

**INFORMAL COMMENTS ON THE
DRAFT TIERED RATES METHODOLOGY PAPER
BY THE BLOCK/Slice PRODUCT PURCHASERS**

1. Introduction

The preference customers that currently purchase power from BPA under Block/Slice Agreements (Slice Customers) submit these informal comments in response to the Bonneville Power Administration's (BPA) preliminary draft Tiered Rates Methodology (TRM) discussion paper (TRM Paper). The Slice Customers understand that these comments will be considered informal and non-binding by BPA, and that the failure to comment on any particular provision of the TRM Paper will not be treated as acceptance thereof.

These informal comments are being provided to help guide BPA in the development of the TRM. The Slice Customers appreciate this opportunity to comment on the TRM Paper. These comments are limited in scope, addressing only the portions of the TRM Paper that bear on the Slice product. Individual Slice Customers may elect to make additional comments on their own behalf covering these and other topics as well.

2. Specific Comments

Annual Slice True-Up and Audit Rights

The TRM Paper suggests that under the new power sales contracts Slice product purchasers will be subject to an annual true-up for actual costs, but will have no rights to audit the proposed true-up and no remedy for disputes regarding it, other than recourse to the next BPA rate proceeding. No rationale has been offered to justify this material change to the Slice product.

The current combination of limited audit rights in combination with arbitration to resolve disputes has, after resolution of the first audit, worked well. Disputes have been minimal, and have been resolved by face to face discussions between staff for BPA and the Slice Customers. Since the adoption of audit protocols, the audit process itself has run smoothly. There does not appear to be a compelling reason to abandon a process that is operating successfully.

The alternative suggested in the TRM Paper will be unfair to the Slice product purchasers. To be subject to an annual true-up for actual costs with no means to verify the accuracy of the charge when it is levied is not an acceptable business proposition. The idea that the rate case is a reasonable alternative to audit rights is not credible. As BPA has stated on many occasions, the rate case setting is not conducive to investigating financial issues, and does not provide the opportunity for one on one discussion between financial personnel that have resolved virtually all audit issues. The rules of *ex parte* and discovery that govern a rate case make it a particularly cumbersome and ineffective forum for identifying, investigating and resolving true-up issues.

Relegating true-up issues to the rate case will also deprive Slice product purchasers of any meaningful remedy in the case of a dispute. Currently, non-binding arbitration provides timely dispute resolution before a neutral third party with expertise on the disputed matter. In the rate

setting, any disagreement over a true-up matter would be referred back to BPA for a final decision. This is tantamount to referring a dispute to one of the parties to the dispute for final decision. Further, under this construct, Slice product purchasers would be forced to take any decision by BPA in the rate case on a true-up matter with which they disagree to the 9th Circuit Court of Appeals. This forum which is costly, lacks the proper accounting expertise, and would not provide a resolution in a timely manner.

The proposal to materially alter the true-up and audit process currently used for the Slice product is ill-advised. Slice Customers support retaining the current approach for the annual true-up of Slice to actual costs, including both audit and arbitration. If BPA is determined to eliminate the right of Slice product purchasers to verify the accuracy of an annual true-up they are required to pay, then Slice Customers would recommend that the annual true-up of Slice for actual costs be eliminated, and that the Slice rate only be subject to true-up once every two years in the rate proceeding in the same manner as every other BPA rate, by reflecting any over or under collection in the Slice rate for the next rate period. If BPA wants to collect its actual costs by way of a true-up between rate cases, audit rights for customers subject to such a true-up are essential. If audit rights are not provided, then the Slice product should not be subject to an annual true-up.

Access to Augmentation Power

The TRM Paper indicates that Slice product purchasers will get their proportionate share of the up to 300 aMW of power BPA may acquire to augment the Federal base system. It also indicates that this power will be provided to Slice product purchasers as a flat block. Slice Customers understand that this approach is being taken out of concern that any other approach would make it difficult to verify that the Slice product purchasers have received their share of this augmentation.

Slice Customers are concerned about this approach because it diverges from the basic concept of the Slice product, which is to pay a percentage of the costs of the Federal base system in return for the same percentage of the Federal base system output when and if it occurs. This principle would dictate that Slice product purchasers should get their share of augmentation power if and when it is available to the Federal base system. Clearly, the proposal in the TRM Paper to pay an additional fee to shape this augmentation power into a less useful flat block departs from the Slice product principle.

The Slice Customers intend to investigate this issue to determine if verification of receipt of augmentation power can be assured by means other than using a flat block. If such an alternative approach can be identified, it will be presented to BPA for consideration.

Treatment of Interest on the BPA Fund

The Costing Table suggests that the interest earned on the BPA fund should be credited only to the non-Slice cost component, rather than crediting it to the Composite cost component. This is a marked change from the current treatment of this revenue stream, and has been made without discussion with the preference customers. Slice Customers are concerned that this shift in the

crediting of the interest earned on the BPA fund has not taken into consideration the revenue streams that feed into the BPA fund, and the contributions made historically (such as IOU REP costs retained by BPA) by Slice product purchasers, and those that will likely be made by them in the tiered rate environment. This is an area that requires additional information regarding the prospective composition of the BPA fund under tiered rates, and a more nuanced approach to the crediting of interest earned on it to ensure that all who contribute receive their fair share of the earned interest credit.