

Residential Exchange Program (REP) Going Forward

August 22, 2007

The Northwest Power Act – Key Sections

- 5(c)(1) – Purchase & Sale (exchange)
- 5(c)(2) – Ramping in of benefits (no longer applicable)
- 5(c)(3) – Benefit must pass-through to residential customers
- 5(c)(4) – Termination conditions
- 5(c)(5) - In lieu transactions
- 5(c)(6) – Limitations on restrictions of exchange sales
- 5(c)(7) - Average System Cost Methodology
 - 5(c)(7)(A) – the costs of additional resources in an amount sufficient to serve any new large single load (NLSL)
 - 5(c)(7)(B) – the costs of additional resources in an amount sufficient to meet any additional load outside the region
 - 5(c)(7)(C) – any cost of any generating facility which is terminated prior to initial commercial operation
- Section 7(b)(2) and 7(b)(3)

Overarching Principles BPA Will Use In the Residential Exchange

- Must be legally sustainable
- Should be seen as equitable by the parties
- Should not be dependent upon legislation to succeed
- Benefits are relatively predictable over time
- Process must be transparent so parties can see how benefits are determined
- Must be completed so that BPA offers simultaneous 20-year contracts to all customers by August 2008

Proposed Principles Governing a “New” Residential Exchange Program & ASC Methodology

BPA – Meet legal and public responsibilities at cost

- Methodology principles

- Meet directives of the Northwest Power Act
- Uniform cost approach – IOUs and eligible public exchangers
- Facilitate ease of administration and implementation
- Provide options for input and intervention from interested parties
- Easily verified results
- Predictability of results & certainty of REP benefits for a specific period
- Low implementation costs
- Assure only appropriate costs are included in ASC

Basic ASC Components

Component 1: Base year determination

Component 2: Future year determinations

Component 3: Source of the data to use in the determinations

Each of these components presents choices that range from simple to complex.

A new methodology will be a combination of these components.

In the event a new methodology is not adopted, BPA will use the 1984 Methodology.

Component 1 - Base Year Determination

Range of Possible Examples

The base year can be either a historical year, a composite historical year constructed from a series of historical years, or a current year.

1. “Cookbook” Type

- The “Cookbook” model is a spreadsheet calculation that uses utility financial data as its input (as determined in Component 3).
- The Cookbook functionalizes the costs and derives an ASC.
- The existing Cookbook model has been developed to mimic the results of the jurisdictional filing results and used to forecast ASCs for rate setting purposes.

2. Jurisdictional (ASC reflect costs incorporated in rates)

- The jurisdictional approach was implemented in the 1981 and 1984 ASCMs.
- Utility files an ASC with BPA that conforms to an established procedure using data from the utility’s most recent rate determination. In the case of an IOU, that data is drawn from the rate filing approved by its state commission.

3. “De novo”

- A *de novo* filing would entail a utility filing an ASC with BPA that conforms to an established procedure and BPA deciding if the filed costs are acceptable without reference to any determination by a state commission.

4. Others?



Component 2 - Future Year ASC Determination Possible Examples

The forecast year (or years) can be extensions of the base year into future years or some other method of projecting future information.

Possible choices for escalation:

- Fixed predetermined escalation
- Index-based escalation
- Utility-filed forecast
- Utility-specific trend analysis
- No explicit escalation, relying on new utility filings to update the ASC
- New ASC determined with each commission rate change
- Others?

Component 3 - Source of Data Issue - IOUs

Possible Examples

Data sources concern where the information is obtained to build either a base year or future years.

Possible choices

- *Jurisdictional Approach* – BPA starts the ASC review using the results and data from the Public Utility Commission’s order approving the rate change for the utility.
- *FERC Form 1* – An annual filing by IOUs with the Federal Energy Regulatory Commission.
- *Results of Operations Report* – The annual filing by the utility to its PUC showing financial results under approved rates. The Results of Operations Report shows all the costs, revenues, and rate base that were allowed in the PUC order.
- *Annual Reports / 10-K* – annual audited filing by IOUs
- *Cost of Service Studies* – the use of a certified cost of service study by an independent firm
- *Utility Filing* – BPA developed form for cost data
- *Others?*



ASC Methodology

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Staff Examples

The development of an ASCM involves choosing a bundle of components to build a logical methodology that best meets the goals of the ASCM.

These examples are for discussion purposes only.

Example 1 - ASCM Low Administrative Costs

- Base Year:
 - Cookbook ASC for all exchanging utilities determined as part of the section 7(i) power ratemaking process
- Future Years:
 - Pre-defined escalation factors
 - Forecasted escalation - set for the BPA rate case period or escalation set every year (indexed escalators or utility-supplied forecast information)
- Data Source: FERC Form 1 or Results of Operation
- Other:
 - Administrator responsible for ASC determination
 - Exchanging utility and intervenors to substantiate accuracy and reasonableness



Example 2 - Jurisdictional

- Base Year, Future Years and Data Source:
 - Jurisdictional cost data
 - Previously used in 1984 ASC Methodology or some new revised methodology

- Other:
 - BPA review
 - Administrator responsible for ASC determination
 - Exchanging utility to substantiate accuracy and reasonableness

Example 3 - “De novo”

- Base Year, Future Years and Data Source:
 - Based on a filing from the exchanging utility
 - Administrator makes cost decisions instead of relying on commission approved costs.

- Other:
 - BPA acts as decision-maker for which costs to be included on the basis of a utility filing with interventions by all interested parties
 - BPA deciding which costs are exchangeable and included in ASC
 - Administrator responsible for ASC determination
 - Exchanging utility to substantiate accuracy and reasonableness