

This Agency Financial Information is provided for discussion purposes during this pre-rate case process.

Pre-Decisional

WP-07 Power Rate Case Workshop

Date of Workshop:
June 29, 2005

Topics:
Low Density Discount

LDD in the 2007 Rate Case

Objectives:

1. To ensure that the LDD applies only to customers with high retail rates as a result of low system densities.
2. Simplify and reduce administrative workload by clarifying ambiguous definitions and data collection requirements, collecting and verifying data in a common format, and eliminating unneeded components of the program.
3. Update the LDD program to reflect the separation of power & transmission costs and accessibility of data needed to determine eligibility.

Background:

The Bonneville Power Administration (BPA) has established an LDD since the first rate case following passage of the Northwest Power Act. The Northwest Power Act requires BPA to provide discounts, *to the extent appropriate*, to customers with low system densities, thereby providing the Administrator broad discretion in establishing an LDD.¹ The legislative history of the Northwest Power Act provides further detail as to the purpose of the LDD.² BPA has periodically revised the eligibility criteria and the method for calculating the LDD in its section 7(i) rate hearings.

Currently 55 customers (39 Load Following, 15 Slice, and 1 Block) receive annual LDD benefits of about \$18.4 million. LDD benefits are expected to average at least \$19.2 million in the FY 2007-2009 rate period. The cost of these benefits is allocated to the following rate pools:

1. Preference Rate Pool
 - a. the PF Preference rate (including Slice),
 - b. the PF Exchange Program rate, and
2. NR Rate Pool (Currently there are no LDD recipients in this pool nor are any of the LDD costs associated with the Preference Rate Pool allocated to this pool.)

BPA Findings:

In our efforts to meet the stated objectives we have identified several program implementation criteria that need further discussion. These findings became evident from analyzing data submitted by customers for reporting year 2003.³ The findings are:

¹ Northwest Power Act, 16 U.S.C. §§ 839-839h, Section 7(d)(1). "In order to avoid adverse impacts on retail rates of the Administrator's customers with low system densities, the Administrator shall, to the extent appropriate, apply discounts to the rate or rates for such customers."

² H.R. Rep. No. 96-976, Part II, 96th Cong., 2d Session 52 (1980) provides: "Section 7(d)(1) permits BPA to offer rate discounts to customers with low system densities such as rural electric cooperatives with high distribution costs resulting from sparsely populated service areas." Similarly, H.R. Rep. No. 96-976, Part I, 96th Cong., 2d Session 69 (1980) provides: "Section 7(d) permits the Administrator to apply constraints to the rates of customers with low system densities. This is intended to afford greater equity to consumers of small rural co-ops which have high distribution costs due to difficult terrain, remote service areas, or other factors."

³ Reporting year 2004 data will not be available until later this summer after it is received and verified. At that time, the impacts of the potential modifications will be reassessed.

This Agency Financial Information is provided for discussion purposes during this pre-rate case process.

1. **The Retail Rate to PF Rate eligibility threshold.** In the 1987 rate case, BPA added an additional eligibility criterion for receiving the LDD – the retail rate needed to exceed the *average* PF rate by 10 percent. This criterion was added so the LDD would meet its intended objective to “avoid adverse impacts on retail rates” caused by a utility’s low system density. Although power and transmission rates were separated in 1996 and the LDD only applied to power rates, the 10 percent threshold was not changed to reflect the split, creating a lower than intended threshold.

An implicit assumption in comparing the PF and retail rates is that high retail costs are primarily caused by high distribution costs associated with low system densities which was more valid in 1987 than it is in 2005. Using the *applicable* rather than *average* PF rate may further reduce the validity of this assumption.

In the 1996 rate case, BPA changed the PF Rate determinant in the Retail Rate to PF Rate eligibility threshold. The PF determinant was changed from *average* to *applicable* PF rate. When the Slice product was developed it was not contemplated that the LDD would be available to Slice product purchasers. However, Slice product purchases did become eligible. Unfortunately, using the applicable PF rate makes it difficult to determine whether a Slice purchaser qualifies for the LDD because the Slice product is composed of PF and surplus components. Is it important that the same PF rate comparison apply equally to all utilities?

2. **The definition of “Consumers” (the C in the C/M ratio).** For many years the current definition has caused confusion and inconsistency in implementation of the LDD. For example, depending on the type of public utility (Co-op, PUD, or municipality), a customer may report number of meters, number of consumers or number of members. How the data is reported can have an impact on LDD eligibility and the discount level.
3. **The investment ratio (K/I).** The “K” is the customer’s Total Retail Load and the “I” is the customer’s depreciated electric plant less depreciated generation plant. A potential LDD participant can become eligible for the LDD based on a $K/I < 100$. However, a customer does not receive a LDD for the K/I until the $K/I < 35$. Should the K/I eligibility threshold be reduced to $K/I < 35$?
4. **The “Additional Adjustment for Very Low Densities.”** This Additional Adjustment provides an extra 0.5% LDD, provided the total LDD does not exceed 7%. Currently, all LDD recipients are ineligible. Should this provision be eliminated?
5. **Explicitly define average retail rate.** Judging from the number of customers calling for clarification on how to calculate their average retail rate, there seems to be an ambiguity in the definition of average retail rate in the GRSPs.