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REBUTTAL TESTIMONY OF
PHILLIP A. MESA, TERRIN L. PEARSON, BYRON G. KEEP,
AND RONALD J. HOMENICK
Witnesses for Bonneville Power Administration

SUBJECT: Rebuttal Testimony for Slice of the System Product

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5
6 **SUBJECT: REBUTTAL TESTIMONY FOR SLICE OF THE SYSTEM PRODUCT**

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

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

9 A. My name is Phillip A. Mesa. My qualifications are contained in WP-02-Q-BPA-48.

10 A. My name is Terrin L. Pearson. My qualifications are contained in WP-02-Q-BPA-55.

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

12 A. My name is Ronald J. Homenick. My qualifications are contained in WP-02-Q-BPA-30.

13 *Q. Please state the purpose of your testimony.*

14 A. The purpose of this testimony is to respond to direct testimony filed by the Slice
15 Purchasers Group, the Western Public Agencies Group (WPAG), the Northwest
16 Requirements Utilities (NRU), the Pacific Northwest Generating Cooperative (PNGC),
17 and the Public Power Council (PPC).

18 *Q. How is your testimony organized?*

19 A. This testimony consists of 10 sections. Section 1 explains the purpose and scope of the
20 testimony. Sections 2 through 7 of this testimony follow the same order and content of
21 the sections contained in the direct testimony of the Slice Purchasers Group,
22 WP-02-E-SG-01. Section 2 discusses the balance of benefits and costs of the Slice
23 product. Section 3 examines the Slice Cost Shift Studies done by the Bonneville Power
24 Administration (BPA) and the Slice Purchasers Group. Section 4 discusses the necessary
25 elements of the Slice rate and true-up process. Section 5 discusses the inventory solution
26 responsibility of the Slice participants. Section 6 discusses the merits of various

1 proposed adjustments to the Slice Revenue Requirement. Section 7 discusses
2 transmission losses and their relation to the Slice product. Section 8 addresses the Low
3 Density Discount (LDD) as it applies to the Slice Product. Section 9 discusses the Slice
4 product and load growth. Section 10 discusses the consistency between the Slice Product
5 Description and the Initial Proposal on the Slice product.

6 **Section 2. Balance of Benefits and Costs of the Slice Product**

7 *Q. The Slice Purchasers Group states that the Slice product does not shift costs or risks to*
8 *purchasers of other BPA power products, and sales of the Slice product may provide*
9 *benefits to the purchasers of those other products. The Slice Purchasers Group states*
10 *that this is because Slice purchasers directly pay a proportionate share of BPA's power*
11 *costs, regardless of increases in BPA's fish and wildlife obligations. Carr, et al.,*
12 *WP-02-E-SG-01, at 5, lines 1-9. Please respond.*

13 A. BPA also concluded in its direct testimony (*see Mesa, et al., WP-02-E-BPA-32, at 23,*
14 *lines 14-18)* that there are no cost shifts to or from Slice participants to or from other
15 customers by selling a Slice product that is based on the output of the Federal Columbia
16 River Power System resources.

17 BPA believes that the Slice product is a balanced product that has some
18 provisions that are favorable to Slice customers, as well as some provisions that provide
19 benefits to BPA's other customers. BPA believes that the Slice product, in total,
20 represents an equitable balance between risks and benefits for the Slice customers.
21 Therefore, no adjustment to the Slice rate is needed to correct for potential cost shifts.

1 *Q. The Slice Purchasers Group states that Slice purchasers will provide 100 percent*
2 *probability of Treasury repayment for their proportional share of the BPA Power*
3 *Business Line (PBL) revenue requirements, in contrast to the 88 percent probability that*
4 *other products provide through a maximum of five years. Carr, et al., WP-02-E-SG-01,*
5 *at 5, lines 6-9. Do you agree?*

6 A. BPA does not agree that Slice purchasers will provide 100 percent probability of
7 Treasury repayment for their proportional share of BPA PBL revenue requirements. This
8 would be true only if Slice purchasers do not default on their Slice contracts. Defaulting
9 on contracts, however, is a contract issue rather than a rate case issue and therefore, it
10 will be addressed in the Slice contract.

11 **Section 3. Slice Cost Shift Study**

12 *Q. What did the Slice Purchasers Group present in their testimony, with respect to its own*
13 *research on the Slice Cost Shift issue? Carr, et al., WP-02-E-SG-01, at 7-11.*

14 A. The Slice Purchasers Group conducted its own analysis using BPA's Cost Shift Study
15 spreadsheet, but changing several assumptions. The Slice Purchasers Group also
16 developed an alternative approach for the analysis of cost shifts. The Slice Purchasers
17 Group reported that the results of both of their analyses corroborated BPA's Slice Cost
18 Shift Study conclusion of no significant cost shifts caused by the sale of the Slice
19 product. Following are more detailed questions and answers related to the Slice
20 Purchasers Group's analyses.

1 Q. *The Slice Purchasers Group conducted its own Cost Shift Study, using the same approach*
2 *that BPA used for its Cost Shift Study, but changing several assumptions. The Slice*
3 *Purchasers Group assumed that the power purchase replaced by Slice (1,162 average*
4 *megawatts) would be a block at a 100 percent load factor. Carr, et al., W-02-E-SG-01,*
5 *at 8, lines 5-12. Do you agree with this assumption?*

6 A. BPA does not agree with the assumption that all power purchases replaced by Slice
7 would be a block at 100 percent load factor. It cannot be determined what products
8 potential Slice purchasers would substitute for Slice. BPA believes that it is unreasonable
9 to make the blanket assumption that every Slice purchase would be replaced with block
10 purchases. Many utilities expressing interest in Slice are not high load factor utilities
11 with their own generating resources, and therefore, it would be highly unlikely that they
12 would purchase the block product in the absence of Slice. BPA has assumed in its study
13 that the purchases in the absence of Slice would be in the shape of BPA's Priority Firm
14 Power (PF) aggregate load. Because this load shape includes both block and full
15 requirements sales, it more accurately mirrors the load shape that would occur if Slice
16 was not offered.

17 Q. *The Slice Purchasers Group also assumed that the Load Variance charge did not apply*
18 *in the "without Slice" case because of the assumption that the power purchase replaced*
19 *by Slice would be a block at 100 percent load factor. The Slice Purchasers Group*
20 *assumed that no revenues from this charge were included in the study. Carr, et al.,*
21 *WP-02-E-SG-01, at 8, lines 5-12. Please comment.*

22 A. BPA does not agree that Load Variance charges should be excluded from the "without
23 Slice" case. BPA believes that the proportion of potential Slice purchasers' load that
24 would use Load Variance products in the absence of Slice is similar to the proportion of
25 BPA's total public load that BPA assumes would use Load Variance products.
26 Therefore, for the Cost Shift Study that assumes 15 percent Slice, it is appropriate to

1 assume that 15 percent of the Load Variance revenues would not be collected under the
2 “with Slice” case.

3 *Q. The results of the Slice Purchasers Group’s Cost Shift Study using BPA’s approach and*
4 *changing the power purchase assumption indicated that the “Total Subscription*
5 *Revenues Lost” are almost \$13 million lower compared to BPA’s study results.*
6 *Carr, et al., WP-02-E-SG-01, Attachment 2, page 1, line 18. Please respond.*

7 *A. BPA believes that the \$13 million difference identified by the Slice Purchasers Group’s*
8 *study represents an incomplete picture of the total change in BPA’s net revenues between*
9 *the Slice case and the non-Slice case. The \$13 million difference only represents the*
10 *change in the “Direct (or Fixed) Annual Revenue Impacts.” See Carr, et al.,*
11 *WP-02-E-SG-01, Attachment 2, page 1. The direct revenue impact is only one part of the*
12 *total change in BPA’s net revenues. The second part of the total change in BPA’s net*
13 *revenues is the variable revenue impact, which is not a static amount. See Wholesale*
14 *Power Rate Development Study, Appendix C, WP-02-E-BPA-05, at 161-163. A change*
15 *in an assumption in the Cost Shift Study that results in a change in the direct revenue*
16 *impact, will create a change in the variable revenue impact. Both the direct revenue*
17 *impact and the variable revenue need to be examined together to evaluate the total effect*
18 *on BPA, rather than examined individually.*

19 *Q. What would the total change in BPA’s net revenues be, according to the Slice Purchasers*
20 *Group’s Cost Shift Study?*

21 *A. Assuming that the Cost Shift Study conducted by the Slice Purchasers Group was*
22 *conducted correctly, the total change in net revenues should be -\$7.0 million, according*
23 *to the Slice Results table in their spreadsheet. See Slice Purchasers Group’s response to*
24 *BPA-SG-001. This result is only \$0.7 million different than the total change in BPA’s*
25 *net revenues of -\$7.7 million calculated by BPA in their study. See Mesa, et al.,*
26 *WP-02-E-BPA-32, at 22, lines 6-8, instead of \$13 million.*

1 Q. *The Slice Purchasers Group developed an alternative approach for the analysis of cost*
2 *shifts associated with the Slice Product. Carr, et al., WP-02-E-SG-01, at 9, lines 3-12.*
3 *Please comment.*

4 A. BPA believes that its own Cost Shift Study is more appropriate than the Slice Purchasers
5 Group's alternative approach for the purposes of determining whether there has been a
6 significant cost shift to non-Slice customers due to the sale of the Slice product.

7 Q. *Why?*

8 A. Examining changes in BPA's net revenues, as BPA's Cost Shift Study does, is the most
9 appropriate way to determine whether there have been cost shifts to non-Slice customers
10 due to the sale of the Slice product. BPA believes that the Slice Purchasers Group's
11 **average** cost approach is not adequate to determine whether there are any cost shifts due
12 to both rate design and product design to non-Slice customers. Because BPA's Cost Shift
13 Study examines net revenue effects on BPA instead of effects on the average cost of
14 service, BPA's study is preferable for determining whether there are cost shifts due to
15 both rate design and product design. Determination of cost shifts is important to BPA
16 because BPA has maintained that the sale of the Slice product must not cause any risk or
17 cost shifts to other customers. The principle of no risk or cost shifts to other customers
18 was one of five principles that BPA's Administrator specified must be met before BPA
19 could offer the Slice product.

1 Q. BPA conducted a Slice Cost Shift Study which identified a \$7.7 million cost shift to BPA
2 of selling 15 percent of its system as Slice products. BPA concluded that this amount was
3 not significant enough to indicate a cost shift. See Mesa, et al., WP-02-E-BPA-32, at 22,
4 lines 6-13, at 23, lines 2-3. The NRU argues that as a matter of policy, there should be
5 no cost shift. However, given that a “no cost shift” situation likely is unachievable, the
6 NRU argues BPA should cap the potential cost shift at 2.8 percent (of the estimated Slice
7 revenue), based on 15 percent of BPA’s system sold as Slice products. Furthermore, the
8 Slice product should be priced accordingly. Saven, et al., WP-02-E-NI-04, at 27,
9 lines 5-22. Do you agree?

10 A. BPA agrees in theory that any cost shift identified should be reflected in the Slice rate.
11 However, BPA concluded from the results of its Slice Cost Shift Study, that there were
12 no cost shifts to or from Slice participants resulting from selling part of its system as
13 Slice products. Therefore, no further adjustments to the Slice rate is necessary, including
14 not developing a cost shift “cap.” See Mesa, et al., WP-02-E-BPA-32, at 23, lines 14-18.
15 BPA’s Slice Cost Shift Study, while useful in determining whether or not there were
16 significant cost shifts caused by BPA selling 15 percent of its system as Slice products,
17 was not intended to be used to precisely calculate a cost shift amount that would set a
18 “tolerable” upper limit. Therefore, BPA will not use the 2.8 percent cost shift amount as
19 a threshold, whose exceedance would trigger the addition of dollars to the Slice Revenue
20 Requirement, thereby adjusting the Slice rate, as NRU suggests.
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1 **Section 4. Necessary Elements of the Slice Rate and True-Up**

2 *Q. The Slice Purchasers Group has proposed a single table that combines BPA's separate*
3 *costing and true-up tables. (See Mesa, et al., WP-02-BPA-32, Attachment 1, page 24 and*
4 *Attachment 2, page 25, respectively.) Carr, et al., WP-02-E-SG-01, Attachment 6. Is that*
5 *acceptable?*

6 *A. Yes. However, for clarity, it should be pointed out that under line 17 of their table, they*
7 *use the title "Billing Credits for Conservation." In fact, these are generation billing*
8 *credits from the Long-Term Power Purchases program that, for ratemaking, are treated*
9 *like conservation measures because they reduce demand for power from BPA. In*
10 *addition, the Slice Purchasers Group had pointed out a discrepancy of \$810,000 between*
11 *the total Slice Revenue Requirement in their table compared to the same in BPA's tables.*
12 *It should be noted that, under line 6 of their table, they transposed the amount for WNP-2*
13 *operations and maintenance/Capital Requirements from \$154,094,000 to \$154,904,000.*
14 *If the transposed number is corrected, there is no discrepancy.*

15 *Q. The Slice Purchasers Group has proposed that any refinancing costs should be amortized*
16 *over the life of the new debt to achieve comparability in treatment with other power*
17 *products. Carr, et al., WP-02-E-SG-01, at 23, line 25 and at 24, line 1. Do you agree?*

18 *A. For the most part, yes. There is an exception pertaining to non-Federal debt, however.*
19 *When prevented from including refinancing costs in the new debt as a result of tax law,*
20 *an equity contribution is required from the bond issuer, a one-time expense based on a*
21 *small percentage (maximum of 3 percent) of bond principal. Generally, BPA's funding*
22 *obligations require this cost to be covered at that time and BPA would similarly include*
23 *that cost for the Slice true-up.*

1 Q. *The Slice Purchasers Group argues that the Slice Revenue Requirement should be*
2 *reduced to avoid the contribution to risk management that is produced by the amount that*
3 *depreciation expense exceeds amortization payments, although the true-up will be to the*
4 *higher of depreciation expense or amortization payments. Carr, et al., WP-02-E-SG-01,*
5 *at 25, lines 12-26 and at 26, lines 1-2. Please respond.*

6 A. It has been BPA's policy since the 1987 rate case that revenue requirements would be set,
7 at a minimum, based on total accrued expenses. In that case, depreciation expense serves
8 as means for the recovery of capital investments. It was that policy that served as the
9 basis for BPA's proposal regarding Slice revenue requirements. BPA maintains that
10 depreciation expense, without adjustment, is the appropriate cost basis for the Slice
11 revenue requirement and that it should be trued-up against depreciation expense, not the
12 greater of depreciation or amortization.

13 Q. *The Slice Purchasers Group finds that the projected annual cost of \$54 million is a*
14 *reasonable settlement of the Residential Exchange Program, and they agree that this*
15 *forecasted net cost should be included in the Slice Revenue Requirement. Carr, et al.,*
16 *WP-02-E-SG-01, at 17, lines 21-26 and at 18, line 1. Therefore, the Slice Purchasers*
17 *Group believes that it would be reasonable to include the actual cash payments made by*
18 *BPA under the new Residential Purchase and Sale Agreements, if any, in the annual Slice*
19 *true-up. Carr, et al., WP-02-E-SG-01, at 18, lines 14-18. Please respond.*

20 A. Regardless of what the net cost of the settlement of the Residential Exchange Program
21 would be, BPA believes that Slice purchasers should pay their share of these costs
22 through the annual Slice true-up process.

1 Q. *The Slice Purchasers Group urges BPA to propose the Slice Methodology to the Federal*
2 *Energy Regulatory Commission (FERC) and request long-term (10 years or longer)*
3 *approval. Carr, et al., WP-02-E-SG-01, at 12, lines 12-13. Do you agree?*

4 A. BPA agrees with the concept of having a Slice Methodology, and BPA will offer and
5 seek FERC approval of the Slice Methodology, including the true-up process, for the
6 term of the Slice contract, which in our understanding, is for a minimum of 10 years.
7 However, as this rebuttal testimony demonstrates, BPA does not agree with all of the
8 proposals contained within the Slice Methodology as drafted and proposed by the Slice
9 Purchasers Group. *See Carr, et al., WP-02-E-SG-01, Attachment 5, pages 1-5.* The
10 Slice Methodology must reflect BPA's 2002 Final rate case decisions with respect to the
11 Slice product. BPA will revise the Slice Methodology provided by the Slice Purchasers
12 Group to make it consistent with the 2002 Power Rate Case Record of Decision (ROD).
13 BPA will submit its version of the Slice Methodology that is consistent with the 2002
14 Power Rate Case ROD to FERC for approval.

15 **Section 5. Inventory Solution (System Augmentation)**

16 Q. *The Slice Purchasers Group argues that extending the Inventory Solution to include the*
17 *Direct Service Industrial (DSI) customers was not part of the original understanding and*
18 *should be eliminated. They believe that service to the DSI customers after*
19 *September 2001 is discretionary and not mandatory. Carr, et al., WP-02-E-SG-01, at 15,*
20 *lines 25-26 and at 16, lines 1-7. Please respond.*

21 A. The rationale for BPA's initial proposal for service to BPA's DSI customers is discussed
22 in the testimony of Berwager, *et al.*, WP-02-E-BPA-09, at 6, lines 9-25, and at 7,
23 lines 1-5. BPA decided that service to the DSI customers will be from the Federal Base
24 System (FBS), and because of that, all customers, both Slice and non-Slice customers,
25 will share the costs of extending the Inventory Solution to include these sales to DSI
26 customers.

1 Q. *The Slice Purchasers Group argues that the Inventory Solution should not include service*
2 *to extraregional loads or surplus service to regional non-preference customers since the*
3 *Slice customers do not receive revenues from BPA's surplus sales. Carr, et al.,*
4 *WP-02-E-SG-01, at 16, lines 8-11. Please respond.*

5 A. BPA agrees that future extraregional or surplus service sales to regional non-preference
6 customers will not be included in the Inventory Solution. However, BPA's current level
7 of sales under these contracts are considered firm obligations on the FBS because they
8 were in existence prior to the current negotiations for the Slice Contract and will be
9 included in the Inventory Solution.

10 Q. *The Slice Purchasers Group argues that the actual costs of the System Augmentation be*
11 *excluded from the true-up process for the Slice product. Carr, et al., WP-02-E-SG-01,*
12 *at 17, lines 1-20. Please respond.*

13 A. BPA agrees that actual costs associated with System Augmentation should be excluded
14 from the true-up process for the Slice product. BPA will true-up to the actual megawatt
15 (MW) of the System Augmentation after the Subscription contract signing window
16 closes, but the price of system augmentation (\$/MWh) will not be subject to the true-up
17 process and will remain as forecast in the 2002 Power Rate Case ROD.

18 Q. *The NRU argue that non-Slice customers should not be disproportionately affected if*
19 *there are increased costs associated with the Inventory Solution and the Slice customers*
20 *are shielded from these obligations. NRU's concern is not with the cost of routine load*
21 *growth, but with the potential costs associated with new or expanded customers from*
22 *what BPA plans in the 2002-2006 period. Saven, et al., WP-02-E-NI-04, at 12, lines 1-9.*
23 *Please respond.*

24 A. Slice customers will not be shielded from increased MW associated with the Inventory
25 Solution beyond what BPA planned for in the 2002-2006 period. As explained in the
26 previous question and answer, BPA will true-up to the actual MW of the System

1 Augmentation after the Subscription contract signing window closes. Therefore, Slice
2 customers will be responsible for paying their share of all System Augmentation MW
3 needed by BPA to serve load that is signed up prior to the end of the Subscription
4 contract signing window. BPA will apply the Targeted Adjustment Clause (TAC) to
5 any unanticipated, incremental load that is placed on BPA after the Subscription window
6 closes to cover the costs incurred to meet this incremental load. The TAC holds BPA
7 financially harmless and therefore holds non-Slice customers financially harmless.
8 *See Keep, et al., WP-02-E-BPA-24, at 2, lines 6-14.*

9 **Section 6. Adjustments to the Slice Revenue Requirement**

10 *Q. The Slice Purchasers Group argues that BPA has not completely removed all*
11 *“non-Slice” costs, especially in the areas of Power Marketing and Power Scheduling.*
12 *This is due, in part, to the insufficient level of detail in BPA’s specification of revenue*
13 *requirements to adequately identify these costs for removal. Carr, et al.,*
14 *WP-02-E-SG-01, at 21, lines 1-9. Please respond.*

15 A. BPA acknowledges that it has not calculated the Slice Revenue Requirement as
16 precisely as some customers recommend. BPA’s policy decision at the outset of its
17 development of the Slice product, was that detailed accounting of certain items, such as
18 staff salaries and related overhead costs, would not be done for purposes of precisely
19 identifying only those costs that should be allocated to the Slice Revenue Requirement.
20 However, program costs associated with the Slice product are accounted for as much as
21 is possible at the present time for inclusion in the Slice Revenue Requirement. BPA will
22 continue to refine its accounting system prior to the beginning of the Slice contract in
23 order to provide more detailed accounting of program costs associated with the Slice
24 product. The changes resulting from more detailed accounting of program costs will be
25 reflected in the Slice true-up process.

1 Q. *The Slice Purchasers Group argues that BPA should remove any costs associated with*
2 *transmission management from the Power Scheduling Costs allocated to the Slice*
3 *product. Carr, et al., WP-02-E-SG-01, at 23, lines 1-4. Please comment.*

4 A. BPA has excluded all transmission costs (other than those associated with the
5 transmission of System Obligations and General Transfer Agreements) from the Slice
6 Revenue Requirement. However, as stated in the previous question and answer, BPA
7 will not be conducting detailed accounting of staff salaries and related overhead cost to
8 remove “non-Slice” costs. Therefore, the staff salary and related overhead costs
9 associated with transmission management will not be removed from Power Scheduling
10 Costs allocated to the Slice product.

11 Q. *The Slice Purchasers Group argues that BPA should remove all hedging costs from the*
12 *Slice Revenue Requirement because hedging is a form of risk management, and the costs*
13 *of risk management are to be excluded from the Slice Requirement. Carr, et al.,*
14 *WP-02-E-SG-01, at 23, lines 5-10. Do you agree?*

15 A. BPA agrees that to the extent that hedging costs can be tracked and accounted for, BPA
16 will remove hedging costs that are unrelated to the Slice product. However, BPA will not
17 conduct a detailed accounting of staff salaries and related overhead costs in order to
18 remove costs associated with hedging activities. BPA will include hedging costs
19 associated with inventory augmentation in the Slice Revenue Requirement.

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1 Q. *The Slice Purchasers Group argues that if BPA does not remove certain Power*
2 *Marketing Costs from the Slice Revenue Requirement, this could cause a “cost shift” to*
3 *other rates because the Slice purchasers will be paying for activities that yield revenue*
4 *credits to other power products, which means that Slice purchasers would be*
5 *contributing to lower rates for non-Slice products. Carr, et al., WP-02-E-SG-01, at 22,*
6 *lines 17-23. Do you agree?*

7 A. No, BPA does not agree that Slice purchasers are contributing to lower rates for
8 non-Slice products because certain Power Marketing costs are not removed from the
9 Slice Revenue Requirement. To the greatest extent possible, BPA has accounted for
10 program costs associated with the Slice product for inclusion in the Slice Revenue
11 Requirement. BPA will continue to refine its accounting system prior to the beginning
12 of the Slice contract in order to provide more detailed accounting of program costs
13 associated with the Slice product. The changes resulting from more detailed accounting
14 of program costs will be reflected in the Slice true-up process. BPA will not conduct
15 detailed accounting of costs attributable to staff salaries and related overhead for
16 activities associated with managing non-Slice products. This amount is insignificant and
17 has a negligible effect on the Slice Revenue Requirement.

18 **Section 7. Transmission Losses**

19 Q. *The Slice Purchasers Group argues that BPA should reduce the Slice Revenue*
20 *Requirement by \$52.4 million. This amount is their calculation of the cost to purchase*
21 *the power to cover system losses. Carr, et al., WP-02-E-SG-01, at 27, lines 23-26 and*
22 *at 28, lines 1-4. Do you agree?*

23 A. BPA disagrees with this approach since the Slice customers are already receiving the
24 energy associated with the losses through the calculation of the Slice Percentage. The
25 Firm Energy Load Carrying Capability of the Federal System used in BPA’s Initial
26 Proposal has been reduced by the system losses. This reduced value goes into the

1 denominator of the Slice Percentage calculation with the result being a slightly larger
2 percent, which serves to cover the energy needed for transmission losses.

3 *Q. The Slice Purchasers Group was concerned that the Slice product would not be treated*
4 *as Subscription core products since the current Slice product shifts the responsibility for*
5 *transmission to the customer. Carr, et al., WP-02-E-SG-01, at 27, lines 6-11. Do you*
6 *agree?*

7 A. No. All Subscription products require the customer to undertake transmission
8 responsibility.

9 **Section 8. LDD and the Slice Product**

10 *Q. How does BPA respond to the proposals it received from PNGC and WPAG with regard*
11 *to the application of the LDD to the Slice product?*

12 A. All of BPA's responses to these proposals are contained in the rebuttal testimony of
13 Gustafson, et al., WP-02-E-BPA-48, section 5.

14 **Section 9. Slice Product and Load Growth**

15 *Q. In their direct testimony regarding the "Stepped-Up Multiyear" (SUMY) charge, the*
16 *PPC states that the Slice product is one example of where BPA does not charge*
17 *separately for costs associated with load growth. The PPC states that Slice purchasers*
18 *will use "reasonable projections of net requirements (which include load growth) as the*
19 *basis for their net requirements." Opatrny, et al., WP-02-E-PP-02, at 16, lines 21-22*
20 *and at 17, line 1. Please respond.*

21 A. PPC's statement regarding the Slice product and Slice customers' load growth is
22 incorrect. First, load growth is not covered by the Slice product. BPA stated in its
23 Subscription ROD that a Slice participant must agree to provide sufficient resources for
24 the remainder of consumer loads not served by the Slice product. The Subscription ROD
25 also states that a Slice participant will accept risk by agreeing to acquire its own
26

1 non-Federal resources to meet its system load growth (Subscription ROD,
2 December 1998, page 84).

3 Second, the determination of Slice customers' net requirements for purposes of
4 calculating the maximum percentage of the Slice System Capability that a Slice customer
5 can purchase will be based on a projection of first year (2002) load, rather than a
6 projection of load for the contract term. Slice customers may purchase a Slice percentage
7 in an amount up to this maximum percentage. Once selected, a Slice percentage is fixed,
8 regardless of whether the Slice customer subsequently has load increases during an
9 operating year or years.

10 **Section 10. Consistency Between the Slice Product Description and the Initial Proposal.**

11 *Q. The Slice Purchasers Group states that there are areas where the Slice Product*
12 *Description (October 1999) and BPA's Initial Proposal on the Slice Product do not*
13 *coincide. One such area is that there is one key omission in BPA's testimony statement,*
14 *"[t]he component, that serves net requirements, is estimated for a year by multiplying the*
15 *Slice participant's selected Slice percentage by the generation from Federal system*
16 *resources produced in a year assuming critical water conditions (currently 1937 water).*
17 *Mesa, et al., WP-02-E-BPA-32, at 3, lines 13-23. The statement should include the fact*
18 *that "generation from Federal system resources should be decreased by the System*
19 *Obligations, such as the Canadian Entitlement Returns." Carr, et al.,*
20 *WP-02-E-SG-01, at 6, lines 22-24. Please respond.*

21 *A. BPA agrees that generation from Federal system resources should be decreased by the*
22 *System Obligations, such as the Canadian Entitlement Returns and will include language on*
23 *this adjustment to the Slice contract.*

1 Q. *The Slice Purchasers Group states that a further refinement is necessary in the treatment*
2 *of System Obligations. If BPA does not take interchange energy under the Pacific*
3 *Northwest Coordination Agreement (PNCA), the Slice purchaser may take its*
4 *proportionate share of such unused PNCA interchange energy rights. The Slice*
5 *Purchasers Group states that this also means that at the end of the year, the Slice*
6 *purchaser may owe money to BPA, which would be settled through the true-up process*
7 *for the Slice product. Carr, et al., WP-02-E-SG-01, at 6, lines 16-26 and at 7,*
8 *lines 7, lines 1-2. Please respond.*

9 A. BPA agrees that if BPA does not take interchange energy under the PNCA, the Slice
10 purchaser may take its proportionate share of such unused PNCA interchange energy
11 rights. BPA also agrees that at the end of the year, the Slice purchaser may owe money
12 to BPA, should BPA use its PNCA interchange energy rights. The money owed by the
13 Slice purchaser would be settled through the true-up process for the Slice product. BPA
14 will include language regarding interchange energy under the PNCA in the Slice contract.

15 Q. *The Slice Purchasers Group assumes that the treatment of transmission system losses in*
16 *the rate case will not affect the statutory rights of Slice purchasers to measure their net*
17 *requirements loads at the perimeters of their systems, for the purpose of selecting a Slice*
18 *percentage. Carr, et al., WP-02-E-SG-01, at 7, lines 5-7. Please respond.*

19 A. BPA agrees that it will measure the net requirements loads for Slice purchasers for the
20 purpose of selecting a Slice percentage, consistent with the determination of net
21 requirements specified in BPA's 5(b)/9(c) policy.
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1 Q. *The Slice Purchasers Group states that changes to the Initial Proposal on the Slice*
2 *product are necessary to ensure that the Slice Rate effectively excludes all of those costs*
3 *that the product definition excludes, including short-term power purchases, risk*
4 *mitigation activities, and those aspects of transmission not related to System Obligations.*
5 *Carr, et al., WP-02-E-SG-01, at 7, lines 8-11. Please respond.*

6 A. The Initial Proposal on the Slice product reflects the exclusion of all non-Slice costs that
7 the product definition excludes, to the extent that BPA's accounting system can
8 differentiate between Slice and non-Slice costs. BPA still is in the process of refining its
9 accounting system to provide further detail for identifying all non-Slice costs. BPA will
10 include this additional detail when the Slice contracts are effective. However, BPA will
11 not account for non-Slice costs in certain items, such as staff salaries and related
12 overhead costs.

13 Q. *Does this conclude your testimony?*

14 A. Yes.

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