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REBUTTAL TESTIMONY OF

WILLIAM J. DOUBLEDAY, LAWRENCE E. KITCHEN, BYRON G. KEEP, AND
ROBERT J. PETTY

Witnesses for Bonneville Power Administration

**SUBJECT: Rebuttal Testimony for Rate Case Market Price Forecast for
Investor-Owned Utilities' Residential Exchange Program Settlements**

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3 ROBERT J. PETTY

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6 **SUBJECT: REBUTTAL TESTIMONY FOR RATE CASE MARKET PRICE**
7 **FORECAST FOR INVESTOR-OWNED UTILITIES' RESIDENTIAL**
8 **EXCHANGE PROGRAM SETTLEMENTS**

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

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

11 A. My name is William J. Doubleday and my qualifications are contained in
12 WP-02-Q-BPA-17.

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

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

15 A. My name is Robert J. Petty and my qualifications are contained in WP-02-Q-BPA-58.

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

17 A. The purpose of this testimony is to respond to the rate case parties' direct testimony
18 regarding Bonneville Power Administration's (BPA) proposed 2002 power rate case
19 forward flat block market price forecast, which will be used in the calculation of the cash
20 component of the Residential Exchange Program (REP) settlements with regional
21 investor-owned utilities (IOUs). These REP settlements are described in greater detail in
22 BPA's "Power Subscription Strategy" and in the "Residential Exchange Program
23 Settlement Agreements With Pacific Northwest Investor-Owned Utilities,
24 Administrator's Record of Decision, October 2000" (REP Settlement ROD).

1 Q. *How is your testimony organized?*

2 A. This testimony is organized in two sections. Section 1 outlines the purpose of our
3 testimony. Section 2 responds to the rate case parties' arguments regarding BPA's rate
4 case market price forecast for the IOUs' REP settlements.

5 **Section 2. Rate Case Market Price Forecast for Investor-Owned Utilities' Residential**
6 **Exchange Program Settlements**

7 Q. *Please summarize the Springfield Utility Board's (SUB) testimony regarding BPA's*
8 *proposed change to its five-year market price forecast.*

9 A. SUB does not challenge the proposed \$38/megawatthour (MWh) forecast directly, but
10 argues that an analysis prepared by BPA comparing traditional REP benefits with
11 benefits the IOUs would receive under the REP Settlements shows that the REP value
12 compared to the settlement value was lower in all cases and, as the market price
13 increased, the difference between the value of the traditional REP and the settlement
14 increases. Nelson, WP-02-E-SP-02, at 9. SUB created a table showing the level of REP
15 settlement benefits using BPA's "No Cost Recovery Adjustment Clause (CRAC)" figures
16 and extrapolating REP values and market prices using a straight-line method. *Id.* at 10.
17 SUB argues that if market prices average \$98.10/MWh, the IOUs would receive
18 \$549 million more in benefits under the settlement compared to the benefits under the
19 traditional exchange and that BPA's proposed modification would increase this figure to
20 \$595.5 million. *Id.*

21 Q. *Please respond.*

22 A. With regard to the numbers used in its comparison, SUB's Attachment 2 does not reflect
23 the potential value of REP benefits during the rate period. SUB's citation to REP
24 benefits is based on BPA's rate case forecast of REP costs, but fails to note BPA's
25 recognition of the uncertainty related to BPA's forecast. There are many variables that
26 could substantially increase the value of the traditional REP. This issue is discussed at

1 great length in BPA's REP Settlement ROD. While SUB's use of a straight-line
2 extrapolation of REP values and market prices is simple to use, it is not necessarily
3 accurate.

4 While SUB correctly notes that the relative value of BPA's below-market power
5 increases as the difference between BPA's price and the market price increases, this is
6 true for all power sold by BPA, whether it is the approximately 5,800 average
7 megawatts (aMW) being sold to public body customers or the 1,000 aMW power portion
8 of the IOUs' REP settlements. To the extent that SUB is arguing that the REP
9 settlements with IOUs are unreasonable because of the possibility of increased benefits
10 under hypothetical rate scenarios, BPA's wholesale power rate cases do not establish
11 settlement agreements or determine the reasonableness of BPA's settlements, as
12 discussed in greater detail below.

13 *Q. Have any other parties addressed the effects of BPA's Supplemental Proposal on REP*
14 *settlement benefits?*

15 *A. Yes. The direct service industries (DSIs) note that BPA's Supplemental Proposal*
16 *contains two modifications to the manner in which the proposed monetary benefits are to*
17 *be calculated. Schoenbeck and Bliven, WP-02-E-DS-BPA-06, at 8. They note: (1) that*
18 *the price differential between the Residential Load (RL) rate and BPA's rate case market*
19 *price forecast has increased from \$8.36/MWh to \$18.26/MWh; and (2) that the load is*
20 *now eligible for the Dividend Distribution Credit (DDC). Id. The DSIs argue that the*
21 *increase in the market price forecast results in additional monetary benefits of*
22 *\$390.3 million. Id. The DSIs also argue that DDC eligibility, using a market price of*
23 *\$210/MWh, produces an expected value for the REP settlement of at least \$165 million.*
24 *Id. The DSIs argue that collectively the two modifications have increased the proposed*
25 *REP monetary benefits by about \$555.3 million and when coupled with benefits from*
26 *BPA's May Proposal, the REP monetary benefits alone total \$904 million. Id.*

1 Q. Please summarize the arguments of the DSIs.

2 A. The DSIs cite three reasons why the proposed modifications should not be adopted. The
3 first reason concerns the impact of increased settlement benefits on other rates. The DSIs
4 claim that the original settlement proposal offered benefits that exceeded the
5 approximately \$200 million in benefits provided over the prior five-year period. *Id.* at 9.
6 The DSIs argue that using BPA's current medium market prices, the net power benefit is
7 now about \$2.5 billion over the rate period and the monetary benefits are an additional
8 \$904 million, totaling \$3.4 billion, which is 17 times the prior five-year value of the REP.
9 *Id.* The DSIs argue that this increase in benefits cannot be justified in the face of the
10 corresponding rate increases it is causing for all other customers. *Id.*

11 Q. Do you agree with the DSIs' argument?

12 A. BPA agrees that, as a simple matter of mathematics, higher market prices increase the
13 value of the power portion of the REP settlement. As noted previously, however, the
14 increased value of BPA power is enjoyed by all of BPA's power customers, not simply
15 the IOUs. BPA also agrees that, as a simple matter of mathematics, an increase in the
16 rate case market forecast used for the calculation of monetary settlement benefits
17 increases those monetary benefits. The DSIs' central argument, however, is that the REP
18 settlements with the IOUs are not reasonable. BPA's wholesale power rate cases do not
19 establish settlement agreements or determine the reasonableness of BPA's settlements.
20 BPA conducted a separate public involvement process regarding the development and
21 offer of the REP settlements. *See* REP Settlement ROD. The DSIs were among the
22 parties commenting on the proposed settlements in that forum. After issuance of the
23 ROD, the REP settlements were executed by BPA and the IOUs in October 2000. BPA
24 will not determine the reasonableness of the REP settlements in this forum.

25 The REP Settlement ROD, as reflected in the settlement agreements, established
26 the benefits to be provided to the IOUs in exchange for terminating participation in the

1 REP. The settlements provide 1,000 aMW of power and 900 aMW of monetary benefits.
2 BPA's Supplemental Proposal has not changed the amount of power to be provided the
3 IOUs or the base rate at which power is sold under the settlements. BPA has proposed,
4 however, to revise its rate case market forecast used in the calculation of monetary
5 settlement benefits. This forecast, which must be developed to implement the
6 settlements, is proposed to be established at \$38/MWh. The issue is whether this forecast
7 is appropriate. This issue is addressed in BPA's Supplemental Proposal, *see* Doubleday,
8 *et al.*, WP-02-E-BPA-74, and in the testimony of the parties, *see, e.g.*, Brattebo, *et al.*,
9 WP-02-E-JCG-02, at 11-18. The claim that an increase in the forecast would increase the
10 IOU settlement benefits and increase the costs that must be recovered from BPA's rates
11 does not, in itself, show that this forecast is inappropriate.

12 *Q. What is the second reason that the DSIs oppose BPA's proposed modifications?*

13 A. The second reason the DSIs oppose BPA's proposed modifications is that in BPA's
14 Power Subscription Strategy Supplemental ROD, BPA stated that it considered
15 increasing the amount of monetary benefits from 800 aMW to 900 aMW only if it did not
16 cause the rates of the other parties to increase. *Id.* at 10. The DSIs argue that this is no
17 longer the case. *Id.* The DSIs argue that the additional 100 aMW is now valued at
18 \$80 million and the cost pressure will affect all power rates. *Id.*

19 *Q. Do you agree with the DSIs' argument?*

20 A. No. BPA initially proposed REP settlements with regional IOUs in its Power
21 Subscription Strategy. BPA later conducted another public involvement proceeding in
22 which it reviewed a number of proposed revisions to BPA's Power Subscription Strategy.
23 One of the issues reviewed in this forum was whether or not BPA should increase the
24 total benefits of the IOU settlements from 1,800 aMW to 1,900 aMW. There were a
25 number of conditions that were raised by BPA in considering the proposed increase.
26 These conditions included meeting BPA's goal not to increase the average PF rate over

1 present levels; not to reduce BPA's Treasury Payment Probability; not to require a
2 change in proposed sales to the DSIs; and not to impact BPA's ability to meet its fish and
3 wildlife commitments. *See* Power Subscription Strategy, Administrator's Supplemental
4 ROD, at 11. In its Power Subscription Strategy Supplemental ROD, BPA concluded that
5 it was appropriate to increase the total monetary benefit amount from 1,800 aMW to
6 1,900 aMW because the conditions surrounding the proposed increase were expected to
7 be met. In BPA's May Proposal, BPA also determined that its rate pledge of no average
8 PF rate increase would not be compromised by the additional 100 aMW. Contrary to the
9 DSIs' argument, however, there was no condition that the 100 aMW increase was
10 appropriate "only if it did not cause the rates of *the other parties* to increase."
11 Schoenbeck and Bliven, WP-02-E-DS-06, at 9 (emphasis added). In BPA's
12 Supplemental Proposal, the base rates from the May Proposal, including the PF rate,
13 remain unchanged. BPA is now relying on more robust rate mitigation tools to ensure an
14 appropriate Treasury Payment Probability. Therefore, the costs cited by the DSIs will not
15 affect BPA's base rates. Additional costs not contemplated in BPA's May Proposal will,
16 however, affect both the likelihood of triggering the various CRACs and the amount of
17 revenue the CRACs would recover.

18 In BPA's Power Subscription Strategy Supplemental ROD, BPA noted that it
19 would hold a subsequent public involvement process to receive comments regarding the
20 propriety of the proposed IOU settlements. *See* Power Subscription Strategy,
21 Administrator's Supplemental ROD, at 23. BPA also noted that this forum was where
22 parties could raise issues regarding the propriety of the settlement. These issues were
23 addressed in BPA's REP Settlement ROD. As noted above, BPA will not determine the
24 reasonableness of the REP settlements in this forum.

1 Q. *What is the third reason that the DSIs oppose BPA's proposed modifications?*

2 A. The DSIs argue that the REP settlement goes far beyond the outcome that would result
3 under the traditional REP. *Id.* at 10. The DSIs argue that the cost of BPA's resources is
4 about the same as, if not more than, that of the IOUs. *Id.* The DSIs argue that in
5 FY 2002 the PF rate is likely to be in the \$45/MWh range, more likely closer to
6 \$80/MWh. *Id.* The DSIs also argue that even absent a section 7(b)(2) trigger, there
7 would be little if any net exchange benefits because the cost of BPA's generation would
8 be very comparable to, if not higher than, the IOUs'. *Id.* The DSIs argue that the likely
9 REP benefits for the rate period are about \$350 million and BPA's proposed
10 modifications, which are valued at about \$554 million, should not be made. *Id.*

11 Q. *Do you agree with the DSIs' argument?*

12 A. Again, the DSIs' central argument is that the REP settlements with the IOUs are not
13 reasonable. BPA's wholesale power rate cases, however, do not establish settlement
14 agreements or determine the reasonableness of BPA's settlements. BPA conducted a
15 separate public involvement process regarding the development and offer of the REP
16 settlements. *See* REP Settlement ROD.

17 Second, with regard to the DSIs' argument that even absent a section 7(b)(2)
18 trigger, there would be little if any net exchange benefits because the cost of BPA's
19 generation would be comparable to the IOUs' generation, this basically argues that BPA
20 should recalculate the IOUs' average system cost (ASC) forecasts. This issue has been
21 implicitly addressed in BPA's policy testimony. BPA's policy testimony describes
22 BPA's approach to its Amended and Supplemental Proposals at length, concluding that
23 "BPA does not believe redoing all of the forecasts is the best policy choice to address
24 current market volatility." Burns, *et al.*, WP-02-E-BPA-62(E1). *See also* Burns, *et al.*,
25 WP-02-E-BPA-70. BPA also has described many reasons why it would be inappropriate
26 to rerun all of BPA's studies or to conduct a completely new rate case. *See* Ebberts,

1 *et al.*, WP-02-E-BPA-79. These reasons are also applicable here. Furthermore, the
2 determination of ASCs involves many factors that are unique to each IOU. Some IOUs
3 may be deficit, some may be surplus, etc. Insufficient information has been presented to
4 conclude that all IOUs' resource costs would be lower than BPA's resource costs.

5 In addition, the DSIs provide no support for their hypothetical estimates of the
6 possible level of the PF Exchange Program rate. The REP settlement was proposed to
7 resolve issues regarding the REP and to help spread the value of the federal hydro system
8 to residential and small farm consumers in the region. Even if the DSIs' calculations
9 were accepted, the greater value of the REP settlement is simply an indication of the
10 greater value of the federal hydro system in an era of high power market prices. As
11 stated above, the increased value of BPA power is enjoyed by all of BPA's power
12 customers.

13 *Q. Have any other parties addressed the effects of BPA's Supplemental Proposal on REP*
14 *settlement benefits?*

15 *A. Yes. The Joint Customer Group (JCG) supports BPA's proposal to use \$38/MWh as the*
16 *price forecast used in calculating financial benefits under the REP settlements. The JCG*
17 *argues, however, that there is no need for BPA to assume that the regional IOUs had*
18 *collectively made purchases of some or all of 900 aMW of power after December 1998,*
19 *for the five-year period starting on October 1, 2001. Brattebo, et al., WP-02-E-JCG-02,*
20 *at 16-18. The JCG argues that BPA should simply acknowledge that there is a broad*
21 *range of market forecasts in a volatile and changing market and that the \$38/MWh*
22 *amount arrived at in the Partial Settlement Agreement was selected by mutual agreement*
23 *among the Joint Customers and BPA. Id.*

24 *Q. Do you agree with the JCG's argument?*

25 *A. BPA staff, just like the JCG, support the adoption of \$38/MWh as the price forecast to be*
26 *used in calculating financial benefits under the REP settlements. See Doubleday, et al.,*

1 WP-02-E-BPA-74. While the JCG argues that there is no need for BPA to assume that
2 the regional IOUs had collectively made purchases of some or all of 900 aMW of power
3 after December 1998, for the five-year period starting on October 1, 2001, the IOUs have
4 filed substantive rebuttal testimony on this issue. *See Brattebo, et al., WP-02-E-JCG-02,*
5 *at 16-18.* The record therefore reflects both sides of this issue. Ultimately, however, this
6 decision is not made by BPA staff. The Administrator must determine the appropriate
7 rate case market forecast for the calculation of financial benefits under the REP
8 settlements and the rationale for the adoption of that forecast. Regardless of the manner
9 in which the Administrator adopts and justifies the forecast, however, BPA staff agree
10 with the JCG that there is currently a broad range of market forecasts in a volatile and
11 changing market and that \$38/MWh, which is reflected in the Partial Settlement
12 Agreement, represents a reasonable forecast to be used in the determination of financial
13 benefits under the REP settlements.

14 *Q. The JCG also argues that BPA's use of different market forecasts for different purposes*
15 *is, given the Partial Settlement Agreement, incorrect, inconsistent, and irrelevant. See*
16 *Brattebo, et al., WP-02-E-JCG-02, at 18. Do you agree?*

17 *A. BPA's reference to its use of different market forecasts for different purposes in its*
18 *supplemental direct testimony was not intended to establish a binding precedent*
19 *regarding the use of such forecasts for all future BPA rate development. BPA must*
20 *review the facts in each rate case and make determinations on such issues in each case.*

21 *Q. Does this conclude your testimony?*

22 *A. Yes.*