the resource  
20 costs are allocated. However, after the CHWM Contracts end, decisions may  
21 need to be made about the assignment of such resource costs. While this  
22 problem is theoretically possible, it is not necessary or appropriate to address this  
23 issue in the TRM. First, BPA has not made any resource commitments, at this  
24 time, that would present such a problem. Even if BPA were to make such a  
25 commitment in the future, how such costs will be allocated will depend largely  
26 on the nature of the products offered and rate design used in the post-CHWM

1           Contracts period. Given the number of unknowns and the fact that this issue  
2           addresses matters outside the scope of the TRM, we do not believe that it is  
3           proper to address the issue at this time in the TRM.

4    *Q. Does this conclude your testimony?*

5    A. Yes.

6

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Tiered Rate Methodology Rate Case

# Rebuttal Testimony

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August 2008

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**COST VERIFICATION PROCESS FOR THE SLICE TRUE-UP ADJUSTMENT CHARGE:**  
Bliven, Kintz, Lee

TRM-12-E-BPA-16



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1 REBUTTAL TESTIMONY of  
2 RAYMOND D. BLIVEN, KELLY W. KINTZ, and CARIE E. LEE  
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4

5 **SUBJECT: REBUTTAL TESTIMONY FOR COST VERIFICATION**  
6 **PROCESS FOR THE SLICE TRUE-UP ADJUSTMENT**  
7 **CHARGE**

8 **Section 1: Introduction and Purpose of Rebuttal Testimony**

9 *Q. Please state your names and qualifications.*

10 A. My name is Raymond D. Bliven, and my qualifications are contained in  
11 TRM-12-Q-BPA-01.

12 A. My name is Kelly W. Kintz, and my qualifications are contained in  
13 TRM-12-Q-BPA-20.

14 A. My name is Carie E. Lee, and my qualifications are contained in  
15 TRM-12-Q-BPA-11.

16 *Q. What is the purpose of your rebuttal testimony?*

17 A. The purpose of our rebuttal testimony is to briefly explain the history and purpose  
18 of the Slice True-Up and to discuss the Cost Verification Process for the Slice  
19 True-Up Adjustment Charge.

20 *Q. How is your testimony organized?*

21 A. Our testimony is organized in three sections. Section 1 is this introduction.  
22 Section 2 discusses issues related to the Slice True-Up. Section 3 discusses  
23 issues related to the Cost Verification Process for the Slice True-Up Adjustment  
24 Charge.  
25

1 **Section 2: Purpose of the Slice True-Up**

2 *Q. What is the Slice True-Up?*

3 A. The Slice True-Up is a process that ensures that the Slice customers pay their  
4 share of Power Services' actual expenses and receive their share of actual revenue  
5 credits applicable to the Slice Revenue Requirement. Each Slice customer will  
6 pay a Slice True-Up Adjustment Charge that will be comprised of its Slice  
7 Percentage share of the Slice True-Up Adjustment for the Composite Cost Pool  
8 and its percentage share of the Slice True-Up Adjustment for the Slice Cost Pool.  
9 The Slice True-Up and Slice True-Up Adjustment Charge are described in  
10 section 2.7 of the TRM. TRM-12-E-BPA-20.

11 *Q. Why will the Slice customers pay a Slice True-Up Adjustment Charge?*

12 A. Slice customers will pay a Slice True-Up Adjustment Charge because it is one of  
13 the primary risk mitigation measures for the Tier 1 Slice product. *See* section 9.3,  
14 TRM-12-E-BPA-20.

15 The Slice product in FY 2002 was a new product that was sold on a  
16 different basis from BPA's other more traditional, service-to-load products. *See*  
17 *Mesa et al.*, WP-02-E-BPA-32, at 16. The Slice product required the purchaser to  
18 assume some of BPA's risks directly. *Id.* The Slice product addressed BPA's  
19 risk of not meeting its financial obligations in a manner that was different from  
20 the way other core Subscription products addressed such risks. The core  
21 Subscription products included two general mechanisms that dealt with BPA's  
22 financial risks: Planned Net Revenues for Risk (PNRR) and the Cost Recovery  
23 Adjustment Clauses (CRACs). The PNRR was incorporated into the Power  
24 Services revenue requirement and thereby included in rates for the core  
25 Subscription products. The CRACs allowed rates for the core Subscription  
26 products to be raised if BPA did not achieve certain financial targets. *Id.*

1 For the WP-02 Rates, BPA adopted three different CRACs: Load-Based  
2 (LB), Financial-Based (FB), and Safety-Net (SN). Neither the FB CRAC nor the  
3 SN CRAC applied to the Slice product, but the LB CRAC did apply to the Slice  
4 product because of the need to have the Slice customers pay their share of  
5 increased augmentation costs. The annual Slice True-Up Adjustment Charge was  
6 included in the Slice product to ensure that the Slice customers paid their  
7 proportionate share of Power Services' expenses and received their proportionate  
8 share of Power Services' revenue credits. *Id.* at 17.

9 As is the case for the current Subscription Slice product, BPA and the  
10 parties agreed that for the Regional Dialogue Slice product, the Slice True-Up  
11 Adjustment Charge will continue to be a primary risk mitigation measure. For the  
12 other Tier 1 products, the risk mitigation measures may include PNRR, CRACs,  
13 true-ups to actual costs, and other measures determined appropriate by BPA and  
14 developed in a 7(i) Process. *See* section 9.3, TRM-12-E-BPA-20.

15 *Q. The Slice Customers Group states that BPA would be granted an "extraordinary*  
16 *right to reach into the coffers of each Slice purchaser" by "unconditionally*  
17 *obligating" the Slice customer to pay the Slice True-Up Adjustment Charge, if it*  
18 *is a charge, within 90 days. Helgeson et al., TRM-12-E-SC-01, at 2-3. Do you*  
19 *agree with this statement?*

20 *A.* No, we do not agree with the implication of this statement. As proposed, BPA  
21 would not have an extraordinary right to reach into the coffers of each Slice  
22 purchaser as the Slice Customers Group asserts. As explained earlier, Slice  
23 customers agreed to accept a risk mitigation package that is different from the risk  
24 mechanism measures applied by non-Slice products. While the risk exists that the  
25 Slice True-Up Adjustment Charge could be large, that is a risk assumed by Slice  
26 customers when they purchase the product. Non-Slice customers face similar

1 financial risks associated with BPA’s actual costs and revenue credits varying  
2 from costs and revenue credits projected in the applicable 7(i) Process, although  
3 not necessarily on the same timeframe. PNRR and CRACs are equivalent risk  
4 mitigation measures applied to the non-Slice products that achieve the same  
5 results, in terms of collecting dollars from non-Slice customers to address BPA’s  
6 financial risks.

7 *Q. The Slice Customers Group states that “common business sense and due*  
8 *diligence requires that the Slice purchasers have the ability to audit the charge*  
9 *they are unconditionally obligated to pay.” Helgeson et al., TRM-12-E-SC-01,*  
10 *at 3. Do you agree with this statement?*

11 *A.* We recognize that audit provisions are not uncommon in some business contracts.  
12 However, providing audit rights to customers in electric utility power sales  
13 contracts is not typical for BPA. BPA is a cost-based Federal power marketing  
14 agency, and all of our customers ultimately pay our actual costs through the rates  
15 for their products. Due to the number of interested parties with potentially  
16 divergent interests regarding the various treatments of costs and assignments to  
17 the cost pools, we believe audit provisions in the post-FY 2011 period would  
18 result in logistical and practical difficulty. As an alternative to audit provisions,  
19 we have proposed the Cost Verification Process, which we intend to achieve a  
20 similar result in providing interested parties the ability to verify expenses and  
21 revenue credits as in an audit, but without the complexity and complications that  
22 would arise with audit provisions.

23

24 **Section 3: Cost Verification Process for the Slice True-Up Adjustment**  
25 **Charge**

26 *Q. What is the Cost Verification Process for the Slice True-Up Adjustment Charge?*

1 A. The Cost Verification Process for the Slice True-Up Adjustment Charge is a  
2 process that will permit Slice and other customers to “assess whether BPA has  
3 correctly calculated the amount of each expense or revenue credit subject to the  
4 Slice True-Up Adjustment, and whether the final Slice True-Up Adjustment  
5 contains only those expenses and revenue credits permitted to be included in, and  
6 does not contain any expenses or revenue credits excluded from, the Slice Rate  
7 pursuant to the TRM.” See section 2.7.5.1, TRM-12-E-BPA-20. Staff worked  
8 with parties to develop a detailed description of the process in Attachment A of  
9 the TRM. *Id.* at A-1 to A-5.

10 Q. *The Slice Customer Group argues that the version of Attachment A in the TRM*  
11 *Supplemental Proposal (TRM-12-E-BPA-09) would give BPA unlimited*  
12 *discretion to determine which issues are referred to the external auditor for*  
13 *investigation in the Agreed-Upon Procedures (AUPs). Helgeson et al., TRM-12-*  
14 *E-SC-01, at 5. What was your intent behind the statement “BPA will decide*  
15 *which specific tasks to include in the AUPs” (TRM-12-E-BPA-09, at A-1)?*

16 A. Our intent was to allow customer inquiries while still retaining BPA’s  
17 administrative discretion to filter tasks out of the AUPs that would not efficiently  
18 and effectively achieve the goal of verifying that BPA correctly calculated the  
19 amount of any expense or revenue credit in the Slice True-Up Adjustment  
20 Charge. We want the AUP process to be timely, efficient, and focused, and not to  
21 become unwieldy. We also recognize that the Cost Verification Process for the  
22 Slice True-Up Adjustment Charge will include more parties than the current Slice  
23 audit involves. We need to exercise our discretion, based on seven years of Slice  
24 auditing experience, to have the AUP process follow a path that will result in an  
25 effective production of information and efficient use of BPA’s and the external  
26 auditor’s time and resources.

1 Q. *The Public Power Group (PPG) believes that the statement, “BPA will decide*  
2 *which specific tasks to include in the Agreed-Upon Procedures (AUPs)” (TRM-*  
3 *12-E-BPA-09, at A-1) means that “no matter how egregious an error might occur*  
4 *with respect to the Slice True-Up Adjustment, and no matter how many customers*  
5 *complain of the error, if BPA does not want the matter to be included in the*  
6 *AUPs, it will not be.” PPG, TRM-12-E-PPG-01, at 22. Do you agree with the*  
7 *PPG’s interpretation?*

8 A. No, our proposal is not one designed to accept or reject issues, but to evaluate the  
9 issue raised. In light of the PPG’s concerns, we have added language for  
10 standards to Attachment A in the TRM (paragraphs 1 c) and 4 d)) that were  
11 recommended by the Slice Customers Group, the PPG, and Snohomish County  
12 PUD (Snohomish) to address these concerns (*see* TRM-12-E-BPA-20,  
13 Attachment A, for redline language). Our intent is not to ignore issues; rather, our  
14 intent is to consider whether to address the issue through AUPs or in a 7(i)  
15 Process.

16 In addition, our intent behind the statement was that BPA would use its  
17 administrative discretion to filter out specific tasks that would not efficiently and  
18 effectively achieve the goal of verifying that BPA correctly calculated and  
19 charged the amount of any expense or revenue credit in the Slice True-Up  
20 Adjustment Charge.

21 If there were any obvious errors in the calculation of the Slice True-Up  
22 Adjustment Charge, BPA would correct such errors and therefore, no related tasks  
23 would be necessary to include in the AUPs. In addition, if customers raise an  
24 issue about an error that BPA did not believe was an error, BPA would listen to  
25 the customers’ position, evaluate the merit of such position, and determine the  
26 best forum to address the issues that customers raise. BPA then would explain

1 our decision to customers so that they can understand the basis for our decision.

2 We believe that our process will be fair and transparent to all customers.

3 *Q. The Slice Customers Group states that the BPA workload from the current Slice*  
4 *audits has not been “unduly burdensome.” Helgeson et al., TRM-12-E-SC-01,*  
5 *at 4. Do you agree?*

6 *A. While the workload from current Slice audits for Contract Years 2004, 2005, and*  
7 *2007 has not been unduly burdensome, we have had a large workload for the*  
8 *audit conducted in Contract Year 2002, including litigation. The potential for the*  
9 *workload for current Slice audits to be both large and cumbersome still exists. If*  
10 *BPA did not have the administrative discretion to filter out particular tasks*  
11 *requested by the Slice auditor, an inefficient and ineffective investigation of data*  
12 *on expenses and revenue credits applicable to the Slice Revenue Requirement still*  
13 *could result.*

14 *Q. What is your intent behind the statement “BPA will determine which issues raised*  
15 *...will be forwarded to the third party for consideration” (TRM-12-E-BPA-09, at*  
16 *A-4)?*

17 *A. Our intent is that BPA will determine whether certain issues are ratesetting issues*  
18 *that must, by statute, be addressed in a 7(i) Process. We cannot circumvent that*  
19 *requirement and refer such issues to a third-party review process that attempts to*  
20 *resolve those issues outside of a rate case.*

21 *Q. PPG proposes modifications to the Cost Verification Process for the Slice True-*  
22 *Up Adjustment Charge. PPG suggests eliminating the discretion afforded BPA in*  
23 *determining whether a matter is included within the scope of the AUPs. PPG also*  
24 *suggests eliminating BPA’s discretion in determining whether a matter is subject*  
25 *to third-party review or referred to a 7(i) Process for resolution. See PPG, TRM-*  
26 *12-E-PPG-01, at 21-24. Snohomish and the Slice Customers Group support these*

1 *proposed changes to the Cost Verification Process for the Slice True-Up*  
2 *Adjustment Charge. Miles, TRM-12-E-SN-01, at 4-6; Helgeson et al., TRM-12-E-*  
3 *SC-01, at 5-12. Do you agree with these proposed changes?*

4 A. Yes, we agree with the proposed changes to paragraph 1 c) and paragraph 4 d) of  
5 Attachment A of the TRM. BPA will propose the language that the Slice  
6 Customers Group, PPG, and Snohomish recommend. However, we recommend  
7 the inclusion of additional language in paragraph 1 c), as shown below in the  
8 following (see our additional language in bold font):  
9 Paragraph 1 c), Attachment A in the TRM (TRM-12-E-BPA-20):

10  
11 “After the identification of such issues, BPA will draft the tasks to be  
12 included in the AUPs to address such issues. The proposed tasks will be  
13 posted for all customers to review together with a deadline (not to exceed  
14 10 Business Days from the date of the posting) for requests to include  
15 additional tasks. Customers will have an opportunity to consult with BPA  
16 regarding the specific tasks for inclusion in the AUPs and to request the  
17 inclusion of tasks additional to the proposed tasks posted by BPA. BPA  
18 will finalize the AUPs, which will include all proposed tasks included in  
19 BPA’s initial posting and any additional tasks requested by a customers;  
20 however, BPA may exclude any requested additional task that BPA  
21 reasonably determines is without merit, would be immaterial to the  
22 calculation of the Slice True-Up Adjustment, **or matters outside the**  
23 **scope of the Slice True-Up calculations as provided in section 1 a), or**  
24 **matters that concern an issue that should be finally determined in a**  
25 **7(i) Process because it regards the appropriate allocation of costs**  
26 **between Slice and non-Slice customers.** BPA will decide whether the  
27 AUPs will be performed by BPA’s auditor or another external auditor  
28 selected by BPA.

29  
30 We will recommend that the language proposed by the Slice Customers Group,  
31 PPG, and Snohomish be included in paragraph 4 d) of Attachment A in the TRM  
32 (TRM-12-E-BPA-20).

33 Q. *PPG and Snohomish assert that until issues are addressed, the Slice customer*  
34 *“must continue to bear those costs without recourse.” PPG, TRM-12-E-PPG-01,*

1           *at 23; Miles, TRM-12-E-SN-01, at 4. Do you agree?*

2    A.    No, we do not agree. While Slice customers must bear the cost that is in the  
3           process of being disputed, when the cost issue is resolved, we propose that Slice  
4           customers be compensated with interest for any over-payment from the first  
5           calendar day of the Fiscal Year in which the True-Up Adjustment Charge  
6           containing the interim cost allocation was calculated to the due date of the bills  
7           containing the payment(s) related to the final allocation. *See* section 2.7.3, TRM-  
8           12-E-BPA-20. In this manner, Slice customers will be compensated for not only  
9           their over-payment but also for the time value of money.

10   Q.    *The Slice Customers Group states that “every other preference customer can*  
11           *obtain binding or non-binding dispute resolution for billing issues. Slice*  
12           *purchasers are the only BPA customers who will not have such a right, and BPA*  
13           *has offered no plausible reason for this treatment.” Helgeson et al., TRM-12-E-*  
14           *SC-01, at 7. Do you agree?*

15   A.    No. The Regional Dialogue contracts for the Slice and non-Slice products contain  
16           the same billing provisions and the same dispute resolution provisions. However,  
17           BPA has stated that all issues related to the Slice True-Up Adjustment Charge are  
18           not necessarily billing issues that can be resolved through the dispute resolution  
19           provisions in the Regional Dialogue contracts. BPA believes that some Slice  
20           True-Up issues are rate issues and should be addressed in a rates forum to be  
21           discussed by all customers, as those issues related to cost allocation will affect all  
22           customers, and the resolution of such issues will affect all customers. Lovell  
23           *et al.*, TRM-12-E-BPA-08, at 8.

24   Q.    *The Slice Customers Group states that “when BPA pre-empts access to the non-*  
25           *binding dispute process, the issue is relegated to the section 7(i) rate proceeding*  
26           *for disposition. This means that BPA, the party that establishes the annual true-*

1            *up amount in the first instance, sits in judgment of and disposes of the issue raised*  
2            *by the Slice purchasers.” Helgeson et al., TRM-12-E-SC-01, at 7. Do you agree*  
3            *with this interpretation?*

4            A.    No. Although BPA’s Administrator does determine rate issues in a 7(i) Process,  
5            those decisions are subject to confirmation and approval by the Federal Energy  
6            Regulatory Commission and review in the United States Court of Appeals for the  
7            Ninth Circuit. We do not agree with the Slice Customers Group’s implication that  
8            when any Slice True-Up Adjustment Charge issue is subject to evaluation in the  
9            7(i) Process, it is disposed in BPA’s favor automatically. In the 7(i) Process, all  
10           parties can raise issues in testimony and legal briefs, and staff and other parties  
11           can argue for or against those positions in testimony and briefs. The  
12           Administrator then considers all of the evidence presented and makes decisions  
13           that ensure cost recovery, Treasury repayment, and other regional goals.

14                      We believe that the 7(i) Process is a fair and equitable process for issues  
15           related to cost allocation because it allows for several rounds of participation and  
16           the Administrator’s decision based on the entire record. Issues related to cost  
17           allocation and the Slice True-Up Adjustment Charge can affect rates of all  
18           preference customers and thus should be subject to review in a 7(i) Process. *See*  
19           *Lovell et al., TRM-12-E-BPA-08, at 8.*

20           Q.    *Does this conclude your testimony?*

21           A.    Yes.

Tiered Rate Methodology Rate Case

# Rebuttal Testimony

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August 2008

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**FEDERAL SYSTEM RESOURCES:**  
Roberts, Misley, Bliven

TRM-12-E-BPA-17



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TIMOTHY C. ROBERTS, TIMOTHY C. MISLEY, and RAYMOND D. BLIVEN

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REBUTTAL TESTIMONY of  
TIMOTHY C. ROBERTS, TIMOTHY C. MISLEY, and RAYMOND D. BLIVEN  
Witnesses for Bonneville Power Administration

**SUBJECT: REBUTTAL TESTIMONY FOR FEDERAL SYSTEM  
RESOURCES**

**Section 1: Introduction and Purpose of Rebuttal Testimony**

*Q. Please state your names and qualifications.*

A. My name is Timothy C. Roberts, and my qualifications are contained in TRM-12-Q-BPA-14.

A. My name is Timothy C. Misley, and my qualifications are contained in TRM-12-Q-BPA-13.

A. My name is Raymond D. Bliven, and my qualifications are contained in TRM-12-Q-BPA-01.

*Q. What is the purpose of your rebuttal testimony?*

A. The purpose of our rebuttal testimony is to address issues regarding Federal system resources that were raised in the direct testimony of parties to this TRM proceeding.

*Q. How is your testimony organized?*

A. Our testimony is organized in four sections. The first is this introduction. Section 2 addresses issues related to the TRM's definitions of Critical Period, Firm Critical Output, and Tier 1 System Obligations. Section 3 discusses the designation of Critical Period. Section 4 discusses Designated BPA System Obligations.

1 **Section 2: Definitions**

2 *Q. What is PPG's concern regarding the determination of the output of Tier 1*  
3 *System Resources?*

4 A. PPG states its concern that the proposed TRM fails to give customers the  
5 necessary assurance regarding how BPA will forecast the output of the Tier 1  
6 System Resources and the standards that are used in this determination.  
7 Consequently, PPG has proposed changes to the TRM, including the definitions  
8 of Critical Period, Firm Critical Output, and Tier 1 System Obligations. PPG,  
9 TRM-12-E-PPG-01, at 7-9.

10 *Q. What is PPG's proposal regarding the Critical Period definition?*

11 A. PPG proposes to change the defined term from "Critical Period" to "Critical  
12 Streamflows." PPG, TRM-12-E-PPG-01, at 8. We see no reason to create a new  
13 term for a variation on Critical Period. Critical Period is a concept that is  
14 commonly used and understood in the Northwest. We propose to keep the term  
15 as "Critical Period" rather than "Critical Streamflows," and to reflect it as such  
16 wherever it appears in the TRM (including sections 3.1.3.1 and 3.1.3.2).

17 Beyond changing the name of the term, PPG seeks to link the definition of  
18 "Critical Streamflow" (*i.e.*, Critical Period) to section 3.1.3.2 of the TRM so that  
19 changes to the definition can only be made pursuant to that section. PPG, TRM-  
20 12-E-PPG-01, at 8. We cannot recommend the portion of the parties' proposal in  
21 section 3.1.3.2 that specifies the conditions for modifying the Critical Period. *See*  
22 section 3 of our testimony, below.

23 *Q. Do you agree with PPG's proposed changes to the definition of Firm Critical*  
24 *Output (PPG, TRM-12-E-PPG-01, at 8)?*

25 A. PPG's proposed definition attempts to summarize TRM sections 3.1.3.1, 3.1.3.3,  
26 and 3.1.3.4 in describing how the Firm Critical Output is determined. *Id.* The

1 summary does not capture the content of these sections adequately. For example,  
2 the Firm Critical Output of independent hydroelectric projects may be forecast by  
3 BPA if the owner does not provide it. Instead of attempting to summarize these  
4 sections, we propose that the definition refer directly to these sections:  
5

6 **Firm Critical Output** means the forecast output from Tier 1 System  
7 Resources that is determined in accordance with sections 3.1.3.1, 3.1.3.3,  
8 and 3.1.3.4.

9 The reference to sections 3.1.3.1, 3.1.3.3, and 3.1.3.4 will more precisely meet  
10 PPG's goal of "set[ting] out for each category of Federal resources the manner in  
11 which BPA currently forecasts such resources' output, and the standards that are  
12 used in those determinations." PPG, TRM-12-E-PPG-01, at 8.

13 *Q. Do you agree with PPG's proposed changes to the definition of Tier 1 System*  
14 *Obligations (PPG, TRM-12-E-PPG-01, at 9)?*

15 *A. No. PPG has proposed that the definition of Tier 1 System Obligations be*  
16 *changed to read: "the forecast reductions to the Firm Critical Output of Federal*  
17 *system resources arising from Designated BPA System Obligations for each*  
18 *Fiscal Year(s) of the Rate Period." Id.*

19 We believe that this proposed definition is too restrictive. If a new Tier 1  
20 System Obligation arises any time during a Rate Period, BPA must be able to  
21 meet that obligation. BPA may have little control over the timing of a new  
22 obligation. For example, BPA must be able to respond to a biological opinion  
23 that is issued during the Rate Period. To remedy this concern and to add clarity,  
24 we propose the following definition:

25  
26 **Tier 1 System Obligations** means the amount of energy and capacity that  
27 BPA forecasts for the Designated BPA System Obligations over a specific  
28 time period.

1                   On a related matter, PPG has proposed changes to section 3.1.4, which  
2 deals with Designated BPA System Obligations (a part of the Tier 1 System  
3 Obligation definition). Our response to those changes is in section 4 below.  
4

5 **Section 3:     Changing the Critical Period**

6 *Q.     What is PPG's proposal regarding the Critical Streamflows?*

7 A.     PPG added a new TRM section 3.1.3.2, labeled Determination of Critical  
8 Streamflows. PPG, TRM-12-E-PPG-01, at 9. Most of this section describes how  
9 BPA may revise the Critical Streamflows from the initial Fiscal Year (FY) 1937  
10 streamflows. *Id.* For BPA to use a different Critical Streamflow from the initial  
11 FY 1937 streamflows, this new section requires that the parties to the Pacific  
12 Northwest Coordination Agreement (PNCA) must first elect to use a reference  
13 period other than FY 1937 streamflows. *Id.* at 26-27. Only then may BPA  
14 decide to continue to use FY 1937, adopt the PNCA parties' new reference  
15 period, or use another reference period. *Id.*

16 *Q.     Do you agree with these proposed changes?*

17 A.     BPA agrees with what it understands to be the underlying intent of the proposed  
18 changes, which is to provide customers reasonable certainty about the level of the  
19 RHWMs and protection against unfounded reductions in those RHWMs through  
20 unfounded changes to the critical period definition. However, BPA does not  
21 agree with the proposed solution and therefore proposes an alternative.

22                   Historically, the Critical Period used in BPA planning has rarely changed.  
23 However, BPA may need to adopt a new Critical Period based on new or revised  
24 power or non-power planning requirements; *e.g.*, restrictions on river operations  
25 that come about due to a new biological opinion may change the Critical Period.  
26 BPA must be able to accurately represent the effect of such new obligations on

1 the system in a timely manner and must not be artificially restricted from doing  
2 so. In addition, the PNCA terminates on September 15, 2024, while the term of  
3 the TRM is through September 2028. Thus, PPG’s proposal to link changes in the  
4 reference period to the PNCA may be unworkable after September 15, 2024.

5 *Q. What do you propose?*

6 A. We propose to revise section 3.1.3.2. to include some of the language proposed by  
7 PPG. Specifically, we propose to insert the statement: “BPA may revise the  
8 Critical Period after a good faith determination that the proposed Critical Period  
9 provides a reasonable basis for forecasting the available output of hydroelectric  
10 projects after incorporating power and non-power requirements with which BPA  
11 is obligated to comply.” This revision addresses PPG’s concern of “striking a  
12 reasonable balance between the need of BPA to change its resource planning  
13 standard over time under certain circumstances, while recognizing the need of the  
14 customers for some degree of stability in the method used to determine the  
15 forecast output of Federal system resources.” PPG, TRM-12-E-PPG-01, at 8.

16 Thus, section 3.1.3.2 will read:

17 **3.1.3.2 Determination of Critical Period**

18  
19 The Critical Period adopted by BPA as of the effective date of this TRM is  
20 September 1936 through April 1937. To be consistent with the  
21 corresponding Fiscal Years, BPA will use the historical streamflows from  
22 October 1936 through September 1937 in the determination of the Firm  
23 Critical Output of the Tier 1 System Resources. BPA may revise the  
24 Critical Period after a good faith determination that the proposed Critical  
25 Period provides a reasonable basis for forecasting the available output of  
26 hydroelectric projects after incorporating power and nonpower  
27 requirements with which BPA is obligated to comply. Examples of these  
28 requirements include, but are not limited to biological opinions, court  
29 orders, treaties, statutes, regulations, changes in thermal operations,  
30 changes in forecast loads, and flood control.

31

1 **Section 4: Designated BPA System Obligations**

2 *Q. What is the Parties' position on BPA's proposed treatment of Designated BPA*  
3 *System Obligations?*

4 A. WPAG argues that the objective of securing the output of the FBS solely for  
5 service to Public customers has not been fully achieved in the TRM. Saleba and  
6 Falcon, TRM-12-E-WA-01, at 6-7. WPAG contends that the TRM does not lock  
7 down the capability of the Tier 1 System from being diminished due to BPA  
8 commitments for current or future system obligations. *Id.* at 6. Instead, WPAG  
9 claims, the TRM contains vague or undefined categories of obligations that give  
10 BPA a great deal of discretion in determining obligations of the Federal System,  
11 which will reduce the capability of the Tier 1 System. *Id.* at 6. As a consequence,  
12 WPAG argues, to the extent BPA undertakes a system obligation that dilutes the  
13 capability of the Tier 1 System, it should acquire the resources necessary to do so  
14 without diminishing the output of the Tier 1 System. *Id.* at 6-7. Similarly, PPG  
15 argues that nothing in the TRM inhibits BPA from committing to new Designated  
16 BPA System Obligations and potentially degrading the value of the Tier 1 System.  
17 PPG, TRM-12-E-PPG-01, at 9-10. Snohomish raises similar concerns. Miles,  
18 TRM-12-E-SN-01, at 2-4.

19 *Q. What is your position on treatment of Designated BPA System Obligations?*

20 A. We agree that customers should have as much certainty as reasonably possible  
21 about system obligations that reduce their RHWMs, and that they should be  
22 reasonably protected against inappropriate new obligations that reduce their  
23 access to power at the Tier 1 Rates or increase Tier 1 Rates. On the other hand,  
24 BPA has a variety of responsibilities in addition to its responsibility for service  
25 to preference customers, and it must preserve its ability to fulfill those other  
26 responsibilities.

1           We do not agree with the proposal that, to the extent BPA undertakes a  
2 system obligation that dilutes the capability of the Tier 1 System, BPA should  
3 acquire the resources necessary to do so without diminishing the output of the  
4 Tier 1 System. This proposal would increase BPA's overall need to acquire new  
5 resources, by preventing BPA from using surplus capability of the existing  
6 system to serve new obligations. Further, it would likely increase overall costs  
7 to regional power consumers by dividing BPA's acquisitions into sequestered  
8 pools for separate obligations rather than implementing a least-cost acquisition  
9 strategy to meet all of BPA's obligations.

10           Our view is that adopting a strategy that increases the total cost of service  
11 to regional consumers is a worse choice than incurring only necessary  
12 obligations, implementing the least-cost approach to meeting them, and ensuring  
13 through rates that costs of such obligations are fairly distributed. Though it is  
14 premature to attempt to establish all the mechanics for doing so now, we believe  
15 that it is feasible to protect preference customers from unwarranted increased  
16 costs (due to new obligations) through appropriate pricing of service to those  
17 obligations.

18           PPG specifically objects to including BPA's reliability requirements,  
19 including generation inputs, interchange, and voltage support, as Designated  
20 BPA System Obligations. Our position is that there are significant issues  
21 associated with the treatment of BPA reliability obligations that must be  
22 addressed in a regional forum open to all stakeholders. Therefore, our preferred  
23 approach is to maintain BPA's proposal and make revisions as necessary  
24 (pursuant to TRM sections 12 and 13) after the treatment of Designated BPA  
25 System Obligations has been more broadly and thoroughly addressed with all  
26 regional stakeholders.

1           Finally, WPAG’s discussion mistakenly implies that the TRM is a power  
2 allocation to preference customers only of the FBS output. Saleba and Falcon,  
3 TRM-12-E-WA-01, at 6-7. It is important to remember that BPA’s fundamental  
4 intent as reflected in the proposed TRM is to allocate costs and not to allocate  
5 system output or power. BPA sells power consistent with section 5 of the  
6 Northwest Power Act, 16 U.S.C. § 839c. Customers will bear the cost of these  
7 obligations that apply to the Federal system as a whole.

8 *Q. Given your preferred approach, do you agree with the Parties’ revisions of*  
9 *section 3.1.4.1 and Table 3.4?*

10 A. No. For the reasons just described, we cannot recommend the Parties’ revisions  
11 associated with limitations to Designated BPA System Obligations, including new  
12 obligations.

13 *Q. Please address PPG’s proposal for establishing a public forum through which*  
14 *customers could provide input on Designated BPA System Obligations.*

15 A. PPG’s proposal requires that upon written request of at least 15 percent of  
16 Publics that have signed a CHWM Contract, BPA will hold two or more  
17 meetings to review Designated BPA System Obligations. PPG, TRM-12-E-  
18 PPG-01, at 11-12; see also, Miles, TRM-12-E-SN-01, at 3-4. We are willing to  
19 propose the language with certain modifications.

20           We propose that BPA will notify customers if a new Designated BPA  
21 System Obligation or the total of existing obligations increases such that BPA’s  
22 forecast of Tier 1 System Obligations increases by 10 percent. Upon such  
23 notification, if at least 25 percent of Publics (by number) that have signed a  
24 CHWM Contract submit a request, BPA will commit to holding a public meeting  
25 open to all interested parties. The purpose of this meeting is to inform parties of  
26 the revisions to the Tier 1 System Obligation and to allow comment on such

1           revisions. Pricing and rate impacts of revised Tier 1 System Obligations will not  
2           be addressed in this public process.

3    *Q. Does this conclude your testimony?*

4    A. Yes.

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Tiered Rate Methodology Rate Case

# Rebuttal Testimony

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August 2008

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**ELIGIBILITY TO PURCHASE AT TIER 1 RATES:**  
Stene, Davis, Warner, Wilson

TRM-12-E-BPA-18



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LARRY M. STENE, REED C. DAVIS, JOSHUA P. WARNER,  
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REBUTTAL TESTIMONY of  
LARRY M. STENE, REED C. DAVIS, JOSHUA P. WARNER,  
and SCOTT K. WILSON  
Witnesses for Bonneville Power Administration

**SUBJECT: REBUTTAL TESTIMONY FOR ELIGIBILITY TO  
PURCHASE AT TIER 1 RATES**

**Section 1: Introduction and Purpose of Rebuttal Testimony**

- Q. Please state your names and qualifications.*
- A. My name is Larry M. Stene, and my qualifications are contained in TRM-12-Q-BPA-16.
- A. My name is Reed C. Davis, and my qualifications are contained in TRM-12-Q-BPA-05.
- A. My name is Joshua P. Warner, and my qualification are contained in TRM-12-Q-BPA-18.
- A. My name is Scott K. Wilson, and my qualifications are contained in TRM-12-Q-BPA-19.
- Q. What is the purpose of your rebuttal testimony?*
- A. The purpose of our rebuttal testimony is to discuss certain points raised by the direct testimony of the responding parties in this 7(i) Process and to explain certain clarifications or changes to the TRM Supplemental Proposal that BPA is proposing after several public meetings with interested parties.
- Q. How is your testimony organized?*
- A. Our testimony is organized in three sections, including this introductory section. Section 2 addresses direct testimony related to the TRM rate treatment for Contracted For/Committed To (CF/CT) loads. Section 3 addresses certain

1 miscellaneous points, including the Conservation Adjustment and irrigation load  
2 weather normalization.

3  
4 **Section 2: Contracted For/Committed To Loads under the TRM**

5 *Q. What is “contracted for/committed to” (CF/CT) load?*

6 *A. CF/CT load is a category of load that is excepted from the section 7(f) rate*  
7 *treatment for New Large Single Loads (NLSLs). By operation of the Northwest*  
8 *Power Act, 16 U.S.C. § 839a et seq., and BPA policy, new single loads of*  
9 *10 aMW or greater (NLSLs) are served at BPA’s New Resource Firm Power (NR)*  
10 *rate. Historically, the NR rate has been a higher rate than BPA’s Priority Firm*  
11 *Power (PF) rate. If a load that was large enough to be an NLSL but had been*  
12 *“contracted for or committed to” (CF/CT) by the serving utility prior to*  
13 *September 1979, then the CF/CT load is eligible for service at BPA’s 7(b) rates,*  
14 *in this case the PF Preference rate.*

15 *Q. When you say the CF/CT is eligible for PF service, does that mean BPA contracts*  
16 *directly with the CF/CT load?*

17 *A. No, it does not. What it means is that CF/CT load is considered as part of BPA’s*  
18 *utility customer’s load that is considered as part of its “general requirements.”*  
19 *General requirements means the power a public body, cooperative, or Federal*  
20 *agency customer buys from BPA under contracts offered in accordance with*  
21 *section 5(b) of the Northwest Power Act, exclusive of any NLSL. See*  
22 *section 7(b)(3) of the Northwest Power Act.*

23 *Q. Did BPA address the rate treatment for CF/CT load under a tiered rate construct*  
24 *in the Regional Dialogue Policy?*

25 *A. Yes. In the Long-Term Regional Dialogue ROD (RD ROD), BPA responded to*  
26 *comment from Industrial Customers of Northwest Utilities (ICNU) that all*

1 CF/CT load should be served at the Tier 1 rate, based on statutory rights  
2 associated with CF/CT loads. *See* RD ROD at 21-22. In the RD ROD, BPA  
3 noted that the tiered rate HWM construct does not change statutory rights  
4 associated with CF/CT load nor the amount of a BPA customer's load that is  
5 eligible for service from BPA at a PF rate. *Id.* at 22. BPA further explained that  
6 it has no statutory duty to, and will not, reserve power or increase HWMs to  
7 provide Tier 1-priced power for post-2010 increases in CF/CT load. *Id.* The RD  
8 ROD also noted that the consumer has no direct right under section 3(13) of the  
9 Northwest Power Act to buy power at the PF rate. *Id.* BPA sells power only to  
10 the local serving utility. The local utility, not BPA, will determine its retail rate  
11 design and set the price for a consumer's load service. *Id.* However, ICNU has  
12 reasserted its position in its direct testimony that all CF/CT load is entitled to  
13 load service at the Tier 1 rate. Wolverton, TRM-12-E-IN-01, at 1. BPA  
14 maintains its position stated in the RD ROD as described above.

15 *Q. Clatskanie and ICNU assert that the TRM fails to provide the proper rate*  
16 *treatment for CF/CT load amounts that are not being served now but could be*  
17 *served in the future. Booth, TRM-12-E-CK-1, at 1-2; Wolverton, TRM-12-E-IN-*  
18 *01, at 1. Do you agree?*

19 *A.* No, we do not. The TRM provides for BPA service to the serving utility for  
20 CF/CT loads at a PF rate, consistent with the plain language of the Northwest  
21 Power Act, BPA policy, and historical practice.

22 Like all other customer load that may be placed on BPA in the future that  
23 is eligible for service at BPA's PF rate, increases in the amount of CF/CT load  
24 that BPA's customer is obligated to serve after September 30, 2010, will be  
25 subject to the applicable PF rate. BPA does not agree that when determining the  
26 future applicable PF rate it is necessary to adjust the TRM to account for unused

1 amounts of CF/CT load or to increase a customer's CHWM. For example, in the  
2 case of an end-use consumer that constitutes a CF/CT load that has never  
3 realized all of its CF/CT determined amount, there is significant uncertainty that  
4 it ever will consume the full amount. In one of its attachments to its direct  
5 testimony ICNU illustrates the amounts of CF/CT determined load that have not  
6 been consumed. Wolverton, TRM-12-E-IN-3, at 23. Much of that load has  
7 never consumed the full CF/CT amount. Thus, for purposes of designing a clear  
8 PF rate design that tiers and allocates costs incurred to serve customer load in the  
9 future, BPA believes it is unreasonable to increase a customer's CHWM to  
10 account for CF/CT load it will likely never serve. However, if that service does  
11 arise in the future, then the PF tiered rate design proposed in the TRM will  
12 ensure the proper PF rate is determined and applied.

13 *Q. ICNU contends that the TRM "erodes" rate protection provisions for CF/CT*  
14 *load service because a public utility is entitled under statute and BPA policy to*  
15 *receive BPA service for its CF/CT load at BPA's lowest rate. Wolverton, TRM-*  
16 *12-E-IN-01, at 1. Do you agree with this position?*

17 *A. No. It appears that ICNU is interpreting statute and BPA policy to reach this*  
18 *conclusion, because the plain language of the authority cited by ICNU does not*  
19 *support the proposition that BPA must provide power for all CF/CT load at the*  
20 *Tier 1 rate.*

21 For example, ICNU cites BPA's New Large Single Load Policy Issue  
22 Review, Record of Decision for the proposition that "BPA will serve the  
23 [CF/CT] load with cost-based power at the lowest rate." Wolverton, TRM-12-E-  
24 IN-01, at 5. However, this is not what the cited ROD provision states. The ROD  
25 language, in relevant part, states that "BPA service within the CF/CT load  
26 amount will be subject to the then effective priority firm (PF) power rate."

1 NLSL Policy Issue Review ROD at 14. This sentence that ICNU relies upon for  
2 contention that BPA must serve the CF/CT load at the “lowest rate” simply  
3 describes the distinction in rate treatment between NLSL load served at an NR  
4 rate and CF/CT load served at a PF rate. It does not provide any guarantee of  
5 service at the “lowest rate” as ICNU contends. Both the Tier 1 and the Tier 2  
6 rates developed under the TRM will be PF rates. Accordingly, BPA’s proposed  
7 rate treatment for CF/CT loads under the TRM is in alignment with the plain  
8 language of the NLSL policy and the definition of CF/CT load.

9 *Q. ICNU further states that service for CF/CT loads is not to be charged at a new*  
10 *resource rate or market rate and that charging Tier 2 rates for incremental post-*  
11 *2010 CF/CT load violates this statutory requirement. Wolverton, TRM-12-E-IN-*  
12 *01, at 7-11. Do you agree?*

13 *A:* First, this is a legal argument. BPA will respond to legal argument properly  
14 raised by the parties’ briefs in the ROD. However, in our lay understanding of  
15 the law, we do not agree that applying a Tier 2 Rate to BPA’s service of a public  
16 utility’s above-HWM CF/CT load would violate BPA’s rate directives. A  
17 serving utility’s load that is determined to be CF/CT is supplied with power that  
18 is subject to a PF rate. BPA would not apply an NR rate or a market rate to  
19 power that is sold as part of the customer’s general requirements. The Tier 2  
20 Rate will be a PF rate that will recover the cost BPA incurs to supply additional  
21 power over the customer’s RHWM. Therefore, the resulting applicable PF Tier  
22 2 rate will be cost based.

23 ICNU’s analysis and testimony isolate the rate treatment of above-HWM  
24 load for a BPA customer serving CF/CT load without considering the full tiered-  
25 rate structure and load service. This inaccuracy leads to an incorrect conclusion  
26 by ICNU that the TRM deconstructs the statute- and policy-driven rate treatment

1 for CF/CT loads. BPA has historically provided power to preference customers  
2 to meet CF/CT load at a melded PF rate that reflects those cost elements  
3 associated with both BPA's low-cost Federal Base System power and other,  
4 higher-cost, BPA resource acquisitions associated with serving marginal load  
5 growth. Under the TRM, BPA would continue to provide power to the serving  
6 utility to meet that same CF/CT load at PF rates that, when combined in monthly  
7 billing, effectively meld the same cost elements by allocating some cost elements  
8 to the Tier 1 rate and more accurately allocating the higher costs of serving  
9 marginal load growth to the Tier 2 Rates. Additionally, it is worth noting that  
10 the rate treatment that ICNU advocates would provide a superior rate treatment  
11 to the serving utility for CF/CT load than exists under current melded rates, since  
12 the costs of serving load growth will not be included in the Tier 1 rate.

13 *Q. ICNU also asserts that the TRM discriminates in its treatment among CF/CT*  
14 *loads because it provides for specific load growth service of DOE-Richland at*  
15 *Tier 1 Rates, while incremental post-2010 CF/CT load for other customers will be*  
16 *charged at higher, Tier 2 Rates. Wolverton, TRM-12-E-IN-01, at 11-12. Is this*  
17 *properly viewed as discriminatory rate treatment?*

18 *A. No. DOE-Richland is a Federal agency customer and not a public utility. BPA's*  
19 *decision to augment for an increase in CHWM to include load at DOE-Richland*  
20 *is for meeting national security interests that exist at the DOE's spent uranium*  
21 *facilities in Richland. BPA, as part of the Federal government and being within*  
22 *the U.S. Department of Energy, anticipates a potential increase in load at DOE-*  
23 *Richland for the critical strategic and public-interest mission of radioactive waste*  
24 *disposal at the DOE-Richland facility. See RD ROD at 39-40. Those previously*  
25 *stated reasons are still applicable today. If BPA does serve the anticipated*  
26 *increase in load at DOE-Richland at the Tier 1 Rates, it will be done as an*

1 adjustment to DOE's CHWM due to the national security and public safety  
2 concerns identified. As such, service to the DOE-Richland load at Tier 1 Rates  
3 will not discriminate against other load whether or not they are CF/CT, since this  
4 is for national governmental use.

5 *Q. Clatskanie and Georgia-Pacific testify that charging the serving utility Tier 2*  
6 *Rates for BPA service for post-2010 CF/CT load will have a substantial adverse*  
7 *economic impact on the Wauna Mill and the associated local economy. Booth,*  
8 *TRM-12-E-CK-1, at 1-2; Tomkins, TRM-12-Q-GP-1 at 4. Do you agree with*  
9 *their assessment?*

10 *A. BPA acknowledges the substantial economic and employment contribution that*  
11 *the Wauna Mill represents to the region; effects on this mill's ability to further*  
12 *expand are of concern to BPA. However, as explained in this testimony, BPA is*  
13 *not proposing to extinguish any right of a serving utility to have BPA serve its*  
14 *CF/CT load at PF rates; nor is it discriminating against any serving utility. Any*  
15 *utility signing a High Water Mark contract will face paying a higher rate to cover*  
16 *load growth after it exceeds its HWM. Potential new loads of any size will face*  
17 *the same concern as Georgia Pacific is expressing for itself, in the event that the*  
18 *utility chooses to pass the higher rate on directly to the new load. We also note*  
19 *that load growth in Clatskanie's service territory over the next two years will*  
20 *increase Clatskanie's HWM, so load growth at Georgia-Pacific over the next two*  
21 *years will be unaffected by the issue it has raised. Additionally, to the extent that*  
22 *Clatskanie has "headroom" under its RWHM after FY 2010, Georgia-Pacific*  
23 *load growth occurring after FY 2010 would be served at a retail rate set by*  
24 *Clatskanie that reflects the Tier 1 Rates, while NLSLs occurring after FY 2010*  
25 *will still be served at the NR rate.*

26 Georgia-Pacific states that it has invested almost \$500 million in its

1 Wauna plant in the last five years, relying on the continued availability of power  
2 at the lowest preference rates. Tompkins, TRM-12-Q-GP-1, at 2 and 4. BPA  
3 disagrees with Georgia Pacific's testimony on this point because BPA does not  
4 serve the Wauna plant. In the case of the Wauna plant, BPA sells power at the  
5 PF rate to Clatskanie PUD to meet its firm power load, which includes Wauna.  
6 The retail rate at which the Wauna plant is charged, however, is set by  
7 Clatskanie. Therefore, the conclusion we draw is that Georgia-Pacific's  
8 testimony mischaracterizes its rate and thus the reliance it is placing on BPA's  
9 wholesale power rate.

10 It is certainly speculation on the part of Georgia Pacific as to the impact  
11 tiered rates may have on the Wauna plant and the local economy. It is our  
12 understanding that Clatskanie has the lowest rates in the state of Oregon and  
13 second or third lowest in the nation. *See* Attachment A. Based on this  
14 observation, we cannot agree with the views of Clatskanie and Georgia-Pacific.  
15 Again, Clatskanie will set the retail rate that is charged for the power consumed  
16 at the Wauna mill. Given Clatskanie's apparent low rates and the uncertainty  
17 whether any power supplied to Clatskanie will be charged the PF Tier 2 Rate, we  
18 do not agree with the parties' stated conclusion.

19

20 **Section 3: Miscellaneous Issues**

21 *Q. PNGC and NRU assert that the Conservation Adjustment used in the calculation*  
22 *of a utility's CHWM unfairly favors larger utilities over smaller ones because of*  
23 *the greater conservation opportunities presented by commercial and industrial*  
24 *loads in larger utilities' service areas and the greater ability of some utilities to*  
25 *self-fund conservation programs. Brawley, TRM-12-E-PN-1, at 4-5; Carr and*  
26 *Saven, TRM-12-E-NR-01, at 10. To remedy this situation, PNGC and NRU*

1 *propose a floor to the conservation credited toward the CHWM. For utilities that*  
2 *would otherwise have their Scaled Eligible Load adjusted downward due to the*  
3 *Conservation Adjustment, 50 percent of the utility's total conservation savings*  
4 *would be added when determining the Conservation Adjustment for the CHWM*  
5 *calculation. Brawley, TRM-12-E-PN-1, at 4-5; Carr and Saven, TRM-12-E-NR-*  
6 *01, at 10. How do you respond?*

7 A. The Conservation Adjustment we have proposed is structured to provide for a  
8 redistribution of CHWMs and does not change the sum of all CHWMs. Setting a  
9 Conservation Adjustment floor amount as PNGC and NRU propose would cause  
10 an increase in the sum of all CHWMs. If BPA had to provide a corresponding  
11 amount of additional resources, the value of BPA's lowest-cost resources would  
12 be reduced. The associated additional costs would have to be spread among the  
13 customers whose CHWMs would not be subject to the Conservation Adjustment  
14 floor. Such a subsidy is inherently inequitable and inconsistent with the concept  
15 of assignment of costs based on cost causation.

16 Our previous testimony discusses the concept behind the Conservation  
17 Adjustment. "The conservation adjustment to the preliminary CHWM is  
18 intended to minimize the disincentive for customers to undertake conservation  
19 measures during FY 2007 through FY 2010. Because conservation may reduce a  
20 customer's FY 2010 load, and consequently lower its CHWM, BPA will make a  
21 conservation adjustment to the FY 2010 load." Stene, et al., TRM-12-E-  
22 BPA-05, at 12-13. Our testimony adds that, "Without the conservation  
23 adjustment, the CHWM determinations would distribute the benefit of  
24 conservation achieved equally among all customers, rather than considering what  
25 portion of the conservation was achieved by each customer and what percentage  
26 of each customer's load was reduced through its respective conservation efforts.

1 The conservation adjustment considers these factors in adjusting CHWMs to  
2 reflect the amount of eligible conservation each customer has achieved over the  
3 time period.” *Id.* at 13. Additionally, the Conservation Adjustment scenarios  
4 shown in the TRM Supplemental Proposal (TRM-12-E-BPA-09, at D-2)  
5 demonstrate that, all other things being equal, a utility that does some  
6 conservation will have the same HWM as one that does no conservation, though  
7 the conserving utility will have more HWM “headroom” because the  
8 conservation will make its loads lower. Accordingly, we conclude that our  
9 current proposal will not be changed to include setting a “floor” Conservation  
10 Adjustment amount for those customers that would otherwise have a negative  
11 Conservation Adjustment amount.

12 *Q. In its testimony, NRU proposed a modification to the irrigation load weather*  
13 *normalization methodology described in section 4.1.1.2 of the TRM Supplemental*  
14 *Proposal that would exclude and individually normalize new, separately metered*  
15 *irrigation load that appears in FY 2009 or FY 2010. Carr and Saven, TRM-12-E-*  
16 *NR-1, at 9-10. Do you agree that this change is necessary?*

17 *A. No. Due to the numerous weather-related factors causing large variability in*  
18 *irrigation loads, we selected a five-year average as the method to represent the*  
19 *average of these factors. In selecting this method, we further considered*  
20 *customers who have a growing irrigating load base. These customers could be*  
21 *penalized by the fact that the five-year average would reduce that growth. To*  
22 *compensate for this, we proposed to increase the five-year average irrigation load*  
23 *by a long-term average annual growth rate for two periods to bring it to a*  
24 *normalized FY 2010 level. Just as we are trying to maintain equity between*  
25 *customers with an increasing irrigation base load and those whose irrigation load*  
26 *base is flat, we do not want to invalidate customers’ load growth based on the*

1 timing of that growth. Not all irrigation load additions follow a smooth pattern,  
2 and those that do not should still have that growth recognized as long as it is an  
3 ongoing load. Any concerns about the ongoing nature of the load increase can  
4 be verified in the existing process, just as any anomalous growth other customers  
5 might experience is identified. If it meets the threshold for anomalous load  
6 events, it will then be dealt with as an anomaly adjustment. We see no need to  
7 adjust the process as recommended by NRU.

8 *Q. Does this conclude your testimony?*

9 *A. Yes.*

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March 05, 2008

COMMUNITY

## Clatskanie PUD Challenges BPA in U.S. 9th Circuit Court

By Deborah Steele Hazen  
for The Clatskanie Chief

CLATSKANIE, Oregon (STPNS) -- Papers were expected to be filed Wednesday, March 5, in the United States 9th Circuit Court of Appeals in San Francisco by attorneys for the Clatskanie People's Utility District (CPUD) challenging the Bonneville Power Administration (BPA) resumption of what CPUD administration and board members believe are "unlawful" residential exchange payments.

The lawsuit seeks to stop the BPA from resuming the residential exchange settlement payments, which CPUD contends are "in defiance of the previous court order" from the 9th Circuit Court issued last May.

The 9th Circuit Court is the court of original jurisdiction for BPA matters. The order, issued in May of 2007, held that BPA settlements with investor-owned utilities (IOU) on the residential exchange were unlawful and beyond their settlement authority. BPA has now developed a new residential exchange methodology and rate case proposal to modify the residential exchange payments.

In an attempt to create a "legally sustainable solution that is the best for the Northwest" in the current rate case, BPA Administrator Steve Wright has applied the proposed methodology retroactively and a framework to provide future annual residential exchange payments of \$250 million, reduced by \$40 million for past "overpayments," a CPUD press release issued Tuesday stated.

"These 'reductions' would presumably last over many years, although there is no method to assure that the BPA administrator might not change his mind in the next rate case. This number is consistent with a proposal from a small group of utilities within the region which recommended a rate-case solution for BPA," the press release stated.

Under the BPA's current plan, the Clatskanie PUD would receive an interim settlement of approximately \$3 million - about 10 percent of what it is estimated the BPA over-charged CPUD over the years of the previous residential exchange payments.

BPA is proceeding to "dramatically increase" the exchange payments over those which were provided for under the prior exchange methodology, "the very act which was found unlawful by the court," according to CPUD. "BPA is attempting to implement a solution through a mechanism which is outside of the guidelines of the federal law which governs their operation."

"We believe that BPA's new exchange settlement payments are just as unlawful as the exchange settlement payments stopped months earlier," stated Greg Booth, CPUD general manager. "The BPA's unlawful settlements have cost PUD customers about \$30 million so far, or about 60 percent of the PUD's annual operating cost. Our biggest concern, however, is what the future will mean if the BPA administrator is allowed to continue to operate outside the law."

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Attachment

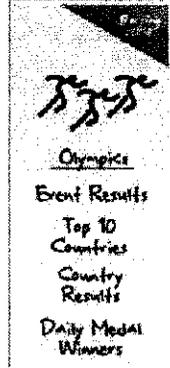
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While the Clatskanie PUD is one of the smallest public utilities in the state in terms of numbers of customers, it is among the biggest in terms of power sold, because of its large and growing industrial load with the Georgia-Pacific Wauna Mill and the new industries at the Port Westward Energy Park. CPUD has the lowest rates in the state of Oregon, and the second or third lowest in the nation.

CPUD has sought to become less dependent on the BPA than many Pacific Northwest utilities by investing in other power resources. CPUD is a partner in the co-generation plant at the Wauna Mill, owns a natural gas-fired "peaking" plant located at the Wauna Substation, and is currently partnering with Idaho irrigation districts in building a hydroelectric plant at the Arrowrock Dam in Idaho. CPUD also owns a "slice" of the BPA's hydropower and sells excess power on the open market with the proceeds helping to keep CPUD customers' rates low.

The CPUD press release continued: "While we are withholding judgment on the wisdom and fairness of the amount of the exchange payments, the amount of and the mechanism for implementing this proposal is not consistent with the 1980 Regional Power Act. If BPA and its customers are going to implement an alternative to what is laid out in the law, then the region should work toward a consensus solution which can be adopted by Congress and implemented by contract. The BPA administrator can recommend solutions and work to develop regional consensus, but he needs to operate within the law. If the law doesn't meet the needs of BPA customers and the region, then it should be modified by Congress as it has done numerous times in the past, not by a BPA administrator through a rate case in which he attempts to be the final arbiter of fairness for the region."

In seeking a "petition for review," CPUD is asking the court to stop the BPA's "final action" plan issued on Feb. 28, because it is "contrary to this court's opinions in PGE (Portland General Electric) v. BPA and Golden Northwest v. BPA. Respondent (BPA) has no means to assure that any over payments to the IOUs would be recovered in the future. Respondent has deliberately tried to structure its proposed action to evade public and judicial review of its proposed interim payments to the IOUs. Expedited review now on these issues will likely reduce the amount of court review later." That is the language in the conclusion of the lawsuit filed by Raymond S. Kindley and G. Kevin Kiely of the law firm of Cable Huston Benedict Haagensen & Lloyd LLP, which has long represented CPUD.

In laymen's terms, CPUD board chair Merle Gillespie told the Chief Tuesday evening. "The court told Bonneville they did wrong, and told them to do right. They (BPA) have the opportunity to fix it properly so we don't get in this problem again, but in the rush to do some kind of interim thing - we think they're doing something that will just lead to more problems. Clatskanie is asking them to do what the court said."

The resumption of the residential exchange payments, Gillespie said, "is an opportunity to fix what is wrong, but it should be done properly and right. That's what we're asking them to do."

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Attachment

Tiered Rate Methodology Rate Case

# Rebuttal Testimony

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August 2008

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**RATE DESIGN:**  
Fisher, Bolden, Chalier, Bliven

TRM-12-E-BPA-19



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DANIEL H. FISHER, GERARD C. BOLDEN, ANNICK E. CHALIER,  
and RAYMOND D. BLIVEN

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REBUTTAL TESTIMONY of  
DANIEL H. FISHER, GERARD C. BOLDEN, ANNICK E. CHALIER,  
and RAYMOND D. BLIVEN  
Witnesses for Bonneville Power Administration

**SUBJECT: REBUTTAL TESTIMONY FOR RATE DESIGN**

**Section 1: Introduction and Purpose of Rebuttal Testimony**

*Q. Please state your names and qualifications.*

A. My name is Daniel H. Fisher, and my qualifications are contained in TRM-12-Q-BPA-06.

A. My name is Gerard C. Bolden, and my qualifications are contained in TRM-12-Q-BPA-02.

A. My name is Annick E. Chalier, and my qualifications are contained in TRM-12-Q-BPA-03.

A. My name is Raymond D. Bliven, and my qualifications are contained in TRM-12-Q-BPA-01.

*Q. What is the purpose of your rebuttal testimony?*

A. The purpose of our rebuttal testimony is to discuss TRM rate design issues as discussed by the Parties in their direct testimony.

*Q. How is your testimony organized?*

A. Our testimony is organized in six sections. Section 1 is this introduction. Section 2 discusses issues related to Tier 1 rate design. Section 3 discusses issues related to treatment under tiered rates of Joint Operating Entities (JOEs). Section 4 discusses issues related to Tier 2 rate design. Section 5 discusses issues related to the Shared Rate Plan. Section 6 discusses issues related to Resource Support Services.

1  
2 **Section 2: Tier 1 Rate Design**

3 *Q. The Public Power Group (PPG) proposed changes to the calculation of Contract*  
4 *Demand Quantity (CDQ) (PPG, TRM-12-E-PP-01, at 14-15). How do you*  
5 *respond to their suggestion?*

6 A. PPG suggests a change to CDQ limits as set forth in TRM section 5.3.5.2. The  
7 TRM contains a proposal to increase a customer's monthly CDQs if more than  
8 25 percent of a customer's monthly Customers System Peak (CSP) was subject to  
9 the Demand Rate in FY 2010. The TRM also proposed to decrease a customer's  
10 monthly CDQ if the resulting CDQ would have provided the customer with  
11 headroom to increase its demand on BPA in that month without incurring an  
12 additional Demand Charge. The PPG proposed to change the TRM such that a  
13 customer's monthly CDQs would be increased if the monthly Demand Billing  
14 Determinant in FY 2010 was more than 200 percent of the average of all  
15 customer's Demand Charge Billing Determinant in that month. PPG stated that  
16 this change better fit the issue being addressed. The PPG proposal provides  
17 clarification on the treatment of the monthly CDQ calculation when there is  
18 headroom, but did not propose to change the proposed TRM language. *Id.* at 14.

19 We agree that the suggested changes are appropriate and add clarity  
20 without changing the intent of the original section. BPA would like to make one  
21 minor change for additional clarification, to replace the "200 percent" with the  
22 words "two times." Using the PPG's proposal of calculating a percent of a  
23 percent is confusing. Using a multiple of two simplifies the equation and  
24 achieves the same result.

1 Q. PPG's redline version of the TRM attached to its testimony proposes to change  
2 the rate formula of the Composite and Non-Slice Customer Rates in order to  
3 address the fact that the TOCA is in a percentage form. TRM-12-E-PP-1-AT1,  
4 at 51. Do you agree that this change is necessary?

5 A. No. Customers believed that the following two equations needed to be modified  
6 by multiplying the sum of TOCAs by 100.

$$7$$
$$8 \quad \text{CompositeRate} = \frac{\text{CompositeCost}}{\sum \text{TOCA}} \div 12$$

9 where:

10 *CompositeRate* = monthly rate expressed as dollars per one percentage  
11 point of TOCA

12 *CompositeCost* = total of costs and credits in the Composite Cost Pool  
13 allocated to PF Preference Rates

14  $\sum \text{TOCA}$  = sum of TOCAs as forecast by BPA in each 7(i) Process

$$15$$
$$16 \quad \text{NonSliceRate} = \frac{\text{NonSliceCost}}{\sum \text{NSCTOCA}} \div 12$$

17 where:

18 *NonSliceRate* = monthly rate expressed in dollars per one percentage point  
19 of Non-Slice TOCA

20 *NonSliceCost* = total of costs and credits in the Non-Slice Cost Pool  
21 allocated to the PF Preference rates

22  $\sum \text{NSCTOCA}$  = sum of Non-Slice TOCAs as forecast by BPA in each 7(i)  
23 Process

24

25 PPG states that this change is necessary because the TOCAs are expressed as a

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Witnesses: Daniel H. Fisher, Gerard C. Bolden, Annick E. Chalier,  
and Raymond D. Bliven

1 percentage. PPG is concerned that if the sum of the TOCAs is not multiplied by  
2 100 for purposes of the above formulas, then the formulas will produce an  
3 incorrect rate. However, the current form of the equations will produce the  
4 correct rate. It is not necessary to multiply the sum of the TOCAs by 100,  
5 because the resulting rate is calculated as dollars per one percent. As a  
6 consequence, if BPA multiplied the sum of the TOCAs by 100 as suggested by  
7 PPG, the resulting rate would not recover the costs allocated to the Composite and  
8 Non-Slice Cost Pools.

9 The percent is a required form of units in this equation because the rate is  
10 in dollars per one percent per month. The formula properly reads as a dollars (\$)  $\div$   
11 divided by a number for the sum of TOCAs (%)  $\div$  12 (months), which  
12 yields a rate in dollars per one percent per month. The confusion is likely created  
13 due to the unconventional nature of the resulting rate having to be in a one percent  
14 form and the conventional calculator's treatment of 100 percent being equivalent  
15 to 1.

16

17 **Section 3: Treatment of Joint Operating Entities**

18 *Q. PNGC has suggested a rate treatment that treats a joint operating entity (JOE) as*  
19 *if it were a single utility. Brawley, TRM-12-E-PN-1, at 2-3. NRU also suggested*  
20 *that BPA make adjustments to the rate design for a JOE so long as such*  
21 *adjustment did not create cost shifts to other customers. Carr and Saven, TRM-*  
22 *12-NR-1, at 7-8. How does BPA intend to address the JOE issue?*

23 A. Because a JOE is authorized to purchase power on behalf of its members who are  
24 requirements customers of BPA, BPA will develop a treatment under the TRM  
25 that will apply to JOEs. As with other customers, such a treatment will take into  
26 account CHWMs, RHWMs, Above-RHWM Loads, charges under the Load

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Witnesses: Daniel H. Fisher, Gerard C. Bolden, Annick E. Chalier,  
and Raymond D. Bliven

1 Shaping True-Up Rate (LSTUR), CDQs, LDD, and IRMP. Because the load of  
2 the JOE is based on its members' aggregated load amounts, the rate treatment for  
3 a JOE will need to include accommodations in many of the calculations made  
4 under the TRM. The net result after all the calculations under the TRM should  
5 not be different than if there was not a JOE and BPA and the individual utilities  
6 were signatories to individual CHWM Contracts. (The one exception is the  
7 potential for a slight difference in the CDQ due to the aggregated nature of the  
8 load.) The accommodations are needed because many of the calculations will be  
9 based on information derived from the individual JOE members. The proposed  
10 accommodations discussed in this section will prevent cost shifts among utilities  
11 from occurring, specifically when there is forecast unused Tier 1 Load that is  
12 remarketed for the benefit of all customers as described later in this testimony.

13 Q. *PNGC believes that as a JOE it is afforded the same rights and is allowed to*  
14 *exercise the equivalent rights of any other individual customers under the TRM.*  
15 *Do you agree?*

16 A. Yes, and we agree with PNGC that a JOE also should not be afforded any  
17 additional rights under the TRM by virtue of being a JOE as compared to the  
18 rights of its members individually.

19 Q. *Please explain BPA's proposal for calculating CHWMs for a JOE and how such*  
20 *calculations would differ from the CHWM calculations for the JOE's individual*  
21 *member utilities.*

22 A. The JOE's CHWM will be derived from the sum of its individual utility  
23 members' CHWMs. Because a JOE has no load of its own by which to determine  
24 a CHWM, BPA will need to determine a CHWM for each individual utility  
25 member of the JOE.

1 *Q What does the CHWM for a JOE represent under its CHWM Contracts?*

2 A. Because a JOE is an aggregator of its members' loads, the CHWM for a JOE  
3 represents the sum of the CHWMs the JOE's members would have received under  
4 an individual CHWM contract. Similarly, the calculations made in the RHWM  
5 Process will not be based on the CHWM for the JOE but instead will be based on  
6 the CHWMs of the individual members, consistent with BPA's decision not to  
7 allow pooling of CHWMs in the Policy. Keeping track of the individual member  
8 CHWM amounts also ensures that the individual utility member will have a  
9 CHWM in the future if it chooses to leave the JOE.

10 *Q. Please explain how the RHWM calculations will be done for the JOE.*

11 A. The RHWM for the JOE will be the sum of the RHWMs that each individual  
12 member of the JOE would be eligible to purchase if it had its own individual  
13 CHWM Contract. These amounts will be calculated in each RHWM Process in  
14 the same manner used to calculate RHWMs for all other utilities.

15 In addition to establishing the RHWM amount for each utility, the RHWM  
16 Process establishes each customer's Forecast Net Requirement as a limit on the  
17 amount of forecast energy that customer is eligible to purchase at Tier 1 Rates.  
18 The Forecast Net Requirement establishes a limit on how much of the RHWM the  
19 utility may access, with any unused amount becoming unused RHWM. Amounts  
20 of unused RHWM will be the same under a JOE as would have been calculated  
21 through individual utility contracts, because the calculation is still performed  
22 individually for each member of the JOE. Any forecast unused RHWM will be  
23 identified in this step, and the benefit of such unused RHWM will be returned to  
24 the Composite Customer Cost Pool for the benefit of all customers, to maintain  
25 equity. The JOE's member utilities' Above-RHWM Load will also be computed  
26 in this step and entered into the JOE CHWM Contract for each specific member

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Witnesses: Daniel H. Fisher, Gerard C. Bolden, Annick E. Chalier,  
and Raymond D. Bliven

1 utility as required Tier 2 Rate service or Non-Federal Resource service.

2 *Q. Explain how BPA will account for Above-RHWM Load for the JOE.*

3 A. To determine Above-RHWM Load BPA will need to know the respective Above-  
4 RHWM Load for each individual utility member of the JOE. Once known, the  
5 Above-RHWM Load for the JOE will be the sum of the Above-RHWM Loads for  
6 all individual members.

7 *Q. Does the individual member utility or the JOE determine how Above-RHWM load*  
8 *is to be served?*

9 A. As the signatory to the CHWM Contract, the JOE will be responsible for  
10 designating whether the Above-RHWM Load will be served at Tier 2 Rates or by  
11 Non-Federal Resources.

12 *Q. Explain how the TOCAs will be computed for a JOE.*

13 A. The TOCAs for the JOE will be equal to the sum of the individual member utility  
14 TOCAs.

15 *Q. Explain how the Load Shaping Charge will be computed and applied to the JOE.*

16 A. BPA proposes that the Load Shaping Charge for the JOE will be based on the  
17 aggregate loads of the JOE's member utilities and the aggregated System Shaped  
18 Load of these utilities. The Load Shaping Charge for this aggregated load will be  
19 computed in the same manner as for any other utility and will appear as a single  
20 line item on the JOE's monthly bill. Equity is maintained because there is no  
21 difference in the cost of shaping the aggregate System Shaped Loads to the Actual  
22 Tier 1 Load versus shaping the individual System Shaped Loads to the individual  
23 Actual Tier 1 Loads.

24 *Q. Explain how the Load Shaping Charge True-Up will be computed and applied to*  
25 *the JOE.*

26 A. BPA proposes that the charges under the Load Shaping Charge True-Up

1 (LSCTU) will be computed based on individual member utilities' loads the same  
2 as it would if the utility was not a member of a JOE. The LSCTU is designed to  
3 allow a customer with unused RHWL to receive the benefit of that unused  
4 RHWL when its Actual Annual Tier 1 Load exceeds its Forecast Net  
5 Requirement. Conversely the LSCTU also allows BPA to recover excess  
6 payments made through the Load Shaping Charge when a customer's Annual  
7 Actual Tier 1 Loads are lower than its Forecast Net Requirement. This level of  
8 detail cannot be captured by looking only at the aggregate JOE load. Therefore,  
9 BPA will calculate the LSCTU for each member utility of the JOE to maintain  
10 consistency between customers that are in a JOE and those that are not. Prior to  
11 each Rate Period, BPA will establish the information in the JOE's CHWM  
12 Contract regarding each individual member's share of Above-RHWL Load and  
13 each individual member's share of the JOE's Dedicated Resources. The  
14 individual charges and credits of the LSCTU calculated for each member of the  
15 JOE will be summed across all member utilities and billed to the JOE in  
16 aggregate.

17 *Q. Explain how the CDQs for the JOE will be computed.*

18 A. The JOE will have 12 CDQs that will be calculated consistent with section 5.3.5  
19 of the TRM. The calculation of the CDQs will use an aggregated historical load  
20 factor as well as the aggregated average HLH energy of all members of the JOE.

21 *Q. Explain how the Demand Billing Determinant for the JOE will be computed.*

22 A. The Demand Billing Determinant will be calculated consistent with section 5.3.1  
23 of the TRM. The CSP in this case will be defined by the hour of maximum take  
24 of the aggregate loads rather than each individual utility's peak hour. The average  
25 Actual Tier 1 Load in Heavy Load Hours will also be based on the aggregate  
26 loads.

1 Q. *What happens if a utility leaves a JOE or a new member joins a JOE?*

2 A. BPA will keep the original data set used for calculating each customer's CDQ. If  
3 a utility leaves the JOE, the CDQ for the JOE will be recalculated in the same  
4 manner as if the utility had never joined the JOE in the first place. The departing  
5 member will then revert back to its individual CDQ. If a new member joins the  
6 JOE, the CDQ for the JOE will be recalculated in the same manner as if the utility  
7 had joined the JOE in the first place. If the new member is a New Public, BPA  
8 will also recalculate the JOE's CDQ but do so using the original data set and the  
9 new load profile of the New Public.

10 Q. *What happens to the CHWM for the JOE if additional utilities join the JOE after*  
11 *the contract signing deadline for CHWM Contracts?*

12 A. A customer that joins the JOE that previously signed a CHWM Contract would  
13 have its CHWM amount added to the CHWM for the JOE. Notwithstanding  
14 anything else stated in the testimony, a customer that joins the JOE but did not  
15 sign a CHWM Contract would not increase the CHWM of the JOE, or other  
16 related rate treatments provided under a CHWM Contract, and would be treated in  
17 the calculations for the JOE as if it had a CHWM of zero.

18 Q. *Explain how LDD benefits for the JOE will be computed and be applied to the*  
19 *JOE.*

20 A. The LDD benefit to the JOE will be equivalent to the sum of LDD benefits for all  
21 individual members of the JOE that are eligible for the LDD. BPA will determine  
22 the LDD based on each such individual utility member's LDD amount.

23 Q. *Explain how IRMP benefits for the JOE will be computed and be applied to the*  
24 *JOE.*

25 A. The IRMP benefit to the JOE will be calculated based on individual utility  
26 members and billed to the JOE and earmarked for each eligible utility.

1 **Section 4: Tier 2 Rate Design**

2 *Q. PPG, WPAG, and Clark suggest the following edits at TRM-12-E-WA-1-AT1,*  
3 *page 71, lines 18-22:*

4  
5 *Service at the Tier 2 Short-Term, Load Growth, and Vintage rates will*  
6 *include the transferred Renewable Energy Certificates (RECs), or the*  
7 *revenue from the remarketed RECs that ~~BPA has determined~~ are*  
8 *associated with the resources whose costs are allocated to the Tier 2 Cost*  
9 *Pool for such rate as determined in a 7(i) Process.*

10  
11 *What is your position on these suggestions?*

12 *A. We include only the first edit in our proposal. Thus, our proposed sentence will*  
13 *read:*

14  
15 *Service at the Tier 2 Short-Term, Load Growth, and Vintage rates will*  
16 *include the transferred Renewable Energy Certificates (RECs) that BPA*  
17 *has determined are associated with the resources whose costs are allocated*  
18 *to the Tier 2 Cost Pool for such rate.*

19 *Q. What is your reason for not including the second edit?*

20 *A. The parties' second edit was to add the language "or the revenue from the*  
21 *remarketed RECs." The remarketing of RECs is a function of a customer contract*  
22 *election. Therefore, it is the CHWM Contract that includes this feature, and not*  
23 *service at a Tier 2 Rate. We could have expanded the language to provide that*  
24 *sort of detail, but we believe it is unnecessary and could create confusion, as the*  
25 *CHWM Contracts already have the operative language governing this feature.*

26 *Q. What is your reason for not including the third edit?*

27 *A. The third edit was to strike the language "BPA has determined." We retain this*  
28 *language because, as set forth in the CHWM Contract, BPA has discretion to*  
29 *determine when and if RECs will be associated with the resources whose costs are*  
30 *allocated to Tier 2 Cost Pools. That is, not all resources give rise to RECs.*

1 Moreover, resources that now give rise to RECs may not do so under a future  
2 standard of what constitutes a REC. Or the opposite could occur; and resources  
3 that do not presently give rise to RECs may do so in the future. Accordingly,  
4 BPA must have the administrative discretion to determine when and if RECs will  
5 be associated with the resources whose costs are allocated to Tier 2 Cost Pools.

6 *Q. What is your reason for not including the fourth edit?*

7 A. The parties' fourth edit was to add the language "as determined in a 7(i) Process."  
8 First, this language creates confusion, because it is not clear which preceding  
9 portion of the sentence it is intended to modify. If it is intended to modify  
10 "transferred Renewable Energy Certificates" or "the revenue from the remarketed  
11 RECs," then the language is not accurate. RECs are contractual instruments that  
12 are priced relative to market and are not sold at a rate determined in a 7(i)  
13 Process. Therefore, a 7(i) Process is irrelevant to the transfer of the RECS and the  
14 revenue from remarketing them.

15 Alternatively, if the language is intended to modify the latter portion of the  
16 sentence, "resources whose costs are allocated to the Tier 2 Cost Pool for such  
17 rate," then the edit is unnecessary. It is well established in other areas of the TRM  
18 that the allocation of the costs of resources to Tier 2 Cost Pools will be  
19 determined in a 7(i) Process. It is unnecessary to repeat that concept in this  
20 sentence and only serves to make the sentence confusing, as we just described.

21 *Q. Are there any updates to section 6 of TRM-12-E-BPA-09 that you propose to*  
22 *make in order to comport with the CHWM Contracts that have recently been*  
23 *offered to customers?*

24 A. Yes. We propose to expand Section 6.5 to reflect the newly added customer  
25 option to convert from service at Tier 2 Rates to service with Non-Federal  
26 Resources outside the standard notice deadlines and purchase periods.

1 Specifically, we propose the following revised language:

2 **6.5 Transferring ~~Converting~~ to a Tier 2 Vintage Rate Alternative**  
3 **or Modifying a Tier 2 Load Growth or Short-Term Purchase**

4  
5 BPA will determine in the applicable 7(i) Process whether any rates or  
6 charges should be applied to a customer transferring from the Tier 2 Short-  
7 Term rate service to a Tier 2 Vintage rate service so that the rates or  
8 charges mitigate cost shifts to other customers. See Attachment F for an  
9 example of a Tier 2 Vintage Rate. Similarly, BPA will determine in the  
10 applicable 7(i) Process whether any rates or charges should be applied to  
11 customers exercising their contract right to modify their Load Growth  
12 Rate purchase or reduce their Short-Term Rate purchase outside the  
13 standard notice deadlines and purchase periods in order to apply Non-  
14 Federal Resources to serve their load. The purpose of these rates or  
15 charges would be to mitigate cost shifts to other customers.

16  
17 **Section 5: Shared Rate Plan**

18 *Q. NRU believes that the TRM should not contain a hard cap (700 MW in the TRM*  
19 *Supplemental Proposal) for participation in the Shared Rate Plan (SRP) but*  
20 *instead should be more open ended to provide the opportunity for additional*  
21 *utilities to participate. Carr and Saven, TRM-12-E-NR-01, at 4-7. Are you*  
22 *willing to propose to offer access to the SRP without a stated limit on its initial*  
23 *participation size?*

24 *A. As we have repeatedly expressed in public forums and in testimony, a limitation*  
25 *on participation in the SRP is necessary. Our reasoning for why a limitation on*  
26 *the initial amount of power to be offered under the SRP participant group is*  
27 *necessary remains the same today as it has throughout these discussions. As we*  
28 *stated in previous testimony:*

29  
30 Without a limit, the SRP could subvert the general concept of tiered rates  
31 because the SRP melds the costs of new Federal resources with the costs  
32 of the existing Federal system and shares these costs within a customer

1 pool. Without a participation limit, this concept could mask actual  
2 incremental costs and thus mask the important price signals that will  
3 encourage regional infrastructure, particularly conservation. Therefore, we  
4 propose the limit to restrict the SRP to BPA's smallest customers who  
5 have committed to purchase their entire load from BPA through the term  
6 of the CHWM Contracts. We expect that the price signals from tiered rates  
7 would have a much smaller impact on their purchasing and infrastructure  
8 development decisions. Therefore, we believe that it is reasonable to  
9 restrict access to the SRP to these customers.

10 Cherry *et al.*, TRM-12-E-BPA-02, at 24. Since the Initial Proposal, we increased  
11 the limit of 500 aMW to 700 aMW in response to concerns raised by our  
12 customers about the lower limit. We reiterate our explanation from the  
13 Supplemental testimony:

14  
15 BPA is unwilling to increase the participation limit for the SRP beyond  
16 700 aMW because of concerns that increased participation could appear to  
17 compromise our ability to meet the goals of the Policy by masking the  
18 price signals associated with tiering of the rates. THWMs of 700 aMWs  
19 are less than 10 percent of the total expected CHWMs, minimizing such  
20 appearance.

21 *Cherry et al.*, TRM-12-E-BPA-10, at 7.

22 The reasons stated in the Supplemental testimony still apply today. BPA remains  
23 concerned that expansion of the SRP will compromise the policy goals of sending  
24 price signals.

25 *Q.* Do you propose any other changes to the section of the TRM concerning the SRP?

26 *A.* Yes. We propose language to clarify how BPA will calculate the SRP Customer  
27 Rate because the math involved in that calculation was not described clearly  
28 enough in the earlier version of the TRM. The proposed revision to the paragraph  
29 starting on line 22 of page 73 in the TRM Supplemental Proposal is reflected  
30 below:

31 To calculate the SRP Customer Rate, BPA will estimate revenues to be  
32 recovered from the SRP participants by ~~determining combining~~ the  
33 forecast Rate Period revenues associated with each SRP participants under  
34 the Composite Customer Rate, the Non-Slice Customer Rate, and the Tier

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1                   2 Load Growth rate, summing these revenues for all participants and d-  
2 Dividing these forecast revenues-the sum by 100. The resulting value  
3 yields the SRP Customer Rate in the form of a dollar per one percentage  
4 point of SRCA. Each SRP participant will pay this rate multiplied by its  
5 SRCA. The SRCA will be expressed as a percentage on the customer bill,  
6 similar to the TOCA.

7                   *TRM-12-E-BPA-09, at 73.*

8  
9   **Section 6:     Resource Support Services (RSS)**

10 *Q.     PPG recommends that staff modify its RSS proposal. PPG states that the TRM*  
11 *does not need to identify the provisions of the Northwest Power Act that govern*  
12 *the provision of the various services and that the nature of the services will be*  
13 *further developed in the future. PPG, TRM-12-E-PPG-01, at 16. Do you agree*  
14 *with PPG's proposed changes?*

15 *A.     We do not agree with PPG's proposed changes, because BPA must act consistent*  
16 *with its statutory authority when designing rates, and the RSS products need to*  
17 *have their cost treatment identified even if the specific product design changes or*  
18 *is refined in the future. We believe it is necessary to identify the rate schedules*  
19 *under which these services will be offered in the CHWM Contracts in order to set*  
20 *the appropriate basis for cost recovery for these services. We further believe that*  
21 *BPA's statutory obligations under the Northwest Power Act to meet the net*  
22 *requirements of its Public customers also necessitate that the decision to offer*  
23 *these particular services be made under specified provisions of the Northwest*  
24 *Power Act. In particular, we believe that the correct basis for charging DFS and*  
25 *SCS costs is including them in the Priority Firm Power rate and not some other*  
26 *rate.*

27 *Q.     What is the Parties' proposal regarding RSS as a Designated BPA System*  
28 *Obligation?*

1 A. WPAG contends that it is inappropriate to deduct from the FBS capability the  
2 capacity needed to supply RSS. *Saleba and Falcon, TRM-12-WA-01, at 7.*  
3 WPAG argues that RSS supports “non-federal resources serving load that BPA is  
4 not obligated to serve.” *Id.* WPAG does not suggest that BPA not offer the  
5 service, but that BPA offer the RSS to those who desire it, but that the RSS  
6 charges recover the full costs of such resources BPA acquires to provide the  
7 service.

8 *Q. Do you agree?*

9 A. No. While BPA agrees that RSS supports Non-Federal Resources, some portions  
10 of the load RSS serves are a Load Following customer’s Annual Net  
11 Requirement. The two services of the RSS that comprise service to the  
12 customer’s Annual Net Requirement load are Diurnal Flattening Service (DFS)  
13 and Secondary Crediting Service (SCS). These services are supporting Annual  
14 Net Requirement load service because the contractually dedicated, specified Non-  
15 Federal Resource must be applied to the customer's load to be eligible for the  
16 service, and any variation in the Non-Federal Resource will result in additional  
17 service by BPA to the net load. It is additional load that BPA is obligated to  
18 serve under 5(b) of the Northwest Power Act, 16 U.S.C. 839c(b). Since it is  
19 preference customer net load that BPA is obligated to serve, then BPA can use the  
20 system to meet the load ahead of supplying power for other sales including  
21 surplus sales. All customers, including the Slice customers for their renewable  
22 resources, have their Above-RHWM Load treated in the same manner for the  
23 DFS when they are supplying a contractually dedicated, specified Non-Federal  
24 Resource. This service (DFS), in addition to SCS for Load Following customers,  
25 is an obligation to meet regional load served by BPA under a 5(b) contract and  
26 appropriately is an obligation BPA may use power from the Federal system to

1 meet.

2 Two other services associated with RSS are a Forced Outage Reserve  
3 Service (FORS) and a Transmission Curtailment Management Service (TCMS),  
4 which address variations in the resource performance and delivery and not load  
5 variations. These services do not supply service to 5(b) load and are provided as a  
6 9(i) service.

7 *Q. NRU believes that it is premature to fully develop the RSS now and that BPA*  
8 *should table these matters and address them in the future. Carr and Saven, TRM-*  
9 *12-E-NR-01, at 3. PPG also recommends that BPA modify language in the DFS*  
10 *subsection of the RSS section by removing two sentences from*  
11 *TRM-12-BPA-09, page 77, lines 5-10, because these services will be further*  
12 *developed in the future. PPG, TRM-12-E-PPG-01, at 16-17. What is your*  
13 *response?*

14 *A.* We agree that it is unnecessary to develop the RSS terms, conditions, and pricing  
15 in full detail at this time, but we believe some detail is necessary because of how  
16 these services connect to various provisions in the Load Following CHWM  
17 Contract and the Tier 2 rate design described in section 6 of TRM-12-E-BPA-09.  
18 Therefore, we do not agree with PPG's proposed edits to page 77 of the TRM  
19 Supplemental Proposal. BPA will offer, under the CHWM Contract, a more  
20 refined version of these services' terms and conditions by August 1, 2009. The  
21 specific pricing methodology will be the subject of a future 7(i) Process.

22 *Q. NRU is concerned that the rigid adherence to the "no cost shift" rule may limit*  
23 *the development of Non-Federal Resources. NRU contends that the increased*  
24 *interest in the Slice Product reflects the issues surrounding the difficulty in*  
25 *applying a variable resource to load service under the Load Following contract.*  
26 *Carr and Saven, TRM-12-E-NR-01, at 4. PNGC also raises this concern.*

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1 *Brawley, TRM-12-E-PN-1, at 6-8. How do you respond?*

2 A. These NRU and PNGC comments are outside the scope of the proposed TRM but  
3 instead apply to the CHWM Contracts. Nonetheless, we will attempt to briefly  
4 clarify here why the CHWM Contracts are constructed as they are, although we  
5 are not testifying to the contents of the Regional Dialogue contracts.

6 We propose that BPA apply the same standards to future customer  
7 resource development that it intends to apply to its own resource acquisitions for  
8 meeting future load at Tier 2 Rates. There are unavoidable burdens attendant to  
9 resource development, and the costs of those burdens will be present whether  
10 customers develop their own resources or buy from BPA under the Tier 2 Rate.  
11 Public customers have consistently recommended and requested that BPA design  
12 Tier 2 Rates in such a way as to avoid risk exposure for the greatest extent  
13 possible to customers that do not take service at Tier 2 Rates, and BPA has done  
14 so. By the same token, it is not appropriate for BPA to purposely subsidize non-  
15 BPA resource development by relieving customers of the natural costs and  
16 difficulties of new resource development when they develop their own resources.  
17 However, we propose that BPA provide signals that encourage customer resource  
18 development without subsidizing it.

19 Q. *WPAG states that the TRM does not facilitate the development and integration of*  
20 *Non-Federal Resources by Public customers. In particular, WPAG is concerned*  
21 *that Public customers must give three years' notice and commit to serve load with*  
22 *such resources for five years. WPAG also states concern with charges that apply*  
23 *to such resources to make them financially equivalent to a flat block. WPAG is*  
24 *concerned that the TRM makes development and integration of such resources*  
25 *difficult. Saleba and Falcon, TRM-12-E-WA-01, at 14. How do you respond?*

26 A. WPAG's comments regarding the notice and purchase periods are outside the

1 scope of the proposed TRM. These are contract matters. We disagree with  
2 WPAG's assertion that we have created a disincentive for customers to develop  
3 Non-Federal Resources by proposing 1) a flat block benchmark shape to which  
4 Load Following customers must compare their new Non-Federal Resources; and  
5 2) multiple charges to create the financial equivalent to a flat block of power. It is  
6 this very structure that provides customers an informed choice to serve their  
7 Above-RHWM Load with requirements power from BPA or Non-Federal  
8 Resources. The flat block benchmark shape offers a transparent way for all  
9 customers to evaluate how to serve their Above-RHWM Load. In addition, this  
10 benchmark, and the associated charges that are applied when a customer brings its  
11 resource to load in some other shape, ensures that other customers are not  
12 negatively impacted by the choice made by an individual customer. To do  
13 otherwise would effectively subsidize customer resource development. These are  
14 costs that customer will not avoid by purchasing power from BPA at the Tier 2  
15 Rate, so it appears unlikely that this will create an incentive to buy from BPA to  
16 meet their load growth.

17 *Q. PNGC expresses concern about BPA's proposed contract requirements for Non-*  
18 *Federal Resources and RSS. Brawley, TRM-12-E-PN-01, at 6-7. How do you*  
19 *respond?*

20 *A.* These comments are outside the scope of the proposed TRM and should be  
21 directed to the CHWM Contract development process. BPA is offering customers  
22 various options for how to serve their load growth and have provided flexibility in  
23 the contract while still complying with sound business principles. This is  
24 accomplished while creating certainty with regard to planning to serve load in the  
25 future. The notice deadlines and purchase periods are necessary to create this  
26 certainty.

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1 Q. *Western Montana G&T argues that RSS should not require customers to deliver*  
2 *their Non-Federal Resources to the BPA Balancing Authority Area if those*  
3 *resources are not already located in the BPA Balancing Authority Area.*  
4 *WMG&T argues that such a requirement will disadvantage customers served by*  
5 *transfer when trying to integrate Non-Federal Resources. Drummond, TRM-12-*  
6 *E-WM-01, at 4. Additionally, WMG&T and PNGC express concern that the staff*  
7 *proposal requires customers to purchase RSS from BPA in certain circumstances,*  
8 *seemingly at odds with BPA's stated intent of giving customers a choice as to RSS*  
9 *provider. Drummond, TRM-12-E-WM-01, at 4; Brawley, TRM-12-E-PN-01, at 7.*

10 A. These comments are outside the scope of the proposed TRM and should be  
11 directed to the CHWM Contract development process. With regard to the first  
12 issue, BPA has not yet concluded its deliberation on the requirements it will  
13 include in Exhibit D of the CHWM Contract to implement the RSS products. To  
14 clarify the intent of what has been discussed to date, however, BPA is willing to  
15 explore alternatives to the proposed baseline RSS requirement that resources  
16 outside of the BPA Balancing Authority Area be delivered to the BPA Balancing  
17 Authority Area as a condition of having access to these services. With regard to  
18 the second issue, the sections WMG&T cites in the contract are intended to  
19 communicate that unless a customer purchases a DFS-like product from a non-  
20 BPA source, that customer will have to purchase DFS from BPA. This is no  
21 different from other sections of the contracts pertaining to resources.

22 Q. *Does this conclude your rebuttal testimony?*

23 A. Yes.

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