

SN-03 BPA Data Response

Request No.: CR&YA/BPA:115

Request: Witnesses: Hirsch, *et al.*,
Exhibit: SN-03-E-BPA-05, page 3, line 2-4

Is there a price-elasticity effect between the amount of an SN CRAC rate increase and the amount of BPA's augmentation load? If BPA has not analyzed a price elasticity effect please explain why.

Response:

BPA has not analyzed a price elasticity effect between the SN CRAC and the level of BPA's augmentation load. There are several reasons why BPA decided to not analyze price elasticity effects. First, only about 2200 aMW of BPA firm sales are provided by contracts under which the load that BPA serves would decline if the utility load declines. The remainder is sold as take-or-pay Blocks, Slice or pre-Subscription contracts. The Block and Slice sales will remain constant regardless of the elasticity effects experienced by the serving utility. The pre-subscription sales would not be expected to experience any price elasticity effects because they are not subject to the SN CRAC rate increase. Second, any power that is freed up due to elasticity effects will be sold in the market as surplus. Therefore the additional revenue will be the difference between market and PF times the MWh freed up, not market times MWh. Third, price elasticity effects are dependent upon the retail rates, not the wholesale power costs. BPA has no way of knowing the extent to which its rate increases will be passed through to the retail rates. Some utilities may use reserves or other tools to forestall or moderate a retail rate increase. Fourth, for FY2002 actual sales for the load following Public Agencies exceeded weather adjusted forecasts by 1.2%. This was during a time when LB CRACs of 46.22 percent and 39.08 percent, for Oct 2001-Mar2002 and April 2002-Sep2001, respectively, were in place. This suggests very little, if any, price elasticity. An additional rate increase would, therefore, not be expected to produce much of a load response. Fifth, the forecasts for utilities served by the Western Power Business Area used FY2002 as the base year to which growth rates were applied. To the extent that loads in this year were lower due to rate increases than they would otherwise have been price elasticity responses have been implicitly incorporated. Sixth, loads can vary for a variety of reasons, including weather, economic activity, price, available substitutes, income levels and others. Attempting to isolate the price elasticity effects would require controlling for these other factors. Obtaining data at county or sub-county levels, if possible at all, would be costly and resource consuming. BPA subjectively determined that the price elasticity effects would be of insufficient value to warrant the cost of extensive data collection and modeling efforts.

April 8, 2003

Cc: Hearing Clerk and BPA service list.