COWLITZ COUNTY PUD
"CUSTOMER-OWNED for CUSTOMER BENEFIT"

Public Utility District No. 1 of Cowlitz County, WA
961 12th Avenue ♦ PO Box 3007
Longview, WA 98632
(360) 423-2210 ♦ WA Toll Free (800) 631-1131
Fax: (360) 577-7559 ♦ Web: www.cowlitzpud.org

Board of Commissioners
Merritt H. (Buz) Ketcham Mark McCrady Edward M. (Ned) Piper

General Manager
Brian L. Skeahan

January 14, 2008

BPA Rate Staff
c/o Nita Burbank
Via e-mail only – nmburbank@bpa.gov

Re: Tiered Rate Methodology

Dear BPA Rate Staff:

The following comments regarding the BPA Staff's Discussion Paper on Tiered Rates Methodology ("TRM") dated December 21, 2007, are submitted on behalf of Cowlitz County PUD ("Cowlitz").

As a preliminary matter, we wish to thank the Staff for its hard work on the TRM, for the ongoing and sincere efforts it has made to solicit, to consider and often to adopt ideas from customers, and for sharing with customers its work product at this stage of the process. Although the TRM discussion paper is a work-in-progress at a stage that BPA would normally not have distributed until it was more complete and had been more thoroughly vetted within the agency, we value this opportunity to help shape the subsequent draft.

We also hope that the Staff recognizes our comments to be a positive effort to improve the paper for the mutual benefit of BPA and customers. Our comments here focus mainly on areas in which we see a need for further explanation, greater detail or changes to the paper. This focus should not be interpreted as negative. BPA has a number of very good concepts in the TRM, and we are pleased to see the progress that BPA and customers have made to date in developing a robust, rational and workable TRM.

Our focus simply attempts to aid BPA in preparing the next draft of the TRM by identifying sections that we think need work. Also, we will mostly address concepts, not wording, because detailed word smithing is best left for after the overall construct is in place. Finally, the lack of current product descriptions limits our ability to evaluate fully the TRM. We have assumed for purposes of these comments that we will have the opportunity to provide further input when we have the product descriptions in hand.

Broad Concept of What Tier 1 Consists of

BPA's stated goals for its new business relationship with its public customers include limiting the sale of the lowest cost-based power to approximately the firm capabilities of the existing Federal system, differentiating between the costs of service associated with the existing Federal system and the costs associated with additional power to meet other needs, and promoting regional infrastructure development. As BPA moves forward to define with more detail the TRM and Product Catalogue, it is very

important to evaluate all details of the new paradigm against these goals. There are some details in the current draft that seem to conflict with one or more of the above goals.

One such area of concern is how BPA intends to treat its "Other BPA Contract Obligations". (TRM §3.1.2) It is reasonable to treat the now existing claims on the Federal system as reductions to the amount of FBS available to sell at the Tier 1 rate. However, new claims or growth in existing claims should not be allowed to reduce the FBS available to customers at the Tier 1 rate. For example, if the Transmission business line increases wheeling services, the increased power needed to support ancillary services to such wheeling should be separately acquired and not be treated as a deduction in available FBS for Tier 1. Crediting the Tier1 cost pool with the value of lost capability does not address the *quantity* issue and is not an adequate solution.

We also disagree with the concept that all capacity costs should be assigned to Tier 1. Capacity acquired to support non-Tier 1 sales or services should be allocated to and recovered from such sales or services.

Chapter 6 – Tier 1 Rate Design

This Chapter is the core of the TRM. As a general proposition, the proposed Tier 1 rate design should fairly recover BPA's Tier 1 costs and it provides good price signals to customers. In particular, using market-based opportunity costs to develop the load shaping charge and using the annual fixed capital cost of the most economical capacity resource as the basis for the demand rate eliminate many of the inefficiencies typically encountered in trying to recover an embedded revenue requirement with marginal cost-based rates.

The design is not perfect, nor would we expect it to be inasmuch as the rate design reflects the effort of BPA and customers to balance a number of often competing considerations, including ameliorating excessive negative rate impacts to some customers caused by the transition to the new design. Public customers worked long and hard and engaged in much give and take to arrive at a design that balanced the competing considerations in a manner that was generally, if not universally, acceptable to them while retaining the key elements of Staff's proposals. The overwhelming majority of public customers representing the overwhelming majority of BPA's expected sales at the Tier 1 rate ultimately came together behind a single rate design. Under that design, not one customer got everything it wanted, or even everything it thought it was entitled to, but all but one or two customers accepted the compromise as "good enough".

In the TRM paper, BPA has proposed several "changes" to the design endorsed by the majority of the publics. Some of those changes threaten to shatter the publics' consensus and to turn the up-coming TRM process into a hotly contested and acrimonious fight over rate design. We strongly urge BPA to remove from the Tier 1 rate design those revised elements that destroy the economic balance that customers worked so hard to achieve. Specifically, BPA has suggested three changes to the calculation of and design of the demand rate and the addition of a "Load Shaping Charge" that alter significantly the rate design deal from what the publics agreed to

accept[1]. BPA's proposals: i) to shape the monthly demand rate based on monthly HLH energy prices (TRM §6.3); ii) to change the base years used to calculate the Contract Demand Quantity (TRM §6.3.2) and; iii) under some circumstances, to use short term capacity costs as the basis for the demand rate (TRM §6.3) would affect different customers differently and create winners and losers compared with the agreed upon rate design. The proposal to include a Load Following Charge (TRM §6.4) inappropriately shifts costs from Block customers to Load Following customers and seriously alters the balance of cost recovery from what the vast majority of public customers agreed to.

Changes to the Demand Rate (TRM §6.3)

The compromises customers made regarding the design of and basis for the demand charge in essence established what percentage of BPA Tier 1 revenue requirement was to be collected based on demands placed on the system and what percentage was to be collected based on energy usage through the customer charge. Shaping the demand charge based on market energy prices adds a seasonal component customers had addressed through their Load Shaping Charge proposal. The Load Shaping Charge proposal was difficult for many customers with more expensive seasonal usage patterns to accept, but they did. It would be unfair now that they have accepted the Load Shaping Charge to add additional seasonally differentiated costs on them through changes to the Demand rate (TRM §6.3 p 43 line 21).

It may be acceptable to change the base years for calculating the CDQ from FY 2008-2010 to FY 2005-2007 inasmuch as the CDQ is a measure of the difference between historic monthly CSP demand and historic average HLH energy usage. This difference may or may not be sensitive to the load growth that will likely occur between these two periods. BPA should test whether use of the earlier base period is likely to have any significant consistent effect on customers' expected CDQs. If there is a predictable effect, BPA should offset such effect by adjusting the 90% factor for the second adjustment to CSPs (TRM §6.3.2 p 45 lines 8-9).

Customers with relatively flat loads gave up a lot by accepting the grandfathered Contract Demand Quantity concept. In the case of Cowlitz, this concept alone added over $5 million to its expected annual Tier 1 bill, a larger effect than grandfathering had on any other customer. It is unacceptable to give BPA discretion to further reduce its demand revenue (and thus increasing its energy usage based Customer Charge revenues) by reducing the Demand rate merely because BPA forecasts a temporary capacity surplus in the region (TRM §6.3 p 43 lines 19-21). BPA should set the Demand rate at $1/12^{th}$ of the annual costs of the long-term marginal capacity resource under all circumstances.

[1] That the changes alter the balance accepted by the publics does not mean that each change is bad in the abstract. Our main criticism of some of the changes is that they reopen old sores with little apparent benefit to anyone.

Load Following Charge (TRM §6.4)

The concept of a Load Following Charge was discussed by the publics in trying to reach the compromise they ultimately struck, and they expressly rejected such a charge as part of the basis upon which their compromise was reached. We have no interest in changing this portion of the compromise without re-evaluating and adjusting all other elements of it. Moreover, there is no basis for the Load Following Charge described in §6.4 of the draft TRM. BPA experiences hour-to-hour and within hour ramping effects from all customers in its control area, not just Load Following customers. Any use of total retail load ("TRL") as a surrogate for the amount of such ramping is wholly unsupported. Cowlitz has the largest TRL of any Load Following customers, but it's between and within hour variability is far less than many, if not most, other customers. In any event, BPAT purchases the capacity needed to address these effects from BPAP and recovers the cost of such effects in transmission rates. Simply put, the proposed Load Shaping Charge is an unwarranted method to shift costs between Block customers and Load Following customers. BPA should not include any Load Following Charge in the Tier 1 rate design.

Load Shaping Charge (TRM §6.2)

We believe that the Load Shaping Charge is an essential element of the Tier 1 rate design. This Charge provides reasonable price signals to customers and it equitably allocates the cost of different seasonal and diurnal patterns of usage among customers in a manner similar to how such cost would have affected such customers in the event of an actual allocation of the system or Slice-like sales to all customers. The structure of the Load Shaping Charge was also designed initially to ameliorate the cost to customers and BPA of forecasting errors. If in retrospect a Load Following customer had purchased too much or too little Tier 2, or had self-supplied too much or too little energy, due to an imperfect forecast, the fact that at the margin, the shortage or excess was priced at forecasted market values limited significantly the adverse affect of the erroneous forecast.

BPA's proposal to adopt different Load Shaping rates when a Load Following customer's total load on BPA (both Tier 1 and Tier 2) is above RHWM than when the load is below RHWM discriminates between customers that self-supply for their load growth and those that place their load growth on BPA through purchases at a Tier 2 rate (TRM §6.2 at p 42). We can accept a two tier Load Shaping rate, but only if BPA modifies the definition of the dividing line between the tiers so that self-supply of load growth is treated just like Tier 2 supplied load growth. BPA also needs to make clear that all of the load reduction (that is, the amount that actual load is less than the forecast that necessitated the self-supply power) that was covered by self-supply is priced based on the higher tier Load Shaping rate and only load reduction beyond such self-supply would be subject to the lower tier Load Shaping rate. In any year in which both tiers of the Load Shaping rate are applicable to a customer, BPA should apply equal percentages of the two tiers of the Load Shaping rate in all hours of the year. For example, if a customer has supplied 3 aMW of power to meet its forecasted load growth and for some reason the actual load is 4 aMW less than the forecast, then 75% of the Load Shaping in each hour should be priced at the higher tier and 25% in each hour should be priced at the lower tier.

Billing Determinants for the Demand Charge (TRM §6.3)

The description of the basis for the billing determinant for the Demand Charge at TRM p 42, lines 19-21 inadvertently omits a highly desirable element included in BPA's December 5, 2007 revision to BPA's "Proposed Changes to BPA's Framework". Specifically, BPA stated that it would define a sub-set of the HLH hours in each month as a "peak period" of five to six hours during each weekday, and that it would "guarantee the customer a demand credit for amounts they commit in peak periods, reducing customer's system peak each month by the declared peak amount, regardless of the hour when the customer's actual peak occurs." Cowlitz is very pleased that BPA agreed to this concept, and we believe it will be beneficial to BPA and its customers. The description of the demand billing determinant in the final TRM should include this concept.

Secondary Crediting Service (TRM §8.4)

BPA should expand this section to make very clear that the Secondary Crediting Service is purely optional and that Load Following customers may, if they choose, take responsibility to market their own secondary. Also, BPA needs to make clear that a customer may choose between the Secondary Crediting Service and remarketing on its own as long as it declares its resource in any pre-committed permitted shape. Finally, the language at page 58, lines 16-20 should be expanded to allow customers to commit in advance to move energy into the HLH period and/or into the peak period, and to receive a demand credit for such commitments, as provided for in the December 5, 2007 revision to the "Proposed Changes to BPA's Framework" document at page 2 section 2, subsections 3 and 4. The language in the TRM at page 58, lines 16-20 as currently drafted might be read to preclude a customer from committing its resources as now provided in section 2.4 of the December 5th revision.

Contract HWM Amount for New Publics (TRM §2.1.9.1)

The calculation of the percentage factor to limit the CHWMs for new publics at page 17 lines 9-11 fails to achieve the goal of such calculations as described on lines 11-12. The proposed calculation ignores the fact that BPA intends to create incentives for customers to develop infrastructure in the region, and many publics will self-supply for their load growth. The percentage should be derived by dividing the existing CHMWs by the sum of the total net requirements of existing public utilities *and the portion of post-2010 load growth for which these utilities have self-supplied resources.* Otherwise new publics will receive proportionally more access to power priced at the Tier 1 rate than will the class of existing customers.

Transition CHMW Method (TRM §2.3 and 2.3.1)

BPA should change the title to this section to correspond to its content. In fact, BPA does not propose any transition CHMW. This section addresses the establishment of the portion of each customer's load that must be served with Tier 2 or self-supply during the transition period. Also, BPA should amend the language to make clear that the transition rules apply to FY 2012 and FY 2013 for Load Following customers and, if appropriate, to FY 2012, FY 2013 and FY 2014 for all other customers. However, first BPA should reconsider whether there is any reason to include FY 2014 in the transition period for any group of customers.

Federal System Hydro and Other Federal System Resources (TRM §3.1.1)

BPA should clearly limit the scope of the sentence on page 24, lines 13-15 to acquisitions made for augmentation only.

Other BPA Contract Obligations (TRM §3.1.2)

BPA should revise this section to state clearly that future contracts to supply power and future growth in the power needed to support services such as transmission or RSS will not be treated as reducing the amount of power to be made available at the Tier 1 rate.

Augmentation for DSI Loads (TRM §3.1.5.6)

BPA should not allow any service or benefit package it may choose to provide to DSIs to affect either the amount or cost of power made available to publics at the Tier 1 rate.

Determining Augmentation Amount Each Rate Period (TRM §3.1.5.7)

All of the references to HWMs in this section should be to Rate Period HWMs, not Contract HWMs as was done on lines 14 and 16.

Cost Allocations Principles (TRM §4.1)

The language in principle #4 should be modified to be more consistent with principle #2. Specifically, BPA should make clear that it will modify the Tier 1 cost allocation and rate design methodology only if that were the only way for BPA to recover its costs, and further, that any such modification will be the minimum modification needed to provide for cost recovery.

Slice True-Up Calculation and Billing Process (TRM §5.4)

There does not appear to be any reason to terminate the right to an independent audit for the Slice True-Up *as long as any and all costs incurred by BPA to accommodate the audit are treated as Slice implementation costs to be fully recovered from Slice customers.*

Calculating the Remarketed Tier 2 Proceeds (TRM §7.4)

This section is very unclear and needs editing. We are unclear what BPA intends by the current language.

This concludes our current comments on the BPA Staff Discussion Paper on Tiered Rate Methodology. Our review of the Paper indicates that several of its sections are, as of this time, still in a conceptual stage of development so we have not attempted to provide editing type comments to such sections. Also, we cannot fully evaluate the paper until we are in possession of the Product Catalogue that will eventually accompany the TRM. Nonetheless, we greatly appreciate BPA's decision to solicit customer input at this time, and we sincerely hope that Staff will find our comments useful. We look forward to the opportunity for further informal input as the TRM and

Product Catalogue moves towards their final form. Again, we thank you for giving us the opportunity to provide this input.

Sincerely,

Brian L. Skeahan
General Manager

scw.BLS.BPAcomments

cc by e-mail: Paul Murphy