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TESTIMONY of

ANNICK E. CHALIER, JANICE A. JOHNSON, CRAIG R. LARSON,

ALEXANDER LENNOX, and PETER B. STIFFLER

Witnesses for Bonneville Power Administration

SUBJECT: POWER RATES STUDY TESTIMONY, PART II **Page**

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Section 1. Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Annick E. Chalier, and my qualifications are contained in BP-16-Q-BPA-08.

A. My name is Janice A. Johnson, and my qualifications are contained in BP-16-Q-BPA-19.

A. My name is Craig R. Larson, and my qualifications are contained in BP-16-Q-BPA-22.

A. My name is Alexander Lennox, and my qualifications are contained in BP-16-Q-BPA-23.

A. My name is Peter B. Stiffler, and my qualifications are contained in BP-16-Q-BPA-37.

Q. Please state the purpose of your testimony.

A. The purpose of this testimony is to explain and support changes to the treatment of the costs associated with the Portland General Electric (PGE) WNP-3 Exchange Settlement, and to clarify changes to the Slice True-Up section of the Power Rates Study (Study). *See* Power Rates Study, BP-16-E-BPA-01, §§ 3.1.6.5 and 7; and 2016 Power Rate Schedules, BP-16-E-BPA-09, PF-16, § 2.1.4. This testimony also sponsors these sections of the Study and PF rate schedule.

Section 2. Treatment of PGE WNP-3 Exchange Settlement

Section 2.1 Cost Allocation

Q. Are you proposing any changes to the treatment of the PGE WNP-3 Exchange Settlement in the Power Rates Study, BP-16-E-BPA-01?

A. Yes. We propose to allocate the cost associated with a settlement of the PGE WNP-3 Exchange contract to the Composite Cost Pool. Previously, this cost had been allocated to the Non-Slice Cost Pool.

Q. Please provide some context for this change.

A. In 1998, BPA and PGE entered into a settlement of a WNP-3 Exchange contract. PGE paid BPA $74 million to settle the contract. The funds from the settlement were deposited in the BPA Fund in 1998. Although all the funds were received in 1998, for accounting purposes, BPA is recognizing these revenues over the remaining life of the contract, starting in 1998 to the end of the original exchange contract in 2019. This results in $3.524 million per year of revenue. The annual recognition is considered a non-cash transaction because the cash was received with the signing of the settlement in 1998. These non-cash revenues are included as a cost item in the calculation of minimum required net revenues (MRNR) because they provide no cash.

Q. How did BPA treat the annual recognition of these funds in the BP-12 and BP-14 rate cases?

A. In the BP-12 and BP-14 rate cases, these non-cash revenues were assigned to the Non-Slice Cost Pool using the "accrual revenue" line in the cost table. *See* Power Rates Study Documentation, BP-12-FS-BPA-01A, Tables 2.3.1.4 and 2.5.1.1; and Power Rates Study Documentation, BP-14-FS-BPA-01A, Tables 2.3.1.4 and 2.5.1.

Q. Is this the appropriate allocation under the TRM?

A. No. We believe that the allocation of these non-cash revenues as a cost item to the Non-Slice Cost Pool was incorrect because it created an inequitable allocation between Non-Slice customers and Slice customers. Allocating these non-cash revenues to the Non-Slice Cost Pool created a mismatch between the customers who received the benefits of the PGE Settlement (both Slice and Non-Slice customers) and those who bore the financial implications of it in the calculation of MRNR (Non-Slice customers).

Q. Please explain why this mismatch occurred.

A. The annual recognition of the PGE Settlement is allocated as a $3.524 million revenue credit to the Composite Cost Pool, which benefits all Priority Firm customers. In addition, the original cash payment ($74 million) was included in the reserve balance used for the calculation of the Composite Cost Pool interest credit, which also benefits all power customers. *See* TRM, BP-12-A-03, § 2.5.

Using the accrual revenue line in the Non-Slice Cost Pool of the cost table to allocate the annual recognition of the PGE Settlement had an impact on MRNR in the Non-Slice Cost Pool; that is, allocating it in this fashion created a cash requirement for the Non-Slice Cost Pool. This resulted in a $3.524 million increase to the Non-Slice Cost Pool, which created an inequity because both Slice and Non-Slice customers received the benefit of the PGE Settlement (the annual revenue credit to the Composite Cost Pool), but only Non-Slice customers bore the cost (the non-cash requirement to the Non-Slice Cost Pool). The cash impact, in this case the non-cash effect of the PGE revenues, should be borne by the cost pool benefitting from these revenues, which would be the Composite Cost Pool.

Q. *Are there other equity issues created by treating the PGE WNP-3 Settlement as accrual revenues?*

A. Yes. An additional inequity is introduced through this method of allocating the PGE Settlement because it disrupts the balance between Federal repayment and cash flows. In the current BP-16 rate proposal, the Federal repayment is set to match the sum of the non-cash elements of the revenue requirement so that cash flow and MRNR are both zero. Lennox *et al.*, BP-16-E-BPA-13, at 8-9. To reach this balance, all non-cash elements of the revenue requirement must be included in the calculation of MRNR for the Composite Cost Pool.

Allocating the $3.524 million of the PGE Settlement to the Non-Slice Cost Pool also disrupts the balance between cash flow and MRNR because it isolates the annual recognition of the PGE Settlement only in the Non-Slice Cost Pool. Allocating it in this fashion creates positive MRNR for the Non-Slice Cost Pool, resulting in a positive cash flow of $3.524 million for the Composite Cost Pool. Because of this, Slice Customers contribute approximately 27 percent of $3.524 million to BPA reserves, but they do not receive the benefit of the interest earned on these reserves.

Q. *How do you propose to correct this for the upcoming rate period?*

A. We propose to add a new line to the cost table that allocates the non-cash revenues from the PGE Settlement to the Composite Cost Pool. *See* Power Rates Study Documentation, BP-16-E-BPA-01A, Table 2.3.1.5. By allocating the non-cash revenues from the PGE Settlement to the Composite Cost Pool, the balance between benefits and costs related to the PGE Settlement will be allocated equitably between Slice and Non-Slice customers.

Section 2.2. Correction for 2012–2015 Treatment

Q. Do you propose to make an adjustment to account for the inequitable allocation in the BP-12 and BP-14 rates related to the treatment of the PGE Settlement cost?

A. Yes.

Q. Why do you believe it is necessary to make this revision?

A. As explained in section 2.1 of this testimony, the prior treatment of the PGE Settlement in the BP-12 and BP-14 rate cases resulted in both Slice and Non-Slice customers receiving the benefit of the PGE Settlement (the annual revenue recognition credit to the Composite Cost Pool), but only Non-Slice customers bearing the cost (the non-cash requirement to the Non-Slice Cost Pool). To correct for this misalignment, we propose adjusting Slice customers' bills by the share of the costs that should have been allocated to them in the prior rate periods. While this misallocation occurred in two prior rate periods, we nevertheless believe that an adjustment should be made so that the allocation of the PGE Settlement costs conforms to the second cost allocation principle of the TRM: "Costs not otherwise expressly allocated in the TRM will be allocated to Cost Pools based on the principles of cost causation, meaning the costs will be allocated to the Cost Pool(s) that benefits from such costs." *See* TRM, BP-12-A-03, § 2.1.

Q. How do you propose to adjust for the prior misallocation of the PGE Settlement?

A. We propose to implement the Slice Billing Adjustment to address this issue.

Q. What is the Slice Billing Adjustment?

A. The Slice Billing Adjustment is a charge to the Slice customer's November 2015 bill to account for the prior misallocation. *See* 2016 Power Rate Schedules, BP-16-E-BPA-09, PF-16, § 2.1.4. The Slice Billing Adjustment is designed to recover the non-cash revenues cost associated with the PGE Settlement that was allocated entirely to the

Non-Slice Cost Pool in the BP-12 and BP-14 rate cases. This adjustment is based on the Slice customers' shares of the $3.524 million in each year and totals $3,876,953.

Q. How do you propose to compute the billing adjustment?

A. In each of the applicable fiscal years, FY 2012–2015, the $3.524 million is divided by the sum of all of the customers' Tier 1 Cost Allocators (TOCAs) for that year. The resulting dollar amount is then multiplied by the total Slice percentage in that year. This results in the annual total for the Slice Billing Adjustment to be charged to customers that were Slice customers in the prior periods. The adjustment for each individual Slice customer is calculated by applying the customer's Slice percentage to the annual total. The annual totals for the individual Slice Customers for each year of the two rate periods are then summed to produce a Slice Billing Adjustment that will be applied to the November 2015 bills. *See* Power Rates Study Documentation, BP-16-E-BPA-01A, Table 3.5.

Q. How do you propose to apply the FY 2015 sum of TOCAs given that the final FY 2015 TOCAs are not known at this time?

A. Because customers' final FY 2015 TOCAs are not known until FY 2015 is completed, we propose to use the BP-14 estimate of the FY 2015 TOCAs as a proxy.

Q. Why do you propose to apply this adjustment to the November 2015 bills?

A. For customers that are current Slice Customers, the November 2015 bills that are issued in December will also include the Slice True-Up for FY 2015. At this time we are forecasting a Slice True-Up credit and believe the customers may be best able to absorb the Slice Billing Adjustment in a month when they currently are forecast to receive an offsetting Slice True-Up credit.

Q. How will the revenue generated from this adjustment be recognized?

A. The Non-Slice Cost Pool will include a line item reflecting the revenues associated with this adjustment. *See* Power Rates Study Documentation, BP-16-E-BPA-01A, Table 2.5.6.2.

Section 3. Slice True-Up

Q. Do you propose to make any revisions to the Slice True-Up?

A. No; however, we are providing three clarifications to the Slice True-Up:
(1) remove references to unspent Green Energy Premium revenues;
(2) clarify the treatment of Generation Inputs revenue credits; and
(3) clarify the treatment of agreements between the U.S. and Canada.

Q. What are the specific clarifications for each item?

A. First, Green Energy Premium (GEP) revenues that carried over from FY 2011 were completely reinvested by the end of FY 2014. There are no longer any unspent GEP revenues to forecast as a contra expense and thus there is no longer a need to refer to them.

Second, we are clarifying the treatment of revenues from the deployment of Energy Imbalance, Generation Imbalance, and Operating Reserves. These revenues are forecast to be zero and are a subpart of the Generation Inputs revenue credit. Any resulting actual revenue from Generation Inputs is subject to the Composite Cost Pool True-Up. This does not represent a change to BPA's approach in implementing the True-Up. *See* Study § 7.2.12.

Finally, we updated Study section 7.2.15 to clarify the treatment of agreements between the U.S. and Canada regarding Libby Dam operations that result in credits and costs that are subject to the Composite Cost Pool True-Up. These are in addition to the

Non-Treaty Storage Agreement between BPA and BC Hydro. This additional language does not represent a change to BPA's approach in implementing the True-Up.

Q. Does this conclude your testimony?

A. Yes.