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TESTIMONY of
ELIZABETH A. EVANS, CHARLES W. FORMAN, JR., KENNETH J. MARKS,
and ROBERT E. YOUNG
Witnesses for Bonneville Power Administration

SUBJECT: LOOKBACK RECOVERY AND RETURN FOR FY 2010-2011

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2 ELIZABETH A. EVANS, CHARLES W. FORMAN, JR., KENNETH J. MARKS,
3 and ROBERT E. YOUNG
4 Witnesses for Bonneville Power Administration
5

6 **SUBJECT: LOOKBACK RECOVERY AND RETURN FOR FY 2010-2011**

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

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

9 A. My name is Elizabeth A. Evans and my qualifications are described in
10 WP-10-Q-BPA-17.

11 A. My name is Charles W. Forman, Jr. and my qualifications are described in
12 WP-10-Q-BPA-20.

13 A. My name is Kenneth J. Marks and my qualifications are described in WP-10-Q-BPA-43.

14 A. My name is Robert E. Young and my qualifications are described in WP-10-Q-BPA-62.

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

16 A. The purpose of this testimony is to sponsor the Lookback Recovery and Return Study
17 (Study), WP-10-E-BPA-09. This testimony describes our proposed approach to
18 determining the amount of FY 2010 and FY 2011 Residential Exchange Program (REP)
19 benefits due to each investor-owned utility (IOU) that are to be applied to each IOU's
20 Lookback Amount and returned to the eligible consumer-owned utilities (COUs). COUs
21 are defined as those public bodies, cooperatives, and Federal agencies that are eligible to
22 purchase power under the Priority Firm rate. In this testimony we also describe
23 corrections to the amounts of FY 2009 REP benefits applied to Lookback Amounts for
24 three IOUs. We then describe corrections to the percentages adopted in the WP-07
25 Supplemental Final Proposal that BPA used to determine the annual utility-specific
26 Lookback Credit Amounts returned to each eligible COU in FY 2009. In addition, our

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and Robert E. Young

1 testimony describes generally the impacts of a proposed settlement of Avista
2 Corporation's (Avista) deemer account balance.

3 *Q. How is your testimony organized?*

4 A. This first section describes the purpose of this testimony. Section 2 provides some
5 background information regarding the WP-07 Supplemental rate case that relates to this
6 testimony and the associated Study, WP-10-E-BPA-09. Section 3 describes corrections
7 to the FY 2009 REP benefits applied to certain IOUs' Lookback Amounts that have
8 occurred subsequent to the WP-07 Supplemental rate proceeding. In this section, we also
9 state the resulting estimates of the IOUs' ending FY 2009 Lookback Amount balances.
10 Section 4 describes the policy objectives we considered to determine the amount of REP
11 benefits due to apply to each IOU's Lookback Amount (and return to eligible COUs) in
12 FY 2010-2011. Section 5 describes the amounts of the REP benefits due that we propose
13 to apply to each individual IOU's Lookback Amount for FY 2010 and FY 2011. Section
14 5 also discusses the interest rate we propose to apply to the IOUs' remaining Lookback
15 Amount balances. Section 6 describes our proposed approach for returning the Lookback
16 Amounts to the eligible COUs in FY 2010-2011. Section 7 describes some errors
17 discovered in the WP-07 Supplemental Final Proposal and our proposed approach to
18 correcting those errors. Lastly, section 8 describes in broad terms the effects a proposed
19 settlement of Avista's deemer balance could have on its Lookback Amount and other
20 related items.

21
22 **Section 2: Background**

23 *Q. What is the "Lookback"?*

24 A. The "Lookback" is a construct BPA developed in response to two decisions issued in
25 May of 2007 by the U.S. Court of Appeals for the Ninth Circuit (Court). We are not
26 lawyers, and therefore cannot render legal opinions, but our general understanding of

1 these cases is as follows. In *Portland General Elec. Co. v. Bonneville Power Admin.*, 501
2 F.3d 1009 (9th Cir. 2007) (*PGE*), the Court found that the 2000 Residential Exchange
3 Program Settlement Agreements (REP Settlement Agreements) executed by BPA and the
4 IOUs were inconsistent with the Northwest Power Act. In a companion case, *Golden NW*
5 *Aluminum, Inc. v. Bonneville Power Admin.*, 501 F.3d 1037 (9th Cir. 2007) (*Golden NW*),
6 the Court remanded the WP-02 power rates to BPA on the grounds that BPA improperly
7 allocated the costs of the REP Settlement Agreements, as amended, to BPA's preference
8 customers. Although the Court's decision in *Golden NW* addressed only the WP-02
9 rates, the WP-07 wholesale power rates were influenced by the decisions because they
10 contained the same infirmity identified by the Court.

11 To respond to the Court's decisions, BPA revisited its WP-02 and WP-07 rate
12 case assumptions through a comprehensive "Lookback" construct. As explained fully in
13 the 2007 Supplemental Wholesale Power Rate Proceeding Administrator's Final Record
14 of Decision (WP-07 Supplemental ROD), the Lookback construct compared the amounts
15 paid under the REP Settlement Agreements for FY 2002-2008 with the amounts BPA
16 would likely have paid qualifying IOUs under the traditional operation of the REP. The
17 difference between these two amounts, subject to certain specified rules, is generally
18 referred to as the "Lookback Amount." See FY 2002-2008 Lookback Study, WP-07-FS-
19 BPA-08, chapters 13-15. The total Lookback Amount is composed of six IOU-specific
20 Lookback Amounts. The Lookback Amount will be recovered from the IOUs over time
21 through reductions in future REP benefits and returned to the eligible COUs as credits on
22 their power bills. See WP-07 Supplemental ROD, WP-07-A-05, chapter 9.

23 Q. Are you proposing any major changes to the Lookback in this Initial Proposal?

24 A. No. The major tenets of the Lookback construct as stated in the WP-07 Supplemental
25 ROD, the final study, FY 2002-2008 Lookback Study, WP-07-FS-BPA-08, and BPA's
26 previous testimony, Bliven, *et al.*, WP-07-E-BPA-52, Marks, *et al.*, WP-07-E-BPA-62,

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and Robert E. Young

1 and Forman, *et al.*, WP-07-E-BPA-76, are maintained in this Initial Proposal. However,
2 we are updating the end-of-FY 2009 Lookback Amounts to reflect the implementation to-
3 date of the REP in FY 2009. These updates mean that the ending FY 2009 Lookback
4 Amounts used in this Initial Proposal differ slightly from the numbers in the WP-07
5 Supplemental Final Proposal. We are also making some corrections to the non-Slice PF-
6 02 revenue shares that determine the Lookback Credit Amount that appears on each
7 eligible non-Slice COU's power bill. In addition, we are setting forth BPA Staff's
8 position on issues that were left open to be decided in subsequent rate cases.

9 *Q. What changes are you proposing to make to the Lookback in the Initial Proposal?*

10 A. The changes we are proposing to the Lookback fall into four general categories. First,
11 there were some data and calculation errors that we discovered subsequent to the
12 completion of the WP-07 Supplemental Final Proposal. We propose to correct these
13 errors in the Initial Proposal. Second, we propose to update three of the IOUs'
14 outstanding Lookback Amount balances to reflect the implementation of the REP for FY
15 2009. Third, as noted in the WP-07 Supplemental ROD and final studies, certain
16 decisions related to the Lookback were made only for FY 2009, and were left open for
17 reevaluation in each future rate case. These issues include establishing the amount of
18 REP benefits to apply against Lookback Amounts, whether to apply the 50 percent
19 threshold, and the appropriate interest rate to apply to the unamortized Lookback
20 Amounts. We are making a proposal for each of these issues for this rate period in the
21 Initial Proposal. Finally, there is a possibility that Avista's deemer balance could be
22 settled before the conclusion of this case. This settlement has not been finalized yet, but
23 if it is executed, we propose to reflect it in the final Lookback calculations.

24

1 **Section 3: Changes to the FY 2009 REP Benefits Applied to Lookback Amounts**

2 *Q. What was the expected amount of REP benefits to be applied to the IOUs' Lookback*
3 *Amounts in FY 2009?*

4 A. In the WP-07 Supplemental Final Proposal, BPA expected that \$70.77 million in IOU
5 REP benefits would be applied to the total Lookback Amount in FY 2009. *See Study,*
6 *WP-10-E-BPA-09, Table 1, for each IOU's share.*

7 *Q. Has this amount changed since the WP-07 Supplemental Final Proposal?*

8 A. Generally, no. The total amount of REP benefits applied to the Lookback Amount in FY
9 2009 is still expected to be \$70.77 million. However, the amounts of REP benefits
10 applied by Avista, PacifiCorp and Puget Sound Energy (Puget) to their individual
11 Lookback Amounts have changed. Portland General Electric's (PGE) amount of REP
12 benefits applied to its Lookback Amount changed very slightly due to rounding and the
13 implementation of the Supplemental 7(b)(3) Rate Charge Adjustment. 2007
14 Supplemental General Rate Schedule Provisions (GRSPs), WP-07-A-05A, at 111-112.

15 *Q. Why have the amounts of REP benefits applied to Lookback Amounts changed?*

16 A. In October of 2008, BPA received the initial ASC filings for FY 2009 from the IOUs.
17 These "as filed" ASCs generally were higher than the forecasts of ASCs used in the WP-
18 07 Supplemental Final Proposal. For example, the as-filed FY 2009 ASC for Puget
19 averages \$66.24 per MWh (*see* [www.bpa.gov/corporate/finance/ascm/filings/
20 FY09_ASC_Monthly_Table.pdf](http://www.bpa.gov/corporate/finance/ascm/filings/FY09_ASC_Monthly_Table.pdf)) compared to \$59.71/MWh assumed in the WP-07
21 Supplemental Final Proposal. Wholesale Power Rate Development Study (WPRDS),
22 WP-07-FS-BPA-13, at 125. The IOUs also filed revised exchange loads that were lower
23 than those assumed in the WP-07 Supplemental Final Proposal.

24 The as-filed ASCs triggered the implementation of the Supplemental 7(b)(3) Rate
25 Charge Adjustment. 2007 Supplemental GRSPs, WP-07-A-05A, at 111-112. The
26 forecast ASCs were the basis for the calculations of the REP benefits due in the WP-07

1 Supplemental Final Proposal, which were then the basis for the determination of the
2 amount of REP benefits applied to each IOU's Lookback Amount. In general,
3 implementation of the Supplemental 7(b)(3) Rate Charge Adjustment re-allocates REP
4 benefits, before any deemer or Lookback adjustments, among the IOUs but does not
5 change the total expected amount of REP benefits. This adjustment, as defined in the
6 2007 Supplemental GRSPs, takes into account changes in ASCs but does not account for
7 changes in forecasts of exchange loads. Its purpose is to maintain the total expected level
8 of REP benefits due (before deemer or Lookback adjustments) at approximately the same
9 total amount of REP benefits included in power rates.

10 Implementation of the Supplemental 7(b)(3) Rate Charge caused the total REP
11 benefits of \$266 million to be re-allocated among the IOUs based on their as-filed ASCs
12 for FY 2009. In particular, Puget's REP benefits rose, and all others decreased relative to
13 those calculated in the WP-07 Supplemental Final Proposal. Because the amounts of
14 REP benefits due that were applied to their Lookback Amounts were not similarly
15 changing, Avista and PacifiCorp found themselves in the position of receiving less than
16 50 percent of their REP benefits due as established in the WP-07 Supplemental ROD,
17 WP-07-A-05, section 9.3.2. As a result, Avista and PacifiCorp asked if BPA would
18 reduce their respective FY 2009 REP benefits applied to Lookback Amounts such that
19 their expected REP benefits paid would again be not less than 50 percent of REP benefits
20 before adjustment for Lookback amounts recovered. Because FY 2009 is a transition
21 year, BPA agreed to do so provided that other IOUs were willing to increase their REP
22 benefits applied to their Lookback Amounts to maintain the total amount of Lookback
23 recovered from the IOUs at \$70.77 million. Puget agreed to increase its Lookback
24 amount recovered in FY 2009 in an amount equal to the sum of the reductions in the
25 Lookback amounts recovered for Avista and PacifiCorp. As such, Avista's FY 2009
26 REP benefits applied to Lookback went from \$2.57 million to \$2.18 million, PacifiCorp's

1 amount went from \$26.25 million to \$23.56 million, and Puget's amount went from
2 \$25.14 million to \$28.20 million. Study, WP-10-E-BPA-09, Table 1.

3 *Q. Why did BPA agree to adjust the amount of REP benefits applied to these utilities'*
4 *Lookback Amounts in FY 2009?*

5 A. BPA agreed to these changes because they mitigated the unanticipated consequences of
6 the application of the Supplemental 7(b)(3) Rate Charge Adjustment in what BPA
7 considers to be an exceptional transition year. FY 2009 is unique in that it is the first
8 year that BPA implemented the new 2008 ASC Methodology, the Supplemental 7(b)(3)
9 Rate Charge Adjustment, and the recovery of the Lookback Amounts from the IOUs. In
10 particular, BPA had not anticipated the substantial difference between the as-filed ASCs
11 and the forecast ASCs assumed in the WP-07 Supplemental Final Proposal. This
12 divergence was unique to FY 2009 because the ASCs under the new ASC methodology
13 were not final prior to the WP-07 Supplemental Final Proposal. As such, in October of
14 2008, when it appeared that the Supplemental 7(b)(3) Rate Charge Adjustment would
15 cause REP benefits to fall below 50 percent, BPA believed that it was a reasonable to
16 implement a solution which held the COUs' harmless, while at the same time maintained
17 the objectives outlined in the WP-07 Supplemental ROD.

18 *Q. Given the changes already described, what is the current estimate of the ending FY 2009*
19 *Lookback Amount balance for each IOU?*

20 A. The total end-of-FY 2009 Lookback Amount balance is now \$641.51 million, compared
21 to the end-of-FY 2009 balance of \$636.338 million established in the WP-07
22 Supplemental Final Proposal. Table 2 of the Study, WP-10-E-BPA-09, shows the
23 individual IOU Lookback Amount balances that sum to these totals.
24

1 **Section 4: Policy Direction for Determining the Amount of REP Benefits to be Applied**
2 **to Lookback Amounts for FY 2010 and FY 2011**

3 *Q. What policy objectives are guiding your proposal for determining the amount of each*
4 *IOU's Lookback to recover in FY 2010-2011?*

5 A. Our approach to recovering the Lookback Amounts from the IOUs and returning them to
6 the COUs is guided by the policy direction stated in the WP-07 Supplemental rate
7 proceeding in Bliven, *et al.*, WP-07-E-BPA-52, pages 21-22, which proposed seven
8 objectives for consideration when constructing BPA's approach to recovering and
9 returning Lookback Amounts. Specifically, these objectives are as follows:

- 10 • First, the approach must be consistent with law and consistent with the Court's
11 rulings;
- 12 • Second, the approach must be reasonable given the circumstances;
- 13 • Third, the approach should, to the extent possible, recover the Lookback Amounts
14 from the IOUs and return them to the COUs over a reasonable period of time;
- 15 • Fourth, timely recovery of Lookback Amounts should also allow a reasonable level of
16 REP benefits to residential and small farm consumers of the IOUs if, in fact, such
17 benefits are owed;
- 18 • Fifth, the approach should reflect the fact that key factors impacting future REP
19 benefits, including IOU and BPA costs, load growth, regulatory, and environmental
20 policies and other factors cannot be forecast with precision;
- 21 • Sixth, stability and predictability of REP benefits to IOUs and of REP costs borne by
22 COUs is a laudable and appropriate policy objective, but this objective should be
23 pursued in light of the uncertainties and practical limitations noted previously;
- 24 • Seventh, the approach should, to the extent possible, reflect the perspectives and input
25 of BPA's customers and other regional stakeholders.

26 *Id.*

1 In addition, we are guided by the final decisions in the WP-07 Supplemental
2 ROD, where BPA determined that the above objectives could be met through a goal of
3 returning the Lookback Amount to the eligible COUs within seven years, provided that
4 for FY 2009 the amount of REP benefits for any IOU would not fall below 50 percent.
5 The 50 percent threshold was to be reevaluated in each subsequent rate case. *See* WP-07
6 Supplemental ROD, WP-07-A-05, section 9.3.2.

7 *Q. How are you proposing to implement this policy direction in FY 2010 and FY 2011?*

8 A. For the Initial Proposal, we propose to follow the same approach adopted in the WP-07
9 Supplemental ROD. Specifically, we propose to reduce the IOUs' REP benefits due in
10 FY 2010-2011 such that the IOUs' Lookback Amounts will be amortized by FY 2015,
11 which is the seventh year of the amortization plan started in FY 2009, provided that no
12 individual IOU's REP benefit level falls below 50 percent.

13 *Q. Why are you proposing to continue to provide the IOUs with at least 50 percent of their
14 REP benefits?*

15 A. As just noted, in the WP-07 Supplemental Final ROD, BPA concluded that an IOU
16 should receive at least 50 percent of its REP benefits due for FY 2009. *See* WP-07
17 Supplemental Final ROD, WP-07-A-05, section 9.3.2. BPA also stated that it would
18 reconsider in each rate proceeding whether or not the REP benefits paid to an IOU should
19 fall below 50 percent of its REP benefits due. *Id.* As we considered the policy objectives
20 discussed in the WP-07 Supplemental case, we found that those objectives favored
21 preservation of the 50 percent minimum level in this case.

22 *Q. Please describe the factors you considered.*

23 A. First, we considered the effect on REP benefits that would result if we adopted an
24 approach that amortized all of the IOUs' Lookback Amounts by FY 2015. This review
25 revealed that if no limitation were put in place, Avista would receive approximately 11
26 percent of its REP benefits during the WP-10 rate period while PacifiCorp would receive

1 no REP benefits at all. We concluded that this result would not comport with either the
2 second or fourth objective stated above, which maintains that the Lookback approach
3 should be reasonable, and provide a reasonable level of REP benefits (when legally due)
4 to the residential and small farm customers of the IOUs.

5 Second, we considered whether adopting a 50 percent threshold for this rate
6 period would materially impact the third goal of returning the Lookback Amount to the
7 COUs within a reasonable time. Using the simplified assumption that REP benefits will
8 remain at FY 2011 levels (in nominal terms), the 50 percent threshold has no impact on
9 the payoff of the Lookback Amounts of Portland General Electric (PGE) and Puget.
10 Both of these utilities are forecast to completely amortize their respective Lookback
11 Amounts by FY 2015. The 50 percent limitation also has no impact on NorthWestern
12 Energy because it has already extinguished its Lookback Amount. Idaho Power is
13 similarly not affected by the 50 percent limitation because it is not forecast to receive
14 REP benefits during the rate period. Thus, the only utilities impacted by the 50 percent
15 approach are Avista and PacifiCorp.

16 For Avista and PacifiCorp, imposition of the 50 percent threshold results in a
17 projected payoff of their Lookback Amounts in FY 2022 and FY 2024, respectively,
18 under the assumption that their REP benefits remain at the FY 2011 level. Study, WP-
19 10-E-BPA-09, Table 4. While these projected pay-off dates are beyond the FY 2015 goal
20 articulated in the WP-07 Supplemental ROD, we do not view them as unreasonable in
21 light of the seven objectives. By FY 2015, approximately 70 percent of the total
22 combined Lookback Amounts owed by Puget, PacifiCorp, PGE, and Avista will have
23 been returned to the COUs. Thus, the COUs will have received a significant portion of
24 the Lookback Amount associated with these utilities by the FY 2015 goal. In addition,
25 all Lookback Amount balances accrue interest. The COUs will, therefore, be
26 compensated for any delay in the repayment of Avista and PacifiCorp through additional

1 interest earned. In light of these considerations, we believe maintaining the 50 percent
2 threshold for REP benefits in the WP-10 rate period is reasonable.

3 *Q. What other factors did you consider in maintaining the 50 percent threshold for the*
4 *Initial Proposal?*

5 A. We also considered the fifth and sixth policy factors outlined above. The fifth policy
6 factor states that our approach should reflect the fact that key factors affecting future REP
7 benefits, including IOU and BPA costs, load growth, regulatory, and environmental
8 policies and other factors, cannot be forecast with any precision. Here, we note that
9 BPA's forecast of when the Lookback Amounts will be completely paid still retains a
10 significant degree of uncertainty, as it did in the last rate proceeding. For example, the
11 projected payoff date is based on simplified assumptions, using REP benefits from FY
12 2011 as the projected amount of future REP benefits. This assumption, however, does
13 not take into account the plethora of changes that may result in higher (or lower) REP
14 benefits over time. For example, settlement of Avista's deemer account balance would
15 almost certainly advance the year in which its Lookback Amount would be repaid. Our
16 projection of when the Lookback Amounts may be repaid should be viewed in this
17 context.

18 The sixth policy factor provides that we should aim for stability and predictability
19 of REP benefits to IOUs and of REP costs borne by COUs. Maintaining the 50 percent
20 threshold in FY 2010-2011 generally meets this objective because it results in
21 approximately the same amount of IOU REP benefits paid and Lookback Amount
22 recovered and returned to COUs as in FY 2009. Conversely, if the 50 percent threshold
23 were abandoned in our proposal, the total amount of REP benefits paid to Avista and
24 PacifiCorp would be dramatically lower than in the previous rate proceeding. We do not
25 believe that substantially reducing REP benefits to the region's residential and small farm
26 consumers within only a year's time is consistent with the policy guidance outlined

1 above, and that the better approach is to maintain a stable return of the Lookback
2 Amounts that also results in a reasonable level of REP benefits.

3 *Q. The seventh factor states that the Lookback should reflect the perspectives and input of*
4 *BPA's customers and other regional stakeholders. Will you consider other approaches*
5 *to determining the amounts of REP benefits to apply to the Lookback Amounts for FY*
6 *2010-2011?*

7 A. Yes. As with any other matter presented in a rate proceeding, we welcome the parties'
8 input and alternatives on this subject. The Administrator will consider their approaches,
9 as well as our own, in his decisions.

10
11 **Section 5: Proposed Lookback Amounts to be Recovered and Interest Rates for**
12 **FY 2010-2011 and Resulting End-of-FY 2011 Lookback Amount Balances**

13 *Q. How much of the IOUs' Lookback Amount do you propose to recover in FY 2010-2011?*

14 A. We propose to recover \$71.34 million in FY 2010 and \$72.24 million in FY 2011 from
15 the IOUs. Table 3 in the Study, WP-10-E-BPA-09, contains the IOU-specific amounts of
16 REP benefits due that are proposed to be applied to their respective Lookback Amounts
17 in FY 2010 and FY 2011.

18 *Q. What interest rate do you believe is appropriate for the IOUs to pay on outstanding*
19 *Lookback Amounts?*

20 A. We are proposing to use the U.S. Treasury bill rates determined in the WP-07
21 Supplemental rate proceeding to accrue interest each month on the remaining IOU-
22 specific Lookback Amount balances during this rate period. Section 2.5 of the FY 2002-
23 2008 Lookback Study, WP-07-FS-BPA-08, at 9-10, provides a complete explanation of
24 the derivation of these interest rates. *See* Table 5 in the Study, WP-10-E-BPA-09, at 10.

1 Q. *How much of the IOUs' total Lookback Amounts would remain at the end of this rate*
2 *period?*

3 A. As of the end of FY 2011, \$549.39 million would remain of the original FY 2002-2007
4 Lookback Amount after accounting for the amounts recovered from the IOUs and the
5 interest accrued over the rate period. Table 9 of the Study, WP-10-E-BPA-09, shows the
6 individual ending-FY 2011 Lookback amount balances for each IOU that sums to this
7 total.

8
9 **Section 6: Return of the Lookback Amounts Recovered in FY 2010-2011 to the Eligible**
10 **COUs**

11 Q. *What is your proposal for returning the recovered Lookback Amounts to the eligible*
12 *COUs in FY 2010 and FY 2011?*

13 A. We propose to continue the practice of including credits on eligible COUs' power bills
14 for their shares of the Lookback Amounts recovered from the IOUs. For FY 2010 and
15 FY 2011, we propose to add together the annual Lookback Amounts recovered (*i.e.*,
16 \$71.34 million and \$72.24 million, which added together equal \$143.58 million) to derive
17 a total Lookback Credit Amount for the rate period. This total amount is then
18 apportioned between the Slice and non-Slice total amounts. The revised non-Slice PF-02
19 revenue shares and the Slice percent shares will then be applied to the appropriate Slice
20 or non-Slice total amount to determine the amount of the credit for each eligible COU for
21 the rate period. This total would then be divided by 24 to calculate the equal monthly
22 amount to be returned over the rate period to each eligible COU. Each COU that is
23 eligible for this credit will therefore see the same amount on each power bill for these two
24 fiscal years. Table 7 of the Study, WP-10-E-BPA-09, contains the proposed Lookback
25 Credit Amounts for each eligible COU based on the proposed Lookback recovery
26 amounts.

1 Q. *Why 24 equal payments instead of two sets of 12 equal payments?*

2 A. We believe this approach is easier to administer and therefore is preferred. It also does
3 not result in a material difference between the total amount being recovered from the
4 IOUs and the total amount being returned to the eligible COUs each year, and no
5 difference during the rate period. The Lookback amounts to be recovered each year
6 differ only by about \$900,000. For ease of administration, we believe it is better to have
7 one monthly credit amount for the entire rate period.
8

9 **Section 7: Corrections to the FY 2009 Lookback Credit Amounts in the WP-07**
10 **Supplemental Final Proposal**

11 Q. *Are you proposing any corrections to the calculations presented in the WP-07*
12 *Supplemental Final Proposal that determined the non-Slice PF-02 Revenue Shares?*

13 A. Yes.

14 Q. *What are those proposed corrections?*

15 A. First, BPA identified errors in the data used to calculate the revenue shares that were used
16 to determine the amount each eligible COU would receive of the Lookback Amount that
17 was to be recovered in FY 2009. A few components of PF-02 revenues were
18 inadvertently left out of the total revenues used to calculate the percentages. Specifically,
19 the PF-02 revenues and associated utility-specific percentages did not account for certain
20 take-or-pay charges, U.S. Bureau of Reclamation irrigation credits, and the Load-based
21 Cost Recovery Adjustment Clause true-up amounts that were collected after the end of
22 FY 2006.

23 Q. *Does this mean that the non-Slice COUs are receiving incorrect Lookback Credit*
24 *Amounts on their power bills during FY 2009?*

25 A. Yes, but the differences are a very small percentage of the Lookback Amount Credit for
26 FY 2009 for nearly all eligible COUs.

1 *Q. What do you propose to do in order to correct these amounts?*

2 A. We propose that the differences between what each eligible COU is receiving in FY 2009
3 as a Lookback Credit Amount and what they should be receiving, after accounting for the
4 corrections, be included as a one-time charge or credit on the November, 2009, bill for
5 October deliveries for eligible non-Slice customers and the block purchases of the Slice
6 customers. No errors occurred in the calculations of the Slice percent share because
7 those are not based on PF-02 revenues. Tables 7 and 8 of the Study, WP-10-E-BPA-09,
8 provide the corrected revenue data, corrected PF-02 revenue shares, and the corrections
9 to the FY 2009 Lookback Credit Amounts for each eligible COU.
10

11 **Section 8: Impact of the Proposed Settlement of the Avista Deemer Account**

12 *Q. You recently opened a public comment period on a proposed settlement with Avista*
13 *regarding its 1981 Residential Purchase and Sale Agreement deemer balance. If a*
14 *settlement is finalized between BPA and Avista, will it affect the Lookback Amounts*
15 *presented here?*

16 A. Yes. The proposed settlement, if executed, would reduce Avista's beginning FY 2010
17 Lookback Amount. Avista's current estimated end of FY 2009 Lookback Amount is
18 \$77.6 million. Study, WP-10-E-BPA-09, Table 2. If a deemer settlement is reached
19 under the proposed terms, this amount would be reduced to approximately \$64.8 million.

20 *Q. How does staff propose to account for this settlement if it is signed?*

21 A. In the WP-07 Supplemental rate case, BPA assumed a beginning of FY 2002 deemer
22 balance for Avista of \$85.6 million. This figure was not agreed to by Avista, and was a
23 contested issue throughout the WP-07 Supplemental proceeding. BPA stated in the WP-
24 07 Supplemental ROD that it was not making final determinations on deemer issues.
25 BPA also noted that it would adjust Lookback Amounts to reflect any settlement or other
26 resolution of the deemer issues.

1 Under the proposed Avista deemer settlement, BPA would replace the \$85.6
2 million beginning FY 2002 deemer balance with \$55 million and re-run the Lookback
3 model used in the WP-07 Supplemental Final Proposal, FY 2002-2008 Lookback Study,
4 WP-07-FS-BPA-08. This would result in a lower beginning FY 2009 Lookback Amount
5 and beginning FY 2009 deemer balance, (referred to as the Balancing Account balance in
6 the Bridge RPSA) for Avista. BPA would use these recalculated amounts to implement
7 the REP in FY 2009. Using these recalculated amounts, in concert with the adjustments
8 to the Lookback Amount recovered from Avista in FY 2009 as described in section 3,
9 results in an estimated beginning FY 2010 Lookback Amount of \$64.8 million.
10 Settlement of Avista's deemer balance would also impact the calculation of Avista's
11 Definitive Payment Amount as determined under section 9 of the Residential Exchange
12 Interim Relief and Standstill Agreement, Contract No. 08PB-12438 (Interim Agreement),
13 between BPA and Avista. The final studies in support of the Final Proposal will reflect
14 any settlement of Avista's deemer balance if it is finalized in time.

15 *Q. Under the proposed Avista deemer settlement, when would Avista be expected to*
16 *amortize fully its Lookback Amount?*

17 *A. We estimate that under the proposed settlement, Avista would fully amortize its*
18 *Lookback Amount by FY 2020, compared to FY 2022 absent settlement.*

19 *Q. Does this conclude your testimony?*

20 *A. Yes.*
21