

Explanation of Proposed Revision of the Tiered Rate Methodology

for the

WP-12 Rate Case

July 8, 2010

{note to reviewers: Issue #2 has been modified to the chosen methodology and includes some additional clarifying language for section 10.3. Issue #4 still has all options that are being considered. Font and shading have been added to distinguish which language goes with which option. An additional sentence has been added to incorporate option B+ into the text. When a resolution is reach on the options, the language pertaining to other options will be removed.}

BPA is implementing the Tiered Rate Methodology (TRM-12S-A-03) in the WP-12 wholesale power rate case. In the course of this implementation, BPA and stakeholders have identified some errors or omissions that do not accurately reflect the intent of the TRM. Revisions to the TRM have been proposed that would rectify these errors or omissions. This paper sets forth the proposed revisions and discusses the TRM change process for considering these revisions, consistent with the requirements of TRM sections 12 and 13.

All five of the revisions set forth in this paper have been proposed as Unintended Consequences revisions.

The TRM specifies that only BPA or a Customer Group may propose Unintended Consequence revisions to the TRM. "Customer Group" is a defined term in TRM Section 13; the group must be comprised of at least 45 percent of Customers. "Customer" is also a defined term, meaning a Public that purchases power from BPA at a Tier 1 Rate under a CHWM Contract.

Because each of these proposals is presented as an Unintended Consequences revision, BPA will propose each of these revisions in the upcoming WP-12 rate case unless 70 percent of preference customers by count and 50 percent of customers by CHWM object to a proposed revision. In this instance, the TRM provides that each abstention or absence of a vote will be counted as not objecting to a proposal.

1. 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 with a joint total of 66 Customer members or 50.7 percent, surpassing the requirement of 45 percent, 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. Some additional language is proposed to be removed to minimize future confusion about intent.

Proposed TRM Change:

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 highlighted as follows:

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 applicable 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. When a customer's adjusted TRL is less than its RHWM, such customer's applicable 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

Explanation:

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 the customer's 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. By inserting the maximum function into the formula, the computation assures that the adjustment to the eligible LDD percentage is greater than one when a customer's adjusted TRL is greater than its RHWM and equal to one when a customer's adjusted TRL is less than or equal to its RHWM.

The two phrases proposed to be stricken from the first sentence are not necessary to implement the LDD adjustment. If the phrase, "experiencing load growth" remains in the text, it might imply that the LDD will be adjusted only if the utility has load growth. The actual test is whether the size of the utility's adjusted TRL compared to its RHWM, without respect to the cause of the difference. If the phrase, "equivalent to what it would have been under melded rates" remains in the text, it might imply that there is a further test of comparing LDD benefits under the TRM with benefits that might be available under melded rates. The TRM adjustment does not require any further test of benefit levels; therefore deleting the phrase does not change the intent of the TRM.

Requirements for revisions to the TRM to remedy Unintended Consequences (TRM 13.2.1):

1. *The proposed revision affects only Customers with CHWM Contracts or has no more than de minimis effects on BPA customers without CHWM Contracts.*

The change in the LDD formula only changes the size of the discount for Customers with CHWM contracts. It has a *de minimis* effect on BPA's customers without CHWM contracts.

2. *The proposal does not address or rectify unintended consequences that affect BPA programs or policies of general application (e.g., BPA's programmatic responsibilities).*

No. BPA programs or policies of general application are affected by this proposal. The LDD is not a programmatic responsibility; rather is authorized and granted pursuant to BPA's rate directives under section 7 of the Northwest Power Act.

3. *The proposed revision must address or avoid unintended consequences that put at risk the policy goals underlying the TRM as set forth in the Regional Dialogue Policy.*

The Unintended Consequence would be the reduction in the discount percentage that a low density customer would receive if its forecast net requirement was less than its RHWM. This outcome undermines the Regional Dialogue policy goals of long-term LDD stability over multiple rate periods and that the level of a customer's LDD benefits should not be affected by its choice between BPA's power sold at a PF Tier 2 rate and power from non-Federal resources.

4. *The value of the proposed revision outweighs any detriment created by the proposal.*

The clarification of the applicable LDD calculation provides greater certainty and consistency in the application of LDDs. There is no detriment created by the proposed revision because it simply clarifies the intent of the TRM and does not establish a new methodology.

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2. 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 with a joint total of 66 Customer members or 50.7 percent, surpassing the requirement of 45 percent, 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 TRM Change:

Change the inexact language to give more specificity in the discount calculation. The specific proposed changes are highlighted as follows:

10.3 Irrigation Rate Mitigation

... 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, adjusted for any applicable Low Density Discount, 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 hypothetical TOCA derived by dividing the sum of the irrigation loads (expressed in aMW) by the sum of all RHWs. This hypothetical TOCA will be applied consistent with Section 5 of the TRM for calculation of forecast irrigation revenues from the Composite Customer Charge, the Non-Slice Customer Charge, and, together with the underlying irrigation energy amounts, 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.

Requirements for revisions to the TRM to remedy Unintended Consequences (TRM 13.2.1):

1. *The proposed revision affects only Customers with CHWM Contracts or has no more than de minimis effects on BPA customers without CHWM Contracts.*

The clarification of the IRD calculation affects only the calculation of the IRD. It has a *de minimis* effect on BPA's customers without CHWM contracts.

2. *The proposal does not address or rectify unintended consequences that affect BPA programs or policies of general application (e.g., BPA's programmatic responsibilities).*

No BPA programs or policies of general application are affected by this proposal. The IRD is a ratemaking policy of BPA.

3. *The proposed revision must address or avoid unintended consequences that put at risk the policy goals underlying the TRM as set forth in the Regional Dialogue Policy.*

The Unintended Consequence is the uncertainty in the rate discount that irrigation customers will receive. This outcome undermines the Regional Dialogue policy goal of providing an IRD in the form of a fixed mills-per-kWh discount and limiting the overall program costs to a fixed percentage of the spring and summer rates.

4. *The value of the proposed revision outweighs any detriment created by the proposal.*

The clarification of the IRD calculation provides greater certainty and consistency in the calculation of the rate discount made available to irrigation customers, reducing confusion and lessening the potential for disputes. There is no detriment created by the proposed revision because it simply clarifies the intent of the TRM and does not establish a new methodology.

3. Clarification of Contract Demand Quantity Language (TRM Section 5.3.5)

Sponsors of Change: Northwest Requirements Utilities, Pacific Northwest Generating Cooperative, and Western Public Agencies Group are sponsoring this change. BPA staff concurs with the proposed solutions. This sponsor meets the TRM definition of a Customer Group with a total of 99 Customer members or 76.1 percent, surpassing the requirement of 45 percent, 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 TRM Change:

Change the language to recognize the section 4.1.9 adjustments to CDQ amounts. The specific proposed changes are highlighted as follows:

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 so modified pursuant to section 4.1.9, the modified CDQs will be effective beginning with FY 2014 and be used for billing and any necessary 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.

Requirements for revisions to the TRM to remedy Unintended Consequences (TRM 13.2.1):

1. *The proposed revision affects only Customers with CHWM Contracts or has no more than de minimis effects on BPA customers without CHWM Contracts.*

The proposed revision affects only the amounts CHWM Customers pay in PF Preference demand charges. It has no effect on BPA's customers without CHWM contracts.

2. *The proposal does not address or rectify unintended consequences that affect BPA programs or policies of general application (e.g., BPA's programmatic responsibilities).*

No BPA programs or policies of general application are affected by this proposal. The CDQ adjustment is solely a ratemaking construct.

3. *The proposed revision must address or avoid unintended consequences that put at risk the policy goals underlying the TRM as set forth in the Regional Dialogue Policy.*

The proposed revision will correct the omission of modifications to CDQs under TRM section 4.1.9, eliminating potential language conflicts regarding modifications of CDQs due to Provisional CHWM. The omission of such clarification could lead to disputes among BPA and customers over adjustments to CDQs.

4. *The value of the proposed revision outweighs any detriment created by the proposal.*

The proposed revision corrects an oversight that could distribute costs unfairly among CHWM contract customers. There is no detriment created because the proposed revision eliminates a potential for a dispute over modifications to CDQs resulting from Provisional CHWMs.

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

Sponsors of Change: BPA is sponsoring this change. Customer representatives participating in rate case workshops concur with the proposed solutions.

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 TRM Change:

Change the language to recognize cost responsibility rather than just the Slice percentage. The specific proposed changes are highlighted as follows:

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 2) **dividing multiplying** the difference determined in 1) above **by the sum of the [ACTUAL] Composite Pool TOCAs for that year established in the [relevant rate case] or [ANNUAL NET REQUIREMENT PROCESS AND THE LOAD SHAPING TRUE-UP PROCESS]** and **multiplying** by each Slice customer's Slice Percentage. **[THE SLICE TRUE-UP ADJUSTMENT WILL ALSO INCLUDE A VALUE TRUE-UP OF THE DIFFERENCE BETWEEN THE FORECAST QUANTITY OF UNUSED RHWM ESTABLISHED IN THE RATE CASE FORECAST AND THE ACTUAL QUANTITY OF UNUSED RHWM.]** The dollar amount calculated, which may be positive or negative, constitutes the Slice True-Up Adjustment Charge for the Composite Cost Pool. **{note to reviewers: Option A is the language in brackets in normal font; Option B and B+ is the language in brackets in small caps font, Option B+ includes the added second sentence.}**

2.7.2 Slice Cost Pool True-Up

The annual Slice True-Up Adjustment for the Slice Pool will be calculated by 1) ... and 2) **dividing multiplying** the difference **from determined in** 1) above **the sum of the Slice Percentages established in the Annual Net Requirement process**

and multiplying by each customer's Slice Percentage divided by the sum of all Slice Percentages. ...

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.

Requirements for revisions to the TRM to remedy Unintended Consequences (TRM 13.2.1):

1. *The proposed revision affects only Customers with CHWM Contracts or has no more than de minimis effects on BPA customers without CHWM Contracts.*

The proposed revision affects the amount of the Slice True-Up to limit the shifting of costs to non-Slice customers. It has a *de minimis* effect on BPA's customers without CHWM contracts.

2. *The proposal does not address or rectify unintended consequences that affect BPA programs or policies of general application (e.g., BPA's programmatic responsibilities).*

No BPA programs or policies of general application are affected by this proposal. The Slice True-Up is a ratemaking policy choice by BPA to mitigate risk.

3. *The proposed revision must address or avoid unintended consequences that put at risk the policy goals underlying the TRM as set forth in the Regional Dialogue Policy.*

The proposed adjustment would restore proportional sharing of costs among CHWM customers. Without this revision, certain CHWM customers might pay more and others pay less than the actual cost of service, which is inconsistent with the Regional Dialogue policy goal of regional access to power at cost and the TRM goal of each customer bearing its share of BPA costs.

4. *The value of the proposed revision outweighs any detriment created by the proposal.*

The proposed revision avoids disproportionate allocations of costs among CHWM customer categories. There is no detriment created because the proposal cures the potential for a cost shift from Slice customers to non-Slice customers.

5. Change to Annual Costs in 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 with a joint total of 67 Customer members or 51.5 percent, surpassing the requirement of 45 percent, 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 TRM Change:

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

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.

Requirements for revisions to the TRM to remedy Unintended Consequences (TRM 13.2.1):

1. *The proposed revision affects only Customers with CHWM Contracts or has no more than de minimis effects on BPA customers without CHWM Contracts.*

The change in Slice true-up affects only the timing of Slice True-up payments. It has a *de minimis* effect on BPA customers without CHWM contracts.

2. *The proposal does not address or rectify unintended consequences that affect BPA programs or policies of general application (e.g., BPA's programmatic responsibilities).*

No BPA programs or policies of general application are affected by this proposal. The Slice True-Up is a ratemaking policy choice by BPA to mitigate risk.

3. *The proposed revision must address or avoid unintended consequences that put at risk the policy goals underlying the TRM as set forth in the Regional Dialogue Policy.*

The Unintended Consequence is the potential for higher costs to non-Slice customers due to a greater cost of risk mitigation. This higher cost is inconsistent with the Regional Dialogue goal of low and stable Tier 1 power rates. The proposed the potential impact that Slice customer rates may have on non-Slice customer rates.

4. *The value of the proposed revision outweighs any detriment created by the proposal.*

The proposed revision avoids potential increases in risk mitigation costs to non-Slice customers. There is no detriment created because the proposal cures the potential for a rate increase to non-Slice customers due to the Slice True-Up and does not change the amount paid by Slice customers over the two-year rate period.