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TESTIMONY OF
GREG GUSTAFSON AND GARRY THOMPSON
Witnesses for Bonneville Power Administration

SUBJECT: Low Density Discount and Flexibility PF and NR Rates

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5 **SUBJECT: LOW DENSITY DISCOUNT AND FLEXIBLE PF AND RATES**

6 **Section 1: Introduction and Purpose of Testimony**

7 *Q. Please state your names and qualifications.*

8 A. My name is Greg Gustafson and my qualifications are contained in WP-02-Q-BPA-26.

9 A. My name is Garry Thompson and my qualifications are contained in WP-02-Q-BPA-65.

10 *Q. What is the purpose of your testimony?*

11 A. One purpose of this testimony is to describe the Low Density Discount (LDD) and the
12 Bonneville Power Administration's (BPA) proposed changes to the LDD. Another
13 purpose is to describe changes to the optional Flexible Priority Firm Power (PF) and
14 Flexible New Resources Firm Power (NR) rates that would allow BPA to tailor rates for
15 individual customer needs while receiving the same overall revenues BPA would have
16 received if the posted PF or NR rates had been applied directly.

17 *Q. How is your testimony organized?*

18 A. Following this introductory section, section 2 of this testimony describes the LDD
19 methodology. This section includes subsections on: (1) the elimination of the
20 Additional Adjustment for Very Low Densities; (2) the definition of power sales used in
21 calculating "K" in the K/I ratio; (3) the definition of consumers used in calculating "C"
22 in the C/M ratio; (4) the data requirements for determining pole miles; (5) the rate
23 schedules eligible to receive the LDD; (6) the effective date for all changes to the LDD;
24 (7) the addition of a Benefits Legislation Exclusion; and (8) the addition of a Retail
25 Access Exclusion. Section 3 discusses the Flexible PF and NR rates.

1 **Section 2: Low Density Discount (LDD)**

2 **Description of LDD**

3 *Q. What is the LDD?*

4 A. In order to avoid adverse impacts on retail rates of BPA's purchasers with low system
5 densities, BPA applies a discount, to the extent appropriate, to BPA's rates for such
6 purchasers. These rates include the PF Preference rate, the PF Exchange Program rate,
7 the PF Exchange Subscription rate, the Residential Load (RL-02) rate and the New
8 Resources (NR-02) rate. The LDD applies to the following components of the foregoing
9 rate schedules: (1) demand; (2) HLH purchases; (3) LLH purchases; and (4) load
10 variance.

11 *Q. Please describe the methodology BPA proposes to calculate the LDD.*

12 A. The methodology for calculating the LDD is explained in detail in BPA's Wholesale
13 Power Rate Schedules, General Rate Schedule Provisions (GRSPs), WP-02-E-BPA-07.
14 In summary, a purchaser must satisfy five eligibility criteria. Two of these criteria regard
15 having a K/I (sales to investment) ratio less than 100 and a C/M (consumers per mile)
16 ratio less than 12. If a purchaser does not meet the five eligibility requirements, its LDD
17 is zero. If the purchaser satisfies the five requirements, the purchaser is eligible for the
18 LDD. Under the proposed methodology, BPA has established a list of discounts that
19 apply to the numerical results of the calculation of the two respective ratios. The
20 purchaser will receive the sum of the two potential discounts, but not in excess of
21 7 percent. If the purchaser's revised discount varies from its current discount by more
22 than one-half of 1 percent, BPA proposes to progressively phase-in the revised discount
23 in annual increments of one-half of 1 percent until the purchaser receives its then-final
24 revised discount. Once the percentage discount is determined, the discount is applied
25 each month to the charges (excluding Unauthorized Increase Charges, Excess Factoring
26 Charges and charges for transmission services) for all power purchased from BPA under

1 the PF Preference rate, the PF Exchange Program rate, the PF Exchange Subscription
2 rate, the RL-02 rate and the NR-02 rate. The LDD reduces the recipient's monthly power
3 bill by the applicable discount.

4 *Q. Has BPA identified any corrections to the LDD Percentage Discount Table in*
5 *Section II.P of the GRSPs, WP-02-E-BPA-07?*

6 A. Yes. On the 1 percent discount line of the LDD Percentage Discount Table, the upper
7 limit for the C/M ratio should be 10.8, not 10.83.

8 **Elimination of Additional Adjustment for Very Low Densities**

9 *Q. What is the Additional Adjustment for Very Low Densities?*

10 A. This adjustment was a feature of BPA's 1996 LDD that provided an additional discount
11 of one-half percent to purchasers with a C/M ratio of 3 or less and a K/I ratio of 26 or
12 less.

13 *Q. Why does BPA propose to eliminate this adjustment?*

14 A. This adjustment was eliminated because, of over 55 purchasers that receive the LDD,
15 only one purchaser currently qualifies for this provision. It is not prudent to retain this
16 provision when only one purchaser would benefit. Elimination of the provision reduces
17 the administrative cost required to implement the LDD. It also continues BPA's efforts
18 to simplify its rates and provide comparable service to all purchasers.

19 **Definition of Power Sales Used in Calculating "K" for K/I Ratio**

20 *Q. Please describe BPA's proposal to redefine the power sales used in calculating "K" in the*
21 *K/I ratio.*

22 A. The present GRSPs governing the calculation of K for the K/I ratio state that "[t]he
23 Purchaser's total electric energy requirements include firm sales, nonfirm sales to firm
24 retail loads, sales for resale, and associated losses." In a retail access situation, however,
25 the purchaser may not be providing all of the power, or kilowatthours (kWh), to the
26 end-use consumer. The definition of K therefore must be changed to reflect the possible

1 development of retail access. The proposed definition identifies the purchaser's "Total
2 Retail Load" as the proper basis to calculate K. Total Retail Load is defined, in pertinent
3 part, as "... all electric power consumption within a utility's distribution system as
4 measured at metering points, adjusted for unmetered loads or generation. No distinction
5 is made between load that is served with BPA power and load that is served with power
6 from other sources." This change is proposed for two reasons. First, this would avoid
7 LDD costs increasing as a result of a purchaser losing load, or kWh, to another supplier
8 and having the purchaser's K decrease. The purchaser would still be able to recover
9 investment in their system through a distribution charge that most likely would not be
10 tied to kWh sales. Second, Total Retail Load is defined and used for several purposes in
11 BPA's proposed rate schedules. Using the term in the LDD keeps consistency
12 throughout the rate schedules.

13 **Definition of Consumers Used in Calculating "C" for C/M Ratio**

14 *Q. Please describe BPA's proposal to revise the definition of consumers for the C/M ratio.*

15 *A. BPA proposes that "[t]he C/M is calculated by dividing the maximum number of*
16 *consumers on the distribution system, in any one month during the Calendar Year (CY),*
17 *by the end of CY number of pole miles of distribution." See GRSPs, WP-02-E-BPA-07.*
18 *This clarification of consumers is necessary for two reasons. The first reason is to*
19 *eliminate confusion regarding service to irrigation and seasonal consumers. Some*
20 *purchasers have previously averaged the months of service to irrigation and seasonal*
21 *accounts and not counted them as 12-month consumers. This is incorrect and affords the*
22 *purchaser a higher LDD than is intended. The second reason for this revision is to define*
23 *which consumers to count in a retail access environment, that is, whether one counts the*
24 *consumers to whom the purchaser sells power or the consumers on the purchaser's*
25 *distribution system. BPA is proposing that purchasers use the number of consumers on*
26 *their distribution system. The LDD was developed to offer benefits for purchasers with*

1 low density systems to help offset the higher than usual distribution costs. By counting
2 the consumers on the distribution system, and not all consumers purchasing power from
3 the purchaser, the LDD benefits stay with the distribution consumers.

4 **Pole Mile Data Requirements**

5 *Q. Please describe BPA's proposed revision of pole mile data.*

6 A. The current LDD requires purchasers to submit an average of two years of data on pole
7 miles. BPA proposes that the determination of pole miles should be based on the end of
8 CY number of pole miles of distribution. This proposed change will simplify reporting
9 requirements, thereby reducing the time it takes for purchasers to report to BPA and for
10 BPA to implement the LDD.

11 **Eligible Rate Schedules**

12 *Q. Please describe BPA's proposal to clarify the rate schedules eligible to receive the LDD.*

13 A. BPA's 1996 rate schedules did not clearly state which rates were eligible for the LDD.
14 This led to confusion in implementing the LDD. BPA has now expressly identified the
15 rate schedules eligible to receive the LDD. These rates include the PF Preference rate,
16 the PF Exchange Program rate, the PF Exchange Subscription rate, the RL-02 rate, and
17 the NR-02 rate.

18 **Effective Date for LDD Changes**

19 *Q. Please describe BPA's proposal that any changes to a purchaser's LDD amount will
20 start on October 1 of each year.*

21 A. Any change in a purchaser's LDD will be determined by application of the criteria
22 described above to the data submitted by a purchaser by June 30 of each year. This will
23 eliminate confusion over when a change to a purchaser's LDD is to take place. There
24 will be no retroactive changes. All changes that are determined by data submitted by
25 June 30 will occur on the upcoming October 1.

26

1 **Benefits Legislation Exclusion**

2 *Q. What is the Benefits Legislation Exclusion?*

3 A. The Benefits Legislation Exclusion provides that if the Federal government or a state or
4 local government adopts a law, regulation, or other provision that provides benefits
5 similar to the LDD, then the purchaser’s service territory within the jurisdiction of that
6 provision will no longer be eligible to receive the LDD.

7 *Q. Why has BPA proposed the Benefits Legislation Exclusion?*

8 A. The exclusion is intended to preclude the possibility of a utility benefiting from the LDD
9 when the utility is able to benefit from a separate program for a similar purpose.

10 *Q. How will BPA determine whether a Federal, state, or local government provision provides*
11 *benefits similar to the LDD?*

12 A. BPA will evaluate the provision and determine, in BPA’s judgment, whether it provides
13 similar benefits to the consumer as those provided by the LDD. If BPA concludes that the
14 benefits are similar, BPA will conduct a public comment process before issuing a final
15 decision.

16 **Retail Access Exclusion**

17 *Q. What is the Retail Access Exclusion?*

18 A. The Retail Access Exclusion precludes LDD benefits for purchasers’ new loads where the
19 acquisition of the new load occurs as a result of retail access legislation by the Federal
20 government or a state or local government. The gaining purchaser cannot provide the
21 benefits of the LDD to the gained load. If the acquisition would have been allowed prior to
22 retail access legislation, then the gained load is still eligible for LDD benefits. The
23 calculations for determining the LDD discount percentage are derived from consumers,
24 costs, and sales associated with the purchaser’s distribution system. Therefore, the benefits
25 of the LDD should stay with the consumers on the purchaser’s distribution system.

1 *Q. Why has BPA proposed this exclusion?*

2 A. Some of BPA's customers that are not eligible to receive the LDD were concerned that, with
3 the advent of retail access, customers receiving the discount would use LDD benefits as a
4 means of acquiring the loads of customers that do not receive the LDD. BPA agrees that
5 LDD benefits should not be used as a means to acquire new load and should only benefit
6 those consumers on a purchaser's distribution system.

7 **Section 3. Flexible Priority Firm and New Resources Rates**

8 *Q. Why is BPA proposing to continue offering optional flexible demand and energy charges*
9 *within the PF and NR rate schedules?*

10 A. The Flexible PF and NR rates provide BPA a useful marketing tool. While these rates
11 ensure that BPA receives the same revenues on a net present value basis that BPA would
12 have received under the posted rates, the flexible rates allow BPA to structure payments to
13 better meet customer's needs. For example, BPA's ability to compete will be improved if it
14 can offer a five-year block sale of power, at 100 percent load factor, take-or-pay, at a single
15 rate expressed in mills/kWh. BPA might otherwise be placed at a competitive disadvantage
16 with some customers if it could offer only the more complex pricing embodied in the PF and
17 NR rate schedules with their different seasonal and diurnal energy charges and a separate
18 demand charge.

19 *Q. Who is eligible for the Flexible PF and NR rates?*

20 A. The Flexible PF and NR rates will be offered at BPA's discretion to PF Preference and
21 NR purchasers. BPA intends to offer these rates only to customers that make a purchase
22 commitment to BPA.

23 *Q. Please describe the structure of the flexible rate component in the PF and NR rate*
24 *schedules.*

25 A. BPA is proposing wide discretion in the structure of the Flexible PF and NR rates. Before
26 offering the rates to a customer, however, BPA will ensure that a revenue test has been

1 satisfied. The revenue test requires that the revenues for each specific agreement must be
2 the same, or greater, on a net present value (NPV) basis than BPA would have received
3 under a strict application of the PF or NR rate schedule (NPV Revenue Test). This
4 continues a fundamental principle of the revenue test contained in BPA's current Flexible
5 PF and NR rates.

6 *Q. Does BPA propose any changes to BPA's current Flexible PF and NR rates?*

7 A. Yes. BPA is proposing three changes: (1) eliminating the cash flow test from the revenue
8 test; (2) prohibiting the use of the Flexible PF and NR rates to flatten out the PF-02 and
9 NR-02 stepped rates; and (3) prohibiting use of the Flexible PF and NR rates for indexed
10 sales.

11 *Q. What was the cash flow test?*

12 A. The cash flow test was a requirement that forecasted revenues from all purchasers under the
13 Flexible PF and NR rates would not create an annual cash flow problem for BPA when
14 compared to forecasted revenues at the charges specified in the PF-96 and NR-96 rate
15 schedules.

16 *Q. Why has BPA eliminated the cash flow test?*

17 A. The cash flow test has been eliminated from the revenue test for a number of reasons. First,
18 BPA received very few requests from customers to have lower rates in the beginning of the
19 rate period with higher rates in the later years. These are the types of requests that would
20 have affected cash flow in the early years. Furthermore, with proposed three- and two-year
21 stepped rates BPA does not expect to receive many of these requests in the FY 2002-2006
22 rate period. Second, the cash flow test would create an additional workload for BPA staff.
23 If BPA retained the cash flow test, BPA would have to establish new tracking tools. Since
24 BPA expects that it would receive very few of these requests, BPA can reduce workload by
25 not having to create a tracking system. Finally, BPA is proposing that higher risk sales such
26

1 as cost-based indexed deals no longer be allowed under this rate. For these reasons the cash
2 flow test was deemed unnecessary.

3 *Q. Can customers still use the Flexible PF and NR rates for cost-based indexed sales?*

4 A. No. Customers can still receive a cost-based index rate, but not through the Flexible PF and
5 NR rates. Specific parameters have been established elsewhere for cost-based indexed PF
6 and NR sales. See Buskuhl, et al., WP-02-E-BPA-21.

7 *Q. Can the Flexible PF and NR rates be used to change the PF-02 and NR-02 stepped rates to
8 set a rate that is the same for each year of the five-year rate period?*

9 A. No. The Flexible PF and NR rates cannot be used to flatten out the stepped rates because
10 customers can use the five-year posted rate for PF and NR purchases to establish a flat rate
11 for the FY 2002-2006 rate period. Customers can, however, use the Flexible PF and NR
12 rates to change the within-year design to obtain a flat rate within the year, or to obtain some
13 other design that better matches their cash flow needs.

14 *Q. Does this conclude your testimony?*

15 A. Yes.

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