

**2. Should the Program Case load forecast for preference customer load be increased for conservation that BPA has purchased since December 5, 1980, the enactment date of the NWPA?**

Section 7(b)(2)(D) specifies that resources “purchased from [preference] customers by the Administrator pursuant to Section 6” are to be included in the 7(b)(2)(D) resource stack. BPA purchases conservation resources pursuant to Section 6. In order to place these resources in the stack to be used to serve 7(b)(2) customer loads, as needed, the Implementation Methodology specifies that this conservation be removed from the preference customer load forecast. This results in 7(b)(2) Case loads being greater than Program Case loads. Section 7(b)(2)(D) says “all resources that would have been required, during such five-year period...” An issue has been raised whether preference customer loads should be increased for purchased conservation, or whether only conservation that was or is acquired in the particular rate case period plus the ensuing 4 years be included in the 7(b)(2) resource stack. A related issue would then be what are the “applicable” 7(g) cost of conservation that are to be subtracted before performing the rate test?

***Should the Program Case load forecast for preference customer load be increased for conservation that BPA has purchased since December 5, 1980, the enactment date of the NWPA?***

No. The Program Case load forecast for preference customer load should not be increased for conservation that BPA has purchased since the enactment date of the NWPA.

In consideration of some comments presented at the BPA residential exchange workshops, the response to this question needs be addressed in a larger context that reflects the structure of the comparison between the Program Case and the 7(b)(2) case.

If there is any question as to the construction methodology (aside from the construction elements) of either the Program Case or the 7(b)(2) case resource stack, the following should be considered. Given that BPA provides power to the entire Northwest region, inaccurate measurements and uncertainties can generate a large multiplicative effect. Therefore, consistent with standard statistical and econometric methodology, it is important to use all relevant data when forecasting loads, costs, and revenues. This is especially true in the 7(b)(2) case where the analyst is attempting to generate a hypothetical environment. Therefore it would be imprudent to ignore any of the information that is available in real world. In particular, the Program Case must not be constructed as an addition or alteration to the 7(b)(2) case, since the 7(b)(2) case is itself an estimate. The logic behind this method of construction would be circular, given that the Program Case resource stack can be more directly constructed from real world observations. Hence, the Program Case resource stack should include data that is drawn

from existing prices and resource availability. Following this, the 7(b)(2) resource stack can be generated as a modification of the Program Case under the five 7(b)(2) assumptions in the Act. This construction methodology uses all available information and, therefore, maintains the highest degree of accuracy.

The adjustment for conservation is addressed in 7(b)(2) : "After July 1, 1985 the projected amounts to be charged for firm power for the combined general requirements of public body, cooperative and Federal agency customers, exclusive of amounts charged such customers under subsection (g) for the costs of conservation, resource and conservation credits, experimental resources and uncontrollable events, may not exceed in total.. [the amount equal to the power costs for such customers under 7(b)(2) assumptions]"

Some may argue that since conservation costs must be removed from the program case, the benefits (i.e. reduced loads) must also be removed by increasing the program case loads. However, such an argument is contrary to the express language of the Act as well as the purpose of the 7(b)(2) test. Section 7(g) of the Act specifically refers to 'costs and benefits' of conservation, and requires the Administrator to allocate such costs and benefits independent of section 7(b)(2). Furthermore, in section 7(b)(2) (quoted above), the Act expressly instructs the Administrator to remove costs from the Program Case, but does not authorize the Administrator to adjust program case loads.

Moreover, in the 7(b)(2) resource stack, conservation may be added back in on a least-cost-first basis. Therefore, if conservation does enter the resource stack, it is lesser cost than other resources. This is actually contrary to the specific intent of the Act to allocate the benefits of conservation to the program case, and creates an inequitable bias for the 7(b)(2) test. This bias occurs because if conservation costs (and benefits) are added back into the 7(b)(2) resource stack, but more expensive resources remain in the program case resource stack, the cost of the residential exchange program would be overstated if loads were also adjusted (increased) in the program case.

However, the 7(b)(2) Case load forecast for preference customer load should be increased for all conservation, including conservation that BPA has purchased since December 5, 1980, as per the five assumptions of 7(b)(2). It would be inconsistent to allow conservation to enter the resource stack, but to not increase the loads relative to the Program Case. In particular, in the Program Case, and in the real world, the conservation resources have the effect of lessening the load. If conservation resources are included in the resource stack, but loads are left at Program Case level, then each conservation resource will have a double effect. Therefore, if conservation is allowed to enter the 7(b)(2) resource stack, then 7(b)(2) loads must be increased (from the Program Case basepoint) to remove the effects of conservation.

*An issue has been raised whether preference customer loads should be increased for purchased conservation, or whether only conservation that was or is acquired in the particular rate case period plus the ensuing 4 years be included in the 7(b)(2) resource stack*

The Act states that, under 7(b)(2) "...the projected amounts to be charged for firm power, for [preference customers], exclusive of amounts charged such customers under subsection (g) for the costs of conservation, ..., may not exceed in total, ..., an amount equal to the power costs for general requirements of [preference] customers if, the Administrator assumes that [7(b)(2) is in effect]." The spirit of the Act suggests that although the Administrator must compare preference rates *with the Act* (program case), and *without the Act* (7(b)(2)), therefore demonstrating how the non-preference loads affect the rates of preference customers, the non-preference customers are not responsible the costs of conservation, which along with the REP was established by the Act. This makes it evident that the costs of conservation, throughout the efficacy period of the Act, must be removed from the program case for comparison with the 7(b)(2) case in the 7(b)(2) test.

Consistency requires that the load reduction, available via conservation implementation, must be also removed from consideration, in its entirety from 7(b)(2). Since much current conservation (i.e. CFLs, high efficiency appliances, and Energy Star® construction) is a result of previous conservation efforts, it can be demonstrated that current conservation load reduction is contingent on historical conservation implementation. Therefore accurate formulation requires that the Administrator either (1) include historical conservation load reduction or (2) include the costs of implementing historical market transformation in the 7(b)(2) rates for purposes of the 7(b)(2) rate test comparison. Since information for (1) is readily available and actual, and (2) is hypothetical, it is advisable that BPA adopt (1).

*A related issue would then be what are the "applicable" 7(g) cost of conservation that are to be subtracted before performing the rate test?*

BPA states<sup>1</sup> that applicable 7(g) costs are subtracted from the Program Case rates before those rates are compared with the rates in the 7(b)(2) case. Applicable costs of conservation are all costs related to conservation. Therefore, all costs that occur either directly or indirectly as a result of conservation should be removed, including, but not limited to, the cost of all BPA conservation staff, the initial expenditures for each conservation program, and ensuing interest payments. Additionally, the cost of the portion of equity leveraged to finance the conservation program must also be removed.

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*A separate issue is, should the loads continue to be adjusted for past conservation, whether conservation that is beyond its useful lifespan should be excluded from the load adjustment.*

*Since the Program Case reflects the real world case, then one must assume that this question refers to the 7(b)(2) case, and 7(b)(2) loads after removing the effects of conservation. Although the continuation of elevated 7(b)(2) loads by the full amount of conservation savings upon the expiration of the measure, a full reduction in 7(b)(2) load, restoring it to the program case load (for that particular measure) is also not appropriate. The program case represents the cumulative effects of historical conservation and therefore innately accounts for the real-life options that consumers have when a conservation measure may expire (for example when a water heater breaks). Upon the event, the consumer, as a result of the market transformation generated by the Act and BPA, has the option of purchasing an insulated water heater. However, had previous conservation measures and market transformation not been implemented the agent would be faced with an inferior alternative. This would imply that 7(b)(2) loads (for the particular measure) would continue to remain elevated above the Program Case loads. This elevation should be consistent with less efficient alternatives.*

*Another issue arises from the annual amounts of conservation investments within the 7(b)(2) resource stack being expensed to a significant degree. Should the conservation be 100 percent capitalized and financed through bonds issued by the Joint Operating Agency (JOA). The rationale for this proposed change is that in the first year of the rate test, a large amount of conservation resources can be chosen to meet 7(b)(2) case loads. The current implementation practice is to expense a substantial portion of each year's conservation investment. Proponents of the 100 percent capitalization and debt financed change argue that the JOA would not expense this level of conservation expenditures in a single year (multiple years of investments) due to the resultant "rate shock."*

BPA should expense conservation investments within the 7(b)(2) resource stack. This is standard practice, and it is unreasonable to assume that the JOA would not follow this practice.

Additional Comments:

**1. How should costs be treated to most accurately develop the 7(b)(2) Case**

In reviewing the cost elements for resources acquired by BPA since 1980, the method by which those costs are expressed can affect the accuracy of the analysis. Under the assumption that costs are expressed in constant dollars and the escalated to current dollars, the choice of indexation is critical. Oregon PUC Staff suggests that the choice of indices be a matter that is thoroughly analyzed and discussed through a formal BPA forum.

However, there is another approach that avoids the necessity of conversion to constant dollars and then searching for appropriate indices to express in current dollars. All conservation resources, independent of the year acquired, could have their costs represented through using current cost estimates for acquiring such conservation. Such an approach could consist of the following:

- a) Identify the conservation measures by year and amounts acquired related to BPA programs;
- b) Of the amounts identified in (a), exclude those amounts associated with market transformation or lost opportunities;
- c) Identify the costs of each measure using current technologies and costs;
- d) Rank the measures by order of costs, in order to produce a supply curve.

If the data is not available for detailed costing, then a next best alternative would be to inflate the costs of those conservation measures using sector specific inflation rates.