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TESTIMONY OF
BYRON G. KEEP, ZOE ANNE ARRINGTON, AND LAWRENCE E. KITCHEN
Witnesses for Bonneville Power Administration

SUBJECT: Targeted Adjustment Charge

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5 **SUBJECT: TARGETED ADJUSTMENT CHARGE**

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

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

8 A. My name is Byron G. Keep and my qualifications are contained in WP-02-Q-BPA-34.

9 A. My name is Zoe Anne Arrington and my qualifications are contained in WP-02-Q-BPA-02.

10 A. My name is Lawrence E. Kitchen and my qualifications are contained in WP-02-Q-BPA-37.

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

12 A. The purpose of our testimony is to sponsor the Targeted Adjustment Charge (TAC) in the
13 2002 Rate Schedules and in those sections of the Wholesale Power Rate Development
14 Study that address the 2002 Power Rate Schedule.

15 *Q. How is your testimony organized?*

16 A. The testimony is organized as follows. Section one provides an introduction and
17 describes the purpose of the testimony. Section two defines and describes the TAC.
18 Section three describes the application of the TAC to customer requests and discusses
19 inventory availability. Section four discusses the method used to price and apply the
20 TAC.

21 **Section 2. Definition and Description of the TAC**

22 *Q. Please describe the TAC.*

23 A. The TAC is a charge that is applied to the PF Preference (PF-02) firm power rate for
24 customers that place unanticipated, incremental load on the Bonneville Power
25 Administration (BPA) during the FY 2002 to 2006 rate period. The TAC recovers costs
26 BPA may incur, over and above the applicable rate, to serve incremental requirements

1 loads. The TAC will be calculated for an individual customer upon request by the
2 customer for PF service after the Subscription window closes or for certain other
3 unanticipated incremental loads. When applied to PF-02, the TAC is a mills/kilowatt-hour
4 (kWh) adjustment to the heavy load hour and light load hour energy rates specified in the
5 2002 rate schedules.

6 *Q. What is the purpose of the TAC?*

7 A. The purpose of the TAC is to recover the cost of serving incremental, unanticipated
8 PF load that is not forecasted to be served during the FY 2002 - 2006 rate period. It
9 enables BPA to recover the costs it may incur to meet these incremental loads which,
10 without the TAC, would otherwise go unrecovered. As currently forecasted by BPA,
11 market prices during the FY 2002 – 2006 rate period will be above BPA’s PF power
12 costs. (*See Marginal Cost Analysis Study, WP-02-E-BPA-04.*) If BPA’s forecasts are
13 correct, and BPA is requested by a customer to serve incremental loads that must be
14 served by purchases at market, the TAC would hold BPA financially harmless.

15 **Section 3. Application to Customer Requests and Availability of Inventory**

16 *Q. Which customer requests will be subject to the TAC?*

17 A. The TAC will apply to customers that purchase firm power requirements service under
18 the PF-02 rate when requested after the Subscription window closes; to customers that
19 add load through retail access after the window closes including load that was once
20 served and returns under retail access; and to customers applying for service to replace
21 their own firm resources. The TAC will not apply to the PF Exchange Program rate
22 because this program determines exchange benefits for residential and small farm
23 customers and does not deliver power. The TAC also does not apply to the PF Exchange
24 Subscription rate because the settlement is only available through the Subscription
25 window.

1 *Q. Has BPA identified any corrections to the TAC regarding its rate application in the*
2 *General Rate Schedule Provisions (GRSPs), WP-02-E-BPA-07?*

3 A. Yes. There are references to the TAC's applicability to the New Resource (NR) rate
4 listed in the GRSPs tables in the NR section of the rate schedule. Such references are in
5 error and should be omitted.

6 *Q. Is the TAC intended to differentiate among preference customers?*

7 A. No. The TAC does not differentiate among preference customers because it could
8 potentially be applied to all preference customers purchasing firm power under the
9 PF rate schedule. It does, however, subject those preference customers that place load
10 that BPA did not anticipate serving to paying a price for firm power which reflects the
11 cost to BPA of purchasing to serve this unanticipated load.

12 *Q. Under what conditions will the TAC apply to customers requesting firm power for loads*
13 *previously served by that customer's own firm resources?*

14 A. If a customer is currently using its own firm resources to serve any of its regional firm
15 power load as provided under section 5(b)(1)(A) and 5(b)(1)(B) of the Northwest Power
16 Act and, subsequent to the closure of the Subscription window, the resource in
17 accordance with BPA's Determination of Net Requirements does not serve requirements
18 load, then requests for requirements resources to serve this load would be subject to the
19 TAC.

20 *Q. Will BPA allow an exception to application of the TAC to loads previously served by a*
21 *customer's 5(b)(1)(A) and 5(b)(1)(B) resources?*

22 A. If consistent with the Record of Decision for the Determination of Net Requirements,
23 BPA will allow certain resources to be included in a customer's initial amount of contract
24 without being subject to the TAC for customers who demonstrate to BPA, prior to the
25 end of the Subscription window, that a resource will terminate during the period from
26 October 1, 2001, through September 30, 2006.

1 Q. *How will the TAC apply to annexed load if that load was previously served by an*
2 *Investor-Owned Utility (IOU)?*

3 A. The public agency customer will receive the IOU power and/or financial benefits
4 applicable to the annexed load, where a public agency customer annexes residential and
5 small farm load previously served by an IOU, and such load was receiving BPA power or
6 financial benefits through Subscription. BPA will deliver the same amount of firm power
7 to the annexing public agency customer at the PF-02 rate that was previously assigned to
8 the IOU. Power provided by BPA to the public agency customer to meet the remaining
9 annexed load not covered by the power assigned from the IOU will be subject to the
10 TAC.

11 Q. *Will the TAC apply to a public agency customer that requests requirements service from*
12 *BPA for load it is annexing or otherwise taking on an obligation that is currently being*
13 *served by BPA from another public agency customer?*

14 A. BPA may exempt newly acquired load from the TAC and apply the PF-02 rate if a public
15 agency customer is annexing or otherwise taking on the obligation of load from another
16 public agency customer in such a manner that BPA's total load obligation does not
17 increase. In this situation, if the annexed requirements service has been previously
18 served that the customer's 5(b)(1)(A) or 5(b)(1)(B) resources, the exception will not be
19 allowed and the TAC will apply.

20 Q. *How long will the TAC apply?*

21 A. The TAC will apply for the duration of the customer's contract or until 2006, whichever
22 occurs first. For five-year contracts that guarantee rates for multiple periods, for
23 example, contracts that have both three- and five-year components, the TAC applies until
24 the end of the five-year rate period. If a new public requests service, the TAC must apply
25 until 2006.

26

1 *Q. Please describe the methodology BPA will use to determine inventory.*

2 A. The amount of inventory available to serve the request will be based on the annual
3 average Federal system firm resource capability using critical waterflows, excluding
4 balancing purchases and purchases for system augmentation, as defined in the 2002 rate
5 case with updates if BPA determines that is necessary. The methodology to determine
6 available inventory is defined in the Loads and Resources Study. (*See Loads and*
7 *Resources Study, WP-02-E-BPA-01.*)

8 *Q. How will BPA apply the TAC if BPA forecasts do not match the actual load?*

9 A. For purposes of the TAC, BPA will assume that our load forecast will closely reflect
10 actual total load including Pre-Subscription. BPA's system augmentation will be used to
11 serve the customer loads that have signed contracts in the window. Thus, if BPA's actual
12 loads that sign on during the window (and Pre-Subscription) exactly match the rate case
13 forecast, all new loads as defined above will face the TAC. New loads, those not signing
14 during the window or those previously served by a customer's own firm resources, would
15 be subject to the TAC because BPA's costs would increase by the amount of purchases to
16 cover these new loads. The TAC will apply to all incremental loads, as defined above,
17 after the window has closed even if the actual loads do not exactly match the forecast
18 loads. If BPA has overestimated the amount of actual load in the rate case, then the
19 resulting system augmentation is less than forecasted, the probability of a Cost Recovery
20 Adjustment Clause triggering will be reduced and the probability of the dividend
21 occurring is increased, resulting in a benefit for those customers that signed up during the
22 window. On the other hand, if BPA's rate case forecast underestimated the actual load
23 and BPA is required to augment at a higher level than forecasted, the risk dollars are only
24 designed to recover the cost of the forecasted load error, not the forecast load error for the
25 load that misses the window. Thus, the cost to serve this load is still the purchase power
26 amount and these costs will be recovered through the TAC. Because of these changing

1 costs and benefits for those customers who committed to BPA during the Subscription
2 window, the costs to serve these additional loads is still the cost to purchase power. This
3 cost will be recovered through the TAC.

4 *Q. What is BPA's forecast of the availability of FBS during the FY 2002 - 2006 rate period?*

5 A. BPA's rate case projection shows that firm power is available to meet forecasted loads.
6 (See Loads and Resources Study, WP-02-E-BPA-01.) BPA is currently projecting that it
7 will be purchasing approximately 1,100 average megawatt (aMW) to augment the
8 system.

9 *Q. Is BPA forecasting loads to be served under this schedule?*

10 A. No. BPA does not expect to serve incremental loads and is forecasting that zero loads
11 will be served under this schedule.

12 **Section 4. Method Used to Price and Apply the TAC**

13 *Q. How will BPA price the TAC?*

14 A. When a customer requests service under the TAC, BPA will establish a rate based on
15 PF-02 rate and an adjustment charge which reflects the cost to BPA, plus a handling fee,
16 to purchase additional power at market to serve this load. The adjustment charge will be
17 based on calculations that are determined on monthly prices. BPA will calculate the cost
18 per month in mills/kWh of the additional power per month for a specific customer request
19 based on BPA's monthly cost to purchase resources, at market, to serve the incremental
20 load.

21 BPA expects that the customer will instruct BPA during contract discussions and
22 negotiations regarding how and when to purchase. If the contract is signed without this
23 resolution or if the customer and BPA are not able to reach resolution of this issue by
24 one business week prior to the start of delivery, BPA will make a determination regarding
25 pricing and timing, establish the rate, and purchase to serve this load.

1 *Q. Will BPA use the TAC as a negative adjustment to the PF-02 rate?*

2 A. No. The TAC is not intended to be used to benefit the subject customer load to the
3 disadvantage of other customer firm power load served at the PF-02 rate. Therefore,
4 BPA will not reduce the total price for firm power subject to the TAC will be below the
5 PF-02 rate.

6 *Q. Does BPA have PF power available under the TAC if BPA has agreed to remarket such
7 power for another customer?*

8 A. No. BPA will presume that remarketed power yielded by Customer Y would go into the
9 bulk market even if Customer X requested to purchase the power at the TAC price.

10 *Q. How would BPA treat such power under the TAC if it is subject to a contractual
11 agreement to remarket the power?*

12 A. BPA would provide such power to the customer requesting additional service at the
13 contractual price BPA has agreed to pay the other customer as a remarketing credit.

14 *Q. Before applying the TAC, will BPA use its authority to recall surplus firm power that is
15 being sold under extraregional contracts to serve unanticipated loads?*

16 A. BPA determines how it will serve Pacific Southwest (PSW) extraregional contracts
17 subject to recall on an annual operating basis by considering water conditions, loads, and
18 resource availability. In meeting its contractual obligations under surplus firm power
19 contracts with PSW utilities BPA relies on excess critical period energy as it may occur
20 within the year, or market purchases and exchanges when no critical period energy is
21 available. BPA plans its market purchases to meet its total load obligation amounts,
22 including PSW loads, on an annual basis to cover periods when it will not have sufficient
23 critical period energy. Under critical water conditions power sold to serve load subject to
24 the TAC and power sold under extraregional contracts is power purchased from the
25 market to meet total loads. Therefore, BPA would not recall surplus firm power.

26

1 Q. *Does the TAC allow an additional exception for those customers that buy or develop*
2 *renewable resources that may have contracts that end prior to the end of the rate period?*

3 A. Yes. BPA is encouraging customers to develop and purchase new renewable resources
4 through its Conservation and Renewables Discount (C&R Discount). (See Esvelt, *et al.*,
5 WP-02-E-BPA-33.) Utilities may consider firm purchases of renewable resources more
6 risky than conventional resources because development and reliability may be more
7 uncertain. To be consistent with BPA's policy direction and in order to encourage
8 renewable resource development and use in the region, BPA will allow limited
9 exemptions of the TAC for requirements service which may return to PF during the 2001
10 to 2006 rate period.

11 A customer is eligible for this exemption if serving a portion of their load with a
12 certifiable renewable resource or with contract purchases of certifiable renewable
13 resource power for a period less than the term of the customer's BPA requirements firm
14 power contract. If one of these circumstances exists then the customer may request,
15 during the 2001 to 2006 rate period, requirements firm power service for such load at the
16 end of the specified contract period at PF-02 without being subject to the TAC. This
17 limited exception applies only to those renewable resources and contracts that are eligible
18 for the C&R Discount and will be available only to the first 200 aMW in any contract
19 year or to amounts and types of resources that BPA specifies in accordance with its
20 Policy on the Determination of Net Requirements.

21 Q. *Besides the PF rate schedules, will the TAC be applied to other rate schedules?*

22 A. No. BPA will apply a TAC to only the PF rate schedule. A similar mechanism which is
23 an adjustment to the 1996 rates called the Targeted Adjustment Charge for Uncommitted
24 Loads will be applied to certain loads that were uncommitted to BPA during the 1996
25 rate case and returning load in FY 2002. (See Kitchen, *et al.*, WP-02-E-BPA-36.)
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1 Q. *Does this conclude your testimony?*

2 A. Yes.

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