

Tiered Rate Methodology Rate Case

# Supplemental Testimony

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July 2008

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**BPA Exhibit No.**

**Witness**

TRM-12-E-BPA-10

Cherry, Bliven, Wilson

TRM-12-E-BPA-11

Bliven, Lee, Johnson

TRM-12-E-BPA-12

Roberts, Miskey, Bliven

TRM-12-E-BPA-13

Stene, Davis, Wilson

TRM-12-E-BPA-14

Fisher, Bolden, Chalier, Gustafson, Bliven



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Tiered Rate Methodology Rate Case

# Supplemental Testimony

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July 2008

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**OVERVIEW:**  
Cherry, Bliven, Wilson

TRM-12-E-BPA-10



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1 SUPPLEMENTAL TESTIMONY of

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

3 Witnesses for Bonneville Power Administration

4  
5 **SUBJECT: OVERVIEW**

6 **Section 1: Introduction and Purpose of Supplemental Testimony**

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

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

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 Scott K. Wilson, and my qualifications are contained in  
13 TRM-12-Q-BPA-19.

14 *Q. What is the purpose of your supplemental testimony?*

15 A. The purpose of this testimony is to sponsor the Supplemental Tiered Rate  
16 Methodology (TRM), TRM-12-E-BPA-09. We describe the process for  
17 developing the Supplemental TRM and describe significant changes made in the  
18 TRM for BPA's Supplemental Proposal.

19 *Q. How is your testimony organized?*

20 A. Our testimony is organized in seven sections. Section 1 is this introduction.  
21 Section 2 discusses the development process for the Supplemental TRM,  
22 TRM-12-E-BPA-09. Section 3 discusses certain changes to TRM section 4,  
23 Eligibility to Purchase at Tier 1 Rates. Section 4 discusses certain changes to  
24 TRM section 7, Shared Rate Plan. Section 5 discusses certain changes to TRM  
25 section 8, Resource Support Services. Section 6 discusses certain changes to  
26 TRM section 10, Other Rate Design. Section 7 discusses changes to TRM

1 sections 12 and 13, criteria and processes for revising the TRM. This testimony  
2 does not describe all the changes to the TRM, except for sections 12 and 13; most  
3 are covered in other pieces of Supplemental Proposal testimony.  
4

5 **Section 2: Development of Supplemental Proposal**

6 *Q. What is the purpose of the supplemental TRM, TRM-12-E-BPA-09?*

7 A. The purpose of the Supplemental Proposal TRM fundamentally remains the same  
8 as the Initial Proposal—to establish the rate design and cost of service allocations  
9 necessary to implement the Long-Term Regional Dialogue Final Policy (Policy)  
10 issued in July 2007. This proposal supplements the Initial Proposal. Issues  
11 concerning BPA’s budgets, revenue requirements, and financial policies are not  
12 the subject of the TRM.

13 *Q. Why are you supplementing the TRM proposal?*

14 A. After BPA filed the Initial Proposal (TRM-12-E-BPA-01), BPA and the parties  
15 agreed to a stay in the formal section 7(i) proceeding and a waiver of *ex parte*.  
16 The Hearing Officer granted the stay and issued a revised schedule to allow  
17 parties time to engage in settlement discussions to resolve issues in the TRM and  
18 edit the TRM with as specific language as possible. Subsequently, BPA staff and  
19 parties met over 20 times over an 8-week period and came to agreement on a  
20 number of issues and reached an understanding on many edits to the TRM. While  
21 staff did not agree to all of the proposed changes suggested by the parties, this  
22 Supplemental Proposal represents changes that staff is willing, at this time, to  
23 incorporate into the proposed TRM, subject to the Administrator’s final decisions  
24 at the conclusion of this rate case.

1 Q. *What are the main changes to the proposal?*

2 A. Overall, the document has been significantly edited for clarity and to make the  
3 document more directorial of what BPA would propose in future 7(i) Processes  
4 that implement the TRM. So, for example, many phrases that were simply  
5 explanatory were removed. In addition, language that is better expressed in the  
6 CHWM Contract was removed from the TRM.

7 Q. *May changes to the templates for the CHWM Contracts, that are reflected in the*  
8 *CHWM Contract BPA ultimately offers, require BPA to update the TRM?*

9 A. The CHWM Contracts are inextricably linked to the TRM. If necessary to  
10 comport with the provisions in the CHWM Contracts that BPA offers, BPA will  
11 propose the necessary revisions to the TRM.

12 Q. *Are there additional changes that BPA is aware of that may need to be included*  
13 *in the TRM?*

14 A. BPA may need to address how a Joint Operating Entity (JOE) would be treated  
15 under the TRM for purposes of calculating and administering CHWMs and  
16 RHWMs and calculating and applying Tier 1 and Tier 2 Rates. BPA may propose  
17 to treat the individual utilities in a JOE separately for all aspects of the TRM.  
18 However, we recognize that there are other approaches and are interested in  
19 hearing parties' perspectives on this topic.

20

21 **Section 3: Changes to TRM Section 4 (Eligibility to Purchase at Tier 1 Rates)**

22 Q. *Please elaborate on the proposed changes to section 4 (Eligibility to Purchase at*  
23 *Tier 1 Rates).*

24 A. There are two major revisions that we are proposing in section 4. With the first  
25 revision, we clarify that BPA would calculate a CHWM for all Publics who are  
26 eligible to sign CHWM Contracts regardless of whether the individual Public

1 actually signs a CHWM Contract. However, the TRM does not provide Publics  
2 who elect not to sign CHWM Contracts any certainty regarding the cost allocation  
3 or rate design they would receive if and when they sign a Northwest Power Act  
4 section 5(b) power sales contract.

5 *Q. Why are you proposing this treatment?*

6 A. If BPA did not include potential loads that could be served at Tier 1 rates in the  
7 calculation of CHWMs (and subsequent application of CHWMs in the RHW  
8 Process), the total Eligible Loads calculated could potentially be significantly  
9 lower than the Tier 1 System Capability that will serve those loads. Such a  
10 situation would create the possibility that customers with CHWM contracts would  
11 not face Above-RHW Load, frustrating one of BPA's fundamental policy goals  
12 of having customers face the marginal cost of serving loads. If a customer does  
13 not sign a CHWM Contract, it still has a right to service under section 5(b) of the  
14 Northwest Power Act. While the TRM explicitly leaves the specifics of future  
15 rate designs for such customers, if any, to future 7(i) Processes, this change would  
16 hold open the possibility that those future rates would be also be based  
17 significantly on the costs of Tier 1 System Resources. Without the change,  
18 customers that sign a CHWM Contract would receive contractual access to rates  
19 based on all of the available Tier 1 System Capability, raising important equity  
20 concerns for customers without a CHWM Contract.

21 *Q. Please describe the second major revision to TRM section 4.*

22 A. During the settlement discussions, parties raised concerns about how BPA would  
23 calculate CHWMs for New Publics, including Tribal Utilities, and the  
24 corresponding notice provisions for New Publics.

1 *Q. What changes are being proposed regarding the notice requirements for a New*  
2 *Public to receive service from BPA under a CHWM Contract?*

3 A. In the Initial Proposal, we proposed that a New Public forming from an entity  
4 other than an Existing Public must provide BPA with a binding notice not less  
5 than three years prior to the date the New Public would begin purchasing at Tier 1  
6 Rates. *See* TRM-12-E-BPA-01, section 4.2.6.

7 BPA is changing this provision in two aspects: (1) a shorter notice  
8 requirement is being provided for smaller utilities and (2) the three-year notice  
9 requirement that remains for larger utilities is being modified slightly to account  
10 for a small window of time not covered by the three-year notice.

11 *See* TRM-12-E-BPA-09, section 4.1.6.2.

12 *Q. Please describe the first proposed change.*

13 A. The proposed three-year binding notice requirement is based on BPA's need to  
14 timely plan resource acquisitions to serve forecast new load and include those  
15 costs in the relevant 7(i) Process. We propose to shorten this notice requirement  
16 for smaller utilities in response to comments from parties, including Tribes, that  
17 BPA needs less time to acquire the needed capability to meet a relatively small  
18 new load obligation. Accordingly, we propose that a New Public with a forecast  
19 Total Retail Load (TRL) of less than 10 aMW at the time of its formation must  
20 provide binding notice to BPA by July 1 of the Forecast Year prior to the Rate  
21 Period in which it will begin purchasing from BPA at Tier 1 Rates. This deadline  
22 would allow BPA to include the new load in the RHWM Process and the forecast  
23 costs of service for the additional load in the applicable 7(i) Process so that such  
24 costs are included in the rates for that Rate Period. In addition, the 10 aMW limit  
25 on utility size helps to limit the potential rate impact of this shorter-term notice.

1 *Q. Are you proposing other changes to help facilitate the development of Tribal*  
2 *Utilities?*

3 A. Not in the TRM. However, Section 2605 of Title XXVI (Indian Energy) of the  
4 Energy Policy Act of 2005 expresses a policy that the Administrators of the  
5 Federal Power Marketing Administrations use their authorities to encourage  
6 Tribal energy development. Because strict adherence to BPA's policy regarding  
7 notice and standards of service could serve as a possible disincentive to Tribal  
8 energy development, BPA reserves its discretion to, in appropriate circumstances,  
9 work with potential small Tribal utilities to explore ways to facilitate the  
10 development of those utilities.

11 *Q. Please describe the second proposed change.*

12 A. A New Public with a forecast TRL of 10 aMW or greater would be required to  
13 provide a binding notice to BPA by the earlier of (1) three years prior to the date  
14 the New Public would begin purchasing at Tier 1 Rates or (2) July 1 of the  
15 Forecast Year prior to the Rate Period in which it would begin to purchase at  
16 Tier 1 Rates. We are proposing to modify the TRM because notice before the  
17 RHWM Process for the ensuing Rate Period would provide BPA sufficient time  
18 to forecast the costs of service for this additional load in the applicable  
19 7(i) Process and to include those costs and loads in the rates for the upcoming  
20 Rate Period. Without this proposed change, a three-year binding notice could be  
21 given after July 1 of the Forecast Year, taking effect in the last few months of an  
22 ensuing Rate Period, and it would be received too late for the related load to be  
23 considered in the RHWM Process.

24

1 **Section 4: Changes to TRM Section 7 (Shared Rate Plan)**

2 *Q. What changes in the Shared Rate Plan have been proposed in the Supplemental*  
3 *Proposal?*

4 A. We propose to change the limit for participation in the Shared Rate Plan. In the  
5 Initial Proposal, we proposed a 500 aMW participation limit.  
6 *See TRM-12-E-BPA-01, at 74.*

7 *Q. What was the purpose of the limit proposed in the Initial Proposal?*

8 A. The purpose of the proposed limit was to ensure that we did not subvert the  
9 underlying goals of the Policy by masking the price signal of incremental power  
10 costs for too large a group of customers.

11 *Q. What limit are you now proposing for participation in the Shared Rate Plan?*

12 A. We are now proposing to have a participation limit of 700 aMW. In addition, we  
13 are proposing that the limit be based on Transition Period High Water Mark  
14 (THWM) instead of FHWM.

15 *Q. Why are you proposing to use the THWM to calculate the limit?*

16 A. We are proposing to use the THWMs instead of the FHWMs for the SRP limit  
17 because the THWMs will be the best available information at the time SRP  
18 participation is established.

19 *Q. Why are you proposing to change the limit for participation in the SRP?*

20 A. We are proposing to increase the participation limit to 700 aMW in response to  
21 concerns raised by our customers about the lower limit. BPA is unwilling to  
22 increase the participation limit for the SRP beyond 700 aMW because of concerns  
23 that increased participation could appear to compromise our ability to meet the  
24 goals of the Policy by masking the price signals associated with tiering of the  
25 rates. THWMs of 700 aMWs are less than 10 percent of the total expected  
26 CHWMs, minimizing such appearance.

1 **Section 5: Changes to TRM Section 8 (Resource Support Services)**

2 *Q. Under what rate schedules did you propose to price Resource Support Services*  
3 *(RSS) in the Initial Proposal?*

4 A. In the Initial Proposal, we stated that BPA would provide RSS to Load Following  
5 customers for their Non-Federal Resources at rates under the Priority Firm Power  
6 (PF) rate schedule. In contrast, we proposed to provide RSS to Block and  
7 Slice/Block customers for their qualifying resources priced under the Firm Power  
8 Products and Services (FPS) rate schedule. *See* TRM-12-E-BPA-01, at 76.

9 *Q. Are you proposing to modify the proposed rate design for the Supplemental*  
10 *Proposal?*

11 A. Yes, to a certain extent.

12 *Q. Please explain.*

13 A. Upon additional consideration, we are now proposing to offer Diurnal Flattening  
14 Service (DFS) to all customers with a CHWM Contract for their qualifying Non-  
15 Federal Resources as a 5(b) service under the Northwest Power Act, and therefore  
16 establish rates for this service under the PF rate schedule. We propose to offer  
17 Forced Outage Reserve Services (FORS) and Transmission Curtailment  
18 Management Service (TCMS) to all Publics with a CHWM Contract for their  
19 qualifying resources as 9(i) services under the Northwest Power Act, and  
20 therefore price these services under the FPS rate schedule. We maintain our  
21 original proposal to provide the Secondary Crediting Service as a 5(b) service and  
22 establish rates for this service under the PF rate schedule.

23  
24 **Section 6: Changes to TRM Section 10 (Other Rate Design)**

25 *Q. What are the proposed changes to section 10 of the TRM regarding treatment of*  
26 *Direct Service Industrial customer (DSI) costs?*

1 A. There are two. We propose to clarify that if BPA decides to make a power sale to  
2 DSIs under the IP rate that (1) the rate would be set consistent with section 7(c) of  
3 the Northwest Power Act based on the costs that will be allocated in the 7(i)  
4 Process and (2) nothing in the TRM would prohibit the allocation of any costs of  
5 such service to the Composite Cost Pool.

6 *Q. Why is BPA making this clarification?*

7 A. The Initial Proposal contained language that was more specific than needed,  
8 potentially deciding issues that were intended to be reserved for later  
9 7(i) Processes. *See* TRM-12-E-BPA-01, at 76. The new proposed language  
10 preserves the minimum discussion necessary to reserve the issues until later. *See*  
11 TRM-12-E-BPA-09, section 10.4.

12 *Q. What other change was made?*

13 A. New language is proposed for a new rate applicable for Publics with a CHWM  
14 Contract participating in the Residential Exchange Program (REP). Currently,  
15 and unaffected by the TRM, participants in the REP sell to BPA at their  
16 individual Average System Costs (ASCs) and purchase at the PF Exchange rate  
17 (plus a utility-specific 7(b)(3) Supplemental Rate Charge, as proposed in the  
18 WP-07 rate proceeding). BPA's 2008 Average System Cost Methodology  
19 contemplates a different cost basis for the ASCs of Publics with CHWM  
20 Contracts. Therefore, our proposal is to allow BPA to establish a new Tier 1 PF  
21 Exchange rate in the future. *See* TRM-12-E-BPA-09, section 10.6.

22 *Q. Why would a Tier 1 PF Exchange rate be necessary?*

23 A. The purpose of tiered rates is to isolate the costs of the existing Federal resources  
24 from the costs of resources to meet future load growth. Costs of the REP are  
25 proposed to be Tier 1 costs. If Publics purchasing at the Tier 1 rate were to  
26 include the costs of resources to meet Above-RHWM Load in their ASCs, then

1 that resource cost for load growth would be recovered through Tier 1,  
2 compromising BPA's broadly supported policy intent that each Public be  
3 responsible for the costs of its own load growth. Our expectation is that a Public  
4 that signs a CHWM Contract would not include load growth or the costs of new  
5 Non-Federal Resources in its ASC. In such case, if the PF Exchange rate used in  
6 calculating REP benefits for the Public includes Tier 2 Costs and load, the Public  
7 would exchange an ASC rate without new resources and load growth against a PF  
8 Exchange rate that does include or reflect new resources and load growth. This  
9 creates an unequal exchange. Our proposed solution is that BPA establish a  
10 Tier 1 PF Exchange rate allowing an exchange where neither rate includes certain  
11 load growth or the costs of new resources.

12  
13 **Section 7: Changes to TRM Section 12 (Criteria and Conditions for Revising the**  
14 **TRM) and Section 13 (Processes for TRM Revisions)**

15 *Q. Please set the context for the changes to TRM sections 12 and 13.*

16 *A.* In our testimony in BPA's Initial Proposal, we proposed an alternative to  
17 section 13 of the TRM (*see* Cherry *et al.*, TRM-12-E-BPA-02, Attachment A).  
18 BPA included this alternative as language we were willing to consider, but only in  
19 the event parties uniformly supported and agreed not to contest the various  
20 aspects of the alternative proposal. In that respect, Attachment A was akin to an  
21 offer of settlement. That precondition still exists with regard to modifications  
22 now proposed to be made to Attachment A (set forth in section 13 of the  
23 Supplemental Proposal) as well as to proposed modifications at the beginning of  
24 section 12 regarding what constitutes a change to the TRM.

25 During the period of time that the TRM settlement discussions were  
26 ongoing, a smaller group of BPA and party representatives met and negotiated

1 revisions to Attachment A to our testimony in the Initial Proposal. In addition to  
2 creating a revised Attachment A, the group made some changes to section 12 so  
3 that the section corresponded with the revisions to section 13. As is true with the  
4 rest of the TRM, sections 12 and 13 were reviewed internally after these  
5 settlement discussions, and the Supplemental Proposal represents changes that  
6 BPA staff is willing, at this time, to advance, subject to the Administrator’s final  
7 decisions.

8 *Q. What is the purpose of these sections?*

9 A. The intent of the TRM remains the same—to provide customers and BPA long-  
10 term certainty and predictability in terms of the rate design that will govern  
11 establishment of BPA’s rates for customers with CHWM Contracts, balanced  
12 with BPA’s legislative requirements. These requirements were spelled out in our  
13 Initial Proposal: to periodically review and revise, if necessary, BPA’s power  
14 rates to, among other things, recover BPA’s costs; meet other Northwest Power  
15 Act section 7 rate directives regarding rates for various customer classes, cost  
16 allocation, and rate design; and meet the requirement that the Administrator shall  
17 timely implement the Northwest Power Act in a sound and businesslike manner.  
18 See, generally, *id.* at 27. The purpose of TRM sections 12 and 13 is to honor both  
19 these ongoing legislative requirements and the customer’s legitimate need and  
20 desire for long-term certainty and predictability.

21 *Q. What are the changes to section 12 that BPA is proposing?*

22 A. The changes to section 12 are fairly minor. Primarily, they have been made so  
23 that the section more closely corresponds to the other sections of the document,  
24 including definitions. In some cases, the language was simply unnecessary since  
25 the subject was adequately addressed in BPA’s Policy. We also dropped  
26 section 12.5, paragraph 2, “Any rate issue not addressed in this TRM.” This

1 phrase was dropped to be consistent with the general tenor of the document to  
2 describe what it is, not what it is not.

3 *Q. Please describe the changes to the Supplemental Proposal in section 13.*

4 A. Section 13 in the Supplemental Proposal generally contains the same basic  
5 concepts that were set out or intended in Attachment A to our testimony in the  
6 Initial Proposal, although section 13 has been reorganized and the wording of the  
7 various sections tightened up or revised. Nevertheless, the overall design of the  
8 dispute resolution provisions remains fundamentally the same. The proposed  
9 revisions to section 13 still include descriptions of the general process applicable  
10 to any TRM revision, and procedures for TRM changes that would be made to  
11 rectify unintended consequences, to make improvements or enhancements, to  
12 ensure cost recovery, or to respond to court ruling. These procedures include  
13 various voting standards that may need to be met and the option of a mini-trial  
14 before the Administrator under certain circumstances.

15 In general, the primary differences between the Attachment A to our initial  
16 testimony (Cherry *et al.*, TRM-12-E-BPA-02) and TRM section 13 in this  
17 Supplemental Proposal (TRM-12-E-BPA-09) involve adding some refinement to  
18 the procedural processes outlined in the section and modifications to the language,  
19 both of which are intended to provide more specificity and clarity. Section 13 also  
20 contains a significant addition that addresses the process applicable to an  
21 Irreconcilable Conflict with the TRM both within and outside a 7(i) Process.  
22 Finally, section 13.10 has been modified to change the dispute process for certain  
23 CHWM, RHWM, and Tier 1 System Capability determinations that are made  
24 outside (but are inputs to) the 7(i) Process.

25 *Q. Please describe how BPA's Supplemental Proposal added procedural clarity for*  
26 *customers without a CHWM Contract.*

1 A. In the Supplemental Proposal, the language is clearer that the TRM does not  
2 preclude interested parties or customers who do not sign CHWM Contracts  
3 (IOUs, DSIs, and Public entities who do not sign CHWM Contracts) from raising  
4 any issue in a 7(i) Process.

5 *Q. What other provisions were developed for customers who do not sign CHWM*  
6 *Contracts?*

7 A. While BPA is limited by the TRM regarding what steps it may take to address  
8 Unintended Consequences (section 13.2) that affect customers with CHWM  
9 Contracts, BPA clarified section 13 to note that such limitations would not apply  
10 to those without a CHWM Contract. In addition, BPA or other party proposals to  
11 revise the TRM on account of unintended consequences affecting BPA programs  
12 or policies of general application (e.g., programmatic responsibilities such as fish  
13 and wildlife, conservation, or transmission) cannot be precluded by customer  
14 vote.

15 *Q. Why do you propose these changes?*

16 A. We propose these revisions because we recognize that the TRM is a rate design  
17 applicable to only those customers that sign CHWM Contracts. BPA's rate  
18 design cannot override 7(i) procedural rights of customers without a CHWM  
19 Contract or limit BPA's broader programmatic and other responsibilities.

20 *Q. Has the addition of Irreconcilable Conflict to section 13 significantly modified the*  
21 *section?*

22 A. Yes. The addition of the term Irreconcilable Conflict expands the protections  
23 afforded customers, while ensuring that BPA's basic authority to interpret and  
24 implement the TRM is preserved. With the modifications, when a large majority  
25 of customers, by count and percentage of CHWM, vote for it, the Hearing Officer  
26 will be empowered to determine whether the TRM is silent, ambiguous, or leaves

1 a gap regarding a matter in question and, if so, whether BPA's position cannot be  
2 reconciled with any reasonable interpretation of what the TRM does provide for.  
3 This is in addition to the situation where there is a dispute over whether BPA's  
4 position is contrary to clear and unambiguous requirements or prohibitions of the  
5 TRM.

6 *Q. Why has BPA developed the procedural standards contained in section 13.5?*

7 A. BPA recognized that even Attachment A to our testimony in the Initial Proposal  
8 was very limited when it came to whether an Irreconcilable Conflict exists. As a  
9 consequence, BPA was willing to develop more expansive protections, while  
10 assuring BPA's fundamental authority to interpret and implement the TRM is not  
11 compromised. BPA continues to be accorded a high degree of deference in its  
12 interpretation of matters under these standards. As a result, the Supplemental  
13 Proposal to includes a provision that the Administrator's interpretation should be  
14 afforded deference as enunciated in *Chevron U.S.A., Inc. v. Natural Res. Def.*  
15 *Council, Inc.*, 467 U.S. 837, 104 S. Ct. 2778, 81 L.Ed.2d 694 (1984).

16 *Q. What are the changes to section 13.10 (Dispute Resolution Process for Certain*  
17 *CHWM, RHWM, and Tier 1 System Capability Determinations)?*

18 A. This section replaces Cherry *et al.*, TRM-12-E-BPA-02, Attachment A, section  
19 13.8 (Dispute Resolution Process for Certain Contract High Water Mark,  
20 Forecasted Net Requirement, and Tier 1 Federal Resource Capability  
21 Determinations). The concept is the same—BPA will retain a third-party neutral  
22 or neutrals, who will have access to relevant information from both BPA and  
23 customers on certain subjects so that if there are disputes in these areas, the third-  
24 party neutral will be prepared to make a timely non-binding determination on  
25 these issues.

1           The primary differences BPA is proposing are to ensure a timely  
2 resolution of the issues, including allowing time for the dispute process if it is  
3 invoked. The timing is most problematic for the CHWM Process. BPA currently  
4 believes the initial CHWM calculations may not be available until mid-June 2011.  
5 The CWHM Contracts commit BPA to provide final CHWM amounts to  
6 customers by September 15, 2011. Block and Slice/Block Customer need this  
7 information in order to prepare schedules prior to when power deliveries begin  
8 under the CHWM Contracts on October 1. In order to meet the September 15  
9 date, BPA must have the final CWHM amounts determined by September 1. This  
10 allows time to prepare the appropriate contract amendments and distribute them to  
11 customers. Working within the mid-June to September 1 window, BPA must  
12 impose some time limits on the steps provided for in section 13.10. BPA is  
13 providing for 30 days from the time BPA posts the CHWM determinations on its  
14 website until it posts the final (“reposts”) CHWM determinations. This means  
15 that the information sharing, public meeting, discussion, and reposting provided  
16 for in TRM section 13.10 will happen within this 30-day window. Customers  
17 then have 10 days to seek a non-binding decision by the third-party neutral. If  
18 sufficient votes are provided, the third-party neutral will have 30 days to transmit  
19 his or her decision in writing, following the procedures in section 13.10. This will  
20 give the Administrator roughly one week to make a final decision on each  
21 disputed issue after considering the third-party neutral’s report. If BPA is able to  
22 conclude the initial CHWM determination before mid-June, additional time may  
23 be added to any parts of the process described above.

24           We have not proposed a different timeframe for the RHWM Process or  
25 Tier 1 System Capability determination, as the proposed timeframe will work for  
26 those processes.

1 Q. *Are there other changes you have proposed to TRM section 13.10?*

2 A. Yes. The wording we included in Cherry *et al.*, TRM-12-E-BPA-02,  
3 Attachment A, could have been interpreted in such a way as to significantly  
4 increase the scope of the factual issues that we intended to be subject to dispute  
5 resolution. We are proposing wording changes to clarify our intent. For the  
6 CWHM Process, we clarified that we did not intend to re-open the final  
7 determination of Existing Resources for CHWMs, a determination that BPA is  
8 currently in the process of finalizing. The factual matter that would be subject to  
9 dispute in the CHWM Process is whether in the CHWM determination BPA used  
10 a different value from the final determination of those resource amounts.  
11 Similarly, in the RHWM Process, we clarified that the only issues subject to  
12 dispute are whether BPA correctly applied the CWHM determinations and the  
13 Tier 1 System Capability to the RHWM calculations. This is because the CWHM  
14 and Tier 1 System Capability will have already been determined.

15 Q. *Does this conclude your testimony?*

16 A. Yes.

Tiered Rate Methodology Rate Case

# Supplemental Testimony

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July 2008

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**COST ALLOCATION:**  
Bliven, Lee, Johnson

TRM-12-E-BPA-11



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RAYMOND D. BLIVEN, CARIE E. LEE, and JANICE A. JOHNSON

Witnesses for Bonneville Power Administration

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SUPPLEMENTAL TESTIMONY of  
RAYMOND D. BLIVEN, CARIE E. LEE, and JANICE A. JOHNSON  
Witnesses for Bonneville Power Administration

**SUBJECT: COST ALLOCATION**

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

*Q. Please state your names and qualifications.*

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

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

A. My name is Janice A. Johnson, and my qualifications are contained in TRM-12-Q-BPA-10.

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

A. The purpose of our supplemental testimony is to discuss changes to the Cost Allocation Principles, TRM-12-E-BPA-09, section 2.1, the Cost Verification Process, TRM-12-E-BPA-09, section 2.7.5, and the Cost Verification Process for Slice True-Up Adjustment Charge, Attachment A.

*Q. How is your testimony organized?*

A. Our testimony is organized in three sections. Section 1 is this introduction. Section 2 discusses the Cost Allocation Principles. Section 3 discusses the Cost Verification Process.

1 **Section 2: Cost Allocation Principles**

2 *Q. Do you propose any modifications to the Cost Allocation Principles contained in*  
3 *the Initial Proposal, TRM-12-E-BPA-01?*

4 A. Yes. We propose to modify Principle 4 to clarify what will happen in the event a  
5 Tier 2 Rate does not recover all the cost allocated to the associated Tier 2 Cost  
6 Pool. In the Initial Proposal, we did not specify how these unrecovered Tier 2  
7 costs would be recovered. In the Supplemental Proposal, we propose to revise  
8 Principle 4 to state that “BPA will seek to recover all costs of the applicable  
9 Tier 2 Cost Pool from customers purchasing power from that Tier 2 Cost Pool  
10 before proposing any reallocation of costs to a Tier 1 Cost Pool.” Therefore, in  
11 the event of a default by a customer purchasing power under a particular Tier 2  
12 Rate, BPA will first seek to recover such amounts from the other purchasers under  
13 that Tier 2 Rate. In the event BPA cannot recover all of such amounts from that  
14 Tier 2 Cost Pool, BPA will allocate any unrecoverable amounts to the Composite  
15 Cost Pool.

16 *Q. Did you make any other modifications to the Cost Allocation Principles?*

17 A. Yes. We have crafted a new principle (Principle 2) that provides as follows:  
18 “Costs not otherwise expressly allocated in the Tiered Rate Methodology (TRM)  
19 will be allocated to Cost Pools based on the principles of cost causation, meaning  
20 the costs will be allocated to the Cost Pool(s) that benefits from such costs.”  
21 While new to the TRM, this principle embodies concepts that underpin the Cost  
22 Allocation Principles and indeed the entire TRM. The addition of Principle 2 was  
23 intended to memorialize the basic cost causation principle that is a fundamental  
24 aspect of tiered rates.

1 Q. *Has the TRM been modified to create a process for BPA to use before it seeks to*  
2 *allocate a cost associated with a Tier 2 Cost Pool to a Tier 1 Cost Pool?*

3 A. Because of concerns raised by 7(i) Process parties during settlement discussions,  
4 we propose to revise the TRM to include procedural steps BPA must take before  
5 it reallocates any Tier 2 costs to a Tier 1 Cost Pool. *See* TRM-12-E-BPA-09,  
6 section 2.6. The intent is to afford customers some procedural protections against  
7 BPA allocating these costs to them before exploring various alternatives.  
8 However, nothing in these procedural steps will be allowed to frustrate the  
9 Administrator's statutory responsibility to recover costs and timely repay the  
10 U.S. Treasury.

11  
12 **Section 3: Cost Verification Process**

13 Q. *Do you propose any changes to the verification process contained in the Initial*  
14 *Proposal?*

15 A. Yes. The Initial Proposal included provisions that acknowledged that BPA would  
16 provide all customers with a verification process that would allow them the ability  
17 to determine whether BPA correctly calculated the amount of any expense or  
18 revenue credit in the Slice True-Up Adjustment Charge. This verification process  
19 was intended to replace the contractual right of Slice customers to audit the Slice  
20 True-Up Adjustment Charge. However, the Initial Proposal did not provide  
21 details about the nature and substance of the verification process. Rather than  
22 detailing the process in the TRM, we anticipated that the process would be  
23 developed during the relevant 7(i) Process and that such provisions would be  
24 included in the General Rate Schedule Provisions (GRSPs). *See* Lovell *et al.*,  
25 TRM-12-E-BPA-08, at 9. In this Supplemental Proposal, we have modified our  
26 position and we have included the Cost Verification Process in the TRM;

1           see TRM-12-E-BPA-09, section 2.7.5.

2           As we began developing the Cost Verification Process, we differentiated  
3           between the Cost Verification Process for Slice True-Up Adjustment Charge  
4           (TRM-12-E-BPA-09, section 2.7.5.1 and Attachment A) and the more general  
5           verification of the allocation of expenses and revenue credits between Cost Pools,  
6           called the Cost Review Public Process (TRM-12-E-BPA-09, section 2.7.5.2).

7   *Q. Please describe the Cost Review Public Process.*

8   A. We recognize that verification issues associated with the allocation of expenses  
9           and revenue credits between Tier 1 and Tier 2 Cost Pools and among different  
10           Tier 2 Cost Pools are different from verifying that BPA correctly calculated the  
11           amount of any expense or revenue credit in the Slice True-Up Adjustment  
12           Charge. We propose that BPA address all customer inquiries and issues related to  
13           the verification of the allocation of costs between Tier 1 and Tier 2 Cost Pools  
14           and the allocation of costs among Tier 2 Cost Pools through the Cost Review  
15           Public Process. The Cost Review Public Process will entail periodic meetings  
16           with parties to review BPA's financial data. At these meetings, parties will have  
17           the opportunity to review BPA's Power Service's revenues and expenses, obtain  
18           relevant additional information from BPA regarding its financial performance,  
19           compare BPA's actual costs to its forecast costs, review the assignment of costs  
20           among cost categories and Cost Pools, and track future financial developments.  
21           We propose that BPA will identify and hold certain issues raised in these  
22           meetings for resolution in the applicable 7(i) Process.

23   *Q. Why will certain issues identified through the Cost Review Public Process be*  
24           *addressed in the applicable 7(i) Process and not sooner?*

25   A. Some issues that may arise in these periodic meetings must be resolved in a  
26           7(i) Process. Issues of cost allocation and application of provisions of and

1 interpretations of the TRM are matters that need to be resolved in a 7(i) Process.  
2 By contrast, any accounting errors or other computational errors identified  
3 through the Cost Review Public Process may not need to be resolved in a  
4 7(i) Process and will, if possible, be corrected before the start of the next  
5 7(i) Process.

6 *Q. Please describe how you propose to address the Cost Verification Process for the*  
7 *Slice True-Up Adjustment Charge.*

8 A. As noted, the Initial Proposal did not contain any specifics regarding the steps  
9 related to verifying the Slice True-Up Adjustment Charge. During settlement  
10 discussions with 7(i) Process parties, we worked to develop specific provisions  
11 for the Cost Verification Process for the Slice True-Up Adjustment Charge.  
12 See TRM-12-E-BPA-09, Attachment A. The process provides parties with an  
13 opportunity to identify issues related to the Slice True-Up Adjustment Charge.  
14 BPA will decide which issues to include in the Agreed Upon Procedures (AUPs).  
15 The AUPs are financial services provided to BPA by an external auditor. The  
16 AUPs will describe the specific tasks to be performed, the deliverables expected,  
17 and the timeframe the auditor has to perform the AUPs. After receiving the  
18 results of the AUPs and providing parties the opportunity to comment on the  
19 results of the AUPs, BPA will issue a Draft Response regarding any adjustments  
20 to the Slice True-Up Adjustment Charge. Any party disputing the determination  
21 in BPA's Draft Responses may request a third-party non-binding review process.  
22 BPA will determine which issues raised will be forwarded to the third party for an  
23 opinion. Upon completion of the third-party non-binding review process, BPA  
24 will provide a Final Response disposing of the issues. If there are no disputes, the  
25 Draft Response will become the Final Response.

1 *Q. What purpose does the Cost Verification Process for the Slice True-Up*  
2 *Adjustment Charge serve?*

3 A. It allows all parties to confirm that BPA has properly included or excluded the  
4 expenses and revenue credits in the Slice and Composite Cost Pools pursuant to  
5 the TRM.

6 *Q. Why did you propose to place the Cost Verification Process into the GRSPs?*

7 A. We originally thought that including the Cost Verification Process in the GRSPs  
8 would readily allow the parties as well as BPA to modify the procedures as  
9 necessary to address changing future conditions. We believed that the TRM's  
10 requirements and procedures associated with making changes to the TRM could  
11 make it more difficult to respond to future changes that may be necessary to  
12 ensure the Cost Verification Process is an effective tool. During settlement  
13 discussions, parties emphasized that the need for certainty outweighs the need for  
14 flexibility. As a result of party concerns, we propose to move the Cost  
15 Verification Process provisions into the TRM.

16 *Q. Does this conclude your testimony?*

17 A. Yes.

Tiered Rate Methodology Rate Case

# Supplemental Testimony

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July 2008

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

TRM-12-E-BPA-12



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

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

**SUBJECT: FEDERAL SYSTEM RESOURCES**

**Section 1: Introduction and Purpose of Supplemental 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 supplemental testimony?*

A. The purpose of our supplemental testimony is to describe the significant modifications to the Federal System Resources reflected in the Tiered Rate Methodology, TRM-12-E-BPA-09, Section 3, that resulted from the settlement discussions with parties.

*Q. How is your testimony organized?*

A. Our testimony is organized in 6 sections. Section 1 is this introduction. Section 2 discusses changes to Tier 1 System Resources. Section 3 discusses changes to the source of data for system resources. Sections 4, 5, and 6 address Discretionary Contracts, allocation of resource costs, and adjustments to Slice Percentages.

1 **Section 2: Changes to Tier 1 System Resources**

2 *Q. How has the definition of Tier 1 System Resources changed?*

3 A. The term Tier 1 System Resources was found to be confusing in the many ways it  
4 was used in the Initial Proposal, and more clarity was required. We have refined  
5 the definition by adding five concepts. First, *Tier 1 System Resources* now refers  
6 only to the collection of resources and contract purchases. The Tier 1 System  
7 Resources are made up of the Federal System Hydro Projects, the Designated  
8 Non-Federally Owned Resources, and the Designated BPA Contract Purchases  
9 listed on Tables 3.1, 3.2, and 3.3 of the TRM. *See* TRM-12-E-BPA-09,  
10 section 3.1.3.

11           Second, separated out of the former Tier 1 System Resources are the  
12 *Designated BPA System Obligations*, which are defined as the set of obligations  
13 imposed on BPA by statutes, treaties, and contracts that require the generation or  
14 delivery of power, forbearance from generating power, or receipt of power in  
15 order to support the operation of the FCRPS. Designated BPA System  
16 Obligations are listed on Table 3.4 of the TRM. *See* TRM-12-E-BPA-09,  
17 section 3.1.4. Third, *Tier 1 System* is now used to refer to the collection of Tier 1  
18 System Resources and Designated BPA System Obligations that formerly  
19 comprised Tier 1 System Resources. *See* TRM-12-E-BPA-09, section 3.1.2.

20           Fourth, *RHWM Tier 1 System Capability* is now used to refer to the Firm  
21 Critical Output of the Tier 1 System plus the amount of augmentation BPA  
22 calculates in the RHWM Process. Finally, *Tier 1 System Capability* is used to  
23 refer to the Firm Critical Output of the Tier 1 System plus the amount of  
24 augmentation BPA forecasts in the 7(i) Process. The separation of Tier 1 System  
25 Resources into these distinct concepts makes the TRM clearer than using one term  
26 for all five concepts.

1 Q. *How is Tier 1 System Capability distinct from Tier 1 System Resources?*

2 A. Tier 1 System Resources are the resources that produce power output. Tier 1  
3 System Capability is the power output—more specifically, the Firm Critical  
4 Output—of the resources. Tier 1 System Capability also includes the amount of  
5 augmentation of the Federal system that BPA includes in rates.

6 Q. *How is the Tier 1 System Firm Critical Output computed?*

7 A. BPA will compute the Tier 1 System Firm Critical Output as the Firm Critical  
8 Output of the Tier 1 System Resources, less Tier 1 System Obligations. *Firm  
9 Critical Output* has been added as a defined term and refers to the output of  
10 Federal system resources that is considered firm; that is, the amount of power that  
11 is forecast to be produced assuming critical water.

12 Q. *Does the Tier 1 System Firm Critical Output include augmentation?*

13 A. No, augmentation is not included in the computation of Tier 1 System Firm  
14 Critical Output.

15 Q. *Why is augmentation not included in Tier 1 System Firm Critical Output?*

16 A: The amount of augmentation is not known until Tier 1 System Firm Critical  
17 Output is known. The addition of the extra term allows the TRM to specify that  
18 Tier 1 System Firm Critical Output is calculated first and then used in the  
19 calculation of the amount of augmentation.

20 Q. *How has the notion of augmentation changed since the Initial Proposal?*

21 A. Augmentation is another term that has been divided into separate concepts since  
22 the Initial Proposal. *See* TRM-12-E-BPA-09, section 3.2 and Table 3.5. The first  
23 concept is *Augmentation for Initial CHWM*, which is the amount of augmentation  
24 that BPA will add to the system, if needed, to support the CHWMs of Existing  
25 Customers. The second concept is *Augmentation for Additional CHWM*, which is  
26 augmentation to support CHWMs added for either New Publics or DOE-

1 Richland. Together, these two concepts of augmentation are referred to as  
2 RHW M Augmentation.

3 *Q: What is the significance of RHW M Augmentation?*

4 A: RHW M Augmentation is the baseline amount of augmentation that BPA includes  
5 in rates. RHW M Augmentation is computed during the RHW M Process as part  
6 of the computation of RHW M Tier 1 System Capability (and is defined as Tier 1  
7 System Firm Critical Output plus RHW M Augmentation). The amount of  
8 RHW M Augmentation that BPA computes during the RHW M Process is then  
9 reduced, if necessary, to compute Rate Period (RP) Augmentation.

10 *Q: What is RP Augmentation?*

11 A RP Augmentation is separate and distinct from RHW M Augmentation.  
12 RP Augmentation is computed in each 7(i) Process and is used to determine the  
13 cost of augmentation included in BPA's Tier 1 Rates. RP Augmentation is added  
14 to Tier 1 System Firm Critical Output to compute Tier 1 System Capability.  
15 RP Augmentation is equal to RHW M Augmentation reduced by the amount of  
16 unused RHW M projected in the 7(i) Process.

17 *Q: Is there any other refinement of the concepts related to augmentation?*

18 A. Yes. The amount of Augmentation for Initial CHWM is limited, as proposed in  
19 the Initial Proposal, to a maximum amount determined in the CHWM Process.  
20 This limit on Augmentation for Initial CHWM is called the Augmentation Limit.

21 *Q: Is augmentation for DSI loads still included in the Tier 1 System?*

22 A. No. In the settlement discussions, it became apparent that it was not necessary to  
23 include all purchases needed to support firm loads in the Tier 1 System. As a  
24 result, purchases necessary to support firm loads in excess of augmentation  
25 needed to support CHWMs (such as DSI firm loads) can be added to the Federal  
26 system without being included as part of the Tier 1 System. The costs of

1 purchases needed to support such firm loads will be included in the Composite  
2 Cost Pool. By excluding such purchases from the Tier 1 System we alleviated the  
3 need to adjust Slice Percentages to allow the purchase to match the need, rather  
4 than the need plus a share to Slice purchasers.

5 *Q. Is the Tier 1 System used for the Slice product?*

6 A. Yes, the Tier 1 System is used for the Slice product. The Slice System is the  
7 same as the Tier 1 System plus augmentation.

8

9 **Section 3: Changes to the Source of Data for System Resources**

10 *Q. Have you proposed to change the source for the base data used in calculating the*  
11 *Tier 1 System Firm Critical Output?*

12 A. Yes. Though the process for calculating the Tier 1 System Firm Critical Output is  
13 the same, the Initial Proposal specified that BPA would use the White Book as a  
14 base for the calculations. Now we propose that in the RHWM Process, BPA will  
15 produce a ‘Tier 1 System Firm Critical Output Study’ to establish the forecast  
16 Tier 1 System Firm Critical Output.

17 *Q. What is a Tier 1 System Critical Firm Output Study?*

18 A. BPA’s Tier 1 System Critical Firm Output Study forecasts BPA’s initial  
19 generation Tier 1 System Firm Critical Output for the RHWM Process. The  
20 Tier 1 System Critical Firm Output Study incorporates BPA’s calculation of the  
21 Firm Critical Output of Federal System Hydro Generation, Designated Non-  
22 Federally Owned Resources, and Designated BPA Contract Purchases. The  
23 Tier 1 System Obligations reduce the calculated Firm Critical Output.

24 *Q. Will parties to the RHWM Process be able to review the Tier 1 System Firm*  
25 *Critical Output Study?*

26 A. Yes. During the RHWM Process, parties will have opportunity to review the data

1 and assumptions BPA used to forecast Tier 1 System Firm Critical Output,  
2 receive clarification of planning assumptions and data and forecasting methods,  
3 and offer modifications for BPA's consideration.

4 *Q. How does BPA define the Critical Period in this TRM?*

5 A. The Critical Period for this TRM refers to the firm capability of hydro projects. It  
6 is defined as the period when the expected regulated and independent  
7 hydroelectric power generation from water available from reservoir releases plus  
8 historical natural streamflows produces the least amount of power to meet system  
9 load requirements, while taking into account power and non-power operating  
10 constraints, the planned operation of non-hydro resources, and expected net  
11 contract obligations. Prior to the 1990s, the Critical Period began with the initial  
12 release of stored water from full reservoir conditions and ended with the  
13 reservoirs empty. Today, however, non-power constraints for fishery  
14 requirements have reduced available reservoir storage by about 45 percent,  
15 shortening the length of the Critical Period. The Critical Period at the time of  
16 adoption of the TRM is September 1936 through April 1937 and uses historical  
17 streamflows in which hydroelectric power production, planned non-hydro  
18 resources, and Designated Contract Purchases produce the lowest percent of  
19 generation to meet system load. The Critical Period for this TRM uses Federal  
20 System Hydro Generation estimates for water conditions during the Fiscal Year  
21 October 1936 through September 1937. BPA will revisit and update the Critical  
22 Period, as needed, depending on changes in power and non-power constraints and  
23 other factors that would impact the Critical Period.

24 *Q. Why do you propose the White Book study no longer be used as the source of*  
25 *data?*

26 A. While the two studies are almost identical, there are two reasons to decouple the

1 Tier 1 System Critical Firm Output Study from the White Book study. The White  
2 Book is BPA's primary planning tool and is used for a number of purposes.  
3 Given the specificity needed in defining Tier 1 System Critical Firm Output,  
4 using the White Book as a source of data would put parties in the potential  
5 position of disputing the results and conclusions of the White Book, thereby  
6 delaying its completion and possibly limiting its usefulness and availability.

7 Second, although the White Book generally is the basis for use in BPA's  
8 rate cases, hydroregulation studies are normally updated for 7(i) Processes. The  
9 forecast of the Tier 1 System Critical Firm Output, like the 7(i) Process forecast,  
10 would exclude the WNP Settlement contracts, because it is unlikely that BPA  
11 could reliably purchase this power on an annual basis. *See Roberts et al.,*  
12 *TRM-12-E-BPA-04, at 6-7.* There may be other such differences in the future.  
13 Decoupling the two studies will allow for appropriate differences to be reflected  
14 in each without disrupting the applicability of the results of the other.

15 *Q. How do these terms distinguish determinations made in a RHWM Process from*  
16 *determinations made in a 7(i) Process?*

17 *A.* The new terms specific to the RHWM Process are Tier 1 System Firm Critical  
18 Output, RHWM Tier 1 System Capability, RHWM Augmentation, RHWM, and  
19 Above-RHWM Load. These determinations are not subject to change in a  
20 7(i) Process. Related terms subject to the 7(i) Process are Tier 1 System  
21 Capability, RP Augmentation, and unused RHWM amounts.

22 The new terms help distinguish the results of a RHWM Process, which are  
23 not changed in a 7(i) Process, from similar concepts which are subject to the  
24 determinations made in a 7(i) Process. Loads and resources are subject to  
25 examination and challenge in a 7(i) Process. Any 7(i) Process change to RHWM  
26 Process load forecasts would be captured in unused RHWM amounts. Any

1 unused RHWL amounts may define the difference between RHWL  
2 Augmentation and RP Augmentation. Any 7(i) Process change to Tier 1 System  
3 Firm Critical Output would be captured in Tier 1 System Capability and would  
4 affect the forecast of Balancing Power Purchases.

5  
6 **Section 4: Discretionary Contracts**

7 *Q. Have Discretionary Contracts changed from the Initial Proposal?*

8 A. No. However, the term is now defined and the specific contracts are now  
9 identified on Tables 3.3 and 3.4.

10  
11 **Section 5: Allocation of Resource Costs**

12 *Q. What changes have been made to the allocation of resource costs?*

13 A. The Initial Proposal specified that once the costs of a specific resource were  
14 allocated to a Cost Pool, those costs would remain associated with that Cost Pool  
15 for the duration of the resource purchase, with two exceptions. The exceptions  
16 allowed temporary reallocations under certain circumstances.

17 The Supplemental Proposal has simplified the exceptions by allowing for  
18 remarketing instead of reallocation. See TRM-12-E-BPA-09, sections 3.2.2.4  
19 and 3.4. This remarketing is limited to periods when the resources associated  
20 with a Cost Pool are greater than the loads associated with that Cost Pool. This  
21 proposed new language is more encompassing than the two exceptions in the  
22 Initial Proposal in that it allows for any circumstance where remarketing might be  
23 necessary. At the same time, the proposed new language is more restrictive than  
24 the two exceptions by allowing the remarketing only in times when resources  
25 exceed loads.

1 **Section 6: Adjustments to Slice Percentages**

2 *Q. What changes have been made to adjustments to Slice Percentages?*

3 A. The Supplemental Proposal now specifies that BPA will not forecast a reduction  
4 in Slice Percentage due to loss of load by a Slice purchaser. *See* TRM-12-E-  
5 BPA-09, section 3.6.2. BPA can reflect the load loss in the forecast of the Slice  
6 purchaser's Block purchase. However, for ratemaking purposes, BPA will  
7 continue to assume that the Slice purchaser will continue to purchase its full Slice  
8 Percentage without regard to the Forecast Net Requirement of the Slice purchaser.  
9 The Slice purchaser remains subject to a revision to its Slice Percentage after the  
10 determination of its Annual Net Requirement.

11 *Q. Does this conclude your testimony?*

12 A. Yes.

13

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Tiered Rate Methodology Rate Case

# Supplemental Testimony

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July 2008

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**ELIGIBILITY TO PURCHASE AT TIER 1 AND TIER 2 RATES:**  
Stene, Davis, Wilson

TRM-12-E-BPA-13



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LARRY M. STENE, REED C. DAVIS, and SCOTT K. WILSON

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1 TESTIMONY of

2 LARRY M. STENE, REED C. DAVIS, JOSHUA P. WARNER, and SCOTT K. WILSON

3 Witnesses for Bonneville Power Administration

4  
5 **SUBJECT: ELIGIBILITY TO PURCHASE AT TIER 1 AND TIER 2 RATES**

6 **Section 1: Introduction and Purpose of Supplemental Testimony**

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

8 A. My name is Larry M. Stene, and my qualifications are contained in TRM-12-Q-BPA-16.

9 A. My name is Reed C. Davis, and my qualifications are contained in TRM-12-Q-BPA-05.

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

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

13 A. The purpose of this testimony is to explain changes made to the Initial Proposal  
14 subsequent to settlement discussions with parties in which BPA received feedback and  
15 input regarding the Initial Proposal. Certain of these changes are substantive, while  
16 others are being made for clarification purposes.

17 *Q. How is your testimony organized?*

18 A. This testimony contains three sections, including this introductory Section 1. In section  
19 2, we describe certain substantive changes that we propose be made to the Initial  
20 Proposal other than the change to notice requirements for New Publics described in the  
21 testimony of Cherry *et al.*, TRM-12-E-BPA-10. In section 3, we address changes that  
22 we propose for clarification.  
23

1 **Section 2: Substantive Changes to the Initial Proposal**

2 *Q. What substantive changes are you proposing to the TRM regarding service at tiered*  
3 *rates?*

4 A. Substantive changes are proposed in three areas: the treatment of the Centralia Non-  
5 Federal Resource for CHWM purposes; the methodology for weather-normalizing  
6 irrigation load data; and public process and dispute resolution regarding the  
7 determination of CHWMs, RHWMs, and certain related inputs.

8 *Q. Please describe the CHWM treatment of the Centralia resource.*

9 A. In the Initial Proposal, we proposed that the Centralia resource would not be considered  
10 as an Existing Resource for CHWM when calculating the CHWMs of the four  
11 participating utilities. However, the proposal conditioned this treatment of the resource  
12 on all of those utilities signing CHWM Contracts. *See* TRM-12-E-BPA-01, section 4.1.  
13 Consistent with the Regional Dialogue Policy and the associated Record of Decision, the  
14 Initial Proposal also noted that this treatment of the resource in the context of calculating  
15 a CHWM would not impact how BPA may treat this resource under BPA's 5(b)/9(c)  
16 Policy. Any such determination would be made after the signing of CHWM  
17 contracts. *Id.*

18 *Q. What is BPA's Supplemental Proposal regarding the Centralia resource?*

19 A. We have modified our proposal to eliminate the requirement that all four participating  
20 utilities sign CHWM Contracts before BPA would not consider the Centralia resource as  
21 an Existing Resource for CHWM for those utilities. Now, for any one of the  
22 participating utilities that signs a CHWM Contract, BPA will not consider the Centralia  
23 resource as an Existing Resource for CHWM when calculating that utility's CHWM.  
24 *See* TRM-12-E-BPA-09, Tiered Rate Methodology Definitions, definition of Existing  
25 Resources for CHWM.

1           Additionally, we removed from the definition the reference to the determinations  
2 regarding the Centralia resource under BPA's 5(b)/9(c) Policy, because any such  
3 determination would be independent of, and unrelated to, BPA's treatment of the  
4 resource for purposes of calculating a CHWM. Following the signing of the CHWM  
5 Contracts, a final determination on how the Centralia resource will be treated for  
6 purposes of net requirements determinations would be made under BPA's 5(b)/9(c)  
7 Policy.

8 *Q. Please describe the weather normalization of irrigation load data for CHWM*  
9 *determinations.*

10 A. In the Initial Proposal, we proposed a weather normalization methodology for the  
11 irrigation load portion of the Measured FY 2010 Load data that would use a five-year  
12 average of historical irrigation load data. See TRM-12-E-BPA-01, section 4.2.1.2.

13 *Q. What changes are being proposed regarding the weather normalization of irrigation*  
14 *load data for CHWM purposes?*

15 A. We are proposing two changes. The first proposed change is that BPA would adjust the  
16 five-year historical irrigation load average for positive load growth, measured over a  
17 10-year period preceding CHWM calculations. See TRM-12-E-BPA-09, section 4.1.1.2.

18           We are proposing this change in response to party comments that using a simple  
19 five-year historical average may not fully capture the effect that any irrigation load  
20 growth would have on the historical load data.

21 *Q. What is the second proposed change?*

22 A. The second proposed change is that prior to weather normalizing irrigation load data in  
23 FY 2011, BPA would examine whether a different weather-normalization technique  
24 should be used to more accurately normalize this load. If BPA ultimately determines  
25 that there is a better weather-normalization methodology for irrigation load than is  
26 described in the TRM, BPA will use this methodology when developing CHWMs. *Id.*

1 This proposed change would allow parties and BPA to work collaboratively to study  
2 alternative methodologies for irrigation load weather normalization and, if possible,  
3 adopt a methodology that better meets the criteria for the methodology, such as  
4 accuracy, cost-effectiveness, and repeatability across various customers' loads.  
5 Accordingly, when CHWMs are calculated, BPA may use a different  
6 weather-normalization methodology for irrigation load data than will be described in the  
7 TRM resulting from the current TRM 7(i) Process.

8 *Q. What changes are being proposed regarding the public process for CHWM*  
9 *determinations?*

10 A. In the Initial Proposal, we proposed that BPA would publish its CHWM calculations,  
11 receive public comment for two weeks, and work with parties to resolve any questions  
12 or concerns, where possible. BPA would then republish its CHWM calculations two  
13 weeks following the close of the comment period, reflecting any changes made in  
14 response to party concerns. *See* TRM-12-E-BPA-01, section 4.2.5.

15 We modified this proposal by providing for a publicly noticed meeting during  
16 the comment period and clarifying that any CHWM calculation not disputed under TRM  
17 section 13.10 will be considered final 10 days following the republishing of CHWMs  
18 after the comment period. *See* TRM-12-E-BPA-09, section 4.1.5. However, if any  
19 other customers' CHWMs are disputed under TRM section 13.10 and an adjustment is  
20 required to a disputed CHWM, then all CHWMs would have to be recalculated  
21 accordingly. The public meeting and 10-day window in which to dispute the  
22 republished CHWMs are consistent with the procedures outlined in TRM section 13.10.  
23

1 **Section 3: Proposed Changes to the Initial Proposal for Clarification**

2 *Q. What clarifying changes are being proposed to the TRM regarding defined terms?*

3 A. Certain TRM topics and processes are challenging to communicate clearly and without  
4 ambiguity. In response to party comments, we are proposing to modify a set of defined  
5 terms in the TRM. Regarding eligibility to purchase under tiered rates, the primary  
6 changes in defined terms are proposed to clarify how CHWMs would be developed for  
7 New Publics and how the Tier 1 System Resources would be augmented when  
8 determining CHWMs, RHWMs, and Additional CHWM amounts. Most of the  
9 proposed changes in defined terms affecting section 4 of the TRM are identified below.  
10 Additionally, we have removed the description of and definition for Forecast High  
11 Water Mark (FHWM) from the TRM because the FHWM has no role in determining  
12 rates.

13 *Q. What clarifying changes are you proposing to the TRM regarding the election of service  
14 for Above-RHWM Load?*

15 A. In the Initial Proposal, we proposed the process for each customer's elections as to who  
16 would provide service for its Above-RHWM Load and what amounts of power it would  
17 purchase from BPA at Tier 2 Rates, if any, during the Transition Period.  
18 *See* TRM-12-E-BPA-01, section 4.4, *et seq.* In response to party comments that the  
19 description of the different Tier 2-priced purchase commitment periods for customers  
20 purchasing different products was confusing, we have restructured the discussion of this  
21 topic and for convenience included in the TRM a chart that links elections for service to  
22 Above-RHWM Load to the purchase periods for service under the CHWM Contracts.  
23 *See* TRM-12-E-BPA-09, sections 4.3.1 and 4.3.2. The chart has been added to the TRM  
24 for illustration purposes only, since the actual notice provisions are terms contained in the  
25 CHWM Contracts. Additionally, the description of election of service under Tier 2 Rate  
26 Alternatives has been moved to TRM section 6.2.

1 Q. *What clarifying changes are you proposing to the TRM regarding the phasing in of New*  
2 *Publics?*

3 A. In the Initial Proposal, we proposed the process for phasing in requests for CHWM by  
4 New Publics when the CHWM would exceed the limit of 50 aMW for any one Rate  
5 Period. *See* TRM-12-E-BPA-01, section 4.2.6.5. In response to party comments that  
6 the description of the phasing-in process and determination of the CHWM for such New  
7 Publics during the phase-in process was confusing, we have clarified the discussion of  
8 this topic. In collaboration with parties, new or revised defined terms were developed  
9 for Existing Customers, Existing Publics, Competing New Publics, Potential CHWM  
10 Eligibility, and Phase-in Amount. *See* TRM-12-E-BPA-09, Tiered Rate Methodology  
11 Definitions and section 4.1.6, *et seq.*

12 Q. *What clarifying changes are being proposed to the TRM regarding the definition of*  
13 *Existing Resources for CHWM?*

14 A. In the Initial Proposal, we proposed a defined term “Existing Resources” to define those  
15 resources that would be used in determining each customer’s CHWM.  
16 *See* TRM-12-E-BPA-01, section 4.1. However, as parties worked with BPA in  
17 developing the templates for CHWM Contracts, it was recognized that the resources used  
18 to develop CHWMs might not be the same as the “[dedicated] Existing Resources”  
19 carried forward from Subscription contracts to the CHWM Contracts, particularly with  
20 regard to the treatment of PURPA resources. Under the new definition, the treatment of  
21 PURPA resources for CHWM purposes is clarified to resolve differences between the  
22 Regional Dialogue ROD and the final Policy. Under the new definition, PURPA  
23 resources with a capability of less than 3 aMW will not be counted as an Existing  
24 Resource for CHWM calculations; however, any load served by the resource in FY 2010  
25 that would otherwise be retail load served by the BPA customer would be included in the  
26 determination of Measured FY 2010 Load for that customer. For PURPA resources with

1 a capability greater than 3 aMW, the lesser of the resource's measured output in FY 2010  
2 serving a customer's retail load or the amount declared for use in FY 2010 in the  
3 customer's Subscription contract Exhibit C, effective September 30, 2006, would be used  
4 for the customer's CHWM calculation.

5 *Q. Does this conclude your supplemental testimony?*

6 *A. Yes, it does.*

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Tiered Rate Methodology Rate Case

# Supplemental Testimony

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July 2008

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**TIER 1 RATE DESIGN:**  
Fisher, Bolden, Chalier, Gustafson, Bliven

TRM-12-E-BPA-14



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SUPPLEMENTAL TESTIMONY of

DANIEL H. FISHER, GERARD C. BOLDEN, ANNICK E. CHALIER,

GREG C. GUSTAFSON, and RAYMOND D. BLIVEN

Witnesses for Bonneville Power Administration

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1 SUPPLEMENTAL TESTIMONY of

2 DANIEL H. FISHER, GERARD C. BOLDEN, ANNICK E. CHALIER,

3 GREG C. GUSTAFSON, and RAYMOND D. BLIVEN

4 Witnesses for Bonneville Power Administration

5  
6 **SUBJECT: TIER 1 RATE DESIGN**

7 **Section 1: Introduction and Purpose of Supplemental Testimony**

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

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

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

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

15 A. My name is Greg C. Gustafson, and my qualifications are contained in  
16 TRM-12-Q-BPA-07.

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

19 *Q. What is the purpose of your supplemental testimony?*

20 A. The purpose of our supplemental testimony is to describe the significant  
21 modifications to the Tier 1 Rate design, Tier 2 Rate Design, Shared Rate Plan,  
22 Resource Support Services, and Irrigation Rate Mitigation proposals reflected in  
23 the Tiered Rate Methodology, TRM-12-E-BPA-09, Sections 5, 6, 7, 8, and 10,  
24 that resulted from the settlement discussions with parties and that are not already  
25 addressed elsewhere in other sections of supplemental testimony.

TRM-12-E-BPA-14

Page 1

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

1 Q. How is your testimony organized?

2 A. Our testimony is organized in five sections. Section 1 is this introduction.  
3 Section 2 discusses the calculation of Contract Demand Quantity.  
4 Section 3 discusses application of the Load Shaping Rate for participants in the  
5 Shared Rate Plan. Section 4 discusses refinements to the Forced Outage Reserve  
6 Services and a new service called the Transmission Curtailment Management  
7 Service. Section 5 discusses the treatment of Slice in the Irrigation Rate  
8 Mitigation program.

9

10 **Section 2: Calculation of Contract Demand Quantity**

11 Q. *How do you propose to modify the manner in which the Contract Demand*  
12 *Quantity (CDQ) would be calculated?*

13 A. Under the Initial Proposal, we proposed to calculate the customer-specific CDQs  
14 based on the average of each customer's FY 2005-2007 monthly load factors  
15 applied to the customer's monthly Fiscal Year (FY) 2010 Total Retail Load  
16 (TRL) in Heavy Load Hours (HLH), less Existing Resources, both as used in the  
17 calculation of the customer's Contract High Water Mark (CHWM). *See* TRM-12-  
18 E-BPA-01, at 61. In the Supplemental Proposal, we propose that each customer's  
19 CDQs would be derived from the weighted average of each customer's FY 2005-  
20 2007 monthly HLH load factors applied to the customer's adjusted Measured  
21 FY 2010 Load for monthly average HLH, less the HLH Existing Resources  
22 amounts (and NLSLs) for the corresponding months for FY 2012 as set forth in  
23 Exhibit A of the customer's CHWM Contract on the effective date of the CHWM  
24 Contract. *See* TRM-12-E-BPA-09, section 5.3.5.

1 *Q. Why do you propose to use the FY 2012 resource shapes as determined in the*  
2 *CHWM Contract for calculating the CDQ?*

3 A. In the Initial Proposal, we tried to develop a CDQ methodology that could be  
4 applied consistently across all Publics. Because the shape of FY 2010 Existing  
5 Resources for some customers is incomplete or unavailable, we initially proposed  
6 to use the annual average Existing Resource amounts from the CHWM Process to  
7 calculate CDQs. While we recognize the benefits of using shaped resource data,  
8 we lack a uniformly available source for such information. This led us to propose  
9 a simplified method of collecting resource amounts. During settlement  
10 discussions, parties raised objections to our simplified method. Parties objected  
11 to the fact that the use of annual average resource amounts could adversely impact  
12 the monthly calculation of the CDQ. We recognize that the use of annual average  
13 resource amounts for calculation of the CDQ could distort the calculation for  
14 some customers during particular months. As a result, we have decided to modify  
15 our proposal. Rather than using annual average resource amounts, BPA would  
16 use Existing Resource amounts for Fiscal Year 2012 contained in Exhibit A of the  
17 customer's CHWM Contract on the effective date of the CHWM contract.  
18 Because all CHWM Contracts contain an Exhibit A with monthly resource  
19 amounts, this proposal should avoid many of the concerns associated with using  
20 annual average resource amounts.

21 *Q. Are there any circumstances where you are proposing an adjustment to the*  
22 *calculation of the CDQ?*

23 A. Yes. If it is anticipated that a customer would have a disproportionate amount of  
24 its Customer System Peak (CSP) subject to the Demand Rate in FY 2012, then  
25 BPA would make an adjustment to the calculation of the CDQ. BPA would apply  
26 the Demand Billing Determinant methodology to FY 2010 actual loads. BPA

1 may adjust a customer's CDQ, if the Demand Billing Determinant exceeds  
2 25 percent of a customer's CSP. If BPA determines an adjustment is warranted,  
3 BPA would apply the HLH load factor (*see* TRM-12-E-BPA-09, section 5.3.5.1)  
4 for such month without application of the 91 percent adjustment to the HLH load  
5 factor. In determining whether to recalculate the HLH load factor, BPA would  
6 give consideration to whether 1) there was a discrete event beyond the control of  
7 the customer that caused the size of the Demand Charge Billing Determinant;  
8 2) the size of the Billing Determinant is likely to recur in the future; and 3) the  
9 recalculation of the adjusted HLH load factor and CDQ would not materially  
10 frustrate BPA's policy objective of having all customers with HLH load factors  
11 under 100 percent face the marginal cost of capacity.

12 *Q. Are you proposing a similar adjustment if the determined percent of the*  
13 *customer's CSP is zero?*

14 *A.* Yes. If the determined percent of the customer's CSP computed consistent with  
15 TRM-12-E-BPA-09, section 5.3.5.2, is zero, BPA may modify the HLH load  
16 factor for such month, with application of a number larger than 91 percent. As  
17 with instances where the Demand Billing Determinant is greater than 25 percent  
18 of the CSP, BPA would give consideration to whether 1) there was a discrete  
19 event beyond the control of the customer that caused the size of the Demand  
20 Charge Billing Determinant and 2) the size of the Billing Determinant is likely to  
21 recur in the future. In these circumstances, the objective would be to remove  
22 excess CDQ headroom and not to reduce the CDQ, so as to place the customer  
23 back on the margin for the cost of capacity.

24 *Q. Do you propose to clarify how CDQs would be calculated for New Publics*  
25 *formed from an entity other than an Existing Public?*

26 *A.* Yes. As originally proposed, the CDQ for New Publics that are formed from

1 another entity (e.g., an Investor-Owned Utility) would receive monthly adjusted  
2 HLH load factors calculated using monthly average adjusted HLH load factors for  
3 all customers. After settlement discussions with parties, we propose to continue  
4 to use the same basic methodology to allow the customer's CDQs to be more  
5 reflective of similarly situated utilities, taking into account such factors as  
6 geographic location, Non-Federal Resources, and the nature of the retail load. In  
7 addition, we propose to clarify that when New Public's CHWMs are phased in as  
8 described in TRM-12-E-BPA-09, section 4.1.6.5, the CDQ would change each  
9 Rate Period until the CHWM phase-in process has concluded.

10  
11 **Section 3: Shared Rate Plan**

12 *Q. What did you propose in the TRM Initial Proposal regarding the PF rate design*  
13 *applicable to Shared Rate Plan (SRP) participants?*

14 A. In the Initial Proposal, we proposed that SRP participants receive a Shared Rate  
15 Cost Allocator (SRCA) in addition to their Tier 1 Cost Allocator (TOCA). Each  
16 participant would pay the SRP Customer Rate multiplied by its SRCA. Each  
17 participant would also pay Load Shaping Rates and Demand Rates based on its  
18 TOCAs as if it was not an SRP participant. The Load Shaping Rate True-Up was  
19 proposed to be applied in the same way as for non-SRP participants. In addition,  
20 we proposed a special SRP Load Shaping Rate True-Up adjustment to offset any  
21 incentive to over-forecast Tier 2 amounts.

22 *Q. Are you now proposing changes to the SRP?*

23 A. Yes. We are now proposing to include the Load Shaping Charge in the SRP  
24 billing.

25 *Q. Please explain this proposed change.*

26 A. Instead of calculating and applying the Load Shaping Charges on an individual

1 customer basis, we are proposing to calculate the individual Load Shaping  
2 Charges, aggregate them, and then allocate them to the SRP participants based on  
3 their SRCAs. In proposing this change, we also withdraw the proposed  
4 adjustment to the Load Shaping Rate True-Up for SRP participants from the  
5 Initial Proposal, because the risk it was designed to mitigate no longer exists.

6 *Q. Why are you proposing to change the SRP billing design by allocating the*  
7 *aggregate of all SRP participants' Load Shaping Charges based on their SRCAs?*

8 A. We are proposing to modify the billing design of the Load Shaping Charges for  
9 participants in the SRP based on the settlement discussions with party  
10 representatives. There was sufficient party interest in making this modification to  
11 cause us to propose this change.

12 *Q. Do you anticipate any consequences to this modification?*

13 A. Yes. We anticipate this modification could cause SRP participants with “lower-  
14 cost” load shapes to pay a portion of the cost of serving SRP participants with  
15 “higher-cost” load shapes. This may be an incentive for those customers to  
16 choose to leave this rate option.

17

18 **Section 4: Resource Support Services (RSS)**

19 *Q. Have you refined the application of Forced Outage Reserve Services (FORS)?*

20 A. Yes. We propose to refine the manner in which FORS will be offered. The Initial  
21 Proposal failed to distinguish between offering this service for a qualifying  
22 resource and for other assets that impact the generation associated with a  
23 qualifying resource. Under the Supplemental Proposal, we propose that these  
24 services would be priced separately and will be resource-, location-, and situation-  
25 specific. Currently, we propose to offer FORS only for qualifying resources.  
26 BPA may in the future offer FORS for other assets that impact the generation of

1 qualifying resources. However, that decision would be made in the future.

2 *Q. Have you added any new services to the list of RSS included in the Initial*  
3 *Proposal?*

4 A. Yes. We propose to include an offer of a Transmission Curtailment Management  
5 Service to customers with a CHWM Contract for their qualifying resources,  
6 provided the probability of transmission curtailment is within allowable limits.  
7 We will acquire electric power in accordance with 9(i) of the Northwest Power  
8 Act to replace the qualifying resource when there is a transmission curtailment  
9 between the qualifying resource and the customer load to provide this service.  
10 BPA intends to pass through the costs of providing this service directly to the  
11 customers purchasing this service. The specific rate design will be decided in a  
12 future 7(i) Process.

13

14 **Section 5: Irrigation Rate Mitigation**

15 *Q. What changes are you proposing to Irrigation Rate Mitigation in section 10.3 of*  
16 *the TRM, TRM-12-E-BPA-09?*

17 A. Originally we proposed a cap on the Irrigation Rate Mitigation (IRM) benefit for  
18 the Slice/Block customers. The cap was the lesser of a customer's monthly Block  
19 purchased at Tier 1 rates, or the qualifying irrigation kilowatthours specified in  
20 the CHWM Contract. Thus, the cap had prevented Slice customers from  
21 including their Slice Percentage in the kilowatthours of irrigation load eligible for  
22 the IRM discount. We now propose to allow the inclusion of a customers' Slice  
23 Percentage, in addition to the Block Amount, when comparing the kilowatthours  
24 of irrigation load eligible for the IRM discount to the amount of requirements  
25 power the customer has purchased.

1 *Q. Why are you proposing these changes?*

2 A. When we first developed this criterion it was assumed the Priority Firm Power  
3 rate design would be similar for purchases under CHWM Contracts as it was for  
4 purchases under Subscription contracts. To the contrary, the proposed Tiered  
5 Rate Methodology is very different from the rate design implemented in the  
6 Subscription contracts. Under the TRM, all IRM costs would be included as  
7 Tier 1 costs. Slice/Block customers would be paying Tier 1 costs for their Slice  
8 Percentage amounts and Block amounts; therefore the “lesser of cap” would  
9 create an inequity between customers purchasing a Load Following product and  
10 those purchasing a Slice/Block product. Elimination of the cap would  
11 re-establish the equity between these power products under Irrigation Rate  
12 Mitigation.

13 *Q. Does this conclude your testimony?*

14 A. Yes.

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