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TESTIMONY OF

DANIEL H. FISHER AND REBECCA E. FREDRICKSON

Witnesses for Bonneville Power Administration

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SUBJECT: POWER AND TRANSMISSION RATE POLICY

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SUBJECT: POWER AND TRANSMISSION RATE POLICY

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Daniel H. Fisher, and my qualifications are contained in BP-18-Q-BPA-08.

A. My name is Rebecca E. Fredrickson, and my qualifications are contained in BP-18-Q-BPA-09.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to address ratemaking issues that affect BPA as a whole, including both Power Services and Transmission Services. Although BPA's proposed Financial Reserves Policy applies to both power and transmission rates, it is addressed in separate testimony. *See* Harris *et al.,* BP-18-E-BPA-17.

Section 2 of our testimony discusses proposed error correction guidelines that apply to both power and transmission rates. Sections 3 through 6 of our testimony address policy issues specific to Power Services. Section 3 addresses the Initial Proposal's treatment of product switching; section 4 addresses customers' decisions to opt out of the Load Growth rate pool; section 5 addresses the planned reassessment of Transmission Scheduling Service and its implications for BP-18 rates; and section 6 addresses the direction to adjust the existing section 7(c)(2) typical margin for inflation.

Section 2: Error Correction Guidelines

Q. Please briefly describe the background of the proposed error correction guidelines.

A. During pre-rate case workshops, Snohomish PUD presented a straw proposal for a process to correct ratemaking errors identified in established rates. Snohomish's proposal was in response to BPA's treatment of two errors in the BP-16 rate case. Snohomish was concerned about the consistency and transparency of BPA's treatment of the errors in the BP-16 rate case and proposed that the agency establish a process for correcting future errors. Snohomish proposed that BPA should:

- Use pre-rate case workshops or another public process to establish criteria, scope, and a method by which BPA would take action to correct an error.
- Correct errors only in cases where cause of the error was clear and rooted in a technical mistake, miscalculation, or improper implementation of an established ratemaking procedure.

After receiving initial comments, Snohomish developed a revised proposal and requested comments on the revised proposal from BPA and its customers. Based on what it heard at the pre-rate case workshops, BPA Staff developed a response and shared it with customers. The Staff response was a preliminary list of guidelines for Staff to use when evaluating the proposed treatment of future errors. Staff committed to propose its guidelines in the BP-18 Initial Proposal.

In response to customer comments, Staff revised its preliminary guidelines and shared them with customers. The revised guidelines formed the basis of the guidelines included in this Initial Proposal.

Q. What are the proposed error correction guidelines?

A. Our proposal has six guidelines for Staff to consider when addressing the correction of errors. The first two guidelines address the kinds of errors that would qualify for possible correction; guidelines 3 through 5 address the nature of an adjustment; and the sixth guideline establishes the administrative forum in which a correction would be established. The six guidelines are:

1. **Qualifying Type**: Corrections would apply to ministerial cost allocation and calculation errors but not forecast errors. A ministerial error means an error in addition, subtraction, or other arithmetic function; a clerical error resulting from inaccurate copying, duplication, or the like; and any other similar type of unintentional error.
2. **Qualifying Size**: Errors should exceed an annual average aggregate effect of $5 million per year for the applicable Rate Period to be eligible for "backward correction" (making a prospective adjustment to rates to correct an error occurring prior to the next general rate case). For cost allocation errors, Staff would add the absolute values of the increased and decreased allocations. For example, an error that over-allocated $3 million to rate class A and under-allocated $3 million to rate class B in each year of the rate period would be eligible for correction because the sum of the absolute values is $6 million per year.
3. **Applied Generally**: Adjustments to the proposed rates would be rate class specific (*e.g.,* (1) Slice and Non-Slice or (2) NT, PTP and Southern Intertie) and not customer-specific.
4. **Limited Applicability**: Backward correction would be limited to one Rate Period (*e.g.,* backward correction to BP-18 rates would be limited to the financial impacts of the error on BP-16 rates, regardless of whether the error had existed in rates prior to the BP-16 rate period).
5. **Exceptions**: Extenuating circumstances should be considered in the application of these guidelines, because the specific circumstances of a particular error may provide compelling reasons to propose an exception to certain guidelines (*e.g.,* the size

threshold identified in Guideline 2 may not be reasonable in situations where an error causes a disproportionate impact on small customers).

6. **Implementation**: Errors would be corrected prospectively in the next general rate case.

Q. What is the rationale for adopting the proposed guidelines?

A. Generally, the proposed guidelines represent a balancing of the stakeholder perspectives that were shared with us at the pre-rate case workshops and through written comments. Some stakeholders wanted certainty, while others wanted to maintain BPA's flexibility. The support for certainty came in the form of two opposing perspectives, with some stakeholders in favor of a rule that would prevent all backward corrections, and other stakeholders in favor of rules that would require backward corrections. Support for maintaining flexibility, essentially evaluating each error on a case-by-case basis, stems from concerns with trying to pre-define a treatment when the specific circumstances of each error may be very different and those differences may warrant disparate treatment.

Q. How do your guidelines balance these two competing perspectives on certainty?

A. Guideline 1 supports the avoidance of backward corrections by limiting such corrections to errors of a qualifying type. Guideline 4 supports this perspective by limiting backward corrections to one rate period. In addition, Guideline 6 provides certainty to the then-posted rates, as any proposed backward correction would impact future rates and not FERC-approved rates. Guideline 2 balances both perspectives by establishing conditions under which Staff would propose, or not propose, backward corrections.

Q. How do the guidelines address the desire for flexibility?

A. First, the adoption of guidelines, rather than formal rules, supports flexibility, *i.e.,* maintaining the Administrator's discretion. Second, Guideline 5 supports flexibility by providing exceptions to the strict application of the guidelines. We struggled, as did most of the customers in the rate case workshops, with trying to design guidelines that would work in all potential future situations.

Q. Was it difficult to develop the proposed guidelines?

A. Yes. One of the more challenging tasks in developing the guidelines was defining the type of error to address. Another challenge was addressing the possibility that the treatment of an error, whether backward corrected or not, could have a disproportionate impact on small customers. Although the treatment of some errors could have a disproportionate impact on small customers, a guideline with an individual customer criterion would be too administratively burdensome to implement. Thus, in response to all possible circumstances that might require an exception to the guidelines, we preserved Staff's ability to consider exceptions to the guidelines and maintained the Administrator's discretion to review errors on a case-by-case basis.

Q. Please describe the rationale for your proposal to correct errors prospectively in the next general rate case (Guideline 6).

A. Snohomish's proposal included a provision that would automatically trigger an "abbreviated" rate case process under section 7(i) of the Northwest Power Act to fix certain errors. We were concerned about this provision, as were several other stakeholders. The rate case process is time-consuming and costly for all stakeholders, even in an abbreviated form. BPA currently sets rates every two years, which is quite frequent given that a section 7(i) process takes nine months to conclude. Furthermore, the nine months does not include the time required to conduct pre-rate case workshops and draft the Initial Proposal. Thus, we believe waiting until the next general rate case to address errors that fall within the guidelines would be a more efficient and less expensive use of resources.

Q. What is the purpose of Guideline 3?

A. Guideline 3, which applies corrections generally, has two purposes. The first purpose is simplicity, which is achieved by applying corrections to customer classes, as opposed to individual customers. Customer-specific error correction can quickly become unreasonable or unduly burdensome to implement, for example, trying to account for differences in customer base and customer choice for over a hundred customers between two rate periods. The second purpose is to complement the implementation of Guideline 6. Guideline 3 complements Guideline 6 because it supports the adjustment of future rates and not past rates. The establishment of prospective rates would avoid recalculating and rebilling past rates, which would require a customer-specific approach.

Q. Do you have any additional comments on the proposed guidelines?

A. Yes. The backward correction element of the guidelines would allow BPA to achieve the same result it could accomplish prospectively in an expedited rate case but with less cost and time to all parties. In other words, absent the guidelines, if BPA identified an error, it could hold a special expedited section 7(i) process to prospectively correct the error. The guidelines achieve a similar result. Under the guidelines, the correction of an error that meets the qualification criteria would be addressed in the next general rate case, and the backward correction would adjust for the error just as effectively (or more effectively) than if BPA were to have immediately begun a special section 7(i) process. Thus, BPA can correct errors in a number of ways, but the guidelines allow BPA to do so without the time and expense of special rate hearings. This is especially true if more than one error was identified and separate corrective rate hearings had been conducted.

Q. Have the guidelines been used in the Initial Proposal?

A. Yes. BPA identified an error related to the prior treatment of Federal generation at Lost Creek and Green Springs. Staff used the guidelines to determine the proposed error treatment. A full description and application is described in Stiffler *et al.,* BP-18-E-BPA-22, section 3.3.

Section 3: Product Switching

Q. What is product switching?

A. The Regional Dialogue Power Sales contracts provide customers a one-time right to change their power purchase obligation, *i.e.,* switch from the customer's current power product to another power product choice. The notification date for requesting a change was May 31, 2016, with the conversion effective October 1, 2019. Four customers—Pend Oreille County PUD, Klickitat PUD, Seattle City Light, and Okanagan PUD—chose to exercise their contractual right to request a change. Of the four customers, three requested an early conversion date: Pend Oreille County PUD requested a conversion date of October 1, 2013, and Klickitat PUD and Seattle City Light requested a conversion date coincident with the beginning of the BP-18 rate period, October 1, 2017. After considering customer comments in two separate comment periods, one for Pend Oreille County PUD's request in March of 2013 and another for Klickitat PUD and Seattle City Light's requests in July of 2016, BPA granted all three early conversion requests.

Q. How does the decision to allow two customers to switch power products beginning October 2017 affect the proposed BP-18 rates?

A. The Regional Dialogue Power Sales contract, section 11.1.3, states that a customer may be subject to certain charges, in addition to rates for the new service, as a result of changing its purchase obligation. The Regional Dialogue Policy Implementation Documents may be found at https://www.bpa.gov/power/pl/regionaldialogue/implementation/documents/ The additional charges were intended to recover costs of the product switching that would otherwise result in a rate impact on all other customers receiving service under a

CHWM contract. The contract requires that BPA determine and present the customer with any additional charges by September 30, 2016.

In a decision letter dated August 25, 2016, BPA identified a possible cost shift due to the timing peculiarities caused by Regional Cooperation Debt (RCD) actions. The letter may be viewed at https://www.bpa.gov/power/pl/regionaldialogue/implementation/documents/docs/2016-08-25_EarlyProductChangeLetter_Final.pdf.

Staff has proposed a rate mechanism, the Product Conversion Charge, to ensure that a cost shift does not occur. Power Rate Schedules and General Rate Schedule Provisions, BP-18-E-BPA-10, Appendix B; *see also* Stiffler *et al.*, BP-18-E-BPA-22, § 3.4. This customer-specific adjustment would apply to only Klickitat PUD and Seattle City Light, because Pend Oreille County PUD's change in power product occurred before the RCD actions that created this timing issue. The August 25, 2016, letter also noted the potential for cost shifts that may result from the forward-looking treatment of errors that occurred prior to the BP-18 rate period. BPA Staff is proposing not to prospectively adjust BP-18 rates to compensate for any past rate error occurring prior to the utilities' requests, and therefore proposes no error correction adjustments for Klickitat PUD and Seattle City Light. *See* Stiffler *et al.,* BP-18-E-BPA-22, § 3.3.

Q. Does the Initial Proposal include Klickitat PUD's and Seattle City Light's new product choices?

A. No. Due to the timing of the decision to allow Klickitat PUD and Seattle City Light to switch products early, the Initial Proposal does not reflect Klickitat PUD's and Seattle City Light's new product choices. BPA will include each customer's new product choice, Load Following for Klickitat PUD and Block Only for Seattle City Light, in the BP-18 Final Proposal. The August 25, 2016, early product change close-out letter stated that the conversion would neither impose undue added financial risks on BPA nor create undue costs shifts to other customers. Thus, we expect inclusion of the new product choices to have a very limited impact on BPA's Final Proposal for power rates.

Q. Are there any expected cost shifts due to Okanogan PUD's request to change products effective October 1, 2019?

A. We do not expect a cost shift to occur during the rate period as a result of Okanogan PUD's request to change its power product as of October 1, 2019.

Section 4: Load Growth Opt-Out

Q. Please explain what is meant by "opt-out" regarding the Load Growth rate.

A. In response to Regional Dialogue contract customer requests, BPA decided to allow Load Following customers a one-time option to terminate ("opt out of") their existing election to serve their Above-Rate Period High Water Mark (RHWM) Loads at the Priority Firm Tier 2 Load Growth rate. Customers choosing to terminate this election were required to provide notice to BPA by September 30, 2016, and make a new election for their Above-RHWM Load service that would be effective at the beginning of the third Purchase Period (FY 2020).

Q. Does the opt-out affect the proposed BP-18 rates?

A. The opt-out election has no effect on the proposed BP-18 rates. However, in order to more expeditiously resolve this issue, BPA committed to customers that it would address the issue of potential cost shifts that could result from such an opt-out in the BP-18 rate case.

Q. Have you identified any cost shifts that result from a customer's decision to opt out of the Tier 2 Load Growth rate?

A. No. BPA has not made any power purchases to serve customers taking service at the Load Growth rate for the third Purchase Period that begins in FY 2020. If BPA needs to purchase power to serve Load Growth customers, it will have already identified the customers that have opted out and therefore know how much power it needs to purchase for those customers remaining in the Load Growth rate pool. Because the change to the cost pool would precede any purchases for the pool, no cost shifts would be created by this one-time opt-out of the Tier 2 Load Growth rate pool. Therefore, no additional charges will be assessed for the customers that chose to exercise the option to terminate their Tier 2 Load Growth rate election.

Section 5: Transmission Scheduling Service

Q. What policy direction did you provide Staff with regard to setting rates for Power Services' Transmission Scheduling Service (TSS)?

A. We directed Staff to continue to apply the cost per transaction that was calculated in the BP-16 rate case. We also directed Staff to reduce the transaction assumption (from three daily transactions to one daily transaction) used to set the TSS Charge cap on Unspecified Resources serving Above-RHWM Load.

Q. Why did you direct Staff to use the cost per transaction that was calculated in the BP-16 Final Proposal?

A. Our direction was the result of a combination of issues related to TSS. First, it is time to revisit the design and pricing of TSS, given recent discussions with customers purchasing TSS. We have committed to revisit the design and pricing of TSS for the BP-20 rate period; this timing aligns with the third Purchase Period under CHWM Contracts. Consistent with this commitment, we are reluctant to make significant changes in the BP-18 rates. However, despite our intent, Staff discovered that updating the BP-16 method with BP-18 data caused the cost per transaction to roughly double. This doubling was the outcome of a scheduling practice change and not a result of BPA's total costs of scheduling doubling. The combination of the unintended doubling of the charge with the timing of our commitment to revisit the design and pricing in the BP-20 rate case led us to direct Staff to use the TSS cost per transaction as calculated in the BP-16 Final Proposal. The pricing of TSS consists of a mills/kWh rate until a monthly cap is reached. This direction impacts only the monthly cap and not the mills/kWh rate, which will be updated with BP-18 data as usual.

Q. Why did the calculation using updated data result in a doubling of the cost per transaction?

A. In recent years counterparties have changed their scheduling request preferences. Large schedules that previously would have been broken into smaller schedules for tagging now are not being subdivided. As a result, this change in scheduling practice has roughly halved the number of transactions used for purposes of calculating the cost per transaction used to set the TSS charge cap.

Q. What is the effect of not updating the current BP-16 TSS cost per transaction?

A. The forecast TSS revenue is reduced by less than $40,000 annually.

Q. What other direction did you give to Staff regarding the TSS Charge?

A. We directed Staff to reduce the transaction assumption used to set the cap on Unspecified Resources serving Above-RHWM Load from three daily transactions to one daily transaction. This direction partially revisits a decision made for the BP-16 rate period. In the BP-16 rates, BPA increased the transaction assumption (from one to three) used for all Unspecified Resources, including those serving Above-RHWM Load and those serving New Large Single Loads (NLSL). The main reason was that the cap was transaction-based and an Unspecified Resource could consist of multiple daily transactions (unlike a Specified Resource, which would consist of a single daily transaction).

However, all transactions may not be the same, with some causing more work than others. Namely, transactions that are known a year in advance are likely less costly to administer (*e.g.*, Unspecified Resources serving Above-RHWM Load) than transactions that change each and every day (*e.g.*, Unspecified Resources serving NLSLs).

In addition, ballooning Unspecified Resource Amounts for some customers shed a new light on this argument for the BP-18 rate period. Absent some sort of change in policy, design or pricing, one particular customer was forecast to pay roughly $75,000 a year for TSS. The size of this charge implies that BPA is dedicating a significant portion of an employee's time to manage just this customer's TSS. This did not seem realistic given the current design of TSS, which requires the customer to provide all the information needed to create the e-Tag from the resource to the edge of the BPA balancing authority area. Therefore, in response, we directed Staff to cap the TSS charge for Unspecified Resource Amounts serving Above-RHWM Load assuming one daily transaction. Our reasoning is that these resource amounts often consist of a single flat schedule made at the beginning of the year for all hours of the upcoming Rate Period. Thus, they do not likely require the time or attention of Power Services' scheduling department as do Unspecified Resource Amounts serving NLSLs.

Q. What impact will the change to the TSS cap for Unspecified Resource Amounts serving Above-RHWM Load have on forecasted revenue?

A. This direction is expected to reduce the annual TSS revenue forecast by less than $25,000 annually.

Q. Is the total impact of both of these TSS-related directions additive?

A. Yes. In total, our TSS direction to Staff reduced the forecast of TSS revenue by roughly $65,000 annually.

Q. Has BPA determined how it might treat TSS in the BP-20 rate case?

A. While we have made a commitment to reevaluate the TSS design and pricing for the BP-20 rate case, the conclusion of that reevaluation is wide open. That means that in working with customers, we may conclude that TSS should not change at all or that it should be changed significantly. The pricing consequences of that conclusion, regardless of where it ultimately lands, will be an issue for the BP-20 rate case.

Section 6: Industrial Firm Power (IP) Rate and the Typical Industrial Margin

Q. What direction did you provide Staff about the IP rate?

A. During preparations for the BP-18 rate case, Staff asked whether an industrial margin survey should be conducted, in which BPA obtains information from publicly owned utilities regarding the costs and rates they charge their industrial consumers. This information is used to develop the typical margin included in the IP rate pursuant to section 7(c) of the Northwest Power Act. The survey is conducted through the Public Power Council, which collects the needed information from applicable utilities and redacts the names of utilities to produce an anonymous survey. *See* Power Rates Study, BP-18-E-BPA-01, Appendix A. After consultation with Staff, we decided that the likelihood that a new survey would materially change the typical margin was low and not significant enough to undertake a new survey at this time. Therefore, we directed Staff to use the information from the survey conducted in 2011 and originally presented in the BP-12 rate case. Furthermore, we directed Staff to escalate the current typical margin for inflation for use in the BP-18 Initial Proposal.

Q. Was similar direction given to Staff in past rate periods?

A. Yes. This treatment follows the direction given to Staff in the BP-14 and BP-16 rate cases. In addition to the support provided by past analysis and the resulting direction, we note that forecast DSI loads have continued to decline. The forecast IP loads in the BP-14 and BP-16 Final Proposals were 312 aMW and 91 aMW, respectively, and in the BP-18 Initial Proposal, the forecast IP load is 74 aMW. We believe the financial impact of conducting a refreshed industrial margin study should be weighed against the cost of conducting the survey and the magnitude of the anticipated margin of error implied by escalating the previous survey value at the rate of inflation. A new study with an updated survey would require collecting information from approximately 30 utilities and would be administratively burdensome to both PPC and BPA. Given the significantly reduced DSI load, any revenues generated by the industrial margin would be quite small, so a less burdensome method of adjusting for inflation is reasonable from an administrative standpoint.

Q. Why does BPA propose to apply inflation to the 2012 Margin Study Typical Industrial Margin value in this proceeding?

A. The basis for application of inflation remains the same as in the BP-14 and BP-16 rate cases: there is no reason to believe utility general and administrative costs are immune to inflationary forces, and recovery of general cost increases included in rates is consistent with standard ratemaking practices. *See* BP-14 Administrator's Final Record of Decision, BP-14-A-03, at 53. Moreover, data collected for the BP-14 Record of Decision have shown that results from conducting a survey, compared to applying inflation to previous margin studies, track one another closely. *Id*. at 54. We therefore directed Staff to apply inflation, as measured by the GDP Implicit Price Deflator, to the BP-12 typical margin.

Q. How much does the inflation adjustment impact the industrial margin relative to the margin used to set IP rates in the BP-16 rate case?

A. The industrial margin will increase by 0.015 mills/kWh. All else equal, this translates to an increase of roughly $9,500 per year in IP revenue recovery.

Q. Does this conclude your testimony?

A. Yes.