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REBUTTAL TESTIMONY OF

WILLIAM J. DOUBLEDAY, BYRON G. KEEP, PAUL T. KAPTUR,

AND RON J. HOMENICK

Witnesses for Bonneville Power Administration

SUBJECT: Rebuttal Testimony for Cost of Service Analysis and Rate Design Changes and Adjustments

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6 **SUBJECT: REBUTTAL TESTIMONY FOR COST OF SERVICE ANALYSIS AND**
7 **RATE DESIGN CHANGES AND ADJUSTMENTS**

8 **Section 1. Introduction and Purpose of Testimony**

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

10 A. My name is William J. Doubleday. My qualifications are contained in WP-02-Q-BPA-17.

11 A. My name is Byron G. Keep. My qualifications are contained in WP-02-Q-BPA-34.

12 A. My name is Paul T. Kaptur. My qualifications are contained in WP-02-Q-BPA-33.

13 A. My name is Ron J. Homenick. My qualifications are contained in WP-02-Q-BPA-30.

14 *Q. Please describe the purpose of your rebuttal testimony.*

15 A. The purpose of our testimony is to respond to the direct testimony of the direct service
16 industries (DSIs), Schoenbeck, *et al.*, WP-02-E-DS/AL/VN-04(E1), Schoenbeck, *et al.*,
17 WP-02-E-DS/AL/VN-01, and Wilcox, *et al.*, WP-02-E-DS-02; the Western Public
18 Agencies Group (WPAG), Cross, *et al.*, WP-02-E-WA-01; and the Public Power Council
19 (PPC), Hansen, *et al.*, WP-02-E-PP-07; regarding Bonneville Power Administration's
20 (BPA's) Cost of Service Analysis (COSA), rate design adjustments, and the modeling of
21 BPA's rate development.

22 *Q. How is your testimony organized?*

23 A. Our testimony is organized in three sections. Section 1 outlines the purpose of our
24 testimony. Section 2 discusses DSI testimony concerning BPA's Residential Exchange
25 Costing Model. Section 3 discusses parties' testimony regarding rate design issues.

1 **Section 2. Residential Exchange Costing Model**

2 *Q. The DSIs argue that BPA's Residential Exchange Program costing model multiplies*
3 *non-exchanging utility loads by a very small number to prevent divide by zero errors but*
4 *if BPA modified the model to add a very small number rather than multiply, the divide by*
5 *zero problem would be solved but the model would treat the utilities properly as Average*
6 *System Costs (ASC) and PF rates change. Schoenbeck, et al.,*
7 *WP-02-E-DS/AL/VN-04(E1), at 3. Please respond.*

8 A. BPA believes it treats non-exchanging utility loads properly. However, the Residential
9 Exchange Program costing model could be modified as the DSIs suggest. Currently,
10 operators of the model use inspection of the data to determine which of the potential
11 exchangers will actually be exchanging during the rate period and which will be in
12 deemer status for the rate test period. When the expected PF Exchange Program rate is
13 greater than the ASC of a given utility, that utility is assumed to be in deemer status for
14 the rate test period and its exchangeable load is zeroed out manually. The multiplication
15 of a very small number by the load amount accomplishes this in the model and avoids
16 divide by zero problems. BPA may have time before the final rate proposal to modify
17 and automate the model so that BPA's manual process will not be necessary. Adding a
18 small number to the load amounts could be used to avoid divide by zero problems when a
19 more automated version of the model determines that a utility's ASC is below the PF
20 Exchange Program rate and the exchangeable load should be zero. It should be noted that
21 a Residential Exchange Program costing model incorporating the DSIs' suggestion would
22 yield the same results as the current model, all things being equal.

23 *Q. The DSIs argue that BPA's Residential Exchange model does not factor the in-lieu cost*
24 *into the determination of gross and net exchange costs. Schoenbeck, et al.,*
25 *WP-02-E-DS/AL/VN-04(E1) at 3. Do you agree?*

1 A. No. The “Gross Cost” and “Net Cost” tables in the “Summary” tab of the Residential
2 Exchange model use the in-lieu cost in the calculation of gross and net exchange costs.
3 However, when the in lieu cost is below the expected PF Exchange Program rate, BPA
4 assumes that the exchanging utility will terminate the in-lieu portion of its exchangeable
5 load. *See Boling, et al., WP-02-E-BPA-30, at 15-16.* In this circumstance, the in-lieu
6 cost is multiplied by the zero load to yield a zero in-lieu contribution to the gross and net
7 exchange costs. The forecasted cost of in-lieu resources is less than the PF Exchange
8 Program rate in BPA’s Initial Proposal. Therefore, the zero in-lieu contribution to
9 exchange costs that the Residential Exchange model calculated for the Initial Proposal is
10 correct.

11 *Q. The DSIs argue that to properly implement the in-lieu price into the determination of*
12 *gross and net exchange costs, BPA should ratio the utility’s ASC and the in-lieu cost in*
13 *proportion to the amount in-lieued for the comparison to the Priority Firm Exchange*
14 *rate. Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1), at 3. Do you agree?*

15 A. No. The Residential Exchange model separates the monetary exchange portion of a
16 utility’s exchange load from the portion subject to an in-lieu transaction. The costs
17 associated with these two parts are then determined separately. In the “Summary” tab of
18 the model, the monetary exchange costs and in-lieu costs are added together, resulting in
19 load-weighted total gross and net costs. As discussed above, there are circumstances
20 when it is appropriate to zero out the portion of an exchanging utility’s load that is
21 subject to an in-lieu transaction. The DSIs’ proposed method would yield erroneous
22 results where, because the in lieu resource cost was below the PF Exchange Program rate,
23 the load subject to an in-lieu transaction was eliminated.

24 *Q. The DSIs argue that BPA’s model does not use a utility’s deemer balance when*
25 *determining whether a utility is exchanging through the rate period. Schoenbeck, et al.,*
26 *WP-02-E-DS/AL/VN-04(E1) at 3. Please respond.*

1 A. BPA has only made preliminary estimates of deemer balances for three exchanging
2 utilities. These balances have not been reviewed by the exchanging utilities. In fact, the
3 issue of deemer balances is currently in dispute. The existence of deemer balances and
4 the amount of such balances, if any, must be resolved by BPA and the utilities in the
5 negotiation and development of subsequent Residential Purchase and Sale Agreements.
6 BPA counsel has advised that deemer balances are not determined in a section 7(i)
7 hearing. Because of the preliminary and uncertain nature of the deemer balance
8 estimates, it would be inappropriate to reflect any deemer balances in determining
9 eligibility of the exchanging utilities during the rate period. In addition, the three utilities
10 with possible deemer balances (Avista, Idaho Power Company, and Montana Power
11 Company) are not forecasted to participate in the Residential Exchange during the rate
12 period regardless of deemer balances.

13 *Q. The DSIs argue that BPA “hardwired” its rates model to produce an IPTAC rate of*
14 *23.5 mills regardless of any cost input changes. Wilcox, WP-02-E-DS-02, at 6. Do you*
15 *agree?*

16 A. Yes, insofar as the analysis for BPA’s Initial Proposal was results-driven, and
17 23.5 mills/kWh was the desired result. At the time the Initial Proposal was developed,
18 BPA staff developing the models only knew that the proposal under the Compromise
19 Approach was for 1,440 aMW, with 1,210 aMW sold at 23.5 mills (as specified in the
20 Compromise Approach) and 230 aMW sold at 25 mills (the Alcoa and Vanalco
21 component of the preceding offer that BPA had made to DSIs prior to negotiating the
22 Compromise Approach). Subsequent to the Initial Proposal, BPA staff determined that
23 the mix of cost-based power to market-based power would be 870 aMW to 340 aMW for
24 the 23.5 mill product and 120 aMW to 110 aMWs for the 25 mill product. With this
25 additional information, the models have been modified so that cost changes to either of
26 these portions will be reflected in a recalculation of the IPTAC rates.

1 **Section 3. Rate Design**

2 *Q. The DSIs argue that the RAM does not properly implement BPA's statutory rate*
3 *directives. Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1), at 4. Do you agree?*

4 A. No. Issues regarding whether RAM complies with BPA's statutory rate directives are
5 legal issues that may be raised by the parties in briefs and will be addressed in BPA's
6 Draft Record of Decision.

7 *Q. The DSIs give three reasons why it is important that BPA properly calculate its power*
8 *rates before the Subscription Step and argue that BPA's proposal does not establish a*
9 *Subscription Step that stands by itself, modifying rates that are properly determined*
10 *based on the rate directives. Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1), at 5.*
11 *Please respond.*

12 A. BPA agrees that rates calculated in the Rate Design Step of the RAM and used in the
13 Subscription Step of the RAM should be calculated properly. BPA also agrees that the
14 Subscription Step should use data developed in the Rate Design Step along with
15 Subscription specific data to calculate Subscription Strategy rates. BPA's Initial Proposal
16 is modeled in the RAM in accordance with these basic rate design goals. The specific
17 issues of disagreement between BPA and the DSIs are addressed below.

18 *Q. The DSIs argue that BPA has included a proposed sale of 1,000 aMW of firm power to*
19 *investor-owned utilities (IOUs) under the Residential Load rate prior to the Subscription*
20 *Step. Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1), at 5. Do you agree?*

21 A. No. BPA did not include a proposed sale of 1,000 aMW of firm power to investor-owned
22 utilities (IOUs) under the Residential Load (RL) rate prior to the Subscription Step. As
23 described in Leathley, et al., WP-02-E-BPA-19, the Rate Design Step assumes an FPS
24 sale of 1,000 aMW flat priced at the PF-96 rate level to be sold in the Pacific Northwest.
25 These are not sales to IOUs at the RL rate.

26

1 In the Rate Design Step, BPA assumes the traditional implementation of the
2 Residential Exchange Program. After meeting preference loads and an amount of DSI
3 loads in the Rate Design Step, BPA may choose to serve additional regional loads. As
4 noted in BPA's Subscription Strategy, which contemplates the traditional Residential
5 Exchange Program as well as proposed settlements of that program, BPA's goals include
6 spreading the benefits of Federal power and avoiding increases in BPA's PF Preference
7 rate. *See* Burns and Elizalde, WP-02-E-BPA-08 at 7. In the past, BPA's general
8 business goals have also been to provide rate stability in the region while serving BPA's
9 loads. The Subscription Strategy goals mentioned above are the latest expression of these
10 long held business goals. BPA has determined that it can provide 1,000 aMW of
11 additional power to its customers and not increase the PF Preference rate. This is what
12 BPA has proposed to do. Because BPA has not determined the precise manner in which
13 it would provide this additional Federal power to its regional customers, BPA has
14 assumed that it would make sales of power under the FPS rate schedule to meet regional
15 loads. BPA has assumed an FPS rate equal to the 1996 PF Preference rate as a
16 reasonable price for such sales. In summary, BPA's proposed sale of 1,000 aMW in the
17 Rate Design Step is consistent with the Subscription Strategy and is also consistent with
18 BPA's long-held business goals.

19 *Q. The DSIs argue that the PF Exchange Program rate is flawed because it is based on the*
20 *inclusion of a proposed sale of power to IOUs under a settlement of the Residential*
21 *Exchange Program as proposed in BPA's Subscription Strategy. Schoenbeck, et al.,*
22 *WP-02-E-DS/AL/VN-04(E1) at 6. With the inclusion of this sale in the Rate Design Step,*
23 *there is a 1,000 aMW increase in system augmentation purchases at \$28.1 per MWh that*
24 *are being sold at \$20.0 per MWh. Id. This purchase and sale result in a revenue*
25 *deficiency of almost \$357 million over the five-year rate period. Id. Please respond.*
26

1 A. As noted above, BPA did not assume a proposed sale of power at the RL rate to the IOUs
2 under a settlement of the Residential Exchange Program in the RAM's Rate Design Step.
3 Settlement of the Residential Exchange Program is assumed in the RAM's Subscription
4 Step. The Rate Design Step assumes a traditional Residential Exchange Program. Also
5 as noted above, BPA determined that it could sell an additional 1,000 aMW to regional
6 customers at a price equivalent to PF-96 and still provide rate stability for BPA's
7 preference customers.

8 In determining its loads/resources balance and the associated revenue
9 requirement, BPA does not assume that costs of individual resources will be allocated to
10 particular individual power sales. BPA counsel has advised that BPA has the authority to
11 replace reductions in the capability of the FBS. These reductions include the shutdown
12 of the Trojan and Hanford nuclear plants (BPA's shares are 230 aMW and 309 aMW,
13 respectively), failure to complete Washington Nuclear Project Nos. 1 and 3 (BPA's
14 shares are 958 aMW and 651 aMW, respectively), and hydroelectric capability losses
15 (521 aMW). System augmentation purchases replace some of these reductions in
16 capability and the costs of such augmentation purchases are melded with all other FBS
17 resource costs before cost allocation to rate pools is performed. The DSIs' assumption, in
18 their calculation of a \$357 million revenue deficiency, that the cost of system
19 augmentation purchases should be allocated to specific FPS sales, does not comport with
20 BPA's established ratemaking methods.

21 *Q. The DSIs argue that by removing the sale from the load/resource balance and thereby*
22 *reducing system augmentation purchases by 1,000 aMW, the surplus firm power revenue*
23 *surplus/deficiency changes from a \$317 million deficiency to a \$500 million surplus,*
24 *which is credited to the PF and IP rates in the Rate Design Step. Schoenbeck, et al.,*
25 *WP-02-E-DS/AL/VN-04 (E1) at 6. Please respond.*
26

1 A. As noted above, spreading the Federal benefits widely and providing rate stability are two
2 of BPA's most important business goals. BPA believes that making an additional 1,000
3 aMW available to the region priced at PF-96 is one way it can accomplish these very
4 important objectives. However, given that electric power market prices are forecasted to
5 be higher than BPA's projected power costs for the rate period, BPA agrees that if its
6 forecasted load obligations were lower, for example, if BPA had no DSI load and/or no
7 IOU load, BPA's rates might be lower.

8 Q. *The DSIs argue that the costs associated with the proposed settlement sale to the IOUs at*
9 *the RL rate should be treated in the same manner as BPA has treated the cost of the other*
10 *800 aMW of benefits to the IOUs in the initial proposal. Schoenbeck, et al.,*
11 *WP-02-E-DS/AL/VN-04(E1), at 7. Do you agree?*

12 A. No. As noted above, the 1,000 aMW FPS sale in the Rate Design Step is in support of
13 BPA's commitment to broadly spread the benefits of the Federal hydro system in the
14 region while providing rate stability. In the Rate Design Step, BPA is uncertain to whom
15 the 1,000 aMW of FPS power will be sold. In the Subscription Step, BPA assumes that
16 the IOUs accept the Subscription settlement proposal and that 1,000 aMW is made
17 available to the IOUs in power and 800 aMW in monetary benefits. *See Leathley, et al.,*
18 *WP-02-E-BPA-19 at 12.* The 1,000 aMW of power in the Rate Design Step should not
19 be treated in the same manner as the 800 aMW of monetary settlement benefits provided
20 in the Subscription Step because to do so would not comport with BPA's Loads and
21 Resources Study. The 1,000 aMW is included in the loads/resources balance of both the
22 Rate Design Step and the Subscription Step in the RAM. In addition, BPA has assumed
23 that the size of the FBS is the same in both the Rate Design Step and the Subscription
24 Step in the RAM. The 800 aMW of IOU settlement benefits is assumed not to be actual
25 power and is not included in the initial proposal loads/resources balance and does not
26 affect the size of the FBS. In summary, the DSI proposal does not comport with BPA's

1 policy goals for this rate case and would require a different loads/resources balance and a
2 differently sized FBS in the Rate Design Step than in the Subscription Step of the RAM.

3 *Q. While acknowledging that it would be proper to include the 1,000 aMW if it were sold as*
4 *FPS to other parties, the DSIs argue that it is not reasonable to assume that revenues from*
5 *the sale would be equal to the PF-96 rate in the Rate Design Step. Schoenbeck, et al.,*
6 *WP-02-E-DS/AL/VN-04(E1), at 6. The DSIs argue that unless BPA can propose a sale that*
7 *at least recovers the assumed \$28.1 per MWh purchase price of the power, BPA should*
8 *assume the purchase and sale would not take place because they would result in a cost shift*
9 *to BPA's other customers. Id. Please respond.*

10 *A. As stated above, BPA's policy goals include spreading the benefits of the Federal hydro*
11 *system widely in the region and avoiding an increase in the PF Preference rate. BPA*
12 *believes that making an additional 1,000 aMW available to the region priced at PF-96 is one*
13 *way it can accomplish these very important objectives. See Burns, et al., WP-02-E-BPA-08*
14 *at 7. In addition, as noted above, system augmentation purchases replace reductions in the*
15 *capability of the FBS and, as such, augmentation costs are melded with all other FBS*
16 *resource costs before cost allocation to rate pools is performed. Therefore, the \$28.1 per*
17 *MWh for system augmentation cannot be linked to the cost of serving any particular*
18 *individual PF, IP, or FPS sale and cannot, as the DSIs argue, be used as a price floor for FPS*
19 *sales.*

20 *Q. The DSIs argue that BPA performed the DSI floor rate test out of sequence in the rate*
21 *process and failed to test the floor rate against the final IP rate. Schoenbeck et al.,*
22 *WP-02-E-DS/AL/VN-01, at 11. The DSIs also argue that BPA added costs to the IP rate to*
23 *bring an intermediate IP rate calculation up to the floor rate and then added additional*
24 *costs to the floor rate. Id. Do you agree?*

25 *A. No. BPA performed the DSI floor rate in the proper sequence to determine the*
26 *cost-based IP rate for the 990 aMW cost-based portion of the 1,440 aMW IP/IPTAC load.*

1 The remaining 450 aMW is served with DSI-specific market purchases and the forecasted
2 cost of those purchases will be paid by the DSIs and only the DSIs. BPA's understanding
3 of the Compromise Approach is that 990 aMW of DSI load will be used to calculate the
4 cost-based IP rate and that the calculation of that rate will be consistent with section
5 7(c)(2) of the Northwest Power Act. *See Berwager, et al., WP-02-E-BPA-09, at 8.*
6 BPA's modeling is consistent with this approach. In addition, consistent with the
7 Compromise Approach, BPA's IP-02 rate schedule shows cost based energy and demand
8 charges along with separate IPTAC charges. *See Wholesale Power Rate Schedules,*
9 *WP-02-E-BPA-07, at 57- 58.* The IPTAC charges are designed to recover the additional
10 costs of the 450 aMW of DSI-specific market purchases made in accordance with the
11 Compromise Approach.

12 If the DSI methodology were followed and the DSI floor rate test was performed
13 on the full 1,440 aMW of IP/IPTAC load, some costs associated with the 450 aMW of
14 DSI specific market purchases would be paid by the PF and RL rate pools. This does not
15 comport with BPA's understanding of the Compromise Approach.

16 *Q. WPAG argues that because BPA has decided to sell substantial amounts of power to the*
17 *DSIs and IOUs, BPA is incurring significant purchased power costs, which are being*
18 *borne in part by BPA's preference customers. Cross, et al., WP-02-E-WA-01, at 9-11.*
19 *Please respond.*

20 *A.* BPA is acquiring a substantial amount of system augmentation to meet its forecasted firm
21 loads during the rate period. Some of these firm loads include sales to the DSIs and
22 IOUs. BPA's power purchases replace reductions in the capability of the FBS. The costs
23 of the FBS, including FBS replacements, are allocated to all rate classes served by the
24 FBS. Because BPA's preference customers are served with FBS resources, they bear
25 some of these costs. This treatment is consistent with BPA's Subscription Strategy goals
26

1 of spreading the benefits of Federal power widely in the region while avoiding a PF
2 Preference rate increase. *See Burns, et al., WP-02-BPA-08, at 7.*

3 *Q. WPAG argues that BPA has historically calculated the NR rate using available FBS*
4 *resources that are not needed to meet preference loads and then adding the cost of*
5 *additional resources needed to provide service to the IOUs. Cross, et al., WP-02-E-WA-01,*
6 *at 9-11. WPAG argues that in this case, BPA is proposing to take the costs of additional*
7 *power purchases and include a substantial portion of those costs in the pool BPA uses to*
8 *develop the PF preference rate. Id. Please respond.*

9 *A. BPA has not changed its methodology for allocating resource costs to the NR rate in this*
10 *rate proceeding. As in past rate cases, after service to the PF class, any remaining FBS*
11 *resources are combined with Exchange and New resources and their melded costs are*
12 *allocated to the IP, NR, and FPS rate pools. Furthermore, BPA's cost allocation*
13 *methodology for the NR rate has little or no effect on other rates because BPA does not*
14 *expect to have any load obligation under the NR rate schedule in the rate test period.*

15 As noted above, the costs of FBS resources are allocated to all rate classes served
16 with FBS resources, including PF Preference. In determining its overall loads/resources
17 balance and the associated revenue requirement, BPA does not assume that costs of
18 individual FBS resources will be allocated to particular individual power sales. Therefore,
19 WPAG's contention that public customers are paying the costs of a particular resource or
20 that a particular resource is associated only with service to the DSIs and/or the IOUs does
21 not reflect BPA's established ratemaking process.

22 *Q. WPAG argues that by designating its power purchases as FBS replacements, BPA seeks to*
23 *shift the costs of these purchases to BPA's preference customers. Cross, et al.,*
24 *WP-02-E-WA-01 at 11. Please respond.*

1 A. As noted above, BPA has proposed to acquire power to replace reductions in the
2 capability of the FBS. The costs of these acquisitions are properly FBS costs. Also as
3 noted above, FBS costs are allocated in large part to BPA's preference customers.

4 *Q. WPAG argues that because BPA is proposing a number of charges that will impose the*
5 *market costs of power on preference customer net requirement loads that may request*
6 *service from BPA after the Subscription process is closed, BPA must reasonably expect*
7 *that preference customers may request service during the rate period. Cross, et al.,*
8 *WP-02-E-WA-01, at 11-12. WPAG then argues that BPA should reserve the additional*
9 *FBS capability that it is acquiring to serve these preference customer loads rather than*
10 *providing service to the IOUs at a discount. Id. Please respond.*

11 A. The fact that BPA is proposing a number of charges that will impose costs on preference
12 customer net requirements loads that request service after the Subscription window does
13 not necessarily mean that BPA expects preference customers to request service during the
14 rate period. Instead, these charges were designed to help BPA to recover its costs *in the*
15 *event* that such loads requested service during the rate period. Absent such charges, BPA
16 may be unable to recover its costs.

17 In its ratemaking process, BPA must achieve a loads and resources balance given
18 the sales forecasts it develops during the rate case. The Northwest Power Act outlines
19 how BPA is to allocate FBS power to its forecasted loads and such power is allocated to
20 such loads. BPA does not reserve power for loads that may occur in excess of its
21 forecasted loads.

22 *Q. Noting that BPA proposes to charge the IOU settlement sales a "PF equivalent" rate,*
23 *PPC argues that if BPA retains the "targeted adjustment charges" and other*
24 *mechanisms that expose preference customers to additional charges, BPA should charge*
25 *the IOUs a rate equivalent to the average rate that preference customers actually pay for*
26

1 *requirements service, not the lowest available PF rate. Hansen, et al., WP-02-E-PP-07,*
2 *at 2. Please respond.*

3 A. Proposed settlement sales to the IOUs are made under the RL and PF Exchange
4 Subscription rates. Such settlement sales must be established during the Subscription
5 window and are for a fixed amount and shape of power during the rate period. The RL and
6 PF Exchange Subscription rates do not include the targeted adjustment charge because all
7 settlement sales must be concluded during the Subscription window. Other charges to the
8 PF Preference rate are not applicable to the settlement sales for similar reasons.

9 Q. *PPC also argues that the IOUs should be responsible for the incremental costs associated*
10 *with serving them under the Subscription Strategy compared to costs associated with*
11 *continued implementation of the Residential Exchange Program. Hansen, et al.,*
12 *WP-02-E-PP-07, at 2. Please respond.*

13 A. As noted in BPA's direct testimony, Residential Exchange Program settlement costs are
14 equitably allocated between the PF Preference class and the RL class. *See Doubleday, et*
15 *al., WP-02-E-BPA-18, at 17-18.* This is appropriate because this allocation results in a
16 rate level for the settlement sales that supports the proposed value of the settlement of the
17 Residential Exchange Program with regional IOUs. This allocation also helps to promote
18 the wide and diversified use and distribution of Federal power.

19 Q. *PPC argues that BPA should either limit sales to the IOUs to 1,800 aMW stated in the*
20 *Subscription Strategy instead of increasing the amount to 1900 aMW or BPA should*
21 *purchase 100 aMW of power at market rates and meld the cost of that power into the cost*
22 *of the 1,800 aMW proposed to be offered to the IOUs. Hansen, et al., WP-02-E-PP-0,7*
23 *at 4. Please respond.*

24 A. In response to the suggestion that BPA should increase the proposed settlement amount
25 from 1,800 aMW to 1,900 aMW, BPA noted that BPA would consider adding the
26 additional 100 aMW as long as BPA's goal of not increasing the average PF Preference

1 rate over present levels could be met, no change in Treasury Payment Probability is
2 required, no change in the DSI rate proposal is required, and there is no impact on BPA's
3 ability to meet its fish and wildlife commitments. *See* Burns and Elizalde,
4 WP-02-E-BPA-08, at 12. BPA is currently taking public comments on whether BPA
5 should increase the proposed settlement amount by 100 aMW. The decision on whether
6 to increase the settlement amount will be made in a separate forum.

7 With regard to the suggestion that BPA should purchase power and meld the cost in
8 with the cost of the 1,800 aMW, this would be inappropriate because BPA has proposed an
9 appropriate method of allocating the costs of the proposed IOU settlements. Simply because
10 the amount is increased by 100 aMW does not mean that these costs should be treated
11 differently.

12 *Q. Does this conclude your testimony?*

13 *A. Yes.*