BPA sets wholesale rates for fiscal years 2016–2017

BPA adopted a 7.1 percent increase in average wholesale power rates and a 4.4 percent increase in average transmission rates for fiscal years 2016 and 2017.

The new rates support investments in the hydropower system and expansion of BPA’s high-voltage transmission grid to meet regional needs. The rates go into effect Oct. 1, 2015.

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 how BPA’s total costs will be recovered from its customers.

“BPA has spent the past two years working with our customers and other regional partners to meet the collective needs of the Northwest in the most reliable, cost-effective and environmentally sustainable way possible,” said BPA Administrator and CEO Elliot Mainzer. “The rates in the final record of decision reflect that collaborative effort.”

The rate-setting process begins when BPA issues its initial rate proposal. The initial proposal contains recommended methodologies for determining rates and the resulting rate schedules. Rate case parties challenged certain aspects of BPA’s proposal in an evidentiary hearing. After thoughtful evaluation, the BPA administrator issued the final record of decision, which includes final rates and decisions, on July 23, 2015.
BPA files its rates with the Federal Energy Regulatory Commission for confirmation and approval. The rates will be in effect from Oct. 1, 2015, through Sept. 30, 2017.

Retail rates
BPA’s wholesale rate increase is the average change utilities will experience in the price of BPA power and transmission services. The actual increase varies from utility to utility, from 2 to 18 percent, depending on a utility’s load shape, resource mix and other costs. Therefore, it is impossible to determine the impact of a change in BPA’s wholesale rates on 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. Generally, any change in the wholesale power rate to a full requirements utility, one that buys all or most of its power from BPA, would cost the typical household about half of the percentage rate change experienced by its utility.

The impact of BPA’s transmission rates on end users is generally much smaller than the power rate impact, close to one-tenth of the rate change experienced by the utility, because transmission rates make up a smaller portion of a consumer’s energy bill.

Power rates
The overall BP-16 power rate increase is driven in part by the expiration of one-time debt management actions that reduced the capital costs recovered in 2014–2015 under BPA’s current BP-14 rates. Additional factors in the 2016–2017 rate increase are: increases in other capital-related costs; expense increases for hydro system operations and maintenance; expected cost increases for fish and wildlife programs, as well as the 2012 Residential Exchange Program settlement; and an increase in BPA’s cost of acquiring energy and transmission services to meet obligations to deliver power to BPA’s requirements customers that are not directly connected to BPA and located outside BPA’s balancing authority area.

In addition, Alcoa’s decision to reduce the amount of long-term firm power it purchases from BPA, coupled with lower forecasted market prices (a result of low natural gas prices), means that BPA expects to see less revenue from the energy that Alcoa was previously expected to purchase.

However, expense reductions helped to offset the overall rate increase. They included additional debt management actions, interest savings due to expensing energy efficiency programs, undistributed expense reductions that BPA will absorb, and a large decrease in operations and maintenance expense at the Columbia Generating Station. BPA also increased its secondary revenue forecast to reflect higher-valued energy sales to California.

The four different rate schedules for the sale of federal power are Priority Firm (PF) Power, New Resource Firm Power (NR), Industrial Firm Power (IP), and Firm Power Products and Services (FPS). The vast majority of BPA’s power sales are made at the PF rate.

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 one block customer), and the PF Exchange rates that apply to sales under the Residential Exchange Program.

The PF Public rates for Slice and load following purchases are increasing at an average of 7.1 percent over current rates to $33.75 per megawatt hour (MWh). Taken separately, the Slice increase is 9.5 percent, to $31.99 per Mwh, while the non-Slice increase is 7.2 percent, to $34.37 per MWh. 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; in reality, Slice customers have already experienced the difference between 9.5 percent and 7.1 percent — the effects of lower market prices on selling surplus power. The imputed value of the surplus power in

<table>
<thead>
<tr>
<th>BP-16 Priority Firm Tier 1</th>
<th>Rate ($/MWh)</th>
<th>Change from BP-14 (%)</th>
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<tbody>
<tr>
<td>Overall</td>
<td>33.75</td>
<td>7.1</td>
</tr>
<tr>
<td>Slice</td>
<td>31.99</td>
<td>9.5</td>
</tr>
<tr>
<td>Non-Slice</td>
<td>34.37</td>
<td>7.2</td>
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</table>
BPA's calculation is equivalent to what is included in rates for non-Slice purchasers.

The New Resource Firm Power (NR-16) 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. BPA does not expect to serve new large single loads during this rate period; however, there are provisions in the NR-16 rate schedules that help BPA's customers manage their self-supplied service to new large single loads. The proposed NR-16 rate is $73.83 per MWh, which is a decrease of 4.9 percent from the NR-14 rate.

The Industrial Firm Power (IP-16) rate is for sales to two direct-service industrial customers. It is $41.93 per MWh, an increase of 7.6 percent over the IP-14 rate. BPA directly serves a portion of the total load for Alcoa and Port Townsend Paper at the IP-16 rate; Alcoa serves the bulk of its load from other sources and Port Townsend Paper serves a small portion of its load through its local utility.

The Firm Power and Surplus Products and Services Rate (FPS-16) is negotiated between BPA and the purchaser. The FPS-16 rate schedule was updated to recognize several additional services.

As a part of the PF Public rate, there are four General Transfer Agreement Service (GTA-16) charges: the delivery charge, the operating reserves charge, and charges for dues assessed by the Western Electricity Coordinating Council and by the Peak Reliability organization. The GTA delivery rate is $0.94 per kilowatt per month, an increase of 14.6 percent from the current GTA delivery rate. The delivery charge applies to customers that purchase federal power delivered using nonfederal low-voltage transmission facilities. The GTA operating reserves charge will continue to be the same as the transmission ancillary service operating reserve rates. The WECC and Peak charges are new to the GTA Service charge. These charges will recover the costs billed to BPA by WECC and Peak Reliability for BPA customer loads located outside the BPA transmission area.

Transmission rates

BPA's average transmission rate increase is driven by the need for new construction and replacement of existing assets that will help maintain reliability; the facilitation of renewable resource integration; and the costs of requirements for reliability, cyber and physical security compliance.
Depending on what service customers select, the increase will affect them differently: The network integration rate will increase 2.2 percent and the point-to-point rate will increase 3.1 percent.

BPA decided to keep its current Montana Intertie rate, rather than roll the cost of the Montana Intertie into transmission network rates, after concluding that retaining it would have little effect on the development of renewable resources in Montana at this time. BPA fully supports the development of clean energy resources and would support a planning process with interested parties to remove barriers to the development of renewables in Montana.

For customers that use the Southern Intertie transmission lines, the rate will increase 10 percent. BPA did not make significant changes to the Southern Intertie rate design as some parties proposed, but will work with stakeholders this year to better understand the impacts of policies in California that may have devalued the Southern Intertie’s long-term firm transmission capacity. BPA will seek clarity on the extent of the issue and evaluate both ratemaking and non-ratemaking solutions.

BPA also set rates for the ancillary and control area services it provides, such as managing the imbalance between scheduled and actual transmission use. BPA reached a settlement agreement with rate case parties in September 2014, and the terms of the settlement were adopted in the final rates. A key feature of the settlement was to maintain the 2014–2015 rate levels for balancing services.

In July 2015, BPA submitted a request to indefinitely extend the Oversupply Management Protocol approved by FERC in 2014. The protocol allows BPA to operate the transmission system without disruption to protect fish and other aquatic species from rising gas levels during periods of high wind and high runoff. BPA continues to implement mitigation tools to avoid displacement of generation if possible. In conjunction with the protocol, the Oversupply Rate (OS-16) will continue to be used to recover any compensation costs that BPA incurs.

Further collaboration
BPA’s decisions in the BP-16 rate case set the stage for regional discussion on issues that would benefit from further collaboration. BPA will meet with stakeholders to explore and discuss key issues, such as capital investments in the hydropower and transmission systems, policies regarding BPA’s financial reserves, assessment and maintenance of the value of Southern Intertie assets, and BPA’s program delivery models, including energy efficiency. These discussions, which will begin in the fall of 2015, will guide BPA as it makes strategic choices to maintain its financial health and ensure long-term rate stability.

FOR MORE INFORMATION on the rate case and to view the final ROD, go to www.bpa.gov/goto/BP16.