

Attachment A

PROPOSED AVERAGE SYSTEM COST METHODOLOGY PROCESS

<u>Major ASCM Elements</u>	<u>Revised BPA Staff Proposal</u>	<u>Rationale /Justification for this Approach</u>
1. Data Format - How is ASC information tabulated and presented?	<ul style="list-style-type: none"> Utility submits ASC for prior yr. annually by 7/1 using electronic template. 	<ul style="list-style-type: none"> There was broad consensus among the parties that this approach should be used. An electronic template used to transmit FERC Form 1 (FF1) data (comparable data sources for preference utilities) promotes low implementation costs, promotes verification of results, and facilitates administration and implementation of the Residential Exchange Program (REP).
2. Are off-year informational filings required?	<ul style="list-style-type: none"> Yes. BPA will require exchanging utilities to submit filings each year. All filings will be subject to BPA review and potential revision so that they are materially correct and have been developed using a standardized and consistent methodology. Future ASC determinations are dependent upon previously filed and reviewed ASCs that are materially correct. IOUs will file their annual ASCs with FERC. IOUs and other interested parties can raise contested issues at FERC. The finalized ASC determination after FERC and Ninth Circuit review would only be used to recalculate the customer’s REP benefits for the relevant annual period. 	<ul style="list-style-type: none"> Annual filings are necessary to establish a data base that supports the analysis of ASC costs. To the extent that rolling five-year averages are used, trend analysis performed and other analytical techniques are employed to make sure that ASC costs are fairly stated, it is necessary to maintain a data base. Data base supports the conduct of analytical procedures to help ensure that only appropriate costs are included in ASCs. Data base supports BPA’s ability to accurately determine ASCs for the power rate case.
3. What are the consequences of not making ASC filings on time?	<ul style="list-style-type: none"> Utilities wishing to exchange with BPA that do not provide BPA with their ASC information before the prescribed date in the year for which a new power rate case is commencing will have their ASC set equal to the PF Exchange rate. 	<ul style="list-style-type: none"> BPA’s rate directives require that BPA set its rates to cover all its costs. The forecasted cost of the REP is a material power cost component. Filing the ASC information is essential to providing an accurate estimate of REP costs in setting rates. Requiring timely filing of ASC information is a reasonable requirement to be eligible to receive REP benefits at the applicable PF Exchange rate and to assist BPA in meeting the rate directives of the NPA.

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<p>4. <u>ASC Data Requirement</u> <u>Sources:</u></p> <ul style="list-style-type: none"> - FERC FORM 1 (FF1) - Annual Financial Report (AFR) - Results of Operations (RO) - Commission Rate Orders (CRO) - Additional information to support functionalization of costs and excluded costs. - Resource cost data associated with NLSLs and extra-regional sales. 	<p><u>Data Sources:</u></p> <ul style="list-style-type: none"> • Yes - FF1 is the primary source document for IOUs. • Additional documentation as needed (AFR ,RO, CRO, other) • Corresponding data sources for preference utilities • Require resource cost data associated with NLSLs and extra-regional sales • Additional accounting data and supporting detail for a limited number of accounts where more information is required for BPA analysis • For certain assets accounts, support showing that account is included in rate base by PUC • Certain accounts will require direct analysis and the assignment of costs; additional backup data will be required. • ASCM would give BPA discretion in requesting additional data to properly forecast a utility’s ASC. 	<p>Using the FF1 as the primary data source for IOUs supports the following objectives:</p> <ul style="list-style-type: none"> • Transparency of the process used to establish benefits. • Promotes the use of uniform cost information (FERC standardized chart of accounts and account definitions) that have been reviewed by the utility’s independent auditors. • Facilitates administration and implementation of REP • Assists in the verification of results • Supports lower cost of administering the REP • Requiring other data as necessary helps to ensure that only appropriate costs are included in the ASCs of exchanging utilities.
<p>5. <u>Load Data Requirements:</u></p> <ul style="list-style-type: none"> - Annual filings of total system load (TSL) and actual eligible exchange load for the prior year are required. - Forecasts of total system load and exchange loads for succeeding 8 years are required. 	<ul style="list-style-type: none"> • Requires annual filings of total system load (TSL) and actual eligible exchange load for the prior year. • Requires forecasts of total system load and exchange loads for succeeding 8 years. 	<p>Requiring this level of load data supports the following objectives:</p> <ul style="list-style-type: none"> • BPA’s rate directives require that BPA set its rates to cover all its costs. The forecasted cost of the REP is a material power cost component. Filing the REP eligible load information is essential to providing an accurate estimate of REP costs in the rate setting process. • Accurate load data is needed in performing the 7(b)(2) rate test in conformance with the NPA (rate period plus 4 years). • Eight-year load forecast information will also support BPA’s ability to make 10-year BPA rate forecast projections for financial planning purposes.

Pre-Decisional – For Discussion Purposes Only

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6. <u>Attestation requirements:</u>	<ul style="list-style-type: none"> • Attestation for ASC by senior officer will cover accuracy and fairness of the data presented along with certification that excludable costs per ASCM are not included in annual filing. 	<ul style="list-style-type: none"> • Attestation requirement by a senior officer over the integrity of the data submitted and the exclusion of all unallowable costs helps to ensure the quality of the ASC filings. • Attestation requirement assists BPA in meeting its OMB Circular A-123 Requirements and Financial Manager Integrity Act Requirements, by giving BPA added insurance over the quality of the ASC filing information.
7. <u>Combined or Jurisdictional ASCs</u>	<ul style="list-style-type: none"> • Combined /single ASC applies to all PNW regional jurisdictions. 	<p>This approach supports the following objectives:</p> <ul style="list-style-type: none"> • Lower costs of administering the REP • Easier program to administer and implement.
8. <u>Rate Case ASC Determination</u> – How is ASC forecast prepared for Rate Case (RC)? Cost escalation, normalization of costs, use of indices, forecasts, etc.	<ul style="list-style-type: none"> • BPA determines ASCs for the rate period +4 years based on prior year(s) ASC filing per 1 above. • Standard indices used for escalation, market price forecasts, and fuel price forecasts consistent with rate case assumptions. • Normalization of trading floor sale quantities /quantities of purchase power based on rolling 5-year average. • Load forecast based on historical growth rate for utility qualifying loads. • BPA will assume that exchanging utility load growth will be met by market purchases, unless the utility provides specific new resource information as outlined in # 9 below. 	<p>This attribute of the ASCM approach did not meet with any negative reaction by the other parties. This approach supports the following objectives:</p> <ul style="list-style-type: none"> • Lower costs of administering the REP • Easier program to administer and implement. • Standardized approach promotes transparency of the process and easily verifiable results.

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<p>9. <u>How are new utility plant additions forecasted to be placed in service during the rate period treated?</u></p>	<ul style="list-style-type: none"> • BPA would prepare two ASCs: (1) assuming that the resources are not included and that the loads are served with market purchases, and (2) with the forecasted resource addition(s) included. • Utility would submit additional documentation on the expected installed cost of new resource(s), on-line dates, name plate rating, expected capacity factors and cost of operating the resource(s), and commensurate changes to purchased power and increased outside regional sales along with related changes in operations due to the new resource coming on-line. • In the rate case, BPA would propose a time-weighted average of the two ASC determinations be used based on the resource(s) on-line date(s) to determine ASCs and to forecast REP costs and to conduct the 7(b)(2) rate test. • Actual REP benefits paid would be based on the w/o resource addition ASC determination until such time as the utility files a notice that the resource(s) has been added to plant in service accompanied by the commission’s rate order affirming that the resource(s) has been added to rate base. Upon receipt of this additional documentation, the ASC determination w / resource would be used to calculate/pay REP benefits. 	<p>This method for dealing with new resource costs offers a practical compromise approach on how to deal with new resources that have not been included in a utility’s plant in service accounts at the time that ASC determinations are being prepared. This approach meets the following objectives and legal requirements:</p> <ul style="list-style-type: none"> • This approach meets the needs of exchanging utilities to exchange their near actual ASC costs. • This approach eliminates the need for a true-up of rate case ASC determinations paid in the prior year to actual (operating results) ASCs. This approach decreases the costs of administering the REP and is easier to implement as compared to a true-up adjustment. • The approach of using a time-weighted average of the two ASCs in performing the 7(b)(2) rate test provides preference customers with a reasonable proxy for the actual ASC costs that will be paid to ensure that they receive a fair measure of rate protection provided for in the NPA.

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<p>10. <u>Are ASCs determined inside or outside of RC proceedings?</u></p>	<ul style="list-style-type: none"> • Outside of rate case proceeding. Would occur just prior to the rate case proceeding. 	<p>Moving the determination of ASCs outside the rate case process has several advantages:</p> <ul style="list-style-type: none"> • The rate case and the ASC process require a substantial amount of staff time to conduct as well as the time of customers and interested parties. Separating these two processes spreads the work load out over a longer period of time and allows customers and other interested parties to fully participate in both processes. • Separating the determination of ASCs from the rate case process makes them easier to administer and implement. • Separating the two processes will separate legal challenges to the determination of ASCs from legal challenges to how BPA determined rates. Legal challenges to the determination of ASCs would be brought to FERC for IOUs and subject to appeal to the Ninth Circuit Court of Appeals.
<p>11. <u>Provision for review and comment on ASCs</u></p>	<ul style="list-style-type: none"> • BPA prepares exhibits to support draft ASC determination. Documentation would be made available to utility, customers, and stakeholders. • BPA would conduct workshops to answer questions, and receive written comments. • BPA, its customers and participants can submit data requests to exchanging utilities subject to a standardized protective order (requests would be submitted through BPA as a central clearing house to prevent duplicative requests for same information). • Exchanging utility can dispute ASC and load forecast by filing brief and supporting documentation to support its position. • Other parties can challenge BPA’s ASC proposal. • BPA’s response to comments and rationale used in support of various ASC issues are posted on BPA’s website. • BPA prepares a close out ASC report for each exchanging utility that they can use to file/appeal to FERC and/or Ninth Circuit Court of Appeals. • Interested stakeholders can participate in FERC review and propose adjustments to BPA’s ASC determination if raised before BPA. 	<p>Purpose of the review and comment period should achieve the following purposes and objectives:</p> <ul style="list-style-type: none"> • Provides the forum to discuss ASC issues, provide input into the process, opportunity to explore different approaches in the treatment of costs and to consider different points of view on these issues by exchanging utilities and all interested parties. • Provides the parties an opportunity to review the ASC costs and loads that will be used in the upcoming rate case in the forecast of REP costs subject to the 7(b)(2) rate test. • At the conclusion of the process the final forecasted ASC determination is provided to the IOUs so that they can complete their filing with FERC under Section 205 of the Federal Power Act and Chapter 18 of the Code of Federal Regulations, Section 35.31. • A successful process will be seen as equitable amongst the parties, it will be transparent, and it should help ensure that only appropriate costs are included in ASCs. • Review and comment period should be easy to administer.

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<p>12. <u>Determination of actual REP benefits paid utilities</u></p>	<ul style="list-style-type: none"> • Benefits based on ASC less PFX time’s actual eligible loads that the exchanging utility billed in the prior month. 	<ul style="list-style-type: none"> • This practical compromise approach between the different parties’ positions is equitable while mitigating the need for a true-up adjustment for actual ASC costs, which will promote the following REP objectives: <ol style="list-style-type: none"> 1. Ease of administering and implementing the REP 2. Promotes efficiency and simplicity which should lower the cost of conducting the REP
<p>13. <u>Within Rate Period Adjustments of ASCs and loads - Is a True Up incorporated?</u></p>	<ul style="list-style-type: none"> • The only changes to forecasted ASCs and REP benefits paid would be based upon FERC’s or the Ninth Circuit’s determination that the ASC was unreasonable and not substantiated by supporting documentation and evidence. It would be very unusual for there to be a change/true-up in the ASC, which would change the amount of REP benefits paid. • There would be no change to REP benefits based upon final ASCs that were filed with and approved by FERC unless reversed by Ninth Circuit. 	<ul style="list-style-type: none"> • The proposed ASCM procedures relating to the treatment of new resource additions (Item #9 above) in the determination of ASC costs and paying actual REP benefits based upon the actual eligible residential and small farm loads that were billed by the exchanging utility in the prior month (Item #12 above) should mitigate the need for a true-up adjustment. • This approach promotes efficiency and simplicity in administration which should lower the cost of conducting the REP.