BPA setting agency rates for fiscal years 2014–2015

The agency has proposed increases of 9.6 percent for wholesale priority firm power rates and 13 percent for transmission rates.

One of the major ways the Bonneville Power Administration differs from other government agencies is that it is self-funding. BPA operates as a power utility that must recover its costs with revenues it earns from selling the products and services it provides through its power and transmission systems.

Rate cases are not about the overall costs of BPA's programs and services, which are determined in an earlier process called the Integrated Program Review, but about how those and other costs will be recovered from BPA's customers.

The rate setting process began in November 2012 when BPA issued its initial rate proposal. Those documents contained proposed methodologies for determining rates and the rate schedules that result from them, both of which can be challenged by rate case parties. The final record of decision, which includes final rates, will be released in late July 2013. BPA will request approval from the Federal Energy Regulatory Commission for the rates to be in effect for two years beginning Oct. 1, 2013.

Retail rates
Because BPA serves a host of utilities with varied load shapes, resource mixes, distribution expenses and other costs, it is impossible to provide an across-the-board comparison of how a change in BPA's wholesale rates would affect the rates of a typical residential electricity consumer. Also, the local utility may choose to absorb some or all of the change in rates if it has sufficient financial reserves. That said, we have generally observed that any change in the wholesale power rate to a full requirements utility would cost the typical household about half of the rate change, as a percentage, experienced by its utility. The impact of BPA's transmission rates is generally much smaller than the power rate impact, closer to one-tenth of the rate change experienced by the utility.

Initial rate proposal
In 2014–2015, BPA's costs will increase by about 6 percent, primarily driven by necessary maintenance on the hydroelectric system and required improvements at the Columbia Generating Station nuclear plant. Another major contributing factor is a reduction in BPA's surplus market revenue due to the prolonged economic slump and the negative impact of natural gas prices on electricity markets. The agency has been able to offset some of that decline in revenue and limit the impact on rates with savings gained through recent debt refinancing.
POWER

The four different rate schedules for the sale of federal power are Priority Firm, New Resource Firm Power, Industrial Firm Power, and Firm Power Products and Services. The vast majority of power sales are made at the Priority Firm (PF) rate. A rate schedule for General Transfer Agreement Service charges is also included in the proposal.

The **Priority Firm Power rate** includes the PF Public rate for the sale of firm requirements power to load following and Slice/block customers, and the PF Exchange rate that applies to sales under the Residential Exchange Program.

Our initial proposal PF public rates for Slice and load following purchases are increasing at an average of 9.6 percent over current rates. This accounts for the increase in the PF Tier 1 rate, and puts Slice and load following purchases on a comparable basis. Taken separately, the Slice increase is 10.3 percent while the load following increase is 9.0 percent. To calculate these increases, we put Slice and load following purchasers on a common basis by attributing a value to the surplus power that is expected to be sold to Slice purchasers. The imputed value of the surplus power is equivalent to what is included in rates for non-Slice purchasers.

The **New Resource Firm Power (NR-14) rate** is for firm power sales to the new large single loads of preference customers and to investor-owned utilities consistent with power sales contracts. Because BPA does not expect new large single loads during the rate period, it is forecasting no sales at the NR rate. However, the proposed NR-14 rate is $73.58 per megawatt hour (MWh), which is an increase of 5.8 percent over the NR-12. Provisions are being added to the NR rate to allow a load following customer that is serving a new large single load with nonfederal resources to pay for load following services.

The **Industrial Firm Power (IP-14) rate** is for sales to two direct-service industrial customers. It is $38.99 per MWh, an increase of 7.4 percent over the IP-12 rate. The industrial rates change by about the same dollar per MWh amount as PF rates, but, because the current IP is higher than PF, the IP percentage increase is smaller than for PF. The rate case assumes 312 average megawatts of sales to the DSIs. The final rates will be based on the newly signed contracts with the two industrial customers.

The **Firm Power Products and Services Rate (FPS-14)** is negotiated between BPA and the purchasers. No changes are proposed to the FPS-14 rate schedule.

There are two **General Transfer Agreement Service (GTA-14)** charges: the delivery charge and the operating reserves charge. The GTA-14 delivery charge applies to customers who purchase federal power that is delivered using nonfederal low-voltage transmission facilities. The rate is being lowered to $0.818 per kilowatt per month, but the billing determinant is being changed from the hour of the month that the BPA transmission system peaks to the hour that the customer load peaks. Generally, affected customers will see small changes on their power bill. For the first time, the GTA delivery charge is proposed to be based on nonfederal low-voltage costs, not the Transmission Services delivery charge for use of federal low-voltage facilities.

In addition, an operating reserve rate is proposed to charge transfer customers for operating reserves under certain circumstances when the Federal Energy Regulatory Commission approves the proposed reliability standard of the Western Electricity Coordinating Council.

**Risk**

In the initial proposal, we continue to rely on two sources of available financial liquidity that can be tapped, if needed, to pay Power Services’ financial obligations. That liquidity is $750 million in short-term borrowing from the U.S. Treasury and financial reserves. The Cost Recovery Adjustment Clause (CRAC) allows us to replenish these liquidity tools.
BPA’s wholesale power rates, adjusted for inflation as shown in the green line above, have declined over the past decade.

The initial proposal includes a forecast of a 12 percent probability of a CRAC in FY 2014. Whether a CRAC will occur in FY 2014 is dependent entirely on net revenues during the 2013 fiscal year. The probability and size of a CRAC will go up and down with forecast streamflows and secondary revenue forecasts for FY 2013.

TRANSMISSION
BPA is proposing an average transmission rate increase of 13 percent. The primary drivers are a growing construction program driven by the need to repair and replace aging infrastructure and increased spending on mandatory compliance and security requirements.

The proposed increase would affect transmission customers differently: The network rate would increase 10 percent, and the point-to-point rate would increase 18 percent. These impacts were calculated under a proposed change in the cost allocation that more closely tracks the way BPA plans its system. This proposal resulted from a cost allocation evaluation that parties agreed BPA would conduct in the BP-12 Transmission Settlement. Isolating the effect of the proposed cost allocation changes, the point-to-point rate increases approximately 1.5 percent and the network rate decreases 5.9 percent.

In the last rate case, the agency was able to avoid an increase by applying reserves to offset some planned expenses, but it was acknowledged at that time that those transmission rates would not be sufficient to cover the agency’s rising costs much longer.

Other transmission services
BPA will also set rates for the ancillary and control area services it provides, such as managing the imbalance between scheduled and actual transmission use. Transmission provides these services with generation inputs — a portion of Federal Columbia River Power System capacity and energy. BPA forecasts the amount of generation inputs needed, determines the cost at which Transmission buys these services from Power and proposes transmission rates to recover these costs.
The portion of available FCRPS capacity for balancing is limited, and BPA expects it will need to purchase nonfederal reserve capacity in FY 2014 and FY 2015. Therefore, BPA is proposing a methodology to assign these costs to the customers responsible for the need to purchase. These costs will be assigned under the Variable Energy Resources Balancing Service rate.

Among other changes, BPA is proposing to offer a “full service” VERBS option for customers who choose to purchase it. Currently, BPA offers variable energy resources at 99.5 percent service level, meaning the agency carries enough reserves to balance transmission schedules 99.5 percent of the time. When there are not enough reserves, BPA calls on wind generators to either reduce their generation or curtail their transmission schedules to actual generation. Under the full service option, BPA would purchase additional reserves for participating customers to avoid this requirement.

**Oversupply**

BPA proposed a rate to recover costs incurred under the Oversupply Management Protocol through Sept. 30, 2015. The proposal was to collect 50 percent of the costs from power customers and 50 percent from those generators that elect to be compensated for displacement under the protocol.

FERC issued an order on Dec. 20, 2012, in which it indicated BPA’s oversupply rate proposal did not provide comparable rates under section 211A of the Federal Power Act. As a result, parties agreed to suspend the rate case schedule to discuss how to proceed, and they had informal discussions about alternative cost allocation methodologies. In early March, the OS-14 hearing officer granted a motion to resume the proceeding under a revised schedule. The new schedule provides time for parties to state their positions on proposed cost allocation methodologies and includes workshops to discuss the stated positions. BPA is scheduled to issue a final record of decision on Aug. 28. The agency will then submit the cost allocation methodology to FERC for approval.