INDEX

TESTIMONY OF

ALLEN L. BURNS AND JOHN L. ELIZALDE

Witnesses for Bonneville Power Administration

SUBJECT: Power Rate Design Policy

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Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Allen Burns. My qualifications are contained in WP-02-Q-BPA-08.

A. My name is John Elizalde. My qualifications are contained in WP-02-Q-BPA-19.

Q. What is the purpose of your testimony?

A. There are two purposes to our testimony. First, we want to describe the overall policy context for the Bonneville Power Administration's (BPA) initial power rate proposal (Proposal). Second, we want to highlight certain aspects of this Proposal that we believe customers and others will find to be of particular interest.

Q. How is your testimony organized?

A. Section 1 describes the purpose of this testimony. Section 2 describes the policy context in which this Proposal is being made and identifies BPA's rate case policy goals. Section 3 identifies and summarizes which parts of BPA's Proposal are driven by which rate case policy goals and provides a broad outline of those parts.

Section 2: Policy Context for BPA's Proposal

Q. Please describe the policy context for BPA's approach to rate design.

A. The policy context for BPA's rate design approach is based on four primary factors, each of which interrelate and influence BPA's rate design and BPA's policy goals for its rate case. When viewed broadly together these factors highlight the uniqueness of BPA's role in the Pacific Northwest. The factors are as follows: BPA's compliance with orders of the Federal Energy Regulatory Commission (FERC) on utility separation of generation and transmission functions, changes in the West Coast power markets, BPA's implementation of the Fish and Wildlife Funding Principles, and BPA's implementation of its Power Subscription Strategy.

A. FERC Separation

Q. Please describe the influence of FERC orders requiring separation of the merchant function from the transmission function on BPA's Proposal

A. FERC ordered utilities under FERC's jurisdiction to functionally separate their generation and transmissions functions as part of FERC's directives to enhance competition in the wholesale power industry and develop wholesale open transmission access. *See* Order 888, FERC Stats.& Regs. ¶31,036 (1996); Order 888A, FERC Stats. & Regs. ¶31,048 (1997). While FERC initiatives in this area do not directly apply to BPA, BPA has endorsed FERC's directives in the wholesale power market and has chosen to voluntarily comply with FERC's order. BPA has established separate power and transmission business lines. As a result, this rate case is only covering power rates and some inter-business line issues. The transmission rate case will be conducted some time later. All issues surrounding it, including but not limited to timing of the transmission rate case, are not a subject in this rate case. In this rate case, BPA proposes to decide the methodologies needed to allocate or assign transmission and generation costs to the power and transmission business lines. *See* Metcalf and Cherry, WP-02-E-BPA-10. These methodologies must be dealt with now in order to determine the revenue requirement to be covered by power rates.

B. Changing Market Conditions

Q. Please describe your view of the changing West Coast market conditions and the impacts on BPA's Proposal.

A. In our view, changing market conditions has meant competition from other suppliers for BPA's traditional customer base. Although the west coast wholesale power market continues to be competitive, it currently does not pose the same degree of competitive threat to BPA as it did during the mid-90's. During that period, the market experienced low gas prices and surplus supplies of short-term capacity and energy. New market entrants, such as, brokers and marketers, increased the power supply alternatives and provided customer choice. Surplus generating capacity helped to push market prices down and prices fell below BPA's cost-based rates. In 1996, BPA experienced losses to its customer base due in part to this competition and the lower market prices on the west coast.

Q. How have market conditions changed?

A. In the last year or two, we have seen the price of power in the market rise. *See* Loads and Resources Study, WP-02-E-BPA-01, Section 2.3.3. This rise in market price may be attributed to increased demand and resulting decreases in the surplus of generating capacity on the west coast. In addition, there has been divestiture of generation assets by some utilities, energy company mergers and acquisitions, and the restructuring of some retail and wholesale electricity markets. There are also efforts in Congress to pass some type of Federal law that would mandate States to deregulate their retail markets if they have not done so already. These actions also contribute to significant uncertainties in the wholesale market.

Q. Have these changing market conditions led to increased demand for power marketed by BPA?

A. Yes. While BPA's firm power rate has been constant since 1996, market prices that were once lower than BPA's rate have risen above BPA's rates. Also, market prices have been more volatility. Customers which earlier sought supply from BPA's competitors are now indicating that they wish to purchase greater quantities of power from BPA.

Q. Does this mean BPA does not need to concern itself with being competitive?

A. Absolutely not. As the experience of the last five years has taught, significant changes in the market can arise from such factors as economic change, technological breakthrough, regulatory change, or new market entrants. Just because BPA is currently competitive does not mean that it should not be constantly assessing and undertaking actions that will ensure that it remains competitive. Sound business principles dictate otherwise.

C. Fish and Wildlife Funding Principles

Q. Please describe the Fish and Wildlife Funding Principles.

A. The Fish and Wildlife Funding Principles (Principles) provide a set of guidelines for structuring BPA's Subscription and power rate processes, with the intent of keeping the "options open" for future decisions on system reconfiguration and related action for recovery of fish and wildlife. *See* Revenue Requirement Study Documentation, WP-02-E-02A, Chapter 13, Attachment 1. The Principles were developed in consultation with constituents, customers, other Federal agencies, the Northwest Congressional delegation and Columbia Basin Tribes. The Principles were published on September 16, 1998, in a document entitled "Fish and Wildlife Funding Principles for Bonneville Power Administration Rates and Contracts." Vice President Gore announced the establishment of the Principles on September 21, 1998. *Id.*, Attachment 2. The Principles define the fish and wildlife costs that BPA should assume, establish the cost recovery goal that BPA should pursue, and outline the risk mitigation measures that BPA should implement in its rate and Subscription processes. The Principles themselves are not an issue in this rate case. Implementation of the Principles through power rates is an issue in this rate case.

Q. The Principles refer to 13 fish and wildlife alternatives for system reconfiguration. What do the 13 alternatives represent?

A. The 13 fish and wildlife alternatives represent what is, in the Administration's judgment and based on extensive regional input, a reasonable range within which the costs of eventual decisions on system configuration and related operations can be expected to fall. It was well understood at the time the Principles were issued that cost estimates would continue to evolve as the analysis, planning, and decision process for system reconfiguration and related actions progressed. The content, merits, or level of costs for the fish and wildlife recovery strategies reflected in each of the 13 alternatives; the decisions to include the full range of costs for all 13 alternatives for the purposes of BPA's repayment study, revenue requirement, revenue forecast, and risk management studies and strategies are not an issue in this rate case. *See* DeWolf, *et al.*, WP-02-E-BPA-13.

Q. Please specify features of this Proposal that serve to implement the Principles.

A. For rate setting purposes, BPA is ensuring that revenue requirements, the repayment schedule, and the risk analysis take into account the full range of potential fish and wildlife costs represented by the 13 alternatives by assuming that each alternative is equally likely to occur. *Id. See also* Revenue Requirement Study Documentation, Volume 1, WP-02-E-BPA-02A, Chapter 13, Attachment 4, for a summary of how BPA is implementing the Principles in this rate proposal. More specifically, BPA is setting its rates to achieve an 88 percent probability that all U.S. Treasury payments will be made in full and on time over the five-year rate period. *See* DeWolf, *et al.*, WP-02-E-BPA-13. Risk mitigation tools to meet this standard include starting financial reserves, a Cost Recovery Adjustment Clause (CRAC) that allows a temporary rise in rates as frequently as every year of the five-year period, and continuation of the Fish Cost Contingency Funds, 4(h)(10)(C) credits and planned net revenues for risk. *See* Lovell, *et al.*, WP-02-E-BPA-14 and Revenue Requirement Study Documentation, Volume 1, WP-02-E-BPA-02A, Chapter 13, Attachment 4. This Proposal contains a PF rate that represents no increase in the average level of the rate over its current level, *See* Keep, *et al.*, WP-02-E-BPA-17. The Proposal also includes more flexible power products and power product pricing. For example, BPA is proposing stepped rates applicable to three and five years periods, market indexed based rates, seasonal pricing, and the Targeted Adjustment Clause (TAC). This Proposal also includes moving to 12 seasons for pricing both energy and demand. This move allows BPA to shape its rates to reflect the relative prices of energy and demand at different times of the year in the west coast power market. This will help enable BPA to manage its costs across years by helping to assure that existing resources are used as efficiently as possible. *See* Keep, *et al.*, WP-02-E-BPA-17. Another example is the proposed TAC that would apply to the customer's applicable rate. The TAC is designed to recover the cost of market purchases needed to serve customers requesting additional service after the close of the Subscription window. *See* Arrington, *et al.*, WP-02-E-BPA-24.

D. BPA's Power Subscription Strategy

Q. What is the origin of Subscription?

A. The concept for Subscription originated as a recommendation in the Final Report of the Comprehensive Review of the Northwest Energy System (Comprehensive Review), published on December 12, 1996. The Comprehensive Review analyzed BPA's role in the region in light of the changing wholesale and retail electric environments. The Comprehensive Review recommended that BPA institute a subscription-based system for marketing Federal power.

Q. Is BPA's Proposal implementing the recommendations of the Comprehensive Review?

A. No. BPA is implementing the decisions described in the Power Subscription Strategy (Subscription Strategy) Record of Decision (ROD) of December 21, 1998, which reflects many of the Comprehensive Review recommendations.

Q. Please describe BPA's Subscription Strategy.

A. The Subscription Strategy is BPA's approach to marketing Federal power for the period 2002-2006. The Subscription Strategy embodies BPA's decision on equitably distributing to its customers the electric power generated by the FCRPS, within the framework of existing law. The Strategy addresses the availability and marketing of power, describes power products, lays out strategies for pricing, including risk management, and discusses contract elements.

Q. What are the goals of the Subscription Strategy?

A. The four goals of the Subscription Strategy are to : (1) spread the benefits of the FCRPS as broadly as possible, with special attention given to the residential and rural customers of the region; (2) avoid rate increases through a creative and businesslike response to markets and additional aggressive cost reduction; (3) allow BPA to fulfill its fish and wildlife obligations while assuring a high probability of Treasury payment; and (4) provide market incentives for the development of conservation and renewables as part of a broader BPA leadership role in the regional effort to capture the value of these and other emerging technologies.

Q. Is the content of the Subscription Strategy a subject in this rate case?

A. No. The Subscription Strategy was decided as specified in the ROD. The decisions contained in that document are not at issue in this rate case.

Q. How does this Proposal implement the Subscription Strategy?

A. BPA's proposed rates are designed to implement the four goals of the Subscription Strategy. First, BPA's proposed rates promote the spread of the benefits of the FCRPS while avoiding increases in average PF rates, *see* Keep, *et al.*, WP-02-E-BPA-17. BPA proposes to meet the net firm load requirements of its preference customers, offer a combination of power and financial benefits to regional Investor-Owned Utilities (IOU) for the benefit of their residential and small farm consumer, and serve a significant portion of Direct-Service Industrial (DSI) load at competitive rates. Second, the Proposal fulfills BPA's commitment to the funding range established by the Fish and Wildlife Principles. Third, this Proposal also includes a conservation and renewables discount

(C&R Discount) available to customers purchasing subscription power that is consistent with the Subscription Strategy. The C&R Discount is intended to create incremental efficiency gains and renewable energy supplies, and provide incentives to continue the region's progress in low-income weatherization programs. Finally, this Proposal includes features designed to provide a response to power markets, help manage BPA costs, and provide customers better information about the costs of their load placement decisions. These include the following features of this Proposal: 3 and 5-year fixed rate options, moving to 12 seasons for energy and demand pricing, the TAC, cost-based indexed Priority Firm Power (PF) rate options, IP rate options, and the CRAC.

Q. Does this Proposal offer service to the DSI's that differs from BPA's proposal for service to the DSIs described in the Subscription Strategy?

A. Yes. The Subscription Strategy committed no specific amount of service to the DSIs. It stated that BPA's expectation was to serve all DSI loads that individual companies asked BPA to meet. At the time the Subscription Strategy was developed, BPA expected to have sufficient inventory to meet DSI loads even after meeting other customers' Subscription requests with higher priority than DSI requests. The Proposal tries to make enough power available to serve approximately half of the existing DSI plant load, or approximately 75 percent of current DSI load on BPA. The Subscription Strategy also expected that DSI service would be provided at an IP rate that was approximately equal to the PF rate. However, in order to make more power available to DSIs without raising other customers' rates, the proposed IPTAC rates are above the PF rate while still at prices well below the projected market prices for power, s*ee* Berwager, *et al.*, WP-02-E-BPA-09.

Q. Why has BPA decided to move forward on the power rate case at this time?

A. BPA needs to know in advance what its expected loads, costs, and revenues will be for the next five-year rate period that will be in effect for Subscription contracts. The

Subscription Strategy provided for a window of 120 days after the Administrator signs the 2002 power rate case ROD in which to negotiate and execute power sales contracts. Therefore, it is reasonable to move forward on the 2002 power rate case now for several reasons. First, to establish prices for power products to help customer in their decisions about subscribing to Federal power. Second, once the rate case is finished, and the Subscription window closes, BPA will then know its purchase power and sales obligations. Then, BPA will have approximately one year to carry out a power purchase strategy and build the internal systems needed to implement the Subscription Strategy.

Section 3: Key Features of this Proposal

Q. What is the purpose of this section?

A. In this section, BPA identifies and highlights 17 features of this Proposal which are important to achieving the goals identified in the Subscription Strategy.

A. Maintaining Stable PF Rates

Q. Why are stable PF rates important to BPA?

A. BPA wants to continue the rate stability it achieved in 1996. This type of stability is important to help assure that the benefits of the low-cost FCRPS remain in the region. We believe that rate stability leads to stability in the business relationships between BPA and its customers, and will provide BPA a stable basis to meet its fish and wildlife obligations and other public benefits and responsibilities.

B. Developing Rates for IOU Subscription Sales at a Rate Approximately Equal to PF to Support Sales of Firm Power Either Under Section 5(b) or Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act)

Q. What is BPA's policy concerning the development of rates for IOU subscription sales to support a 5(b) or a 5(c) sale?

A. An important part of spreading the benefits of the FCRPS, with particular attention to residential and rural customers, involves addressing how such customers within IOU service territories may benefit more directly from the FCRPS. BPA's Subscription Strategy ROD describes BPA's policy on the marketing of Federal power to the IOU's during the upcoming rate period, as one approach to spreading FCRPS benefits. BPA's approach provides the IOU's with two options: (1) they may agree to a settlement of the Residential Exchange Program and purchase some Federal power; or (2) they can continue to participate in the Residential Exchange. If an IOU settles the exchange, it would then be able to purchase a specified amount of power under Subscription for its residential and small farm consumers at a rate approximately equivalent to the PF Preference rate. BPA expects that the statutory mechanism for providing such sales will be a contract under either section 5(b) or section 5(c) of the Northwest Power Act. BPA will determine in subsequent discussions which mechanism will be employed. If an IOU participates in the established Residential Exchange Program, or purchases in lieu power under the proposed settlement pursuant to section 5(c) of the Northwest Power Act, it may also purchase power for its remaining net requirements load under the NR-02 rate schedule. If an IOU purchases net requirements power under the proposed settlement pursuant to section 5(b) of the Northwest Power Act, the IOU may purchase remaining net requirements power in excess of the settlement power for its remaining net requirements load at the NR-02 rate. In summary then, BPA's Subscription Strategy

ROD is proposing the equivalent of 1,800 average megawatts (aMWs) of Federal power for the 2002-2006 period, delivered flat annually, assuming the IOU's settled participation in the Residential Exchange Program. Of the 1,800 aMWs, delivered flat, at least 1,000 aMWs will be met with actual power deliveries. The remainder may be provided through either a financial arrangement or additional power deliveries, depending on which approach is most cost-effective for BPA, *See* Leathley, *et al.*, WP-02-E-BPA-19.

Q. *Is BPA revisiting the decision to deliver power to the IOU's in a shape other than flat?*

A. No. This was already decided in the Subscription Strategy ROD.

Q. *In what process will BPA make a final decision regarding whether to sell the IOU's more than 1,000 aMWs of power out of the 1,800 aMWs total?*

A. That final decision will be made in the contracting process.

Q. *Has BPA achieved the Subscription goal of developing rates for sales to the IOU's approximately equal to PF?*

A. Yes. In this Proposal, BPA is offering sales to the IOU's residential and small farm customers at the same rates as it is offering power to residential and small farm customers of preference customers.

Q. *Is BPA considering increasing the amount of power available to the IOU's from 1,800 aMWs to 1,900 aMWs?*

A. Yes. BPA has received requests to increase the amount of power available to IOU's from 1,800 aMWs to 1,900 aMWs. This increase is not an issue in this rate case. What is an issue in this rate case is how the costs of such an action would be reflected in rates.

Q. *How are these costs reflected in the rates contained in this Proposal?*

A. They are not contained in this Proposal. The rates contained in this Proposal are based on providing the IOUs with 1,800 aMWs of power.

Q. How would costs change if this amount were increased by 100 aMWs?

A. BPA would consider adding this 100 aMWs as long as BPA's pledge not to increase the average PF rate over present levels, *See* Keep *et al*., WP-02-E-BPA-17, can be met; it does not require BPA to reduce its Treasury Payment Probability; it does not require a change in the DSI proposal; and, there is no impact on BPA's ability to meet its fish and wildlife commitments.

Q. Does this mean that if all these conditions are met that BPA will in fact increase the offer to the IOUs from 1,800 aMWs to 1,900 aMWs?

A. If these conditions are met, BPA is willing to consider including the additional 100 aMWs in the IOU offer.

C. Pricing PF Rate Options: Three-year and a Five-year Fixed PF Rates and a Five-Year Stepped Rate

Q. What rate options is BPA offering preference customers?

A. Customers may select between the following: (a) a three-year fixed rate; (b) five-year fixed rate; and (c) a five-year fixed stepped rate.

Q. What is BPA's policy on offering rates of three- and five-year duration?

A. Offering various rate options is another element of BPA's overall approach to risk management in this Proposal. By offering three- and five-year rates, it is BPA's desire to reduce the amount of revenue risk BPA bears when the great majority of its power sales contracts expire at the same point in time. In addition, this policy provides some ability to revise rates to reflect changes in BPA's revenue requirements sooner than every five years.

Q. *How will BPA price power for customers selecting the three-year fixed rate option at the end of the three years?*

A. At the end of the three-year rate option, customers that select this option will be subject to new rates. Those new rates will be determined in a later rate case.

Q. *What incentive is BPA proposing to offer to encourage a customer to select a three-year fixed rate?*

A. BPA will waive the take-or-pay requirement for any load lost due to retail access during these three years.

Q. *What incentives is BPA offering to select a five-year fixed stepped rate over a five-year fixed rate?*

A. The stepped rate option has lower rates in the first three years that are stepped to a higher rate in the last two years. The first three years of the five-year fixed stepped rate is proposed to be 0.6 mills/kilowatthours (kWh) below the level of the five-year fixed rate. In years four and five, of the five-year fixed stepped rate, the rate is proposed to be 0.9 mills/kWh above the level of the five-year fixed rate. This reduced near-term price is intended to provide some price encouragement to customers who desire some mix of price certainty and price flexibility.

Q. *What is the rationale for a 0.6mill/kWh lower price in the first three years of the five-year stepped rate?*

A. We based this on our professional judgment. We have not performed any studies that identify the 0.6mill/kWh as sufficient.

Q. *Why is BPA proposing a five-year stepped rate?*

A. Primarily, it is to provide greater customer choice. While the first step in the rate is lower than the level of the five-year fixed rate, the last two years of the stepped rate are higher than that rate for the last two years of the step period. In total, the stepped rates are intended to be revenue neutral to BPA, s*ee* Keep, *et al.*, WP-02-E-BPA-17.

D. Developing a TAC for PF Load Placed on BPA After the Close of the Subscription Window

Q. What is BPA's policy on pricing preference load placed on BPA after the Subscription window closes?

A. One additional element to meeting the rate stability pledge and also spreading FCRPS benefits is to assure that loads placed on BPA after the Subscription window closes face the full costs of serving those loads. The TAC is a charge applied to the PF preference firm power rate that will enable BPA to recover the incremental costs it incurs to meet these incremental loads. By instituting the TAC, BPA does not have to build additional revenues into the rates for requirements service.

Q. To which customers would the TAC apply?

A. The TAC will apply to the following customers: (1) purchases of firm power requirements service after the Subscription window closes; (2) load additions through retail access after the window closes, including load that was once served and returns under retail access; and, (3) purchases to replace customer owned firm resources. For additional information on the TAC, *see* testimony of Arrington, *et al.*, WP-02-E-BPA-24.

E. Developing a TAC for IP loads (IPTAC)

Q. How is the IPTAC applied to DSI load?

A. Please refer to the testimony of Berwager, *et al.*,. WP-02-E-BPA-09.

F. Targeted Adjustments Charge for Uncommitted Loads (TACUL)

Q. What is BPA's approach to adjustments to the PF-96 rate schedule?

A. BPA plans to develop a TACUL for the PF-96 rate schedule. BPA wants to both allow for uncommitted loads to be served with preference power and avoid shifting the costs of that action to customers in general, while assuring that the U.S. Treasury is repaid over a reasonable numbers of years. In order to meet this objective, BPA is proposing the

TACUL. In so doing, the TACUL will prevent the erosion of reserves that could occur from additional costs of power purchases that may be required to meet customer returned load. These incremental loads will be charged the PF Preference (PF-96) rate, plus the TACUL, which is an adjustment charge reflecting the difference between the PF-96 rate and BPA's cost to supply this power. For additional information on the TACUL, *see* Kitchen, *et al.*,WP-02-E-BPA-36.

G. Developing a CRAC

Q. What is BPA's policy on a CRAC?

A. The CRAC is intended to help assure that BPA meets its Treasury Payment Probability of 88 percent by helping to shore up reserves in the event that poor hydro conditions, high fish costs, high market prices, or other risks cause net revenues to significantly underrun the rate case forecast, s*ee* DeWolf *et al.*, WP-02-E-BPA-13.

Q. To what rate schedules does the CRAC apply?

A. It applies to the Priority Firm Power (PF-02), Residential Load (RL-02), Non-Firm Energy (NF-02), and Industrial Firm Power (IP-02) rate schedules. For a complete discussion of features of the CRAC, *see* Lovell, *et al.*, WP-02-E-BPA-14.

H. Developing a Dividend Distribution Clause (DDC) to Provide for Return of Excess Financial Reserves

Q. What is BPA's policy on "refunding" power revenues if reserves become higher than expected?

A. BPA is proposing a DDC whereby "surplus revenues" arising from unanticipated lower costs or higher sales revenues may be refunded.

Q. What is BPA's rationale for this concept when there are so many risk management tools in this rate case?

A. The Subscription Strategy ROD stated that BPA has decided to offer this mechanism. Therefore, the decision to offer it is not an issue in this rate case.

Q. Please explain how the DDC is designed.

A. Please refer to the testimony DeWolf, *et al.*, WP-02-E-BPA- 13.

Q. What is the potential for the DDC triggering?

A. At this time, BPA is cautious about whether a DDC will occur. The potential does exist; however, BPA does not want to be overly optimistic about this mechanism triggering. Rather, BPA wants to design rates in such a way to avoid triggering either a CRAC or the DDC.

I. Developing Monthly Rates for Both the Energy and Demand charges

Q. What is BPA's policy on seasonally differentiated rates?

A. BPA's policy is that the relative pattern of rates in different times of the year ought to reflect the relative pattern of the market across different times of the year.

Q. What is BPA's rationale for proposing monthly energy and demand pricing?

A. Monthly differentiated pricing is one form of a businesslike response to power markets and can help BPA attain its goal of no power rate increase by sending pricing signals that reflect BPA's potential costs for serving loads at different times of the year. This monthly pricing will help assure efficient resource use. BPA began this approach in the 1996 rate case and is proposing to extend it from six different seasons: January-March; April; May-June; July; August; September-December, to monthly seasonality, s*ee* Keep, *et al.*, WP-02-E-BPA-17.

J. Providing for Cost-Based PF Indexed Rate Option

Q. What is BPA's policy on developing cost-based indexed pricing of some PF products?

A. BPA is proposing this type of pricing for some products for preference loads. This rate will be designed to provide a market based, alternative, rate for all firm load requirements customers that wish to diversify their power portfolios, *see* Miller, *et al.*, WP-02-E-BPA-21.

Q. *How is this approach consistent with meeting the PF rate target of no rate increase on average PF rates?*

A. This approach must be designed in such a way so that BPA's goal of no rate increase to PF customers is preserved. As such, it is important that any such product be designed to avoid having the cost of the product inadvertently borne by other customers. As such, the rates for these products will be based on the five-year rate and indexed to a market rate such that the expected net present value of the revenues from these rates will be equal to the fixed PF rates proposed in the PF rate schedule

K. Providing for Cost-Based IP Indexed Rate Options

Q. *What cost-based rate option is BPA offering to the DSIs?*

A. Details of the cost-based indexed IP rate option may be found in the testimony of Berwager, *et al.*, WP-02-E-BPA-09, and Miller, *e. al.*, WP-02-E-BPA-21.

L. Providing for Some Rate Impact Mitigation

Q. *What is BPA's policy on providing mitigation to individual customers who because of the character of their load face a higher realized rate than they faced in 1996?*

A. BPA is proposing to cap the Demand Charge and the Load Variance Charge, continue the Low-Density Discount, and provide $4 million for relief for customers with high irrigation loads.

Q. *How is offering any mitigation consistent with BPA's desire to more accurately reflect cost in product pricing?*

A. There are circumstances when mitigation is warranted as part of our goal of spreading the benefits of the FCRPS. While we are continuing to implement a rate design approach intended to link product cost and product price, there are times when the outcome of this policy runs counter to our goal of spreading the benefits of the FCRPS. There must be some sensitivity to the impact of linking product price with product cost.

Q. *Please explain the caps on the Demand and Load Variance Charges.*

A. For the Demand Charge, the proposed policy is to set it at $2.50/kilowatt (kw)-mo., and $2.00/kilowatt (kw)-mo. for the average amount of demand charge revenues. For the Load Variance Charge, the proposed policy is to set it at $0.80/ kw-mo.

Q. *Why is BPA setting these caps as a matter of policy?*

A. These particular caps were selected based simply on a balancing of competing goals: wanting product pricing to reflect cost, and on the other hand, being concerned about the degree of rate impact as one consideration in spreading the benefits of the FCRPS. BPA believes that charging full market price would have unreasonable rate impacts for some customers. For the technical analysis resulting from this proposed policy, s*ee* Keep, *et al.*, WP-02-E-BPA-17.

Q. *What other forms of mitigation is BPA offering?*

A. BPA is proposing to continue the Low Density Discount, with some modifications, s*ee* Gustafson, *et al.*, WP-02-E-BPA-23. To at least partially mitigate rate impacts on seasonal loads, this Proposal proposes the continuation of the flexible PF rate while still maintaining the same amount of revenues for BPA. BPA will also offer a power product using the FPS rate to mitigate inordinate rate impacts on irrigation loads. We have included $4 million to pay for this mitigation. The $4 million is, in our professional judgment, an amount of money which BPA is proposing to make available that will help to offset rate impacts for some customers and still allow BPA to meet its PF rate targets, *See* Doubleday, *et al.*, WP-02-E-BPA-18.

M. Deciding Specific Inter-Businessline Costs

Q. *What is the purpose of deciding these issues now?*

A. In setting rates for the period beginning October 1, 2001, BPA is bifurcating its general rate proceeding into separate power and transmission rate proceedings. BPA has voluntarily committed to marketing its power and transmission services in a manner modeled after the regulatory initiatives articulated by FERC in Order Nos. 888 and 889. As a result, certain inter-business line issues must be resolved in order to determine BPA's power revenue requirement and to forecast associated revenues.

Q. What inter-businesslike issues are set to be determined in this power rate case?

A. In this rate case, BPA is proposing to decide the appropriate treatment of costs that mutually affect both its power and transmission business lines, including actions that assess costs from one business line to the other. The treatment of these "inter-business line" issues will determine whether the costs are recovered through power, transmission, or ancillary services rates. BPA is now proposing decisions on the following issues: (1) a methodology for functionalizing corporate overhead costs; (2) generation unit costs for operating reserves and regulation ancillary services; (3) generation input costs for reactive ancillary service; (4) costs of station service and remedial action schemes; and, (5) allocation of generation integration and generation step-up transformer costs to the business lines. BPA does not propose to recover any delivery segment costs through wholesale power rates. BPA's proposal for treatment of delivery segment costs will be resolved in the separate transmission rate case.

N. Deciding Treatment of General Transfer Agreement (GTA) Costs

Q. What is BPA's approach to GTA's on this Proposal?

A. The other transmission-related issues to be proposed in the power rate case include all GTAs and GTA replacement costs for Federal and non-Federal power deliveries, and PBL responsibility, if any, for delivery segment costs. Resolution of the GTA issues for Federal and non-Federal power deliveries will allow GTA customers to make informed power purchase decisions and will affect the level of the power revenue requirement. In this Proposal, BPA is proposing to continue existing GTA service to current loads for delivery of Federal power through the Fiscal Years 2001-2006 rate period. It is BPA's belief that continuing GTA service for Federal requirements power deliveries is consistent with BPA's historical practice and helps promote the widespread use of Federal requirements power, thereby helping to spread the benefits of Federal power more broadly across the region. In addition, the Transmission Business Line is making proposals regarding GTA's that are a part of this Proposal in order to resolve all issues that affect GTA customers and to enable GTA customers to make informed power purchase decisions, *see* Metcalf/Furst, *et al.*, WP-02-E-BPA-35.

O. System Augmentation

Q. Does BPA expect to serve more load than when Subscription Strategy ROD was issued?

A. Yes. Earlier in this testimony, BPA indicated that West Coast power markets have been changing, and how BPA sees them changing. These market changes leads BPA to anticipate significant preference, IOU, and DSI load placement.

Q. How much system augmentation is BPA proposing?

A. We are anticipating that BPA will need approximately 1,100 aMWs per year of additional power, S*ee Hirsch et. al.*, WP-02-E-BPA-11, and Misley *et. al.*, WP-02-E-BPA-12.

Q. How does this proposed augmentation affect the Slice proposal?

A. *See* Mesa, *et al.*, WP-02-E-BPA-32.

P. Conservation and Renewables (C&R) Discount

Q. What is BPA's proposed approach to a C&R Discount?

A. As was presented in section 2 above, it is important to BPA to continue to be a leader in the regional effort to capture the value of conservation and renewable resources. To this end, BPA has included a C&R Discount in this rate case. When customers agree to engage in investment in qualifying measures, the customers will receive a C&R Discount.

Q. What customers are eligible for this discount?

A. The C&R Discount will apply to all customers served under requirements rates including the PF rate, the IP rate, the NR rate, and the RL rate. The total eligibility for each customer will equal .five mills/kWh based on Subscription loads. Customers will be accountable for demonstrating compliance with their expenditure target at the end of the contract term. The discount will be applied automatically on each customer's monthly bill.

Q. How is offering this discount consistent with cost management and rate stability?

A. To account for the cost of this incentive, BPA has included the cost of this discount by applying 0.5 mills/kWh to loads served by posted rates and the Slice product, and as a result, BPA is assumed to remain revenue neutral in this program. While IP-02 rate customers are eligible for the C&R Discount, the discount cannot be used to lower the IP rate below the DSI Floor Rate, *See* Esvelt, *e. al.*, WP-02-E-BPA-33.

Q. Green Energy Product

Q. What is BPA's approach to a Green Energy Premium in this Proposal?

A. The Green Energy Premium (GEP) will be available to customers purchasing firm power. The GEP will be charged when a customer chooses to designate any portion (up to 100 percent) of its Subscription purchase as Environmentally Preferred Power. The GEP will range from zero to $40/megawatthour depending on the specific products and associated costs selected by each customer. For further information on this feature, *see* Esvelt, *et al.*, WP-02-E-BPA-33.

Q. Does this conclude your testimony?

A. Yes.