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TESTIMONY of

CARIE E. LEE, JANICE A. JOHNSON, BYRNE LOVELL, and TIMOTHY C. ROBERTS

Witnesses for Bonneville Power Administration

SUBJECT: SLICE REVENUE REQUIREMENT AND RATE

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5 Witnesses for Bonneville Power Administration

6
7 **SUBJECT: SLICE REVENUE REQUIREMENT AND RATE**

8 **SECTION 1: INTRODUCTION AND PURPOSE OF TESTIMONY**

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

10 A. My name is Carie E. Lee, and my qualifications are contained in WP-10-Q-BPA-35.

11 A. My name is Janice A. Johnson, and my qualifications are contained in
12 WP-10-Q-BPA-31.

13 A. My name is Byrne Lovell, and my qualifications are contained in WP-10-Q-BPA-38.

14 A. My name is Timothy C. Roberts, and my qualifications are contained in
15 WP-10-Q-BPA-51.

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

17 A. The purpose of this testimony is to: 1) describe the Slice Revenue Requirement for
18 FY 2010-2011 and the calculation of the Slice rate; 2) describe the treatment of certain
19 expenses in the calculation of the Slice True-Up Adjustment Charge; 3) explain the
20 potential cost shift related to the forecast Slice True-Up Adjustment Charge; 4) describe
21 the adjustments to the Slice True-Up for the return of FY 2002-2006 Lookback Amounts;
22 and 5) sponsor portions of the Wholesale Power Rate Development Study (WPRDS),
23 WP-10-E-BPA-05, and the 2010 Wholesale Power Rate Schedules and General Rate
24 Schedule Provisions (GRSPs), WP-10-E-BPA-07, related to the Slice rate development
25 and the Slice True-Up.

26 *Q. How is your testimony organized?*

27 A. This testimony contains eight sections, including this introductory section. Section 2
28 describes the Slice Revenue Requirement and Slice Rate. Section 3 describes the Slice

1 True-Up and the treatment of certain expenses. Section 4 describes the Slice True-Up
2 and a related potential cost shift. Section 5 describes the costs of DSI service. Section 6
3 describes the treatment of revenues from generation inputs for integration of wind
4 generation. Section 7 describes the adjustments to the Slice True-Up for the return of FY
5 2002-2006 Lookback Amounts. Section 8 describes the changes to the Methodology to
6 Calculate Slice Rate and Slice True-Up Adjustment Charge (Slice Rate Methodology).
7 The Attachment, Table 1, Slice Product Costing and True-Up Table, follows these
8 sections.

9
10 **SECTION 2: SLICE REVENUE REQUIREMENT AND SLICE RATE**

11 *Q. What is the Slice Revenue Requirement?*

12 A. The Slice Revenue Requirement is the list of expenses and revenue credits used to
13 calculate the Slice rate. The Slice Revenue Requirement includes the same expenses and
14 revenue credits that are included in BPA's generation revenue requirement, with certain
15 limited exclusions. Table 1, the Slice Product Costing and True-Up Table, the
16 attachment to this testimony, contains the Slice Revenue Requirement for this Initial
17 Proposal that is the basis for the proposed FY 2010-2011 Slice rate.

18 *Q. Are you proposing revisions to the Slice Revenue Requirement for FY 2010-2011?*

19 A. Yes.

20 *Q. Why are you revising the Slice Revenue Requirement for FY 2010-2011?*

21 A. We propose revisions to the Slice Revenue Requirement for FY 2010-2011 to reflect the
22 updates to the generation revenue requirement. *See* Lennox, *et al.*, WP-10-E-BPA-12.

23 *Q. Are you proposing changes to the method used to calculate the Slice rate?*

24 A. No.

1 *Q. Please explain how the Slice rate is calculated.*

2 A. To calculate the Slice rate, the total dollar amounts for each fiscal year of the Slice
3 Revenue Requirement are summed and divided by 24 months (the number of months in
4 the rate period); that quotient is divided by 100 to obtain the monthly base Slice rate per
5 one percent of Slice product purchased.

6 *Q. How much is the monthly Slice rate per percent of Slice product purchased?*

7 A. For the Initial Proposal, the proposed monthly Slice rate is \$2,049,762 per one percent
8 Slice product purchased for FY 2010-2011.

9
10 **SECTION 3: SLICE TRUE-UP AND TREATMENT OF CERTAIN EXPENSES**

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

12 A. The Slice True-Up is a process that ensures that Slice customers pay their share of Power
13 Services' actual expenses and receive their share of actual revenue credits applicable to
14 the Slice Revenue Requirement.

15 *Q. How is the Slice True-Up Amount calculated?*

16 A. To calculate the Slice True-Up Amount for a given fiscal year, the average of the annual
17 Slice Revenue Requirements for the applicable rate period is subtracted from the Actual
18 Slice Revenue Requirement for that fiscal year. The Actual Slice Revenue Requirement
19 is comprised of audited actual financial data in the cost categories constituting the Slice
20 Revenue Requirement. The difference between the Actual Slice Revenue Requirement
21 and the rate period average Slice Revenue Requirement will determine the Slice True-Up
22 Amount. The Slice True-Up Amount is multiplied by each customer's Slice percentage
23 to calculate the Slice True-Up Adjustment Charge for each customer. A positive result
24 from the calculation will result in a True-Up Adjustment Charge; a negative result will
25 result in a credit to the Slice customers.

1 For example, to calculate the Slice True-Up for FY 2010, BPA will subtract the
2 FY 2010-2011 rate period average Slice Revenue Requirement that results from this
3 WP-10 rate proceeding from the Actual Slice Revenue Requirement for FY 2010. The
4 difference between the Actual Slice Revenue Requirement and the rate period average
5 Slice Revenue Requirement will determine the Slice True-Up Amount. The Slice True-
6 Up Amount then will be multiplied by each customer's Slice percentage to calculate the
7 Slice True-Up Adjustment Charge for each customer. BPA will multiply the Slice True-
8 Up Amount by the total Slice percentage of 22.6278 percent to derive a forecast of the
9 total Slice True-Up Adjustment Charges (or credits) to Slice customers.

10 *Q. What is the proposed treatment of bad debt expenses for the Actual Slice Revenue*
11 *Requirement in the FY 2010-2011 period?*

12 *A. Any bad debt expense associated with the sale to any customer who purchases*
13 *exclusively at the FPS-10 rate would be excluded from the Actual Slice Revenue*
14 *Requirement. However, any bad debt expense associated with the sales to customers*
15 *who purchase power at both the PF-10 and FPS-10 rates, along with any bad debt*
16 *expense associated with the sales to customers who purchase power at the PF-10 rate*
17 *only would be included in the Actual Slice Revenue Requirement.*

18 This treatment of bad debt expenses is consistent with the treatment adopted in
19 the Partial Resolution of Issues in the WP-07 Final Proposal, WP-07-A-02, Attachment 1.
20 This treatment is appropriate because these bad debt expenses are related to BPA's sales
21 of surplus power. The revenues from sales at the FPS rate are excluded from the Slice
22 Revenue Requirement. 2007 Administrator's Final Record of Decision, WP-07-A-02, at
23 12-3 – 12-4. The Slice product includes an advance sale of surplus power. Slice
24 customers assume the power supply and market price risks associated with their share of
25 surplus power directly. *Id.* at 12-4.

1 *Q. Are there any other bad debt expenses that would be excluded from the Actual Slice*
2 *Revenue Requirement?*

3 A. Yes. The Actual Slice Revenue Requirement would exclude any future bad debt expense
4 related to write-offs of any outstanding California Independent System Operator
5 (CAISO) or California Power Exchange (Cal PX) receivables.

6 Allowances for uncollectible DSI liquidated damages for FY 2002 or prior years
7 also would not be included in the Actual Slice Revenue Requirement for Slice True-Up
8 purposes.

9 *Q. Why would any future bad debt expenses related to write-offs of any outstanding CAISO*
10 *or Cal PX receivables or allowances for uncollectible DSI liquidated damages for*
11 *FY 2002 or prior years be excluded from the Actual Slice Revenue Requirement?*

12 A. Such bad debt expenses were specifically excluded as part of the Slice Settlement
13 Agreement (07PB-12273), which is effective until September 30, 2011.

14 *Q. What is the treatment of any recoveries of bad debt expense?*

15 A. For the categories of bad debt expenses specifically excluded from the Actual Slice
16 Revenue Requirement for Slice True-Up purposes for FY 2010-2011, the credits
17 associated with any recovery of the receivables related to such bad debt expenses
18 previously written off are not credited to the Actual Slice Revenue Requirement. This
19 treatment is specified by the Slice Settlement Agreement.

20 *Q. How does the Initial Proposal treat the renewables expenses associated with the*
21 *reinvestment of Green Tag revenues?*

22 A. Consistent with the treatment adopted in the Partial Resolution of Issues in the WP-07
23 Final Proposal, the Initial Proposal would exclude from the Slice Revenue Requirement
24 the estimated expenses associated with the reinvestment of Green Tag revenues. Partial
25 Resolution of Issues, WP-07-A-02, Attachment 1. The Initial Proposal also would
26 exclude such renewables expenses from the Actual Slice Revenue Requirement for Slice

1 True-Up purposes. Green Tag revenues refer to those revenues generated from three
2 sources: 1) Green Energy Premium revenues resulting from sales of Renewable Energy
3 Certificates, 2) Green Tag revenues resulting from sales of Environmentally Preferred
4 Power, and 3) revenues from sales of Alternative Renewable Energy to Pre-Subscription
5 power purchasers. Green Tag revenues are reinvested in BPA's renewable resource
6 facilitation, research, and development.

7 *Q. What is the forecast of augmentation expenses for FY 2010-2011?*

8 A. In this Initial Proposal, the forecast augmentation purchases and related prices for
9 FY 2010 are \$53.34/MWh for 372 aMW of unspecified augmentation and \$30.58/MWh
10 for 10.3 aMW of Excess Requirements Energy (ERE) purchased from Slice customers.
11 For FY 2011, the forecast augmentation purchases and related prices are \$57.70/MWh for
12 599 aMW of unspecified augmentation and \$30.96/MWh for 7.6 aMW of ERE purchased
13 from Slice customers.

14 *Q. How do Slice customers pay for augmentation expenses?*

15 A. Slice customers are required to pay their proportionate share of the net cost of all
16 augmentation expenses. The "net cost" of augmentation refers to the expenses associated
17 with the purchase of the augmentation power less the associated revenues from the sale of
18 such augmentation power at the PF Preference rate. Slice customers do not receive any
19 power associated with these augmentation purchases.

20 *Q. What are the assumptions for revenues from the sale of augmentation power?*

21 A. The revenues associated with the sale of augmentation power are estimated based on the
22 projected PF Preference rate for power and multiplied by the amount of power that would
23 be sold (382.3 aMW in FY 2010 and 606.6 aMW in FY 2011). The PF Preference rate is
24 forecast to be \$29.43/MWh for FY 2010-2011. This is an average PF rate for Initial
25 Proposal purposes and is not final.

1 Q. *Would the net cost of augmentation power for FY 2010-2011 be subject to the Slice True-*
2 *Up?*

3 A. No. The net cost of augmentation power for FY 2010-2011 would not be subject to the
4 Slice True-Up process, except for adjustments included in the Final Proposal.
5

6 **SECTION 4: FORECAST SLICE TRUE-UP ADJUSTMENT CHARGE AND RELATED**
7 **POTENTIAL COST SHIFT**

8 Q. *Describe the issue of the potential cost shift and the forecast Slice True-Up Adjustment*
9 *Charge.*

10 A. In preparation of the Initial Proposal, BPA staff identified a potential cost shift related to
11 the forecast Slice True-Up Adjustment Charge. *See* Bliven and Lefler, WP-10-E-BPA-
12 10. Any forecast Slice True-Up Adjustment Charge (i.e., a Slice True-Up
13 Adjustment Charge that would be paid by the Slice customers to BPA, not vice-versa) for
14 the last year of a rate period would have the effect of increasing Planned Net Revenues
15 for Risk (PNRR) for the non-Slice revenue requirement unless reserves available for risk
16 are large enough that Treasury Payment Probability (TPP) is above 95 percent without
17 adding any PNRR. Because the Slice Revenue Requirement specifically excludes PNRR,
18 any PNRR that is added to the non-Slice revenue requirement to address this matter could
19 be construed as a cost shift to non-Slice customers. *Id.*

20 Q. *How would a forecast Slice True-Up Adjustment Charge for FY 2011 result in higher*
21 *PNRR for the non-Slice revenue requirement?*

22 A. During the development of the Initial Proposal, BPA staff forecast a Slice True-Up
23 Adjustment Charge of over \$20 million for FY 2011 that would be owed by the Slice
24 customers to BPA. WPRDS Documentation, WP-10-E-BPA-5A, section 3. Pursuant to
25 the Slice Rate Methodology, the Slice customers would not make actual cash payments to
26 BPA for this amount until early FY 2012. This means that these cash payments would
27 not be available for BPA's annual payment to the U.S. Treasury on September 30, 2011.

1 This time lag was captured in the Accrual-to-Cash adjustment, which is one of the inputs
2 to the ToolKit model that BPA staff use for calculating TPP. Preliminary analyses
3 indicated that the amount of PNRR needed to meet the 95 percent TPP standard was
4 higher than it would have been without a forecast Slice True-Up Adjustment Charge for
5 FY 2011.

6 *Q. How does BPA staff propose to address the potential cost shift to non-Slice customers?*

7 A. BPA staff have addressed the potential cost shift by moving portions of certain cost
8 categories in the Slice Revenue Requirement from FY 2011 to FY 2010 so that the
9 forecast of the FY 2011 Slice True-Up Adjustment Charge is zero. When the forecast of
10 the FY 2011 Slice True-Up Adjustment Charge is zero, there is no related cash payment
11 that lags outside of the rate period, and there is no compensatory increase in PNRR in the
12 non-Slice revenue requirement. This proposal is an interim measure until parties to the
13 rate proceeding have an opportunity to offer alternatives. Bliven and Lefler, WP-10-E-
14 BPA-10.

15 *Q. Why is the forecast of the FY 2011 Slice True-Up Adjustment Charge not equal to zero?*

16 A. There are two reasons. The first reason is that the True-Up Adjustment Charge is
17 calculated by comparing the Actual Slice Revenue Requirement to the rate period
18 average Slice Revenue Requirement. *See* section 3 of this testimony. Because the
19 FY 2011 Slice Revenue Requirement is much larger than the FY 2010 Slice Revenue
20 Requirement, the forecast of expenses for FY 2011 is higher than the forecast of the rate
21 period average of expenses. So, on a forecast basis, even before any actual expenses are
22 known, we forecast a Slice True-Up Adjustment Charge in FY 2011.

23 The second reason is that Slice Implementation Expenses are included in the
24 forecast of the Slice True-Up Adjustment Charge payments, but such expenses are not
25 included in the Slice Revenue Requirement. WPRDS, WP-10-E-BPA-05,
26 section 2.15.3.8, provides a description of Slice Implementation Expenses. The Slice

1 True-Up calculation itself does not include Slice Implementation Expenses, but the
2 payment for these expenses is collected as an add-on amount to the Slice True-Up
3 Adjustment Charge. Thus, the forecast of the Slice True-Up Adjustment Charge includes
4 this non-zero amount.

5 *Q. Why are you proposing to move portions of expenses in certain cost categories from one*
6 *year to the other?*

7 A. Because of the averaging method for calculating the Slice True-Up Adjustment Charge,
8 and the addition of the payment for Slice Implementation Expenses, we have to move a
9 sufficient level of costs that will not be revised in the Actual Slice Revenue Requirement
10 when the Slice True-Up is calculated to offset the forecast FY 2011 Slice True-Up
11 Adjustment Charge.

12 *Q. What cost categories are being employed for the shift in the Slice Revenue Requirement*
13 *from FY 2011 to FY 2010?*

14 A. Staff propose to shift, from FY 2011 to FY 2010, amounts of net augmentation expenses
15 and a portion of BPA's planned principal payment for Power Services' Federal debt,
16 which is an element in the calculation of the Minimum Required Net Revenue (MRNR)
17 component of the Slice Revenue Requirement.

18 *Q. Why did staff decide to shift net augmentation expenses and BPA's planned principal*
19 *payment for Power Services' Federal debt?*

20 A. We chose net augmentation expense because this expense category is not revised, once it
21 is set in the Slice Revenue Requirement. Net augmentation expenses also are not
22 compared against any actual financial data for that expense for Slice True-Up calculation
23 purposes. Because Slice customers pay a fixed amount of net augmentation expenses for
24 the two-year period and this expense is not subject to the Slice True-Up, moving net
25 augmentation expenses from FY 2011 to FY 2010 will not affect what Slice customers
26 pay for augmentation. The decision to shift BPA's planned principal payments for Power

1 Services' Federal debt was based upon the understanding that there was a high likelihood
2 that it would be necessary to shift such payments in order to demonstrate cost recovery
3 from proposed rates. This shift is explained in Lennox, *et al.*, WP-10-E-BPA-12.

4 Although the base annual principal payments are established in rate filings, BPA's actual
5 total principal payments for Power Services' Federal debt in any fiscal year ultimately
6 would include any advance payments for Federal debt related to BPA's Debt
7 Optimization Program. The Slice True-Up calculation would reflect BPA's actual total
8 principal payment in any fiscal year as well as the related adjustments in Energy
9 Northwest debt service. However, no Debt Optimization Program effects are assumed in
10 rate case analyses, including the forecast Slice True-Up Adjustment Charge.

11 *Q. Was there a forecast Slice True-Up Adjustment Charge in the WP-07 Supplemental rate*
12 *case for FY 2009?*

13 *A. Yes.*

14 *Q. Why was the forecast Slice True-Up Adjustment Charge for FY 2009 in the WP-07*
15 *Supplemental rate case not considered a cost shift?*

16 *A. The forecast Slice True-Up Adjustment Charge for FY 2009 in the WP-07 Supplemental*
17 *rate case was not considered a cost shift because the related risk analyses did not identify*
18 *a need for PNR, so the Slice True-Up Adjustment Charge for FY 2009 could not have*
19 *caused an increase in PNR, and there was therefore no corresponding financial impact*
20 *on the non-Slice customers.*

21 *Q. After the aforementioned shift in expenses from FY 2011 to FY 2010, what is your*
22 *forecast of the Slice True-Up for FY 2010 and FY 2011?*

23 *A. The Slice True-Up Adjustment Charge forecast for FY 2010 is \$5,660,000, which*
24 *represents a charge to Slice customers, and the forecast for FY 2011 is \$0. The amount*
25 *of the Slice True-Up Adjustment Charge forecast for FY 2010 is comprised of two years*
26 *of Slice Implementation Expenses that are assumed, for purposes of Initial Proposal rate*

1 analyses, to be collected in FY 2010. The Slice Implementation Expenses are \$2,790,000
2 for FY 2010 and \$2,870,000 for FY 2011.

3 *Q. For FY 2010 or FY 2011, could there be a Slice True-Up Adjustment Charge that is*
4 *different from the forecast amounts when final audited actual financial data is available?*

5 A. Yes. If actual audited expenses or revenue credits, other than net augmentation costs,
6 differ from expenses and revenue credits forecast in the Slice Revenue Requirement,
7 there could be a Slice True-Up Adjustment Charge for FY 2010 or FY 2011 that differs
8 from forecast amounts.

9 *Q. Would a Slice True-Up Adjustment Charge that was not forecast but was calculated when*
10 *audited financial data became available also cause this kind of cost shift?*

11 A. No. This issue arises only from Slice True-Up Adjustment Charges that are forecast in
12 the rate case and therefore have an effect on PNRR in the TPP calculations. If a Slice
13 True-Up Adjustment Charge is forecast to be \$0, there will be no impact on PNRR. If
14 later calculations show that there actually will be a Slice True-Up Adjustment Charge,
15 PNRR will already have been set and will therefore not be affected by the actual Charge,
16 and there would not be a cost shift.

17 *Q. Does the Slice True-Up process ensure that Slice customers pay their share of Power*
18 *Services' actual expenses and receive their share of actual revenue credits applicable to*
19 *Slice Revenue Requirement?*

20 A. Yes it does, but the Slice True-Up process does not automatically ensure that the timing
21 of the payment of the Slice customers' share of the forecast Power Services expenses will
22 not affect the rates of non-Slice customers.

23

1 **SECTION 5: COSTS OF DSI SERVICE**

2 *Q. What is the recent history related to costs of DSI service that were included in the Slice*
3 *Revenue Requirement?*

4 *A. On June 30, 2005, BPA’s Administrator signed the Record of Decision Service to Direct*
5 *Service Industrial (DSI) Customers for Fiscal Years 2007-2011 (DSI ROD). In this*
6 *decision, the Administrator determined that BPA would offer 560 aMW of service*
7 *benefits to the aluminum smelters, capped at an annual cost of \$59 million, plus 17 aMW*
8 *of FPS power for Port Townsend Paper Corporation, for FY 2007-2011. These service*
9 *benefits were provided to the aluminum smelters through monthly payments. For the*
10 *WP-07 Supplemental Final Proposal, the annual amounts of such service benefits were*
11 *included in the Slice Revenue Requirement and subject to the annual Slice True-Up.*
12 *Slice customers paid their proportionate share of the costs associated with these service*
13 *benefits to the DSIs.*

14 *Q. What effect did the December 2008 U.S. Court of Appeals for the Ninth Circuit (Ninth*
15 *Circuit) decision have on the service benefits to the DSIs?*

16 *A. The Ninth Circuit issued a decision in Pacific Northwest Generating Cooperative et al. v.*
17 *Department of Energy, slip op., Case No. 05-75638 at 16513 (9th Cir. 2008), that rejected*
18 *aspects of the contractual arrangements for service benefits to the DSIs. For purposes of*
19 *the Initial Proposal, the Slice Revenue Requirement includes the net cost of \$58.9 million*
20 *per year for service to the aluminum smelters and a sale to Port Townsend Paper of 17*
21 *aMW at the Industrial Firm Power (IP) rate. Bliven and Lefler, WP-10-E-BPA-10.*
22 *The Initial Proposal includes the net cost of DSI sales, the difference between*
23 *additional power costs and revenues, at the IP rate, in the Slice Revenue Requirement.*
24 *Table 1, line 17. To the extent that there is greater certainty regarding the manner and*
25 *method of service to the DSIs between now and the Final Proposal, the final studies will*
26 *reflect the cost of this service.*

1 *Q. Would Slice customers pay their proportionate share of any costs of DSI service that*
2 *result, consequent to the Ninth Circuit decision?*

3 A. Yes. The costs of BPA's transactions with the DSIs, consequent to the Ninth Circuit
4 decision, will be included in the Slice Revenue Requirement and subject to the annual
5 Slice True-Up. Slice customers would pay their proportionate share of these costs.

6
7 **SECTION 6: REVENUES FROM GENERATION INPUTS FOR INTEGRATION OF**
8 **WIND GENERATION**

9 *Q. What generation inputs does Power Services provide for the integration of wind*
10 *generation?*

11 A. Power Services provides to Transmission Services the within-hour balancing
12 requirements needed for wind generation (which include regulation, load following, and
13 generation imbalance). These requirements for wind generation are expected to
14 significantly increase Power Services' provision of generation inputs to Transmission
15 Services, as the projected amounts of wind generation come on line in the next few years.
16 *See Mainzer, et al., WP-10-E-BPA-22, and McManus, et al., WP-10-E-BPA-23.*

17 *Q. Are there any inter-business line revenues that will result from Power Services' provision*
18 *of the within-hour balancing services for wind generation?*

19 A. Yes. Power Services projects that the inter-business line revenues from its provision of
20 within-hour balancing services for wind generation will be \$180.5 million in FY 2010
21 and \$215.8 million in FY 2011. This represents a significant increase over historical
22 amounts of inter-business line revenues that Power Services has received for its provision
23 of generation inputs for ancillary and other services.

24 *Q. Would Slice customers receive their proportionate share of such revenues?*

25 A. Yes, Slice customers would receive their proportionate share of the actual amount of such
26 revenues through the Slice True-Up.

1 Q. *Have these revenues been adjusted on an ad hoc basis for the determination of the Slice*
2 *rate for the WP-10 Initial Proposal?*

3 A. Yes, the inter-business line revenues that will result from Power Services' provision of
4 the within-hour balancing services for wind generation have been adjusted by
5 \$36.4 million in both years of the FY 2010-2011 rate period for the determination of the
6 Slice rate for the WP-10 Initial Proposal. For an explanation of the reasons behind this
7 *ad hoc* adjustment, *see* Bliven and Lefler, WP-10-E-BPA-10. This *ad hoc*
8 adjustment will not be included in the Final Proposal. *Id.*

9 Q. *Would Slice customers bear the costs associated with Power Services' provision of*
10 *within-hour balancing services for wind generation?*

11 A. Yes. These generation inputs related to within-hour balancing services for wind
12 generation are considered a system obligation for Slice operational purposes. BPA
13 previously determined that Slice customers are responsible for bearing a proportionate
14 share of Power Services' costs associated with system obligations. *See* 2002 WPRDS,
15 WP-02-FS-BPA-05, Appendix C, section 4.5. The Slice customers are therefore entitled
16 to a credit based on a proportionate share of any revenues associated with the system
17 obligations.

18 Q. *What costs associated with Power Services' provision of within-hour balancing services*
19 *for wind generation will Slice customers share in?*

20 A. Slice customers will be affected operationally, with respect to the appropriate decrements
21 and increments to their deliveries and limits, commensurate with the amounts that are
22 declared as wind generation reserve requirements by Transmission Services. For
23 purposes of determining Slice deliveries and limits in the Slice Computer Application,
24 the reserve requirements will be updated as frequently as the Transmission Services'
25 declarations are updated.

26

1 **SECTION 7: ADJUSTMENTS TO THE SLICE TRUE-UP FOR RETURN OF FY 2002-**
2 **2006 LOOKBACK AMOUNTS**

3 *Q. What adjustments need to be made to the Slice True-Up process for the return of*
4 *FY 2002-2006 Lookback Amounts?*

5 A. In the WP-07 Supplemental Final Proposal, BPA decided to return the FY 2002-2006
6 Lookback Amounts related to the REP settlement expenses as a monthly credit on the
7 Slice customers' power bills. *See* 2007 Supplemental Administrator's Final Record of
8 Decision, WP-07-A-05, at 282. BPA stated that it will ensure that Slice customers do not
9 receive any additional payments for the return of Lookback Amounts through the Slice
10 True-Up process. *Id.* at 281. Applicable Lookback Amounts are returned as a credit on
11 the Slice customers' power bills during the FY 2010-2011 period. Therefore, to ensure
12 that Slice customers do not receive any duplicate payments for the return of Lookback
13 Amounts through the Slice True-Up process for FY 2010 and FY 2011, BPA will account
14 for the credits when calculating the Slice True-Up Adjustment Charge for customers for
15 FY 2010 and FY 2011.

16 *Q. How will the Lookback Amounts that are determined in this proceeding affect the Slice*
17 *True-Up?*

18 A. The Lookback Amounts that are applicable to FY 2010 and FY 2011 will be determined
19 in this proceeding. The Lookback Amount applicable to FY 2010 will be expensed in
20 FY 2010, and the Lookback Amount applicable to FY 2011 will be expensed in FY 2011.
21 The Slice True-Up reports for both those years will reflect REP expense reductions that
22 correspond to these amounts.

23 *Q. Would Slice customers receive a monthly credit on their Expedited Bills for Lookback*
24 *Amounts that are applicable to FY 2010 and FY 2011?*

25 A. Yes. *See* the testimony of Evans, *et al.*, WP-10-E-BPA-19.

1 Q. Will adjustments be made to the Slice True-Up report in FY 2010 and FY 2011 so that
2 Slice customers do not receive duplicate payments for the return of these Lookback
3 Amounts?

4 A. Yes. If adjustments are not made, Slice customers will receive payments through their
5 Slice True-Up Adjustment Charge and through their monthly credits on their Expedited
6 Bills.

7 Q. What is the nature of the adjustments to the Slice True-Up report?

8 A. The FY 2010 and FY 2011 Slice True-Up reports would reflect the annual amount of the
9 credits that customers would have received through the monthly credits on their bills
10 during FY 2010 and FY 2011.

11
12 **SECTION 8: CHANGES TO THE METHODOLOGY TO CALCULATE SLICE RATE**
13 **AND SLICE TRUE-UP ADJUSTMENT CHARGE (SLICE RATE**
14 **METHODOLOGY)**

15 Q. What changes are being made to the Slice Rate Methodology?

16 A. Several minor updates to the Slice Rate Methodology are proposed to avoid confusion
17 during FY 2010-2011.

18 Q. Please list the proposed changes.

19 A. The first change is to section 4.A. Language in section 4.A. would be updated to reflect
20 references for the FY 2010-2011 rate period.

21 The second change is to section B.1. Language in section B.1. would be updated
22 to reflect the reference to the two-year rate period.

23 There are other minor changes that reflect updated references to the WP-10 rate
24 case that occur in various places in the Slice Rate Methodology.

25 Q. Does this conclude your testimony?

26 A. Yes.

Attachment

Table 1, Slice Product Costing True-Up Table

		(\$000s)		
		Audited Actual Data	FY 2010 forecast	FY 2011 forecast
1	Operating Expenses			
2	Power System Generation Resources			
3	Operating Generation			
4	COLUMBIA GENERATING STATION (WNP-2)		\$ 269,200	\$ 365,000
5	BUREAU OF RECLAMATION		\$ 87,700	\$ 98,550
6	CORPS OF ENGINEERS		\$ 193,000	\$ 197,911
7	LONG-TERM CONTRACT GENERATING PROJECTS		\$ 31,889	\$ 32,343
8	Sub-Total		\$ 581,789	\$ 693,804
9	Operating Generation Settlement Payment			
10	COLVILLE GENERATION SETTLEMENT		\$ 21,328	\$ 21,754
11	Sub-Total		\$ 21,328	\$ 21,754
12	Non-Operating Generation			
13	TROJAN DECOMMISSIONING		\$ 2,200	\$ 2,300
14	WNP-1&3 DECOMMISSIONING		\$ 418	\$ 428
15	Sub-Total		\$ 2,618	\$ 2,728
16	Contracted Power Purchases			
17	COST OF DSI SERVICE		\$ 58,867	\$ 58,867
18	HEDGING/MITIGATION (omit except for those assoc. with inventory solution)		\$ -	\$ -
19	PNCA HEADWATER BENEFITS		\$ 2,042	\$ 2,620
20	GROSS OTHER POWER PURCHASES (short term - omit)			
21	Sub-Total		\$ 60,909	\$ 61,487
22	Bookout Adjustment to Power Purchases (omit)			
23	Augmentation Power Purchases (omit - calculated below)			
24	AUGMENTATION POWER PURCHASES (omit)			
25	CONSERVATION AUGMENTATION (omit)			
26	Sub-Total		\$ -	\$ -
27	Exchanges and Settlements			
28	PUBLIC RESIDENTIAL EXCHANGE		\$ 11,974	\$ 7,495
29	IOU RESIDENTIAL EXCHANGE		\$ 253,883	\$ 258,798
30	OTHER SETTLEMENTS		\$ -	\$ -
31	Sub-Total		\$ 265,857	\$ 266,293
32	Renewable Generation			
33	RENEWABLES R&D		\$ 4,833	\$ 6,092
34	RENEWABLES CONSERVATION RATE CREDIT		\$ 4,000	\$ 2,500
35	RENEWABLES (excludes expenses from reinvested revenues)		\$ 31,715	\$ 32,306
36	Sub-Total		\$ 40,548	\$ 40,898
37	Generation Conservation			
38	GENERATION CONSERVATION R&D			
39	DSM TECHNOLOGIES		\$ 1,600	\$ 1,600
40	CONSERVATION ACQUISITION		\$ 14,000	\$ 14,000
41	LOW INCOME WEATHERIZATION & TRIBAL		\$ 5,000	\$ 5,000
42	ENERGY EFFICIENCY DEVELOPMENT		\$ 20,500	\$ 20,500
43	LEGACY		\$ 1,988	\$ 1,622
44	MARKET TRANSFORMATION		\$ 12,000	\$ 12,000
45	Sub-Total		\$ 55,088	\$ 54,722
46	Conservation and Renewable Discount (C&RD)			
47	CONSERVATION RATE CREDIT		\$ 32,000	\$ 32,000
48	CONSERVATION AND RENEWABLE DISCOUNT			
49	Sub-Total		\$ 32,000	\$ 32,000
50	Power System Generation Sub-Total		\$ 1,060,137	\$ 1,173,686
51	Power Services Transmission Acquisition and Ancillary Services			
52	Transmission Acquisition and Ancillary Services			
53	TRANSMISSION & ANCILLARY SERVICES			
54	Canadian Entitlement Agreement Transmission Expenses		\$ 27,000	\$ 27,000
55	PNCA & NTS Transmission and System Obligation Expenses		\$ 1,000	\$ 1,000
56	3RD PARTY GTA WHEELING		\$ 50,690	\$ 51,340
57	3RD PARTY TRANS & ANCILLARY SVCS			
58	GENERATION INTEGRATION		\$ 6,800	\$ 6,800
59	TELEMETERING/EQUIP REPLACMT		\$ 50	\$ 50
60	Power Services Trans Acquisition and Ancillary Serv Sub-Total		\$ 85,540	\$ 86,190

Table 1, continued, Slice Product Costing and True-Up Table

		(\$000s)		
		Audited Actual Data	FY 2010 forecast	FY 2011 forecast
61				
62	Power Non-Generation Operations			
63	System Operations			
64	SYSTEM OPERATIONS R&D		\$ -	\$ -
65	EFFICIENCIES PROGRAM (excludes TMS expenses)		\$ -	\$ -
66	INFORMATION TECHNOLOGY		\$ 6,359	\$ 6,324
67	GENERATION PROJECT COORDINATION		\$ 7,892	\$ 8,118
68	SLICE IMPLEMENTATION (omit - calculated separately)			
69	Sub-Total		\$ 14,251	\$ 14,442
70	Scheduling			
71	SCHEDULING R&D			
72	OPERATIONS SCHEDULING		\$ 9,999	\$ 10,350
73	OPERATIONS PLANNING		\$ 6,207	\$ 6,473
74	Sub-Total		\$ 16,206	\$ 16,823
75	Marketing and Business Support			
76	SALES & SUPPORT		\$ 19,391	\$ 19,617
77	Contractual exclusion		\$ (5,360)	\$ (5,360)
78	Implementation Expense Exclusions - Add back			
79	PUBLIC COMMUNICATION & TRIBAL LIAISON			
80	STRATEGY, FINANCE & RISK MGMT		\$ 17,151	\$ 17,632
81	EXECUTIVE AND ADMINISTRATIVE SERVICES		\$ 3,645	\$ 5,320
82	CONSERVATION SUPPORT (EE staff costs)		\$ 9,359	\$ 9,947
83	Sub-Total		\$ 44,186	\$ 47,156
84	Power Non-Generation Operations Sub-Total		\$ 74,643	\$ 78,421
85	Fish and Wildlife/USF&W/Planning Council/Environmental Req			
86	BPA Fish and Wildlife (includes F&W Shared Services)			
87	FISH & WILDLIFE		\$ 230,000	\$ 236,000
88	Sub-Total		\$ 230,000	\$ 236,000
89	USF&W Lower Snake Hatcheries			
90	USF&W LOWER SNAKE HATCHERIES		\$ 23,600	\$ 24,480
91	Planning Council			
92	PLANNING COUNCIL		\$ 9,641	\$ 9,838
93	Environmental Requirements			
94	ENVIRONMENTAL REQUIREMENTS		\$ 300	\$ 300
95	Fish and Wildlife/USF&W/Planning Council Sub-Total		\$ 263,541	\$ 270,618
96	General and Administrative/Shared Services			
97	Additional Post-Retirement Contribution			
98	ADDITIONAL POST-RETIREMENT CONTRIBUTION		\$ 15,598	\$ 16,071
99	BPA Internal Support - G&A and Shared Srv. (excludes direct project support)			
100	AGENCY SERVICES G&A		\$ 51,877	\$ 52,270
101	Sub-Total BPA Internal Support Services		\$ 51,877	\$ 52,270
102	Supply Chain - Shared Services			
103	General and Administrative/Shared Services Sub-Total		\$ 67,475	\$ 68,341
104	Bad Debt Expense		\$ -	\$ -
105	Other Income, Expenses, Adjustments		\$ -	\$ -
106	Non-Federal Debt Service			
107	Energy Northwest Debt Service			
108	COLUMBIA GENERATING STATION DEBT SVC		\$ 234,333	\$ 227,762
109	WNP-1 DEBT SVC		\$ 163,171	\$ 165,072
110	WNP-3 DEBT SVC		\$ 139,704	\$ 164,849
111	EN RETIRED DEBT			
112	EN LIBOR INTEREST RATE SWAP			
113	Sub-Total		\$ 537,208	\$ 557,683
114	Non-EN Debt Service			
115	COWLITZ FALLS DEBT SVC		\$ 11,566	\$ 11,563
116	N. WASCO DEBT SVC		\$ 2,200	\$ 2,196
117	TROJAN DEBT SVC		\$ -	\$ -
118	CONSERVATION DEBT SVC		\$ 5,079	\$ 4,924
119	Sub-Total		\$ 18,845	\$ 18,683
120	Non-Federal Debt Service Sub-Total		\$ 556,053	\$ 576,366
121	Depreciation (excludes TMS)		\$ 118,616	\$ 119,920
122	Amortization (excludes ConAug amortization)		\$ 65,783	\$ 73,654
123	Total Operating Expenses		\$ 2,291,788	\$ 2,447,196

Table 1, continued, Slice Product Costing and True-Up Table

		(\$000s)		
		Audited Actual Data	FY 2010 forecast	FY 2011 forecast
124				
125	Other Expenses			
126	Net Interest Expense		\$ 165,823	\$ 171,720
127	LDD		\$ 28,303	\$ 28,646
128	Irrigation Rate Mitigation Costs		\$ 12,036	\$ 12,036
129	Sub-Total		\$ 206,162	\$ 212,402
130	Total Expenses		\$ 2,497,950	\$ 2,659,598
131				
132	Revenue Credits			
133	Ancillary and Reserve Service Revs. Total		\$ 180,452	\$ 215,811
134	Downstream Benefits and Pumping Power		\$ 8,921	\$ 8,921
135	4(h)(10)(c)		\$ 88,705	\$ 89,975
136	Colville and Spokane Settlements		\$ 4,600	\$ 4,600
137	FCCF			
138	Energy Efficiency Revenues		\$ 20,500	\$ 20,500
139	Miscellaneous		\$ 3,420	\$ 3,420
140	Ad Hoc revenue credit adjustment		\$ (34,620)	\$ (34,620)
141	Total Revenue Credits		\$ 271,978	\$ 308,607
142	Augmentation Costs			
143	Forecasted Gross Augmentation Costs			
144	Augmentation cost		\$ 176,580	\$ 304,818
145	Minus revenues 382.3 aMW, 606.6 aMW		\$ 98,560	\$ 156,386
146	Net Cost of Augmentation		\$ 131,144	\$ 95,308
147				
148				
149	Minimum Required Net Revenue calculation			
150	Principal Payment of Fed Debt for Power		\$ 267,264	\$ 161,888
151	Irrigation assistance		\$ -	\$ -
152	Depreciation		\$ 118,616	\$ 119,920
153	Amortization		\$ 79,118	\$ 86,989
154	Capitalization Adjustment		\$ (45,937)	\$ (45,937)
155	Bond Premium Amortization		\$ 185	\$ 185
156	Principal Payment of Fed Debt exceeds non cash expenses		\$ 115,282	\$ 731
157	Minimum Required Net Revenues		\$ 115,282	\$ 731
158				
159	Annual Slice Revenue Requirement (Amounts for each FY)		\$ 2,472,398	\$ 2,447,030
160				2-Year Total Rev
161				\$ 4,919,429
162	SLICE TRUE-UP ADJUSTMENT CALCULATION			
163	FY 2010-2011 Average Slice Revenue Requirement determined in WP-10 rate case		\$ 2,459,714	
164	TRUE UP AMOUNT (Diff. between actual Slice Rev Req't and forecast average Slice Rev Req't)			
165	AMOUNT BILLED (22.6278 percent)			
166	Slice Implementation Expenses (not incl. in base rate)			
167	TRUE UP ADJUSTMENT			
168				
169				
170	SLICE RATE CALCULATION (\$)			
171	Monthly Slice Revenue Requirement (2-Year total divided by 24 months)			\$ 204,976,202
172	One Percent of Monthly Requirement (Slice Rate per percent Slice - Monthly Slice Rev. Req't. divided by 100)			\$ 2,049,762
173				
174	ANNUAL BASE SLICE REVENUES			\$ 556,579,261
175	Annual Slice Implementation Expenses			\$ 2,830,000
176	TOTAL ANNUAL SLICE REVENUES			\$ 559,409,261