B O N N E V I L L E   P O W E R   A D M I N I S T R A T I O N

2010 Wholesale Power Rate Case Initial Proposal

REBUTTAL TESTIMONY

SLICE REVENUE REQUIREMENT AND RATE

April 2009

WP-10-E-BPA-38

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CARIE E. LEE, RONALD J. HOMENICK, JANICE A. JOHNSON,

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SUBJECT: SLICE REVENUE REQUIREMENT AND RATE

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

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

A. My name is Ronald J. Homenick, and my qualifications are contained in WP-10-Q-BPA-26.

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

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

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

Q. What is the purpose of your testimony?

A. The purpose of this rebuttal testimony is to respond to direct testimony filed by the Slice Customers Group, the Northwest Requirements Utilities (NRU), and the Public Utility District No. 1 of Snohomish County (Snohomish).

Q. How is your testimony organized?

A. This testimony consists of four sections. Section 1 explains the purpose and scope of the testimony. Sections 2 through 4 of this testimony address the issues raised by the Slice Customers Group, NRU, and Snohomish on Slice rate issues. Section 2 discusses the forecast Slice True-Up Adjustment Charge and the related potential cost shift. Section 3 discusses the averaging approach for calculating the Slice True-Up. Section 4 discusses generation inputs for wind integration and Slice.

Section 2: Forecast Slice True-Up Adjustment Charge and Related Potential Cost Shift

Q. The Initial Proposal identified a potential cost shift resulting from the need for additional Planned Net Revenues for Risk (PNRR) due to the forecast Slice True-Up Adjustment Charge. Lee, et al., WP-10-E-BPA-21, at 7. The Slice Customers Group states that this is not a "cost shift," as BPA will ultimately receive payment from Slice purchasers. Brawley and Gregg, WP-10-E-JP4-01, at 4. The Slice Customers Group asserts that this "cost shift" is a timing issue and an artifact of BPA's modeling. Id. How do you respond?

A. We stated that any PNRR added to the non-Slice revenue requirement as a direct consequence of the timing of payment of the forecast FY 2011 Slice True-Up Adjustment Charge could be construed as a cost shift to non-Slice customers.

Lee, *et al.*, WP-10-E-BPA-21, at 7. More appropriately, "potential cost shift" should really be defined as "potential event that could be construed as a cost shift." *Id*.

We agree with the statement by the Slice Customers Group that the "potential cost shift" is actually a timing issue. Brawley and Gregg, WP-10-E-JP4-01, at 4. We do not agree with their claim, however, that any impact of the timing issue on the calculation of PNRR is an "artifact of BPA's modeling." *Id*. Delay until FY 2012 in the receipt of the Slice customers' payment for the FY 2011 Slice True-Up Adjustment Charge is a consequence of the rules governing the Slice True-Up, not of BPA's modeling. BPA's risk modeling merely noted this timing and calculated PNRR appropriately in light of the known unavailability of those funds *within* the rate period. An increase in PNRR, due to the timing of the payment for the forecast FY 2011 Slice True-Up Adjustment Charge, was identified by analysis of Toolkit model results, and cannot not be ignored, given the basic tenet of the Slice product, which stated that there would be no cost shifts either to or from the Slice customers. 2002 Final Power Rate Proposal, Administrator's Record of Decision, WP-02-A-02, at 16-2. An increase in non-Slice costs and rates caused directly by an avoidable aspect of the Slice rate calculation would not be in keeping with the "no cost shift" rule because it would be a shift (*i.e.*, a change) in non-Slice costs (PNRR) due to events associated with the Slice product, but not a shift (*i.e.*, a transfer) of costs from Slice rates to non-Slice rates. The increase in non-Slice rates is directly related to the averaging method used to calculate the Slice True-Up Adjustment Charge. The averaging method creates a forecast FY 2011 Slice True-Up Adjustment Charge, because the FY 2011 Slice Revenue Requirement is larger than the FY 2010 Slice Revenue Requirement. Lee, *et al.*, WP-10-E-BPA-21, at 8.

Q. In the WP-10 Initial Proposal, BPA staff addressed the potential cost shift by moving portions of certain cost categories in the Slice Revenue Requirement from FY 2011 to FY 2010 so that the forecast of the FY 2011 Slice True-Up Adjustment Charge is zero. Lee, et al.*, WP-10-E-BPA-21, at 8. The Slice Customers Group states that this proposal resolves the potential cost shift issue for the FY 2010-2011 rate period, but it does cause concerns regarding the precedent that it seems to set for future rate cases. Brawley and Gregg, WP-10-E-JP4-01, at 5. How do you respond?*

A. We acknowledge that moving portions of certain cost categories in the Slice Revenue Requirement from FY 2011 to FY 2010 could set a precedent for resolving issues that are similar to this one. However, we recognize that there are other ways to resolve the potential cost shift issue. Bliven and Lefler, WP-10-E-BPA-10, at 23. We hoped that opening a dialogue with rate case parties during this rate proceeding would result in finding a mutually acceptable resolution of this issue. *Id.*

Q. The Slice Customers Group states that, as a general rule, shifting costs from the fiscal year in which the costs are expected to occur to another fiscal year is not a sound basis for setting rates. Brawley and Gregg, WP-10-E-JP4-01, at 5. How do you respond?

A. We agree that shifting costs from one year to another should generally be avoided and should be undertaken only for good reason. We believe the decision to shift costs in this case solves a significant problem without creating collateral problems. Shifting costs from the fiscal year in which the costs are expected to occur to another fiscal year does not affect the setting of Slice rates. Slice rates are set based on expenses and revenue credits in the applicable rate period, divided by the number of months in the rate period, and that quotient is divided by 100 to obtain the monthly base Slice rate per one percent of Slice product purchased. Lee, *et al.*, WP-10-E-BPA-21, and Slice Rate Methodology, WP-10-E-BPA-07, Appendix A. Because of the Slice rate design, there is no impact on the Slice rate as a result of this shifting of expenses.

Q. The Slice Customers Group states that shifting costs from the fiscal year in which the costs are expected to occur to another fiscal year introduces "unnecessary uncertainty and variability" into an already complicated ratemaking process. Brawley and Gregg, WP-10-E-JP4-01, at 5. How do you respond?

A. We do not agree that our proposal causes any additional "uncertainty and variability," whether necessary or not, in the current ratemaking process. In fact, the proposed shifting of expenses from FY 2011 to FY 2010 actually reduces the magnitude of variability in the forecast of the FY 2010 and FY 2011 Slice True-Up Adjustment Charges. Further, the shift of Federal principal repayment would ultimately occur in the year to which it was shifted. There would be no uncertainty associated with that element of the overall Power costs or that element in the Slice Revenue Requirement.

We recognized that there are other ways to resolve the potential cost shift issue. Bliven and Lefler, WP-10-E-BPA-10, at 23. However, the parties have not presented any new ideas that are acceptable for resolving this potential cost shift issue.

Q. The Slice Customers Group states that shifting costs from the fiscal year in which the costs are expected to occur to another fiscal year raises concerns regarding unintended and undiscovered consequences that may be detrimental to some or all of BPA's customer classes. Brawley and Gregg, WP-10-E-JP4-01, at 5. Therefore, the Slice

Customers Group concludes that shifting costs as BPA has proposed should be avoided if possible. Id. How do you respond?

A. It is difficult to evaluate the Slice Customer Group's concern because their testimony does not explain what such unintended consequences might be, and because the undiscovered consequences are highly speculative. However, if there are no mutually acceptable proposals by customers before the WP-10 Final Proposal, and the timing issue of payment for the FY 2011 Slice True-Up Adjustment Charge still causes PNRR to increase for non-Slice rates, we will recommend to the Administrator that costs be shifted from FY 2011 to FY 2010. We have demonstrated that we will work with customers to provide appropriate remedies when unintended consequences from rate case actions are discovered. For example, we have actively worked with Slice customers to monitor and potentially address the effects that the shift of the planned principal payments for Power Services' Federal debt performed in the WP-07 Final Proposal could have on the FY 2007-2009 Slice True-Up Adjustment Charges.

Q. You recognized this potential cost shift late in the ratemaking process. Bliven and Lefler, WP-10-E-BPA-10, at 21. You also stated that you expected that there were alternative solutions. Id., at 23. Since the Initial Proposal, have you identified other possible solutions?

A. Yes, but the alternative solutions we identified all require modification of existing agreements or other steps that BPA could not unilaterally implement. We have identified four possible solutions that fall into this category. First, we could set annual Slice rates that would recover the Slice Revenue Requirement for each fiscal year. This would result in no forecast Slice True-Up Adjustment Charge in each year because the forecast costs for each year would equal the costs used to set the Slice rate for each year. Second, we could have Slice customers pay the forecast FY 2011 Slice True-Up Adjustment Charge in FY 2011, and then calculate the FY 2011 Slice True-Up Adjustment Charge in

FY 2012, after audited actual financial data is available. The FY 2011 Slice True-Up Adjustment Charge would be calculated, recognizing the payment that Slice customers made in FY 2011. Third, we could modify the Slice Rate Methodology to remove the reference to using the average Slice Revenue Requirement in the Slice True-Up Adjustment calculation and return to using the annual Slice Revenue Requirement for each fiscal year. Fourth, as a variant to the third solution, rather than pre-paying the forecast Slice True-Up Adjustment Charge, Slice customers could make arrangements to pre-pay their Slice bills in FY 2011, similar to the pre-payment terms of the Flexible PF Program. However, if the Flexible PF Program is utilized in setting rates, the pre-payment amounts offered for this purpose must be recognized as distinct from the pre-payment amounts offered under the Flexible PF Program.

Q. *Are there other actions that you could anticipate pursuing within this rate proceeding other than moving costs from FY 2011 to FY 2010 to address this timing matter?*

A. There are tools available in the near term to address the timing of the Slice True-Up Adjustment Charge payments sufficient to allow us to exclude this element from the risk analysis. From an Agency standpoint, this could include a temporary reliance upon Transmission Services' cash reserves or, similarly, a temporary draw on available encumbered reserves, either of which would be replenished in January 2012 when the payments from the Slice customers are received. There may be other similar mechanisms for dealing with a timing matter of such short duration that would be available because they are not currently utilized in the risk analysis for addressing Treasury Payment Probability (TPP). While these tools may be sufficient at present, they do not provide certainty toward a long-term solution to this issue.

Q. *If such tools are available, do you still believe that it is important to find a solution to the issue of the timing of the Slice True-Up Adjustment Charge payments?*

A. Yes. Because the near-term tools do not provide certainty in the long term, and because this issue will arise during the term of the Regional Dialogue contracts and the Tiered Rate Methodology, a long-lasting solution is preferable to using temporary tools.

Q. NRU also states its concern about BPA's proposal to move costs associated with planned amortization and augmentation from FY 2011 to FY 2010. Carr and Stratman, W-10-E-NR-01, at 9. NRU is concerned that in attempting to alleviate a Slice cost shift, BPA may have taken off the table a tool that may assist in reducing the overall size of the rate increase. Id. at 10.

A. The amortization shift was utilized, in part, in the Initial Proposal to address the Slice cost shift because it would have been necessary to some degree even without the PNRR circumstances related to the Slice True-Up. Lennox, *et al.*, WP-10-E-BPA-12, at 4. The amortization shift would not be performed unilaterally if it had caused, or was seen potentially to cause, inflexibility in any tool we would otherwise have available to minimize the increase in the Priority Firm (PF) rate (relative to the FY 2009 PF rate). There were no such circumstances identified during preparation of the Initial Proposal. While the Administrator may elect to adopt "stepped" rates, *see* Bliven, *et al.*, WP-10-E-BPA-33, should stepped rates be employed, the shifts of both amortization and augmentation costs can be avoided because stepping the Slice rate would eliminate the forecast Slice True-Up Adjustment Charge and the related potential cost shift. However, the Slice Rate Methodology would need to be changed to allow for stepped rates in the rate period.

Q. NRU anticipates that augmentation costs will be reduced significantly in the Final Proposal. Carr and Stratman, WP-10-E-NR-01, at 10. NRU states that if BPA cannot move the same amount of augmentation costs from FY 2011 to FY 2010 to alleviate a potential Slice cost shift, then BPA may have to rely more heavily on the movement of *planned amortization from FY 2011 to FY 2010, and this may not be desirable from the standpoint of mitigating the size of the rate increase. Id. at 10. How do you respond?*

A. Every problem must be viewed in its full context to provide the best solution. The shift was proposed because it would solve the problem that was at hand. We would not have proposed it, as previously stated, if it had created problems elsewhere or created inflexibilities elsewhere that could not be undone. There are limitations as to how much amortization could be shifted and still be accommodated by cash flows from revenues at proposed rates, as an example, or by creating a large enough Treasury payment in FY 2010 that would change the risk profile and possibly increase PNRR, which would be contrary to what was being addressed.

If the forecast amount of augmentation is significantly lower in the WP-10 Final Proposal than forecast in the Initial Proposal, there are two possible outcomes that we can address. First, if augmentation costs in both years are reduced by similar amounts, the cost disparity between the years still remains and will continue to contribute to the potential cost shift issue. Because the second year of the rate period, both in the instant rate case and in the next six rate cases, will be Columbia Generating Station (CGS) refueling years, augmentation costs will be higher in the second year than in the first year, due to the additional power that BPA must purchase to replace the power that is unavailable from CGS during its refueling period. When augmentation costs are higher in the second year of a two-year rate period, this difference contributes to the recurrence of the potential cost shift issue. Second, because augmentation costs are a significant cause of the cost differential, if augmentation costs were unequally reduced, whereby second year costs were reduced more than first year costs, then the cost differential between the years is reduced. When this cost differential is reduced, the amount of the forecast Slice True-Up Adjustment Charge in the second year is reduced, the related potential cost shift is smaller.

Q. *NRU states that BPA needs to provide assurance to load following customers that there is not a cost shift to load following customers from Slice customers as a result of having to move more planned amortization than what was in the Initial Proposal. Carr and Stratman, WP-10-E-NR-01, at 10. How do you respond?*

A. We undertook the amortization shift to create a balance of cash receipts and requirements, thereby undoing a potential cost shift we identified. We always attempt to ensure that there are no unintended cost shifts before we move amortization from one year to another. If we were to find that moving amortization caused a cost shift, we would not undertake such an action. While we do not want to be dismissive of NRU's concern, NRU has not identified any circumstances that we may have missed in trying to protect load following customers from the circumstances that were found and acted upon.

Q. *NRU states that historically BPA has moved planned amortization payments as a way of mitigating rate increases. Carr and Stratman, WP-10-E-NR-01, at 11. How do you respond?*

A. That is essentially correct. As we have identified, amortization shifts are typically done to accommodate cash flows from revenues at proposed rates. If a shift were not done in those instances, the alternative would be to increase rates so that cash flows in both years of the rate period were adequate to meet cash requirements. That is precisely what we have done in this circumstance - moved amortization to minimize the increase of rates.

Q. *NRU states that in working in conjunction with customers in a public process, BPA should craft solutions that are responsive simultaneously to the need to mitigate the overall rate increase and the need to achieve equity between Slice and non-Slice customers. Carr and Stratman, WP-10-E-NR-01, at 11. How do you respond?*

A. In crafting the solution to the potential cost shift created by the need for the additional PNRR, we attempted to design the solution to the problem in a manner that we believe would achieve an equitable balance between Slice and non-Slice customers and that would be simultaneously responsive to the need to mitigate the overall rate increase. But as we have identified above, there are other possible solutions to the potential cost shift issue. We anticipate that NRU and other non-Slice customers will be part of any discussions on long-term solution alternatives.

Q. NRU states that BPA should provide sufficient information for customer groups to understand the financial tradeoffs among alternative approaches. Carr and Stratman, WP-10-E-NR-01, at 11. How do you respond?

A. We share NRU's concern that the solution to this issue should not preclude or otherwise limit BPA's ability to use particular risk mitigation strategies or other tools that might help mitigate any rate increase or potential cost shift issues. As we stated, it was the late discovery of the potential cost shift resulting from the need for additional Planned Net Revenues for Risk (PNRR) due to the forecast Slice True-Up Adjustment Charge that prevented us from seeking customer input on a solution. Bliven and Lefler, WP-10-E-BPA-10, at 23. During such discussions, we normally help customers understand the issues and the tradeoffs.

Q. The Slice Customers Group states that the timing of the Slice True-Up Adjustment Charge does not pose any meaningful risk for BPA because the payment is just as certain as are all other payments by PF customers, and perhaps more so, given the contractual consequences for non-payment. Brawley and Gregg, WP-10-E-JP4-01, at 6. How do you respond?

A. The Slice Customers Group misunderstands the nature of the issue. We agree that the certainty of BPA's receipt of the Slice True-Up Adjustment Charge for FY 2011 does not pose a meaningful risk for BPA. However, it was not the uncertainty of the payment that increased the PNRR; rather, it was the *timing of the payment*. Lee, *et al.*, WP-10-E-BPA-21, at 7. The fact that these funds would not be received, until after the rate period, changes BPA's risk profile because the funds are not available when BPA needs to make its FY 2011 payment to Treasury.

Q. *The Slice Customers Group proposes an alternative approach to resolve the issue related to the potential cost shift. Brawley and Gregg, WP-10-E-JP4-01, at 6. The Slice Customers Group states that a more direct approach to resolving this issue for the WP-10 rate case would be simply to eliminate the amount of the forecast Slice True-Up Adjustment Charge payment from the modeling of PNRR, thereby eliminating its impact on PNRR for the non-Slice rates. Id. Do you agree?*

A. No, we do not agree that is an acceptable approach. In essence, the Slice Customers Group's proposal asks BPA to simply ignore the timing of the payment of the forecast FY 2011 Slice True-Up Adjustment Charge because it is inconvenient to acknowledge it. While their proposal would eliminate the impact that such payment would have on PNRR calculations, the funds would still be unavailable when needed.

Section 3: Averaging Approach for Calculating the Slice True-Up

Q. *The Slice Customers Group believes that the averaging approach for calculating the Slice True-Up is appropriate because such an approach leads to less volatility in the amount of any Slice True-Up Adjustment for both BPA and the Slice purchasers. Brawley and Gregg, WP-10-E-JP4-01, at 7. The Slice Customers Group states that this approach was useful during the time when the Slice product was first offered, as the applicable rate period was five years in duration. Id. How do you respond?*

A. We do not agree that the averaging approach mitigated the volatility of the Slice True-Up or that it was useful during the time when the Slice product was first offered because of the five-year rate period. Irrespective of whether it was useful or not, the averaging approach is a contractual matter. It was proposed by the Slice customers and agreed-upon by all of the parties to the Slice Settlement Agreement. The Slice Settlement

Agreement was executed in November 2006, and the averaging approach was deployed for the Slice True-Up Adjustment Charge calculation for FY 2007. This contractual agreement was memorialized in the 2007 Wholesale Power Rate Schedules (FY 2009) and FY 2007 General Rate Schedule Provisions (FY 2009) in the Slice Rate Methodology. WP-07-A-05A, Appendix A. BPA cannot now unilaterally change the Slice Rate Methodology to adopt the averaging approach without breaching the Slice Settlement Agreement.

Q. The Slice Customers Group states that because the upcoming rate period is two years, and under the Tiered Rate Methodology, the two-year rate period will be the standard, the reasons for retaining the averaging approach for calculating the Slice True-Up Adjustment are less compelling. Brawley and Gregg, WP-10-E-JP4-01, at 7. Do you agree?

A. The Tiered Rate Methodology (TRM) for post-FY 2011 contains provisions to continue the averaging approach. The modification of these provisions is an issue that is outside the scope of the WP-10 rate proceeding and should be raised consistent with sections 12 and 13 in the TRM that govern procedures for changing the TRM. However, if a solution to the instant problem also solves future problems, then it would be a more efficient use of everyone’s time.

Q. The Slice Customers Group states that doing a temporary fix to this same issue every two years is not a sustainable solution for either BPA or its Slice and non-Slice customers. Brawley and Gregg, WP-10-E-JP4-01, at 8. The Slice Customers Group believes that the better approach would be to work with BPA and other interested parties after the conclusion of this rate proceeding to revise the necessary documents, including the Tiered Rate Methodology, to implement a Slice True-Up Adjustment calculation that compares the actual annual costs applicable for the Slice Rate during a fiscal year to the forecast rate case revenue requirement for that fiscal year. Id. Do you agree?

A. We agree that it may be beneficial to work with interested parties to craft a long-term solution to this problem. However, as noted above, a solution needs to be found for the issue at hand in the instant proceeding.

Section 4: Generation Inputs for Wind Integration and Slice

Q. NRU states concern about the potential cost shifts across the Slice and non-Slice products with regard to the pricing and treatment of generation inputs. Carr and Stratman, WP-10-E-NR-01, at 8. Specifically, NRU states concern regarding how BPA will recognize costs and revenue credits for generation inputs for Slice and non-Slice customers in an equitable manner. Id. NRU requests a clear demonstration in this rate case that the approach to reduce the Slice system capability through the deduction of off-the-top obligations to reflect the operations that BPA must undertake to integrate wind within its balancing authority treats Slice and non-Slice customers equitably regarding the costs and revenue credits associated with generation inputs. Id. How do you respond?

A. We understand from the clarification of the NRU testimony (March 26, 2009, clarification of Geoff Carr and Megan Stratman), that NRU is concerned mostly about any revenues resulting from BPA's contracts with utilities to provide services to store, shape, or integrate energy from utilities' wind resources and whether there is an appropriate allocation of such revenues to the non-Slice customer rate. The revenues that result from these contracts will be reflected, for the Final Proposal, in a Rate Design Step table (RDS17) in a line item entitled "Expected Revenue from FPS contract sales." Wholesale Power Rate Development Study Documentation, WP-10-E-BPA-05A, Table 2.5.4. These revenues recover the costs allocated to the FPS load pool that would otherwise be recovered by other loads, including non-Slice PF rate loads. Because BPA provides these services from surplus power, BPA does not share these revenues with

Slice customers, and the Slice Revenue Requirement does not contain a credit for such revenues. This explanation concerning the allocation of revenues that result from these types of contracts should satisfy NRU's desire for a clear demonstration of non-Slice versus Slice allocation.

Q. Snohomish states that in the fall of 2008, BPA entered into another long-term bilateral agreement to provide a firming service to shape the output of a Northwest wind resource for a party outside the region (extraregional party). Miles, WP-10-E-SN-02, at 4. Snohomish states further that the revenues associated with providing this firming service were not included in the Initial Proposal. Id. at 5. How do you respond?

A. We agree that BPA entered into a long-term bilateral agreement to provide a firming service to shape the output of a Northwest wind resource for an extraregional party. The revenues associated with providing the firming service were not included in the Initial Proposal because BPA had not yet executed the related contract. These revenues will be reflected in the WP-10 Final Proposal. In any case, these revenues are not shared with Slice customers because the power for providing these firming services is not a system obligation from a Slice system perspective. *See* the immediately preceding Q&A for more information.

Q. Snohomish states that the Slice purchasers are harmed both financially and operationally if BPA's firm system obligations, which include reserve requirement quantities, are not accurately forecast for the rate period. Miles, WP-10-E-SN-02, at 3. How do you respond?

A. We acknowledge that the Slice customers may believe that they are harmed both financially and operationally if BPA's firm system obligations, which include reserve requirement quantities, are not accurately forecast for the rate period. However, Slice customers are not protected from being harmed financially or operationally if BPA's firm system obligations are not accurately forecast for the rate period. When the Slice product was first developed in the WP-02 rate case, Slice customers were determined to be responsible for bearing a proportionate share of Power Services' costs associated with system obligations. *See* 2002 Wholesale Power Rate Development Study, WP-02-FS-BPA-05, Appendix C, section 4.5. Such costs would be both financial and operational in nature. The operational costs would be reflected in the appropriate decrements and increments to the Slice power deliveries and power limits, commensurate with the amounts that are declared as wind generation reserve requirements by Transmission Services. Lee, *et al.*, WP-10-E-BPA-21, at 14. Whether or not these decrements and increments are consistent with any rate case forecasts is not relevant to how the Slice product works on an operational basis. Slice customers are not entitled to any remedies from BPA for any deviation of actual reserve requirements from reserve requirement forecasts. However, when revenues from Transmission Services are higher or lower than the revenues forecast in the rate case for operating reserve requirements, Slice customers would realize the actual revenues from Transmission Services through their Slice True-Up Adjustment Charge in any given fiscal year.

Q. Snohomish states that the Slice purchaser is not compensated for the lost opportunity to meet its requirements load or support a secondary sale. Miles, WP-10-E-SN-02, at 4. Snohomish states further that the Slice purchaser cannot fully recover the lost value for having to de-optimize its contractual operation of the Slice system by shifting generation from the on-peak to the off-peak periods. Id. How do you respond?

A. As stated above, operational costs are reflected in the appropriate decrements and increments to the Slice power deliveries and power limits. Meeting the system obligations associated with wind integration does shift system generation from on-peak to off-peak periods, but BPA's rate proposal for pricing Wind Balancing Reserves is designed to recover the costs associated with these shifts from the wind generators that are causing these costs. Slice customers share in the revenues resulting from the sale of Wind Balancing Reserves. For more information, see Mainzer, *et al.*, WP-10-E-BPA-41.

Q.	*Does this conclude your rebuttal testimony?*

A.	Yes.