

**2010 Wholesale Power Rate Case Initial Proposal**

**REBUTTAL TESTIMONY**

**TREATMENT OF NEW CONTRACT  
PURCHASES FOR WINTER ENERGY**

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April 2009

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WP-10-E-BPA-34



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REBUTTAL TESTIMONY of  
RAYMOND D. BLIVEN, LAWRENCE E. KITCHEN,  
TIMOTHY C. MISLEY, and ARNOLD L. WAGNER  
Witnesses for Bonneville Power Administration

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1 REBUTTAL TESTIMONY of  
2 RAYMOND D. BLIVEN, LAWRENCE E. KITCHEN,  
3 TIMOTHY C. MISLEY, and ARNOLD L. WAGNER  
4

5 **SUBJECT: TREATMENT OF NEW CONTRACT PURCHASES FOR WINTER**  
6 **ENERGY**

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

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

9 A. My name is Raymond D. Bliven, and my qualifications are contained in  
10 WP-10-Q-BPA-06.

11 A. My name is Lawrence E. Kitchen, and my qualifications are contained in  
12 WP-10-Q-BPA-33.

13 A. My name is Timothy C. Misley, and my qualifications are contained in  
14 WP-10-Q-BPA-47.

15 A. My name is Arnold L. Wagner, and my qualifications are contained in  
16 WP-10-Q-BPA-57.

17 *Q. Have you previously submitted testimony in this proceeding?*

18 A. Yes. Mr. Bliven submitted direct testimony, together with other witnesses, identified as  
19 Exhibits WP-10-E-BPA-10, WP-10-E-BPA-15, WP-10-E-BPA-16, and WP-10-E-BPA-  
20 30. Mr. Misley submitted direct testimony, together with other witnesses, identified as  
21 Exhibit WP-10-E-BPA-11. Mr. Wagner submitted direct testimony, together with other  
22 witnesses, identified as Exhibits WP-10-E-BPA-14 and WP-10-E-BPA-20. Mr. Bliven  
23 and Mr. Kitchen submitted direct testimony, together with other witnesses, identified as  
24 Exhibit WP-10-E-BPA-22.

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

2 A. The purpose of this rebuttal testimony is to describe specific firm winter hedging energy  
3 purchases that were entered into by BPA subsequent to the release of the WP-10 Initial  
4 Proposal and to explain how we propose to treat these purchases in the Final Proposal.

5 *Q. How is your testimony organized?*

6 A. This testimony contains two sections, including this one. Section 2 describes BPA's  
7 recent contract purchases of firm energy for winter months and explains our proposal for  
8 treating these purchases in the Final Proposal.

9  
10 **Section 2: Treatment of New Contract Purchases for Winter Energy**

11 *Q. Since the Initial Proposal was released, has BPA made any firm winter hedging energy*  
12 *purchases that will be delivered during FY 2010 and FY 2011?*

13 A. Yes.

14 *Q. Please describe those purchases.*

15 A. BPA has purchased 822,000 megawatthours (MWh) of energy for delivery on heavy  
16 load hours (HLH) during the months October through April in FY 2010 and 734,400  
17 MWh of energy for delivery on HLH during the months of November through April in  
18 FY 2011.

19 *Q. Why did BPA make these purchases?*

20 A. BPA made these purchases to cover increasing amounts of forecast HLH energy deficits  
21 during winter months under many water conditions. These winter deficits potentially  
22 expose the Agency's finances to significant purchase power costs.

23 *Q. How do you propose to treat these purchases in the Final Proposal?*

24 A. We propose to treat these firm winter hedging purchases as long-term balancing  
25 purchases. They are proposed to reduce the expected amounts of short-term balancing  
26 purchases when deficits in the months of the purchase are equal to or larger than the

1 magnitude of the purchases. Because the purchases were made after the publication of  
2 the WP-10 Initial Proposal, they did not appear in the WP-10 Initial Proposal. For the  
3 Final Proposal, we propose that they be identified in the final Loads and Resources  
4 Study as balancing purchases and passed directly on to the Risk Analysis Study. We  
5 propose that these purchases not be included in the calculation of BPA's firm annual  
6 load and resource balance in the Loads and Resources Study and therefore not reduce  
7 the forecast of augmentation purchases for the rate period. Because these purchases are  
8 firm, they should be reflected in BPA's resources available under each of the 70  
9 historical water conditions in the Risk Analysis Study. In those months and water years  
10 where resources are sufficient to serve firm load, these purchases would increase the  
11 amount of surplus sales. These purchases will be documented as balancing purchases in  
12 the Revenue Forecast section of the Wholesale Power Rate Development Study.

13 Because we propose to treat these purchases as balancing purchase costs and not  
14 Inventory Solution costs, as defined in the proposed General Rate Schedule Provisions  
15 (GRSPs), WP-10-E-BPA-07, at 114, the Slice Rate Methodology specifies that the costs  
16 of these purchases should not be included in the Slice rate. Slice Rate Methodology,  
17 Section 4.B.4, WP-10-E-BPA-07, at 125. Therefore, the costs of these purchases,  
18 including the reduction of short-term balancing purchases or the increase in surplus sales  
19 revenues, should be allocated to non-Slice rates.

20 *Q. This treatment is different from the way other contract purchases are treated in the Initial*  
21 *Proposal. Why are these firm winter hedging purchases treated differently?*

22 *A.* BPA purchased this winter energy after the release of the Initial Proposal. In the past,  
23 purchases of this type were entered into on a within-year basis and therefore did not  
24 appear in rate case studies. Because these winter purchases were made during the  
25 current rate period for delivery during the FY 2010-2011 rate period, we know now that  
26 they will occur during the FY 2010-2011 rate period. Because the Slice Rate

1 Methodology excludes purchases other than Inventory Solution costs from the Slice rate,  
2 we propose that including them as balancing purchases most closely fits with the  
3 purpose of the purchase and also best conforms to the Slice Rate Methodology.

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

5 A. Yes.

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