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REBUTTAL TESTIMONY OF

ALLEN L. BURNS, SYDNEY D. BERWAGER, AND MICHAEL J. DEWOLF

Witnesses for Bonneville Power Administration

SUBJECT: Rebuttal Testimony for Policy Issues

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4
5 **SUBJECT: REBUTTAL TESTIMONY FOR POLICY ISSUES**

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

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

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

9 A. My name is Sydney D. Berwager. My qualifications are contained in WP-02-Q-BPA-03.

10 A. My name is Michael J. DeWolf. My qualifications are contained in WP-02-Q-BPA-16.

11 *Q. Have you previously filed testimony in the WP-02 proceeding?*

12 A. Yes. We previously sponsored direct testimony on policy issues for Bonneville Power
13 Administration's (BPA) 2002 Supplemental Power Rate Proposal (Supplemental
14 Proposal).

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

16 A. The purpose of this testimony is to describe the policy basis for BPA's rebuttal to the
17 parties' direct testimony on the proposed adjustments contained in the Supplemental
18 Proposal for BPA's 2002 Wholesale Power Rates.

19 *Q. How is your testimony organized?*

20 A. This testimony is organized in eight sections. Section 1 outlines the purposes of our
21 testimony. Section 2 responds to arguments regarding tiering of BPA's rates. Section 3
22 deals with arguments about how the Industrial Firm Power Targeted Adjustment Charge
23 (IPTAC) rate is calculated. Section 4 responds to issues raised about Investor-Owned
24 Utilities (IOU) settlement benefits. Section 5 addresses issues regarding the scope of this
25 phase of the rate case. Section 6 responds to arguments regarding the risks associated
26 with meeting BPA's fish and wildlife obligation. Section 7 addresses issues regarding

1 contingent contracts. Finally, Section 8 addresses other policy issues raised by rate case
2 parties.

3 **Section 2. Marginal Cost Pricing/Tiered Rate Proposals**

4 *Q. Montana Power Company (Montana Power) and the Direct Service Industrial Customers*
5 *(DSIs) both propose that BPA adopt some type of Marginal Cost Pricing (MCP) or tiered*
6 *rate. Stauffer, WP-02-E-MP-01; and Parmesano, WP-02-E-DS/AL-02. Do you agree?*

7 A. No. As explained in BPA's earlier Policy testimony, "The combination of an
8 unanticipated increase in loads and purchase requirements, with higher and more
9 uncertain market prices, greatly diminishes the probability that rates proposed in the May
10 Proposal will fully recover generation function costs. Absent a change to the May
11 Proposal, Treasury Payment Probability (TPP) would be reduced to below 70 percent, a
12 level which falls well short of specific goals and targets. In our judgement, BPA has a
13 serious cost recovery problem that it is obliged to address by reason of statute and
14 Administration policy." Burns, *et al.*, WP-02-E-BPA-62. BPA further explained that it
15 believed that it could effectively deal with this problem through a redesign of the risk
16 mitigation tools and corresponding changes to the Slice product. *Id.* As explained in the
17 rebuttal testimony on Rate Design (*see* Keep, *et al.*, WP-02-E-BPA-80), BPA is not
18 willing to adopt these proposals. However, BPA believes in sending marginal cost based
19 price signals. BPA uses MCP concepts in its currently proposed rates to reflect seasonal
20 and diurnal variations in the value of energy.

21 *Q. Why does BPA believe these tiered rates proposals are unacceptable?*

22 A. First, the current rate proceeding is the culmination of a several year process that started
23 with the Subscription Strategy. During the Subscription Strategy process the concept of
24 tiered rates was proposed and rejected by the region. This rate case is the implementation
25 of the contracts that came out of the Subscription Strategy. One of the decisions made in
26 the Subscription Strategy was a proposal to allow public agency customers to subscribe at

1 the lowest cost Priority Firm Power (PF) rate for all load not currently being served by
2 customers' generating resources. The Subscription Contracts were designed to offer
3 power based on average rates not tiered rates. To layer tiered rate proposal on the current
4 contracts at this point, without extensive regional consultation and review would not be
5 appropriate. Second, given the current allocation of federal power, imposing a tiered rate
6 proposal on the existing allocation of resources would not necessarily result in the desired
7 economic efficiencies. The DSI and IOU contracts clearly did not contemplate a tiered
8 rate concept. BPA believes if the region were to agree on tiered rates, there would need
9 to be a similar discussion on the allocation of the federal resources. BPA believes that
10 the allocation of resources among customer groups should be done **after** (rather than
11 before) the decision to tier rates has been made to avoid layering the concept on contracts
12 that were not designed to implement tiered rates. Third, given the extensive regional
13 discussion that would accompany any decision regarding tiered rates, implementing them
14 at this time would not be appropriate. BPA needs to have rates in place by October 1,
15 2001. Conducting the regional discussion that would accompany such a decision is not
16 possible at this point in time.

17 *Q. Montana Power contends that BPA failed to implement in the Subscription Record of*
18 *Decision (ROD) the MCP recommendation from the Comprehensive Review. Stauffer,*
19 *WP-02-E-MP-01. Is this the appropriate forum to raise this issue?*

20 *A. No. While parties are free to put forth proposals for MCP or other proposals to address*
21 *the problem in this rate case, it is not appropriate to challenge BPA's implementation of*
22 *the Comprehensive Review in the Subscription ROD. Any such challenge should be*
23 *made in litigation related to the Subscription ROD. This proceeding is limited to the*
24 *establishment of rates to implement the Subscription Contracts.*

1 Q. Does this mean that BPA thinks that MCP would never be an appropriate basis for its
2 rate design?

3 A. No. During these unprecedented market conditions, BPA will continue to explore every
4 potential avenue for finding solutions that are both fair and practical. This certainly
5 would not exclude tiered rates, though the region's historically strong opposition to tiered
6 rates is a factor that cannot be ignored. Tiered rates may be good for both BPA and the
7 Northwest region, and should properly be explored. BPA would need to address the
8 allocation and contract concerns noted above to effectively implement tiered rates at this
9 late date. It is not feasible to consider such a fundamental change in rate design in this
10 rate proceeding.

11 **Section 3. Industrial Firm Power Targeted Adjustment Charge Rate**

12 Q. What is the general nature of the testimony of the Joint Customer Group (JCG),
13 Springfield Utility Board (SUB), Western Public Agencies Group (WPAG), Public
14 Generating Pool (PGP), and Pacific Northwest Generating Cooperative (PNGC)
15 regarding the treatment of the IPTAC rate?

16 A. While each of the customer groups treats the subject slightly differently, all argue for a
17 recalculation of the IPTAC rate. The JCG and SUB believe that the 496 average
18 megawatts in the calculation of the rate should be priced at market, as opposed to the
19 \$28.10/megawatthour market prices used in the May ROD. Brattebo, *et al.*,
20 WP-02-E-JCG-02; Nelson, WP-02-E-SP-02, at 6. WPAG, PGP, and PNGC all argue that
21 since BPA does not have the power to meet its obligations to the public and IOU
22 customers, the DSI rate should be at the margin or a market rate. Saleba,
23 WP-02-E-WA-03; Piper, *et al.*, WP-02-E-PG/PN-01.

24 Q. Does BPA agree with these arguments?

25 A. No. BPA's Supplemental Proposal is limited to developing risk tools necessary to deal
26 with the combination of unanticipated increases in loads and purchase requirements with

1 higher and more uncertain market prices. While adjusting base rates is certainly an
2 option, BPA believes that such an approach would necessitate a comprehensive review
3 and amendment of the rate development process. Adopting one of these proposals would
4 require BPA to engage in a rate development process that it believes is unnecessary.
5 When this phase of the proceeding was initiated, BPA stated that it could effectively deal
6 with the problem through a redesign of the Cost Recovery Adjustment Clause (CRAC)
7 and corresponding adjustments to the Slice product. While there has been continued
8 deterioration in market conditions since the Amended Proposal, the Partial Settlement
9 demonstrates that BPA, as well as the settling parties, continue to believe that this
10 problem can be addressed without revisions to the base rates. BPA believes there is no
11 substantive reason to single out the IPTAC rate for such treatment and to do so would be
12 inappropriate.

13 **Section 4. Investor-Owned Utilities Settlement Benefits**

14 *Q. SUB and the DSIs each suggest that the benefits to the IOUs under the Settlement*
15 *Agreement greatly exceed the value of the benefits the IOUs would be entitled to receive*
16 *under the traditional Residential Exchange Agreements. Nelson, WP-02-E-SP-02;*
17 *Shoenbeck, et al., WP-02-E-DS/AL-01. Is it appropriate to raise the issue in this forum?*

18 *A. No. BPA conducted a separate public process that dealt with the Residential Exchange*
19 *Program (REP) and the Settlement Agreement. That process culminated in a ROD issued*
20 *last fall. This proceeding is only establishing rates to be used with the Subscription*
21 *Contracts. The issues raised by SUB and the DSIs related to the REP and the Settlement*
22 *Agreements are beyond the scope of this proceeding. Issues related to the Residential*
23 *Exchange Agreements and the Settlement Agreements should be addressed in the Ninth*
24 *Circuit.*

1 **Section 5. Scope of this Phase of the Rate Case**

2 *Q. Columbia River Inter-Tribal Fish Commission (CRITFC) and Northwest Energy*
3 *Coalition (NWECC) make arguments that suggest that BPA has exceeded the scope of the*
4 *Federal Register Notice (FRN) in part, through its decision to update the starting reserve*
5 *levels and starting reservoir levels as well as addressing issues related to multiple*
6 *Treasury deferrals in this Supplemental Proposal. Sheets, et al., WP-02-E-CR/YA-06;*
7 *Weiss, WP-02-E-NA/SA-03. Do you agree with this conclusion?*

8 *A.* No. The three issues raised by NWECC, as evidence that BPA has exceeded the scope of
9 the FRN, are completely within the scope of addressing the specific problem BPA set out
10 to solve with its proposal. Weiss, WP-02-E-NA/SA-03, at 4. BPA defined the problem
11 in this phase as one related to higher costs associated with the need to make greater
12 augmentation purchases in a higher and more volatile market resulting in an unacceptably
13 low TPP. To deal with this problem, BPA proposed a redesign of the CRAC. BPA
14 introduced the three component CRAC design to provide extra protection to Treasury
15 payments in the higher, more volatile market. The additional risk mitigation provided by
16 this tool clearly helps to address the very problem BPA identified. Had BPA not updated
17 the three inputs identified by Mr. Weiss, it would have been impossible to assess the
18 effectiveness of the Load-Based (LB) CRAC and Financial-Based (FB) CRAC to address
19 the problems posed by system augmentation.

20 BPA updated starting reserves as an update to a key modeling input, and this is an
21 update BPA has made at each stage of this rate case, as explained in the testimony of
22 Lefler, et al., WP-02-E-BPA-77. Similarly, starting reservoir levels were adjusted as an
23 update to starting conditions. BPA stated in its proposal that in the February timeframe
24 BPA would assess how the current water year is shaping up and would have a much
25 better idea whether modifications are necessary. Burns, et al., WP-02-E-BPA-62, at 17.
26 Starting reservoir levels have not needed updating previously. However, in this record

1 dry year it is a key component of the TPP calculation that was necessary to update based
2 on current knowledge. So none of these three issues are outside the scope of what BPA
3 set out to do as described in the FRN, nor are they outside the scope of the rate case as a
4 whole, as set out in the FRN.

5 **Section 6. Fish and Wildlife Funding Principles**

6 *Q. Both CRITFC and NWEC testified that BPA's Supplemental proposal fails to address the*
7 *risks associated with meeting its fish and wildlife obligation. Sheets, et al.,*
8 *WP-02-E-CR/YA-06; Weiss, WP-02-E-NA/SA-03. Does BPA agree with this conclusion?*

9 *A. No. As noted in testimony, BPA believes that this Supplemental Proposal meets its fish*
10 *and wildlife funding obligations. Burns, et al., WP-02-E-BPA-70 and Lefler, et al.,*
11 *WP-02-E-BPA-77. BPA has consistently maintained that the Fish and Wildlife Funding*
12 *Principles (Principles) cover a range of fish costs for rate setting purposes. The*
13 *Administrator further directed the hearings officer to exclude from the record evidence*
14 *regarding policy merits or wisdom of the Principles. 64 Fed. Reg. ¶44318, 44322 (1999).*
15 *CRITFC and NWEC contend, in spite of this, that BPA should incorporate the*
16 *2000 Biological Opinion into its Supplemental Proposal. Sheets, et al.,*
17 *WP-02-E-CR/YA-06, at 6; Weiss, WP-02-E-NA/SA-03, at 5, line 21, at 6, line 4.*
18 *Secondly, they contend that we have ignored the impacts of Clean Water Act obligations*
19 *on the Snake River as a result of a recent court decision. The rebuttal to the factual*
20 *contentions of these arguments is dealt with in the testimony of Lefler, et al.,*
21 *WP-02-E-BPA-77. However, the underlying implication of CRITFC and NWEC's*
22 *argument is that the Supplemental Proposal fails to meet the requirements of Principles*
23 *No. 3 and 4. BPA has repeatedly stated in its testimony that it fully intends to fulfill its*
24 *fish and wildlife funding obligations. Burns, et al., WP-02-E-BPA-70, at 8. The*
25 *testimony of Lefler, et al., WP-02-E-BPA-77, demonstrates that the Supplemental*
26 *Proposal meets BPA's obligations on these matters.*

1 Q. *CRITFC and NWEC state in testimony, that BPA should not conduct its risk analysis*
2 *based on the 13 Fish and Wildlife Alternatives, which they contend have no relation to*
3 *the 2000 Biological Opinion. Sheets, et al., WP-02-E-CR/YA-06; Weiss,*
4 *WP-02-E-NA/SA-03. How do you respond?*

5 A. The FRN BPA filed on August 13, 1999, to initiate this proceeding contained specific
6 directions to the Hearings Officer from the Administrator to “exclude from the record any
7 material attempted to be submitted or arguments attempted to be made in the hearing
8 which seek to in any way revisit the policy merits or wisdom of the strategy ... of the
9 Fish and Wildlife Funding Principles.” 64 Fed. Reg. ¶44318, 44322 (1999). “The
10 Principles specify that BPA will take into account the full range of potential fish and
11 wildlife costs as reflected in the 13 long-term alternatives for configuration of the
12 FCRPS, with each alternative assumed to be equally weighted.” *Id.* at 44321. The scope
13 of this proceeding as set forth in the August 1999 FRN was continued in this phase of the
14 proceeding. 65 Fed. Reg. ¶75272, 75275. CRITFC and NWEC’s arguments that seek to
15 limit or redefine how the Fish and Wildlife Alternatives are factored into BPA’s risk
16 analysis are outside the scope of this proceeding.

17 Q. *CRITFC and NWEC both point to recent declarations of emergencies as evidence of*
18 *BPA’s unwillingness to meet its obligation under the Endangered Species Act (ESA).*
19 *Sheets, et al., WP-02-E-CR/YA-06; Weiss, WP-02-E-NA/SA-03. How do you respond?*

20 A. BPA disagrees with the conclusion that the declaration of emergency somehow evidences
21 an unwillingness to fulfill its financial and operational obligations under the ESA.
22 Operations requirements are only a part of the Biological Opinions. Emergency
23 provisions are also included. BPA is complying with the emergency provisions of the
24 Biological Opinion. Therefore, BPA’s deviation from operational requirements is not a
25 violation of the Biological Opinion. Moreover, the determination that an emergency
26 situation exists is not a unilateral act by BPA. The determination is made in consultation

1 with the other Federal agencies. Therefore, BPA does not agree that the declaration of an
2 emergency somehow evidences an unwillingness to meet BPA's operational obligations,
3 either in the current fiscal year or in the future.

4 *Q. CRITFC contends that the declaration of an emergency is also evidence of an*
5 *inadequacy of BPA's 1996-2001 rate, and BPA's inability to meet its financial*
6 *obligations. Sheets, et al., WP-02-E-CR/YA-06, at 18. Do you agree?*

7 *A. No. First, BPA uses a probabilistic standard for assessing the adequacy of its rates.*
8 *Parties and Federal Energy Regulatory Commission have accepted this. Use of a*
9 *probabilistic standard implies that it is possible that extraordinary circumstances could*
10 *occur and create financial problems. Therefore, the fact that extraordinary circumstances*
11 *have occurred in Fiscal Year (FY) 2001 and caused financial problems does not show*
12 *that 2001 rates are inadequate.*

13 *Additionally, BPA is meeting its financial obligations. Early estimates of*
14 *4(h)(10)(C) and Fish Cost Contingency Fund credits earned by BPA indicate that they*
15 *should prove sufficient to cover most if not all of the FY 2001 payment to Treasury. (See*
16 *Lefler, et al., WP-02-E-BPA-77, for further discussion of this issue.) Moreover, the*
17 *Supplemental Proposal contains a number of provisions crafted specifically to preserve*
18 *BPA's ability to meet its financial obligations over the FY 2002–2006 rate period.*

19 *Q. CRITFC also contends that the declaration of the emergency is evidence of BPA's*
20 *inability to meet its financial obligations in the future. Sheets, et al.,*
21 *WP-02-E-CR/YA-06, at 18. Do you agree?*

22 *A. No. CRITFC and NWEC's argument ignores the significant modifications to the CRAC*
23 *design that deal with the type of financial circumstances that occurred this winter.*
24 *During the first year FB CRAC is left uncapped, so that BPA can collect additional*
25 *revenues in FY 2002 equal to the difference between FY 2001 ending reserves and*
26 *\$300 million. The LB CRAC, with its semi-annual true-ups, will allow BPA to adjust its*

1 rates for augmentation loads in order to track changes in the market price of electricity.
2 The Safety-Net (SN) CRAC will provide BPA with the ratemaking flexibility to revise
3 the key parameters on its FB CRAC when faced with the prospect of a deferral. While
4 BPA disagrees with CRITFC and NWECC's contention that the declaration of an
5 emergency this winter was based solely on BPA's financial circumstances, the modified
6 CRACs will put BPA in a position both to recover from the circumstances of this winter,
7 and to deal effectively with similar conditions should they arise in the next rate period.

8 *Q. CRITFC states that BPA should change its base rates. Sheets, et al.,*
9 *WP-02-E-CRYA-06, at 27, lines 6-8. Do you agree?*

10 *A.* No. BPA determined that it could address changes in circumstances by making changes
11 to its risk mitigation package. *See Burns, et al., WP-02-E-BPA-62, and*
12 *WP-02-E-BPA-62(E1).* BPA's Supplemental Proposal includes a robust and flexible,
13 three-component CRAC, which goes well beyond the risk mitigation in the May
14 Proposal. The central concept underlying a rate adjustment clause is that rate increases
15 are contingent upon circumstances. While there are many uncertainties that could result
16 in increased costs, rates are only increased under the CRAC mechanisms if and when the
17 costs materialize. Given the terms of the Supplemental Proposal, BPA's customers are
18 already certain to experience a large increase in rates. While the LB CRAC is limited to
19 augmentation loads and the FB CRAC's annual recovery amount is capped in all but the
20 first year of the rate period, the SN CRAC is not limited in terms of the amount of
21 additional revenues it can collect. The SN CRAC allows BPA to alter the threshold,
22 timing, and duration of the FB CRAC and, once it triggers, could potentially have the
23 same effect on BPA's reserves as an increase in base rates. The difference is that the rate
24 increase would not occur unless needed and it would occur only in the presence (or
25 expected occurrence) of a deferral. This proposal is sufficient to enable BPA to deal with
26 the risks it currently faces.

1 **Section 7. Contingent Contracts Subject to Load-Based, Financial-Based, and**
2 **Safety-Net Cost Recovery Adjustment Clauses**

3 *Q. CRITFC and the Yakama Nation testified that Yakama Power signed a Contingent*
4 *Contract with BPA that should be subject only to the CRAC contained in the May ROD.*
5 *Sheets, et al., WP-02-E-CR/YA-06. Does BPA agree with CRITFC and the Yakama*
6 *Nation?*

7 A. No. BPA does not believe that any contingent contact signatory should be exempt from
8 the application of the LB, FB, and SN CRAC.

9 *Q. Why does BPA reject the contention that the tribal utilities should be exempt from the*
10 *application of the LB, FB, and SN CRACs?*

11 A. BPA stated in the Subscription ROD that the rate directives do not allow for the type of
12 disparate treatment that CRITFC and the Yakama Nation argue for. *See* Subscription
13 ROD, at 22. Even if such treatment were legally sustainable, BPA believes that
14 implementing a policy that specifically exempts the tribal utilities from the application of
15 the redesigned CRACs will result in an unfair burden on BPA's other Subscription
16 Contract holders, including the Contingent Contracts.

17 *Q. Is Yakama Power alone as a Contingent Contract signatory who will be subject to the*
18 *proposed CRACs?*

19 A. No. There is another tribal utility being formed by the Cow Creek Tribe that signed a
20 Contingent Contract. In addition to the two tribal utilities, there are contingent contracts
21 signed by the City of Hermiston, City of Missoula, and Energy Northwest, Inc. (of
22 Montana).

23 *Q. What position, if any, have these non-tribal utilities taken in this rate proceeding with*
24 *regard to the application of the proposed CRACs?*

25 A. They have not voiced any opinion in this rate case regarding the application of the
26 proposed CRACs to their contracts.

1 Q. *Does BPA support the formation of tribal utilities?*

2 A. Yes, in the Subscription Strategy, BPA stated, that a Northwest Tribe that formed a
3 non-profit cooperative utility during the Subscription window would be eligible to
4 purchase its general requirements for service at the PF rate. However, as BPA noted in
5 the Subscription ROD, BPA could not offer power to the tribes at a rate below the cost of
6 the PF rate without violating BPA's Section 7 rate directives under the Pacific Northwest
7 Electric Power Planning and Conservation Act. *See* Subscription ROD, at 22-23. BPA
8 continues to support and encourage the formation of tribal utilities and will serve the
9 qualifying cooperatives or public utilities consistent with BPA's statutory obligations.

10 Q. *CRITFC and the Yakama Nation also contend that they are willing to pay for fish and*
11 *wildlife costs through the CRAC contained in the May ROD. Why does BPA believe*
12 *Yakama Power must pay the LB, FB, and SN CRAC instead?*

13 A. CRITFC and the Yakama Nation state that BPA assured them that the CRAC in the May
14 ROD was sufficient to recover BPA's fish and wildlife obligations. Based on this they
15 argue that they should be exempt from the adjustments associated with the LB, FB, and
16 SN CRAC. This argument is founded on the mistaken understanding that the purpose of
17 the CRAC in the May ROD was merely to recover BPA's fish and wildlife obligations.
18 The CRAC contained in the May ROD was not designed to deal only with BPA's fish
19 and wildlife obligations, but rather it was part of a total risk mitigation package intended
20 to deal with the entire scope of the risks BPA faces. *See* Lefler, *et al.*, WP-02-E-BPA-77
21 for discussion of fish and wildlife issues. In the May ROD, BPA's fish and wildlife
22 obligations were recovered through its base rates and the CRAC was designed to mitigate
23 the entire package of risks BPA faced. As noted in our direct testimony (Burns, *et al.*,
24 WP-02-E-BPA-62), since the May ROD, other cost recovery issues have arisen primarily
25 associated with higher than forecasted augmentation costs. These costs involve the need
26

1 to make power purchases to serve BPA's contractual obligations, which would include
2 the Yakama Power contract.

3 *Q. Would CRITFC and the Yakama Nation's proposal result in additional costs for service*
4 *for the Contingent Contracts to be placed on BPA's other customers?*

5 A. Yes it would. BPA does not calculate its additional augmentation obligation based on the
6 class or type of Subscription Contract. BPA views its augmentation obligation in the
7 aggregate and augments its system to serve all of its Subscription Contracts. If BPA
8 exempted the Contingent Contracts from the application of the LB, FB, or SN CRAC,
9 they would avoid a large portion of BPA's augmentation expense. This would result in
10 BPA's other Subscription customers paying a disproportionate share of this expense.

11 The implication of CRITFC and the Yakama Nation's argument is that they are
12 willing to pay for fish and wildlife costs through a CRAC, but are unwilling to pay for the
13 increased costs associated with augmenting the system to serve all of BPA's loads,
14 including service under the contract with Yakama Power. The LB CRAC, in particular,
15 is designed to ensure that BPA recovers the costs associated with augmenting the system.
16 If BPA were to sell energy to Yakama Power without the LB, FB, and SN CRAC, such
17 an action would not recover the costs associated with augmenting the system to serve that
18 load and would be inconsistent with the decision in the Subscription ROD that BPA
19 would not offer below cost power to the tribal utilities.

20 **Section 8. Other Policy Issues**

21 *Q. Industrial Customers of Northwest Utilities (ICNU) argues that BPA "needs to do its own*
22 *part to reduce the probability of missing a Treasury payment," and should follow an*
23 *aggressive course to lower its non-power cost. Wolverton, WP-02-E-IN-02, at 18,*
24 *lines 17-25. Do you agree?*

25 A. BPA will look at all reasonable measures including looking at lowering non-power costs
26 in order to avoid a Treasury deferral. However, this issue is beyond the scope of this rate

1 case. As stated in the FRN of August 13, 1999, the scope of this rate case excludes the
2 appropriateness or reasonableness of BPA's decisions on spending levels. Any
3 re-examination of spending levels would occur outside of the rate case. 64 Fed. Reg.
4 ¶44318, 44322 (1999). In the FRN, the Administrator determined that the Cost Review
5 and BPA's planned implementation of those recommendations had received significant
6 public comment and directed the hearings officer to exclude from the record any
7 evidence which addressed the appropriateness of BPA spending levels. While ICNU
8 does not challenge any specific expense item, it does call into question spending levels in
9 general. As such, this issue is beyond the scope of this proceeding.

10 *Q. ICNU also argues that the size of the LB CRAC should be reduced by the application of*
11 *secondary revenues to the LB CRAC calculation to keep the rate increase to a minimum*
12 *and lessen the impact on the regional economy. Wolverton, WP-02-E-IN-02. How do*
13 *you respond?*

14 *A. BPA is very concerned about the potential impact that increasing rates will have on the*
15 *regional economy and is looking at various options outside of the rate case to reduce its*
16 *augmentation obligation so that the rate increase in the first year will be as small as*
17 *possible. However, BPA is obligated to insure cost recovery and maintain a TPP within*
18 *the range of the guidelines of the Principles. ICNU's proposal to apply secondary*
19 *revenues to the LB CRAC calculation jeopardizes both cost recovery and the TPP*
20 *requirements. See Lefler, et al., WP-02-E-BPA-77. In addition, this proposal is not*
21 *consistent with the Partial Settlement Agreement.*

22 *Q. How will BPA handle conservation/augmentation costs included in the LB CRAC*
23 *calculation?*

24 *A. BPA may choose to expense or capitalize these expenses.*
25
26

1 *Q. If BPA decided to capitalize these expenses, how would the impact on the LB CRAC be*
2 *determined?*

3 A. The capitalization of conservation investments in the 1991 Revenue Requirement Study,
4 WP-91-FS-BPA-01, at 19, describes the issuance of conservation bonds and how BPA
5 bonds are sold to the Treasury with terms reflecting estimates of average service lives for
6 conservation capital investment. BPA repayment study tables show how conservation
7 investments are paid.

8 BPA's calculated revenue requirement would include annual conservation capital
9 expenses. "Based on these statutory and administrative requirements, BPA projects
10 interest expense and establishes a hierarchy of planned amortization payments by
11 determining the lowest levelized debt service stream necessary to repay all FCRPS
12 investments and obligations within the required time. The result of this process,
13 combined with the recovery of operating expenses expected to be incurred during the cost
14 evaluation period and planned net revenues, is a determination of the revenues that must
15 be recovered through rates over the cost evaluation period." See WP-91-FS-BPA-01,
16 at 20.

17 *Q. Are there other approaches that BPA will take to further reduce augmentation, thereby*
18 *reducing the rate increase during this 5-year rate period and lessening the impact on the*
19 *Northwest economy?*

20 A. Yes. BPA will implement a special pilot program designed to further increase electric
21 energy conservation.

22 *Q. Please explain.*

23 A. Under this pilot program, BPA will increase the Conservation and Renewables Discount
24 (C&R Discount) to any of its public utility customers that, through their retail rate
25 schedule, establish a retail rate design during the coming rate period to encourage greater
26 electric energy conservation and/or more efficient electricity usage and thereby reduce

1 load on BPA. Public customers with non-load following service will need to agree to
2 contract modifications that assure any load reductions from this program result in lower
3 load obligation on BPA. Qualifying retail rate designs might include: (1) an “increasing
4 block” rate structure, (2) a time-of-day rate structure, or (3) some other rate design
5 acceptable to BPA which provides an incentive structure that encourages electric energy
6 conservation, and/or more efficient electricity usage, and/or demand reductions by the
7 retail consumers of our utility customers.

8 *Q. How long will the pilot program be in effect, and how much will the C&R Discount be*
9 *increased?*

10 A. The remaining details of this pilot program are yet to be determined, and will be worked
11 out in collaboration with our utility customers.

12 *Q. Does this conclude your testimony?*

13 A. Yes.