

This Agency Financial Information is provided for discussion purposes during this pre-rate case process.

Pre-Decisional

WP-07 Power Rate Case Workshop

Date of Workshop:
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Topics:
Industrial Margin Study

Industrial Margin Study for 2007 Rate Case

- BPA is required by statute to establish a rate applicable to direct service industrial customers. This rate is designated the Industrial Firm Power (IP-07) rate. As stated in Section 7(c)(1)(B) of the NW Power Act, this rate shall be set “at a level which the BPA Administrator determines to be equitable in relation to the retail rates charged by the public body and cooperative customers to their industrial consumers in the region.” Thus, rates to the DSIs are set by adding a typical retail margin to the applicable wholesale rate. The purpose of the Industrial Margin Study is to calculate the typical retail margin.
- BPA has conducted the Industrial Margin Study over the last few months. The methodology is basically unchanged. As in the past, only public utilities serving one or more industrial customer(s) with a peak load of 3.5 MW or above were eligible to participate in the study. BPA, working with the PPC, identified the data that would be requested in order to calculate the typical margin. The PPC sent each utility a letter requesting this data. The request also explained that the information would only be used for the purpose of calculating the margin and would otherwise remain confidential.
- BPA and the PPC identified 45 PF customers believed to have at least one industrial customer with a peak demand of at least 3.5 megawatts. As in the past, “industrial customer” was defined as a customer that receives firm service and is engaged primarily in manufacturing, processing, refining, and/or mining.
- These 45 customers were requested to provide their most recent cost of service analyses (COSA) used in establishing rates for their industrial customers.
- 41 responses were received from eligible PF customers that could be used in calculating the margin.
- COSAs generally contain expenses that are individually identified and categorized based upon the functionalization and allocation used by the utilities. The functionalization is the separation of costs into categories of cost causation, including production, transmission, distribution, taxes, and overhead. The allocation of costs is the separation of the functionalized costs to customer classes such as residential, commercial, and industrial.
- BPA followed the same methodology used in the past. Where COSAs were provided, we derived individual utility industrial margins by analyzing the categorical costs the utilities allocated to their industrial consumers. BPA relied on utility data used to prepare the COSA, and the same information was used in determining how costs were functionalized among the various cost categories and allocated to their industrial customers. BPA generally accepts each utility’s functionalization and allocation methods. BPA’s task was basically to determine what utility costs should appropriately be considered as part of the typical margin

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and which should not. The costs categories excluded from the margin calculation were those related to the production, transmission, or distribution functions.

- As in the past, revenue taxes were excluded from the margin calculation. Washington is the only state in the region that levies a revenue tax. Therefore, because such taxes are not typical, it is reasonable to conclude that they should not be included in the calculation of a “typical” margin.
- In a few cases BPA did not receive complete COSAs from utilities. Instead the data consisted of utility statements or summaries regarding contract margins or other overhead costs. In these instances, where the utility specifically identified the amount of margin or other overhead costs associated with a particular contract, BPA accepted it.
- The various categories of costs were totaled and then divided by the total kWh sales during the utility’s test period to arrive at a mills/kWh figure for each category. All of the costs included in the Production, Transmission, Distribution, Revenue Taxes, and Other cost categories were totaled and divided by total sales. The result is the amount per kWh of each of the five categories that contributes to the overall rate.
- To calculate the “typical” margin, we first calculated the individual utility margins. Then we weighted the each individual margin by the amount of energy sold by the utility to its industrial customers to get the overall typical margin.
- Our preliminary results indicate that the overall typical margin for the 2007 rate case is in the range of 0.50 to 0.60 mills/kWh.