

INDEX

TESTIMONY of

DANIEL H. FISHER, JANICE A. JOHNSON,
CRAIG R. LARSON, and TIMOTHY C. ROBERTS

Witnesses for Bonneville Power Administration

SUBJECT: SLICE TRUE-UP ADJUSTMENT ISSUES

	Page
Section 1: Introduction and Purpose of Testimony.....	1
Section 2: Treatment of Certain Expenses, Revenue Credits, and Adjustments in the Composite Cost Pool True-Up.....	1
Section 2.1: Unspent Green Energy Premium (GEP) Revenues (Study section 7.2.5)	2
Section 2.2: Interest Earned on the Bonneville Fund (Study section 7.2.6)	3
Section 2.3: Residential Exchange Program (REP) Expense and Expense Reduction for Refund Amounts (Study section 7.2.13).....	6
Section 2.4: New Resource (NR) revenue credit	7
Section 2.5: Non-Treaty Storage Agreement (NTSA) Treatment of Annual Financial Settlements	7
Section 2.6: Acquisition Costs of <i>inc</i> Balancing Reserve Capacity	9

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8 **SUBJECT: SLICE TRUE-UP ADJUSTMENT ISSUES**

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

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

11 A. My name is Daniel H. Fisher, and my qualifications are contained in BP-14-Q-BPA-19.

12 A. My name is Janice A. Johnson, and my qualifications are contained in BP-14-Q-BPA-30.

13 A. My name is Craig R. Larson, and my qualifications are contained in BP-14-Q-BPA-68.

14 A. My name is Timothy C. Roberts, and my qualifications are contained in BP-14-Q-
15 BPA-53.

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

17 A. The purpose of this testimony is to sponsor section 7 of the Power Rates Study (Study),
18 BP-14-E-BPA-01, and the Power General Rate Schedule Provision II.W, BP-14-E-
19 BPA-09, related to the Slice True-Up Adjustment for fiscal years (FY) 2014 and 2015.

20 *Q. Did you make any changes in the methodology for the calculation of the annual Slice
21 True-Up Adjustment for the Composite cost pool?*

22 A. No. We propose to use the same methodology as described in the BP-12 Final Proposal.
23

24 **Section 2: Treatment of Certain Expenses, Revenue Credits, and Adjustments in the
25 Composite Cost Pool True-Up**

26 *Q. What Slice True-Up issues were raised in the BP-12 case?*

27 A. In BP-12, parties raised the following issues:

28 (1) the treatment of System Augmentation Expense,

29 (2) the balancing augmentation adjustment,

- 1 (3) the firm surplus and the secondary adjustment from unused RHW, M,
- 2 (4) DSI revenue credit,
- 3 (5) bad debt expenses,
- 4 (6) settlement or judgment amounts,
- 5 (7) transmission costs for Designated BPA System Obligations,
- 6 (8) the transmission loss adjustments,
- 7 (9) the RSS credit, and
- 8 (10) the Tier 2 rate adjustment.

9 *Q. In BP-14 are you proposing to make any changes in these areas?*

10 A. No. We are not proposing any changes from the BP-12 Final Proposal with any of these
11 areas. The treatment of each of these is described in detail in the Power Rates Study
12 sections 7.2.2 (balancing augmentation adjustment), 7.2.3 (firm surplus and the
13 secondary adjustment from unused RHW, M), 7.2.4 (DSI revenue credit), 7.2.7 (bad debt
14 expenses), 7.2.8 (settlement or judgment amounts), 7.2.9 (transmission costs for
15 Designated BPA System Obligations), 7.2.10 (transmission loss adjustments),
16 7.2.11 (RSS credit), and 7.2.12 (Tier 2 Rate Adjustments).

17
18 **Section 2.1: Unspent Green Energy Premium (GEP) Revenues (Study Section 7.2.5)**

19 *Q. Are there any changes in the Composite Cost Pool True-Up for unspent GEP revenues*
20 *remaining at the end of FY 2013?*

21 A. Yes. We do not expect there will be a remaining unspent GEP revenue balance at the end
22 of FY 2013. However, it is possible that there will be an unspent GEP revenue balance if
23 there is a delay in incurring the expected expenses.

24 *Q. Is there a contra-expense included in the Composite cost pool for FY 2014–2015?*

25 A. No. There is no contra-expense in the Composite cost pool because the forecast for the
26 remaining balance of unspent GEP revenues is zero. However, if there is an unspent

1 GEP revenue balance, the a contra-expense will be added to the revenue requirement.

2 See Homenick *et al.*, BP-14-E-BPA-13, section 5.

3 *Q. If there is a remaining balance of unspent GEP revenues in FY 2013 prior to the*
4 *completion of the Final Proposal, what will the treatment be?*

5 *A. If it appears that the GEP revenues will not be fully expended by the end of FY 2013, the*
6 *remainder of the balance will be applied to offset FY 2014–2015 costs in a manner*
7 *similar to that described in the BP-12 Final ROD, BP-12-A-02, at 373. The Slice*
8 *True-Up treatment in FY 2014–2015 would continue as in FY 2012–2013.*

9
10 **Section 2.2: Interest Earned on the Bonneville Fund (Study Section 7.2.6)**

11 *Q. Have any circumstances occurred that necessitate making adjustments to the base*
12 *amount of financial reserves attributed to the Power function as of October 1, 2001 for*
13 *purposes of calculating the interest earned as described in section 7.2.6 of the Power*
14 *Rates Study?*

15 *A. Yes. Table 4 in the Power Rates Study displays the circumstances and the related*
16 *adjustments to the size of the base amount (\$495.6 million, see TRM section 2.5). The*
17 *amounts contained in Table 4 have not been shared with or collected from Slice*
18 *customers through a prior Slice True-Up, so those amounts will be adjustments to the*
19 *base amount of financial reserves. The payments or funds that BPA receives are*
20 *reflected as negative amounts in Table 4 and increase the size of the base amount of*
21 *financial reserves. If BPA makes payments for settlements or judgments, then those*
22 *amounts will be reflected as positive amounts in Table 4 and will decrease the size of the*
23 *base amount of financial reserves.*

1 *Q. Have there been any changes to the types of payment adjustments that are made to the*
2 *base amount?*

3 A. Yes. We propose changing the treatment of BPA's write-off of bad debt expense, as it is
4 not a valid payment adjustment. In the BP-12 Power Rates Study, BP-12-FS-BPA-01,
5 Table 4, \$39,274.42 of bad debt expense was included in the adjustments to the base
6 amount. In retrospect, we believe this adjustment was in error. We have reversed this
7 amount from the base amount adjustment used in the Initial Proposal.

8 *Q. Why isn't BPA's write-off of bad debt expense a valid payment adjustment?*

9 A. BPA's write-off of bad debt expense is not a cash payment made by BPA to another
10 party. While section 2.5 of the TRM does not specifically use the term "cash," it does
11 say "receive funds," "make or receive payments," and "shared with Slice customers."
12 We believe that the TRM was limiting the base amount adjustment to cash receipts and
13 cash payments. Furthermore, write-offs of bad debts cannot be "shared with Slice
14 customers." The base amount was established on the amount of cash BPA held on
15 September 30, 2001. Adjustments to the base amount should be cash amounts.

16 *Q. What is the total amount of the adjustment and the resulting size of the base amount on*
17 *which an interest credit is calculated for ratemaking purposes to be credited to the*
18 *Composite cost pool?*

19 A. As displayed in Table 4 of the Study, the total amount of the adjustment is a negative
20 \$74,655,047.39, and the resulting size of the base amount is \$570.3 million
21 (\$495,600,000 + \$74,655,047 = \$570,255,047). As explained previously, a negative
22 amount will increase the size of the base amount of financial reserves. Study,
23 section 7.2.6 and Table 4.

1 Q. *In determining that the base amount should be adjusted, is BPA also deciding that Slice*
2 *customers should receive a proportional share of the funds?*

3 A. No. The majority of the funds associated with the adjustment (\$73.8 million) involves
4 payment of the principal amount of a previously unpaid receivable for sales into the
5 California Independent System Operator and California Power Exchange during the
6 energy crisis (2000-2001). Because of the uncertainty surrounding ongoing litigation
7 related to California energy crisis, the Administrator has determined to hold these funds
8 in reserve until such time as the other litigation is resolved. After the other litigation is
9 resolved, BPA will decide the Slice treatment of this payment and any future offsets to
10 this payment. Until that date, both Slice customer and non-Slice customers receive no
11 share of the \$73.8 million.

12 Q. *Will the adjusted base amount be subject to further adjustment in the Composite Cost*
13 *Pool True-Up?*

14 A. Yes. To the extent that BPA receives or makes payments during the FY 2014–2015 rate
15 period, and the changes can be categorized into one of the types of receipts or payments
16 described in TRM section 2.5, and assuming that those receipts or payments have not
17 been proportionally allocated to Slice customers through their Slice True-Up Adjustment
18 Charge during the rate period, then BPA will make an adjustment to the size of the base
19 amount of financial reserves. Study, section 7.2.6.

20 Q. *Will the interest credit on the financial reserves amount be subject to the Composite Cost*
21 *Pool True-Up?*

22 A. Yes. The actual interest credit calculated on the adjusted base amount of financial
23 reserves can change from the forecast interest credit because of changes in interest credit
24 calculation factors from forecast factors. See Bliven *et al.*, TRM-12-E-BPA-03, at 15-17
25 for a description of how the interest credit calculation factors can change after rates are
26 established.

1 Q. *Are there any other circumstances that could affect the size of the base amount*
2 *(\$570.3 million) on which an interest credit is calculated, other than the types of receipts*
3 *or payments described in the TRM (TRM-12S-A-03, section 2.5)?*

4 A. Yes. One example of such a circumstance would be when BPA's cash requirements
5 (generally, Federal amortization and irrigation assistance payments to the U.S. Treasury)
6 are less than its non-cash expenses (primarily depreciation and amortization). Under
7 those conditions, the Minimum Required Net Revenue (MRNR) component in the
8 Composite cost pool is zero, and BPA collects additional cash that would add to its
9 financial reserves through rates for all customers by the amount that the non-cash
10 expenses exceed BPA's cash requirements. Bliven *et al.*, TRM-12-E-BPA-03, at 17. If
11 other qualifying circumstances occur, BPA would calculate the adjustment to the base
12 amount of financial reserves for the purpose of calculating an actual interest credit for
13 Composite Cost Pool True-Up purposes. Study, section 7.2.6.

14
15 **Section 2.3: Residential Exchange Program (REP) Expense and Expense Reduction for**
16 **Refund Amounts (Study Section 7.2.13)**

17 Q. *What is the forecast REP expense included in the Composite Cost Pool True-Up Table?*

18 A. The forecast REP expense included in the Composite Cost Pool True-Up Table is equal
19 to the forecast benefits expected to be paid to REP participants. Study section 7.2.13.

20 Q. *Is the forecast REP expense subject to the Composite Cost Pool True-Up?*

21 A. Yes. We will apply the same treatment for this expense as stated in the BP-12 Final
22 Proposal.

23 Q. *What will actual REP expense reflect?*

24 A. Actual REP expenses will equal the actual benefits paid to REP participants and any
25 other related expenses as established in the 2012 REP Settlement Agreement and related
26 settlement agreements with Clark and Snohomish. The scheduled amount of REP benefit

1 payments incorporates a \$76.5 million per year reduction in REP benefits to provide
2 refund amounts to COUs.

3
4 **Section 2.4: New Resource (NR) Revenue Credit**

5 *Q. What is the NR revenue credit?*

6 A. BPA may sell power for certain uses such as new large single loads (NLSLs) to
7 customers under the NR rate. A credit for NR revenues is in the Composite Cost Pool
8 True-Up table. BPA is not forecasting any NR sales for the FY 2014–2015 rate period.

9 *Q. Will the NR revenue credit be subject to the Composite Cost Pool True-Up?*

10 A. No. We are proposing that the NR revenue credit not be subject to the Composite Cost
11 Pool True-Up. Because no NR sales are expected at this time, actual NR revenues during
12 FY 2014–2015 would also cause BPA to incur costs to serve the new load. To properly
13 include a true-up of NR revenues, both the revenues from an NR sale and the costs
14 incurred to serve the load would need to be reflected. Otherwise, the Slice customers
15 would share the increased revenue, but would share none of the cost.

16
17 **Section 2.5: Non-Treaty Storage Agreement (NTSA) Treatment of Annual Financial**
18 **Settlements**

19 *Q. How will financial settlements as described in the NTSA between BPA and BC Hydro*
20 *affect the Composite Cost Pool True-Up?*

21 A. The NTSA allows for a financial settlement of obligations between the parties each year.
22 If there is a financial settlement in a fiscal year, the financial settlement will flow through
23 to the Composite Cost Pool True-Up as either a charge or a credit to power purchases,
24 depending upon whether the financial settlements are made from BPA to BC Hydro
25 (a charge) or from BC Hydro to BPA (a credit).

1 Q. *Are there other financial amounts for NTSA obligations that flow through to the*
2 *Composite Cost Pool True-Up Table?*

3 A. Yes. There is a financial amount accrued for the month of September, and this amount
4 will flow through to the Composite Cost Pool True-Up as either a charge or a credit to
5 power purchases, based upon the water transactions that have occurred during the month
6 of September.

7 Q. *Why will there be an accrual for September?*

8 A. An amount is accrued for September because the NTSA financial settlement is based
9 upon the water transaction benefit account balance as of August 31, but BPA's fiscal year
10 ends in September; therefore, BPA must accrue an amount for the month of September.
11 This accrued amount for the month of September will be reversed in the following
12 month, October, which is the first month of BPA's fiscal year.

13 Q. *Why are Slice customers subject to this cost through the True-Up?*

14 A. The cost is included in the True-Up for two reasons. First, whether or not there is a
15 financial settlement cannot be predicted, and the amount of the settlement is equally
16 unknown. The revenue requirement does not include an amount for this potential cost.
17 Thus, a financial settlement would affect BPA's cash reserves. Slice customer do not
18 receive a benefit from BPA's cash reserves as they grow or shrink. The True-Up is the
19 method of passing through cash reserve effects to Slice customers. Second, the NTSA
20 provides for more useable energy in the hydro system. Slice customers receive a share of
21 the output of the hydro system, including the benefits the NTSA provides. Thus, Slice
22 customers should share in the financial costs and benefits as well as the generation
23 benefits of the NTSA.

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26

1 **Section 2.6: Acquisition Costs of *Inc* Balancing Reserve Capacity**

2 *Q. What are the Acquisition Costs of inc Balancing Reserve Capacity?*

3 A. Acquisition Costs of *inc* Balancing Reserve Capacity are a type 2 acquisition cost and
4 may be incurred when the FCRPS is unable to provide the 900 MW planned amount of
5 *inc* balancing reserve capacity. *See* Generation Inputs Study, BP-14-E-BPA-05, section
6 3.5.2.

7 *Q. Are any of these costs forecast in the Initial Proposal?*

8 A. No. These costs are not forecast in the Initial Proposal because it is unknown how much
9 they will be.

10 *Q. Will Slice customers pay their share of any Acquisition Costs of inc Balancing Reserve
11 Capacity once they are known?*

12 A. Yes. We propose that Slice customers pay their share of any Acquisition Costs of *inc*
13 Balancing Reserve Capacity based upon their percentage share of the Composite Cost
14 pool.

15 *Q. How would these Acquisition Costs appear in the Composite Cost Pool True-Up Table?*

16 A. At this time, we are not precisely sure where these costs will appear on the Composite
17 Cost Pool True-Up Table. However, we anticipate that there will be a decision on how
18 these costs will be treated on the Composite Cost True-Up Table prior to the Final
19 Proposal.

20 *Q. Does this conclude your testimony?*

21 A. Yes.
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