Correction of Low Density Discount Calculation (TRM Section 10.2)

Sponsors of Change: Northwest Requirements Utilities and Pacific Northwest Generating Cooperative are sponsoring this change. BPA staff concurs with the proposed solutions. These sponsors meet the TRM definition of a Customer Group and therefore may propose this change.

Intended TRM Outcome:
The TRM specifies that a Customer's applicable LDD percentage will be calculated to discount its Tier 1 purchases by revising its eligible LDD percentage reflective of its total load eligible for requirements service regardless of its Above-HWM service election.

Unintended Consequences:
If a customer's adjusted total retail load is less than its RHWM, and therefore all of the customer's purchases are at Tier 1 rates, the calculation of the applicable LDD percentage, as currently written, would reduce its applicable LDD percentage below its eligible LDD percentage.

In addition, the definition of adjusted TRL is misstated in the TRM. The TRM used the defined term "Existing Resources for CHWMs." Instead, the defined term "Existing Resources" should be used. This TRM misstatement could result in an incorrect calculation of a customer's applicable LDD percentage.

Proposed Solutions:
Add language that each customer's applicable LDD will be no less than its eligible LDD and add a maximum function to the equation on page 92 (TRM Section 10.2.2). Remove the words "for CHWMs" from the definition of adjusted TRL. The specific proposed changes are:

10.2.2 Adapting the LDD to Tiered Rates
Under tiered rates, the Tier 1 LDD for customers experiencing load growth will be adjusted in order to provide an LDD benefit equivalent to what it would have been under melded rates, and the cost of that benefit will be allocated to the Composite Cost Pool. The LDD will be based on a customer's TRL, minus Existing Resources ~~for CHWM~~ and NLSLs. Each customer's modified LDD will not be less than that customer's eligible LDD. The base discount will be determined using the adjusted TRL and the LDD Percentage Discount Table, as published in the applicable GRSPs. To reflect an increase or decrease in a customer's adjusted TRL, the percentage discount will be adjusted for application to the customer's bill. …

$$applicableLDD = eligibleLDD \times \max\left(\frac{adjTRL}{RHWM}, 1.0\right)$$

where:

applicableLDD = LDD percentage to be applied to a customer's bill
eligibleLDD = LDD percentage indicated by the customer's eligibility factors
adjTRL = customer's Total Retail Load less output of Existing Resources ~~for CHWMs~~ and NLSLs

RHWM = customer’s Rate Period High Water Mark

Explanations:
Correcting the applicable LDD formula would allow an affected customer to retain its full eligible LDD percentage when its load is less than its RHWM. Hypothesize an extreme situation where a utility’s load was half of its RHWM. Without correction, the LDD formula would reduce its applicable LDD percentage to one-half of its eligible LDD percentage. This was not the intent in drafting the TRM; the goal was to allow customers to choose their service providers for Above-HWM load without sacrificing any LDD benefits. No detriment arises from this correction because it simply allows each utility to retain the LDD benefits it currently receives.

The change in the definition of adjusted TRL assures that the same measure of Existing Resources is used in calculating the applicable LDD percentage as is used in computing the customer’s net requirement and Above-HWM Load. There is no detriment arising from this correction because no computations have been completed using the incorrect measure of Existing Resources. Using the incorrect measure could result in a lower applicable LDD percentage for a customer with Existing Resources for CHWM greater than its Existing Resources.

Clarification of Irrigation Rate Discount Basis (TRM Section 10.3)

Sponsors of Change: Northwest Requirements Utilities and Pacific Northwest Generating Cooperative are sponsoring this change. BPA staff concurs with the proposed solutions. These sponsors meet the TRM definition of a Customer Group and therefore may propose this change.

Intended TRM Outcome:
The TRM specifies a fixed historical percentage be applied to rates that are calculated in each rate case to determine the level of rate discount granted to contract-specified irrigation loads.

Unintended Consequence:
The TRM specifies that a Customer's IRD will be calculated to discount its Tier 1 irrigation purchases by applying a historical percentage to "the sum of the Slice and Non-Slice customer charges …" This inexact language was written before all of the details of the Tier 1 rate design in TRM Section 5 were finalized. The inexact language could give rise to varying interpretations and calculations of the level of the discount.

Proposed Solutions:
Change the inexact language to give more specificity in the discount calculation. The specific proposed changes are:

> **10.3 Irrigation Rate Mitigation**
> … This percentage will be multiplied by the sum of the ~~Slice~~ Composite and Non-Slice costs used to calculate the customer charges divided by the Tier 1 System Capability (expressed in MWh) to derive a dollars per MWh discount. …

or

> … This percentage will be multiplied by the sum of the forecast revenue that irrigation loads will pay through the Composite Customer Charge, the Non-Slice Customer Charge, and the Load Shaping Charge divided by the sum of the irrigation loads (expressed in MWh) to derive a dollars per MWh discount. Forecast revenue for irrigation loads will be calculated using a synthetic TOCA equal to the sum of the irrigation loads in aMW form divided by the sum of the RHWMs. This synthetic TOCA will be applied consistent with Section 5 of the TRM for calculation of the Composite Customer Charge, the Non-Slice Customer Charge, and the Load Shaping Charge. …

Explanation:
The language for determining the Irrigation Rate Discount was finished while the Tier 1 rate design was under development. While the general concept of the rate design was expected when drafting the Irrigation Rate Discount language, the terminology in Section 5 was developed later and the Irrigation language was not conformed after Section 5 was completed. The Irrigation language does not precisely fit with Section 5 terms, resulting in some uncertainty how the Irrigation Rate Discount might be calculated. This proposal would incorporate Section 5 terminology and remove the ambiguity and interpretation of the current Irrigation language.

The proposal specifies the exact costs and credits to be used in calculating the Irrigation Rate Discount, and thereby ties it directly to the same numbers used in calculating the Section 5 Tier 1 rates.

Clarification of Contract Demand Quantity Language (TRM Section 5.3.5)

Sponsors of Change: Public Power Council is sponsoring this change. BPA staff concurs with the proposed solutions. This sponsor meets the TRM definition of a Customer Group and therefore may propose this change.

Intended TRM Outcome:
The Supplemental TRM added provisions for Provisional CHWM to account for loss of load during FY 2010 resulting from the economic recession or other causes. Section 4.1.9 specifies adjustments to a customer's CDQ amount if and when Provisional CHWM is removed after FY 2013.

Unintended Consequence:
The TRM states that "The actual CDQs determined in accordance with section 5.3.5.2 or 5.3.5.3 will be used for billing during FYs 2012-2013 and in all subsequent Rate Periods." Section 5.3.5 does not reference the potential modifications pursuant to section 4.1.9.

Proposed Solutions:
Change the language to recognize the section 4.1.9 adjustments to CDQ amounts. The specific proposed changes are:

> **5.3.5 Contract Demand Quantity**
> … The actual CDQs determined in accordance with section 5.3.5.2 or 5.3.5.3 will be used for billing during FYs 2012-2013 and in all subsequent Rate Periods unless the CDQs are modified pursuant to section 4.1.9. If the CDQs are modified, the modified CDQs will take effect and be used for billing and billing adjustments as described in section 4.1.10.

Explanation:
In the Supplemental TRM proceeding, language was added to Section 4 to allow customers to apply for and receive Provisional Contract High Water Marks. Section 4 further specifies that CDQs would be calculated using CHWMs including Provisional amounts. Section 4 further specifies that if a Provisional Load used to establish a Provisional CHWM does not return to the utility before September 30, 2013, then the Provisional CHWM is reduced or removed. The customer's CDQ would also be recalculated based on the reduced CHWM.

In the drafting of the modifications to Section 4 to incorporate Provisional CHWMs, it was overlooked that Section 5 contained a definitive statement that was now in conflict with the new provisions in Section 4. The language proposed to be added to Section 5 would resolve this potential conflict.

Clarification of Slice True-Up Adjustments (TRM Section 2.7.1)

Sponsors of Change: XX is sponsoring this change. BPA staff concurs with the proposed solutions. These sponsors meet the TRM definition of a Customer Group and therefore may propose this change.

Intended TRM Outcome:
The TRM specifies that the Slice True-Up Adjustment is each customer's Slice percentage times the difference between forecast costs and credits and actual annual costs and credits. If all customers' Tier 1 purchases are equal to their RHWMs, then each customer's cost responsibility is equal to its proportionate share of the total RHWMs. If some customers are not purchasing their full RHWM, then the value of the power they are not purchasing is shared with all customers.

Unintended Consequence:
Because all customers, not just Slice customers, are paying based on percentages of their load-weighted shares of all loads, a customer's cost responsibility is no longer necessarily equal to its Slice percentage. In return for receiving a share of the value of Unused RHWM, the cost responsibility of each customer is increased to its proportionate share of all Tier 1 loads expected to be served. If the Slice True-Up does not apportion cost and credit differences based on the established cost responsibility, then Slice customers will either underpay or under-receive true-up amounts in the True-Up calculation.

Proposed Solutions:
Change the language to recognize cost responsibility rather than just the Slice percentage. The specific proposed changes are:

> **2.7.1 Composite Cost Pool True-Up**
> For each Slice customer, the annual Slice True-Up Adjustment for the Composite Pool will be calculated by 1) … and multiplying the difference determined in 1) above by each Slice customer's Slice Percentage <u>divided by the sum of the [actual] Composite Pool TOCAs for that year established in the [relevant rate case</u>] *or* <u>[the Annual Net Requirement process and the Load Shaping True-Up process]</u>.
>
> **2.7.2 Slice Cost Pool True-Up**
> For each Slice customer, the annual Slice True-Up Adjustment for the Slice Pool will be calculated by 1) … and multiplying the difference determined in 1) above by each Slice customer's Slice Percentage <u>divided by the sum of the [actual] Slice Pool TOCAs for that year established in the [relevant rate case</u>] *or* <u>[the Annual Net Requirement process]</u>.

Explanation:
An inequity occurs because the Composite Customer Charge is adjusted upward when the sum of TOCAs is less than 100%. In the Slice True-Up, the changes in costs/credits recovered through

the Composite Customer Charge likewise need to be adjusted upward to ensure full recovery of Power Services' costs/credits and to prevent this potential recovery/benefit being shifted to Non-Slice customers.

The proposed correction will result in a Slice True-Up Adjustment being calculated on the same basis as the rates paid by Slice customers. Rates are computed recognizing that the sum of TOCAs may be less than 100%. This adjustment states the Slice True-Up on the same basis.

Change to Slice True-Up Calculation (TRM Section 2.7.1)

Sponsors of Change: Slice customers and Northwest Requirements Utilities are sponsoring this change. BPA staff concurs with the proposed solutions. These sponsors meet the TRM definition of a Customer Group and therefore may propose this change.

Intended TRM Outcome:
The TRM specifies that, during the Slice True-Up process, actual annual costs and credits are compared to the average of the two-year costs and credits used to establish rates. This process adjusted the payments made by Slice customers after each fiscal year.

Unintended Consequence:
It was discovered during the WP-10 ratesetting process that the use of average two-year costs and credits biased the Slice True-Up payments between BPA and Slice customers in a way that could result in higher rates for non-Slice customers.

Proposed Solutions:
Change the language to use the annual costs and credits for each year rather than the two-year average. The specific proposed changes are:

> **2.7.1 Composite Cost Pool True-Up**
> For each Slice customer, the annual Slice True-Up Adjustment for the Composite Pool will be calculated by 1) subtracting (i) ~~the average of~~ the forecast annual expenses and revenue credits allocated to the Composite Cost Pool for the Fiscal ~~Years~~ Year of the ~~applicable~~ Rate Period …
>
> **2.7.2 Slice Cost Pool True-Up**
> For each Slice customer, the annual Slice True-Up Adjustment for the Slice Pool will be calculated by 1) subtracting (i) ~~the average of~~ the forecast annual expenses and revenue credits allocated to the Slice Cost Pool for the Fiscal ~~Years~~ Year of the ~~applicable~~ Rate Period …

Explanation:
During WP-10, it was discovered that using the averaging method for the Slice True-Up has the potential to increase the need for Planned Net Revenues for Risk (PNRR) to be included in the Non-Slice Customer Charge. The averaging method virtually ensures that there will be a true-up adjustment in both years of a two-year Rate Period, even if actual expenses and revenue credits come in exactly as forecast for the Rate Period as a whole. Typically, the second year true-up adjustment results in Slice customers having to pay BPA, and this payment would be received outside of the Rate Period. Because this payment by Slice customers is received after the end of the rate period, the cash is not yet available for BPA to use to make its Treasury payment. This expectation could cause an increase in PNRR charged to non-Slice customers.

The proposed change corrects for this potential problem by removing the predictability that there will be a Slice True-Up for the second year where Slice customers would be paying BPA after the rate period ends. While there might actually be such a Slice True-Up payment, the predictability of such a payment occurring is reduced to the point where the determination of PNRR does not need to account for such a potentiality.