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REBUTTAL TESTIMONY OF  
PAUL T. KAPTUR, BYRON G. KEEP, WILLIAM J. DOUBLEDAY,  
AND RICHARD H. CLARK  
Witnesses for Bonneville Power Administration

**SUBJECT: Rebuttal Testimony for Section 7(b)(2) Rate Test Study**

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5  
6 **SUBJECT: REBUTTAL TESTIMONY FOR SECTION 7(b)(2) RATE TEST STUDY**

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

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

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

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

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

12 A. My name is Richard H. Clark. My qualifications are stated in WP-02-Q-BPA-13.

13 *Q. Please state the purpose of your rebuttal testimony.*

14 A. The purpose of this rebuttal testimony is to respond to the direct testimony of the  
15 investor-owned utilities (IOUs), Hoff, *et al.*, WP-02-E-AC/GE/IP/MP/PL/PS-03; the  
16 direct service industries (DSIs), Schoenbeck, *et al.*, WP-02-E-DS/AL/VN-04(E1);  
17 Alcoa, Inc., Vinalco, Inc. and Energy Services, Inc. (Alcoa), Speer, *et al.*,  
18 WP-02-E-AL/VN/EG-02; and the Western Public Agencies Group (WPAG), Cross,  
19 *et al.*, WP-02-E-WA-01, regarding the section 7(b)(2) rate test.

20 *Q. Please summarize your testimony.*

21 A. This testimony will discuss the implementation of the rate test established by  
22 section 7(b)(2) of the Pacific Northwest Electric Power Planning and Conservation Act  
23 (Northwest Power Act), 16 U.S.C. §839e(b)(2). Section 2 discusses the section 7(b)(2)  
24 rate test results. Section 3 discusses the section 7(b)(2) rate test models. Section 4  
25 discusses the DSI value of reserves. Section 5 discusses the DSI industrial margin.  
26 Section 6 discusses the costs of uncontrollable events. Section 7 discusses the treatment

1 of conservation. Section 8 discusses DSI loads and elasticity of demand. Section 9  
2 discusses the service of 7(b)(2) customers' loads. Section 10 discusses the treatment of  
3 the Mid-Columbia resources. Finally, section 11 discusses the implementation of the  
4 section 7(b)(2) rate test.

5 **Section 2. Section 7(b)(2) Rate Test Results**

6 *Q. The IOUs argue that Bonneville Power Administration (BPA) has taken actions to*  
7 *minimize credits to residential and small farm customer under the Residential Exchange*  
8 *Program. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 5. Do you agree?*

9 A. No. BPA has not minimized the benefits of the Residential Exchange Program. It would  
10 be more accurate to say that BPA has made decisions on the issues related to the section  
11 7(b)(2) rate test in its rate hearings in accordance with the rate directives of the Northwest  
12 Power Act and the Section 7(b)(2) Implementation Methodology. These decisions result  
13 in the rate test triggering or not triggering and, if the rate test triggers, an amount of the  
14 trigger. The rate test can result in an increase in the Priority Firm Power (PF) Exchange  
15 rate, which decreases Residential Exchange benefits given a fixed average system cost  
16 (ASC).

17 *Q. The IOUs argue that BPA's establishment of an ASC Methodology in 1984 arbitrarily*  
18 *lowered the value of utilities' ASCs, which limited Residential Exchange benefits and*  
19 *created unjustified deemer balances for some utilities. Hoff, et al.,*  
20 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 6. Do you agree?*

21 A. No. BPA counsel has advised that BPA properly established the 1984 ASC Methodology  
22 and that the ASC Methodology was affirmed by both the Federal Energy Regulatory  
23 Commission and the United States Court of Appeals for the Ninth Circuit.

24 *Q. The IOUs argue that BPA made changes to its 1996 rate case 7(b)(2) calculations*  
25 *because it was concerned that DSI customers would pay rates that would be greater than*  
26 *market rates and BPA decided to develop a new rate approach that would: (1) provide*

1           *lower DSI rates; and (2) pay for those rate discounts through an increase in Residential*  
2           *Exchange rates. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 7. Do you agree?*

3 A. No. The effect of changing market conditions on BPA, as well as BPA's policy changes  
4 in response to the changing market conditions, are reflected in the 1996 section 7(b)(2)  
5 rate test. The rate test trigger of 3.2 mills in the 1996 rate case was the result of many  
6 market driven changes, including: (1) lower market forecasts for the price of power prior  
7 to the 1996 rate case that caused BPA to under go a major cost-cutting process to remain  
8 competitive during the rate period; (2) lower market forecasts for the price of power that  
9 resulted in diversification of load away from BPA; (3) BPA's conservation program costs  
10 that were reduced more, on average, than other program costs; (4) the fact that the IOUs,  
11 with a captive customer base, did not match BPA's cost containment; and (5) BPA's  
12 policy for generation acquisition relied on market purchases rather than resource  
13 acquisitions and these purchases replaced reductions in the capability of the Federal Base  
14 System (FBS).

15 *Q. Is triggering the section 7(b)(2) rate test an effective tool to lower the cost of power sold*  
16 *to the DSIs, as the IOUs contend?*

17 A. No. The 7(b)(2) rate test is not an effective mechanism to lower DSI costs, rather, the  
18 test provides rate protection to the PF Preference class. When the section 7(b)(2) rate test  
19 triggers positively, it actually allocates PF Preference protection costs to the DSI rate  
20 class. Those costs remain even after the section 7(c)(2) adjustment links the IP rate to the  
21 now lower PF Preference rate.

22 *Q. In the 1996 rate case, did the section 7(b)(2) rate test have a major effect on the costs*  
23 *allocated to the DSI rate class, as the IOUs contend?*

24 A. No. In the 1996 Final Rate Proposal, the section 7(b)(2) rate test triggered by 3.2 mills,  
25 providing \$621.4 million in rate protection to the PF Preference rate class over five years.  
26 *See Wholesale Power Rate Development Study Documentation, WP-96-FS-BPA-05A,*

1 at 195, Table RDS 30, line 3. Before the section 7(b)(2) rate test triggered, the costs  
2 allocated to the DSI rate class were \$1,556.6 million for five years. After the rate test  
3 triggered by 3.2 mills and the IP-PF link was reestablished, the costs allocated to the DSI  
4 rate class were \$1,539.3 million for five years, a \$17.3 million reduction over five years  
5 or just \$3.5 million per year. *See Wholesale Power Rate Development Study*  
6 *Documentation, WP-96-FS-BPA-05A, at 197, Table RDS 33.*

7 *Q. In the 1996 rate case, did the section 7(b)(2) rate test have a major effect on the proposed*  
8 *rates paid by the DSI rate class, as the IOUs contend?*

9 *A. No. In the 1996 Final Rate Proposal, the Industrial Firm Power (IP) rate under which the*  
10 *DSIs pay for BPA firm power was 22.47 mills per kilowatthour (kWh). *See Wholesale**  
11 *Power Rate Development Study Documentation, WP-96-FS-BPA-05A, at 205, Table*  
12 *RDS 51, line 29. If the energy costs before the section 7(b)(2) rate test, mentioned above,*  
13 *were used in table RDS 51, the IP rate increases to 22.68 mills per kWh. Therefore, the*  
14 *effect of the section 7(b)(2) rate test triggering by 3.2 mills per kWh was to lower the IP*  
15 *rate by 0.21 mills per kWh, a reduction of less than 1 percent.*

16 Clearly, the massive redistribution of Federal benefits from the IOUs to the DSIs  
17 that the IOUs allege did not happen in BPA's 1996 rate case. What did happen is that the  
18 7(b)(2) rate test indicated that the PF Preference customers were entitled to rate  
19 protection of \$621.4 million over five years. This rate protection lowered the PF  
20 Preference rate by 3.2 mills per kWh. As a consequence of this lower PF Preference rate,  
21 the IP rate was lowered 0.21 mills per kWh. Of the total increase in PF Exchange rate  
22 costs over the five-year rate period mentioned above (the \$621.4 million PF Preference  
23 protection plus the \$17.4 million IP-PF link adjustment), only 3 percent came from lower  
24 DSI rates, while 97 percent came from the lower PF Preference rate. As stated above, the  
25 purpose of the 7(b)(2) rate test is to provide rate protection to the PF Preference  
26 customers, not to shift costs away from DSI customers.

1 Q. *The IOUs argue that BPA incorrectly calculated rates in its 1996 rate case and cite a list of*  
2 *issues the IOUs raised in that proceeding. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03,*  
3 *at 7. Do you agree?*

4 A. No. Each of the issues identified by the IOUs was thoroughly litigated in BPA's 1996  
5 rate case and addressed in detail in BPA's 1996 Rate Case Record of Decision (ROD),  
6 which is hereby incorporated by reference.

7 Q. *The IOUs argue that the 7(b)(2) rate test assumptions and BPA's efforts to reduce*  
8 *industrial rates led to a dramatic additional decline in the level of exchange benefits.*  
9 *Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 7. Do you agree?*

10 A. No. It would be more accurate to say that in the 1996 rate case, BPA correctly performed  
11 the 7(b)(2) rate test and that market conditions and policy decisions in the 1996 rate case,  
12 as discussed above, caused the 7(b)(2) rate test to trigger. This established a PF  
13 Exchange rate that, when used in implementing the Residential Exchange Program,  
14 resulted in fewer benefits to exchanging utilities than were available in the prior rate  
15 period (assuming equal ASCs) due to the fact that the 1996 PF Exchange rate was higher  
16 than the preceding PF Exchange rate. As discussed above, changes in the level of the  
17 section 7(b)(2) rate test trigger had a minimal effect (less than a 1 percent change) on  
18 the level of the 1996 IP rate.

19 **Section 3. Section 7(b)(2) Rate Test Models**

20 Q. *The IOUs argue that BPA's rates models that were provided to them are difficult to use*  
21 *and that BPA was unresponsive to their requests for clarification. Hoff, et al.,*  
22 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 8 and 9. They give an example in their testimony:*

23 *For instance, when asked in a data request to identify the cells that would need to*  
24 *be changed in the model if one were to change assumptions regarding the DSI*  
25 *loads in the program case and/or the 7(b)(2) case in PS-BPA-072, BPA replied:*  
26 *"The DSI loads are in Input\_Initial\_Web.xls, tab "LOADS," rows 140 to 170."*  
*However, making these changes yields an erroneous PF preference rate. Upon*  
*inspection, we discovered that additional changes needed to be made in*  
*Ram\_Prog\_Initial.xls, tab "DSI Subscription."*

1 *Id. Do you agree that the models are difficult to use and that BPA has been*  
2 *unresponsive?*

3 A No. BPA's effort to move the section 7(b)(2) rate test modeling from a large FORTRAN  
4 model to a linked Microsoft Excel spreadsheet model has made the section 7(b)(2) rate  
5 test much more accessible to the parties than it has ever been before. Other parties to the  
6 rate case have used the current versions of the models for scenario analysis. However,  
7 these models are being used for the 7(b)(2) rate test for the first time in this rate case and  
8 BPA expects that the models will be improved for ease of use and flexibility of analyses  
9 over time.

10 With regard to the IOUs' citation to a BPA data response and argument that BPA  
11 has been unresponsive, the full text of PS-BPA-072 is as follows:

12 The DSI loads are in Input\_Initial\_Web.xls, tab "LOADS", rows 140 to 170.  
13 Changes to these values will affect the Program and 7(b)(2) Cases. However,  
14 the RAM can not analyze changes in load/resource balance that would be  
15 caused by changing these values. RAM relies on the load/resource balance  
produced by the Loads and Resources Study, WP-02-E-BPA-01.

16 As the data response shows, the IOUs were informed that changing the DSI load amounts  
17 in the Rate Analysis Model (RAM) would result in an erroneous rate analysis because the  
18 loads/resources balance would be disturbed. Also, the additional changes that the IOUs  
19 say needed to be made in Ram\_Prog\_Initial.xls, tab "DSI Subscription," did not need to  
20 be made. These additional changes do not affect the section 7(b)(2) rate test Program  
21 Case or 7(b)(2) Case. The section 7(b)(2) rate test is completed before the modeling  
22 proceeds to the "DSI Subscription" tab.

23 Q. *The IOUs argue that BPA's model multiplied utilities' loads by .000000001 except for*  
24 *Puget Sound Energy (PSE), "Utah Power" and Portland General Electric (PGE),*  
25 *thereby arbitrarily excluding those loads from any exchange scenario. Hoff, et al.,*  
26 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 9. Do you agree?*

1 A. No. BPA's use of the multiplier in the Residential Exchange Program costing model was  
2 not arbitrary. First, BPA made a preliminary determination of which IOUs and public  
3 body customers might have ASCs that would be high enough to ensure positive  
4 Residential Exchange benefits for the rate period. *See Boling, et al.*, WP-02-E-BPA-30,  
5 at 6. Second, after the ASCs for these utilities were finalized, BPA determined which of  
6 the exchanging utilities would be subject to in-lieu transactions. Four exchanging  
7 utilities were likely candidates for in-lieu transactions: PSE, PGE, PacifiCorp's Utah  
8 Power Division, and Montana Power Company (MPC). *See Boling, et al.*,  
9 WP-02-E-BPA-30, at 12. Because of its small residential load, risk of forecast error,  
10 administrative costs, and a lower ASC relative to the other three utilities, MPC was not  
11 forecasted to be subject to an in-lieu transaction. *See Boling, et al.*, WP-02-E-BPA-30,  
12 at 13. In the model, the forecasted loads for the non-exchanging utilities were multiplied  
13 by a very small number to indicate that they were not exchanging, while avoiding  
14 divide-by-zero errors. Had BPA included the loads of all utilities, whether exchanging or  
15 deeming, in the calculation of the gross cost of the Residential Exchange Program, the  
16 section 7(b)(2) rate test trigger would likely have been greater than the 3.7 mill trigger in  
17 the Initial Proposal.

18 *Q. The IOUs argue that BPA's 7(b)(2) models appear designed to attempt to verify a narrow*  
19 *set of input assumptions made by BPA in its initial proposal for the 7(b)(2) rate test.*  
20 *Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 9. Please respond.*

21 A. The RAM is designed to perform the 7(b)(2) rate test and develop the posted rates using  
22 the relevant data for the rate test period. Specialists throughout BPA develop the rate test  
23 period data inputs used in the calculation of the 7(b)(2) rate test trigger. The RAM  
24 models are deterministic rather than probabilistic and use point value data to calculate a  
25 point value for the 7(b)(2) rate trigger, 3.7 mills in the Initial Proposal, rather than data  
26 distributions to calculate a probabilistic 7(b)(2) rate trigger distribution.

1 Q. *The IOUs argue that the 7(b)(2) models do not readily accommodate a reasonable range*  
2 *of input assumptions for the rate test such that the Administrator will not have an*  
3 *opportunity to evaluate a reasonable range of alternative input assumptions. Hoff, et al.,*  
4 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 9. Do you agree?*

5 A. No. As noted above, BPA's rates models use data developed, supported, and  
6 documented by other workgroups within BPA. The RAM rates models were furnished to  
7 the parties in electronic form so that the parties could review the data and the processes  
8 BPA used to develop its initial posted rates. However, BPA has not developed these  
9 models to perform all types of scenario analysis in a stand-alone mode. Some types of  
10 scenario analysis can only be done with the assistance of other groups within BPA. For  
11 example, as stated above, the RAM models rely on the loads/resources balance provided  
12 by the Loads and Resources Study. The inability to perform all scenarios as a  
13 stand-alone model is a function of the complexity of BPA's business rather than an  
14 attempt to deny rate case parties the ability to conduct rate scenarios. In addition, the  
15 parties have the ability to file testimony on any issue regarding the 7(b)(2) rate test. Even  
16 assuming that numerical summaries of some parties' alternative scenarios were not  
17 available, the Administrator would be able to review the parties' testimony and other  
18 materials that address all relevant issues regarding the rate test.

19 Q. *The IOUs argue that they analyzed the 7(b)(2) rate test and it produced a substantial*  
20 *difference between the PF Preference rate and the PF Exchange rate even though there*  
21 *was no cost of the Residential Exchange and no PF Exchange loads to recover the extra*  
22 *costs, which shows a bias inherent in the analysis. Hoff, et al.,*  
23 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 10. Do you agree?*

24 A. No. The section 7(b)(2) rate test includes five assumptions that separate the Program  
25 Case from the 7(b)(2) Case. The Residential Exchange Program is only one of these  
26

1 five assumptions. The IOUs' analysis does not show an inherent bias in BPA's 7(b)(2)  
2 rate test analysis.

3 *Q. The IOUs argue that eliminating the cost of the Residential Exchange should eliminate*  
4 *the need to protect the PF rates from the extra costs of the exchange but the model*  
5 *indicated that the revenue responsibility of the PF rate would be reduced by \$264 million*  
6 *even without the exchange, which shows a built in bias of \$264 million against the*  
7 *exchanging utilities. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 10. Do you*  
8 *agree?*

9 *A. No. As noted above, there are five 7(b)(2) assumptions that distinguish the Program Case*  
10 *from the 7(b)(2) Case. The Residential Exchange Program is only one of the five*  
11 *assumptions. BPA does not believe that simply eliminating one of the five assumptions*  
12 *proves a fundamental bias in the section 7(b)(2) methodology. The section 7(b)(2) rate*  
13 *test is not a simple comparison of a world with the Residential Exchange Program and a*  
14 *world without the Residential Exchange Program.*

15 *Q. The IOUs note that through data requests PS-BPA-061-068, they asked BPA for the*  
16 *results of any sensitivity analyses it had conducted and BPA noted that it did not have*  
17 *any documents regarding sensitivity analyses, which indicates either an inflexibility of*  
18 *BPA's approach and models with regard to major assumptions critical to the 7(b)(2)*  
19 *analysis or the inability of the model to adequately accommodate such changes.*  
20 *Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 10. Do you agree?*

21 *A. No. As explained in greater detail below, the fact that BPA did not have any documents*  
22 *regarding sensitivity analyses simply shows that it was not necessary for BPA to conduct*  
23 *such analyses in preparing its Initial Proposal.*

24 In their data requests, the IOUs asked for sensitivities on the level of the 7(b)(2)  
25 trigger. The 7(b)(2) trigger amount is a result of the rate test, not an input. Therefore, no  
26 sensitivities were conducted. The IOUs also asked for sensitivities on Planned Net

1 Revenue for Risk (PNRR). The PNRR amount is the result of an iterative process  
2 between the RAM and the risk models, not simply an input. Therefore, no sensitivities  
3 were conducted. The IOUs asked for sensitivities on the costs and availability of  
4 resources in the 7(b)(2) Case. The treatment of the costs and availability of resources in  
5 the 7(b)(2) Case is prescribed in the Section 7(b)(2) Implementation Methodology.  
6 (BPA's Section 7(b)(2) Implementation Methodology, b-2-84-F-02, and BPA's Legal  
7 Interpretation of Section 7(b)(2), b2-84-FR-03, are hereby incorporated by reference.)  
8 Therefore, no sensitivities were conducted. The IOUs asked for sensitivities on the  
9 components of the IP-PF Link. The IP-PF Link is determined by BPA's interpretation of  
10 section 7(c)(2) of the Northwest Power Act. Therefore, no sensitivities were conducted.  
11 The IOUs asked for sensitivities on the levels of system augmentation. The amount of  
12 system augmentation is determined in the Loads and Resources Study. Therefore, no  
13 sensitivities were conducted. The IOUs asked for sensitivities on variations in DSI loads.  
14 The RAM models use the DSI loads determined in the Loads and Resources Study.  
15 Therefore, no sensitivities were conducted. The IOUs asked for sensitivities on  
16 exchanging utility ASCs and percentages of in-lieu transactions. The RAM models  
17 reflect the ASCs and percentage of in-lieu transaction amounts discussed in Boling, *et al.*,  
18 WP-02-E-BPA-30. Therefore, no sensitivities were conducted. In summary, the RAM  
19 models use data developed outside of the rates group and calculate rates assuming the  
20 forecasted costs, revenues, sales, and policy decisions that make up BPA's Initial  
21 Proposal.

22 **Section 4. DSI Value of Reserves**

23 *Q. The IOUs argue that unlike all previous IP rates, the rate in this case is not reduced by*  
24 *the value of reserves, therefore, the 1985 rate used in the DSI floor rate calculation must*  
25 *be adjusted for reserves. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 11-13. Do*  
26 *you agree?*

1 A. No. The IP-83 rate in effect on June 1995 and used in the DSI floor rate calculation did  
2 not include a value of reserves credit. The value of reserves was a separate adjustment in  
3 the IP-83 rate schedule and is not used in the calculation of the DSI floor rate. *See* 1983  
4 Final Rate Proposal, Administrator’s ROD, WP-83-A-02, Rate Schedule IP-83,  
5 at D-10 to D-17.

6 **Section 5. DSI Industrial Margin**

7 *Q. The IOUs argue that revenue taxes should be included in the DSI industrial margin*  
8 *calculation. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 13-19. Do you agree?*

9 A. Issues regarding the development of the IP rate are addressed in separate BPA rebuttal  
10 testimony. *See* Ebberts, WP-02-E-BPA-47.

11 **Section 6. Costs of Uncontrollable Events**

12 *Q. The IOUs argue that BPA is required to exclude the cost of uncontrollable events from*  
13 *the Program Case and that BPA’s PNRR constitute the costs of uncontrollable events.*  
14 *Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 19-20. Do you agree?*

15 A. BPA agrees that, as a section 7(g) cost, the costs of uncontrollable events should be  
16 excluded from the Program Case rates when performing the 7(b)(2) rate test. However,  
17 BPA has not identified any costs as being costs of uncontrollable events in this rate case  
18 and, as discussed in greater detail below, disagrees with the IOUs’ assertion that PNRR  
19 represents the cost of uncontrollable events.

20 *Q. Please define “uncontrollable events.”*

21 A. As BPA recognized in its 1996 rate case, “uncontrollable events” is a statutory term that  
22 logically refers to discrete events, which differ from the continuum of changing events  
23 that occur in nature, business, and government. For example, BPA will always  
24 experience changes in water conditions, thermal generation performance, electricity  
25 market prices, gas prices, and load uncertainties. These types of uncertainties always  
26 exist and are routinely reflected in ratemaking. Because BPA’s initial proposal does not

1 identify any uncontrollable events, it would be inappropriate to select any particular costs  
2 to be viewed as uncontrollable events only for the section 7(b)(2) rate test.

3 *Q. How does BPA use PNRR?*

4 A. BPA's direct testimony states that "the \$127 million for PNRR is the amount necessary,  
5 together with Cost Recovery Adjustment Clause and other measures, to mitigate the wide  
6 uncertainties we face to achieve 88 percent Treasury Payment Probability standard.  
7 PNRR, however, is only one component of the total cash flow for risk." See Lovell, *et*  
8 *al.*, WP-02-E-BPA-14, at 13, lines 1-4.

9 *Q. Has BPA defined what is included in the "wide uncertainties" mitigated by PNRR?*

10 A. Yes. BPA defined the range of uncertainties to include: "operating risk--Hydro and  
11 thermal generation performance, California market prices, Southwest gas prices, and  
12 generating and non-generating public utility load uncertainty. As a counterpart to RAM,  
13 Non-Operating Risk Model produces cost distributions that reflect the impact of  
14 non-generating risks that Power Business Line (PBL) is facing in the Fiscal Year  
15 (FY) 2002-2006 rate period. These non-operating risks include, but are not limited to  
16 fish and wildlife operations and maintenance and capital recovery expenses and other  
17 expenses." See Revenue Requirement Study, WP-02-E-BPA-02, at 22, lines 24 -26 and  
18 page 23, lines 1-5.

19 *Q. The IOUs argue that the cost of PNRR, like the cost of conservation, is included in BPA's*  
20 *proposed power rates and therefore must be included in the 7(g) calculation and that*  
21 *such costs are to be included in the 7(g) adjustment that is subtracted from the Program*  
22 *Case before comparison with the 7(b)(2) Case. Hoff, et al.,*  
23 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 20. Do you agree?*

24 A. No. As noted above, PNRR, along with other measures, mitigates the risk of a wide  
25 range of uncertainties routinely experienced in ratemaking. The cost of mitigating a wide  
26 range of uncertainties is not the same as the cost of uncontrollable events, which BPA

1 counsel has advised are discrete events not routinely reflected in ratemaking. Therefore,  
2 PNRR costs are not the costs of uncontrollable events and should not be included in the  
3 7(g) adjustment in the 7(b)(2) rate test calculation.

4 *Q. The IOUs argue that PNRR should be eliminated. Hoff, et al.,*  
5 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 30. Do you agree?*

6 *A. Issues regarding PNRR are addressed in separate testimony. See Lovell, et al.,*  
7 *WP-02-E-BPA-40.*

8 **Section 7. Conservation**

9 *Q. The IOUs argue that conservation resources are FBS resources. Hoff, et al.,*  
10 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 24. Do you agree?*

11 *A. No. BPA counsel has advised that conservation and FBS resources are defined separately*  
12 *in the Northwest Power Act. In addition, BPA counsel has advised that conservation and*  
13 *FBS resources are expressly distinguished in the Section 7(b)(2) Implementation*  
14 *Methodology Administrator’s ROD. Conservation resources are included as part of the*  
15 *three types of resources that are to be added if the FBS is insufficient to meet 7(b)(2)*  
16 *customer loads:*

17 If FBS resources, after meeting contractual obligations, are insufficient to meet  
18 the general requirements of the 7(b)(2) customers, then three types of additional  
19 resources can be added to serve those loads. These additional resources are  
20 defined in Section 7(b)(2) and are: (a) actual and planned resource acquisitions  
21 by BPA from 7(b)(2) customers consistent with the program case; (b) existing  
22 7(b)(2) customer resources not currently dedicated to their regional load; and  
23 (c) generic resources at the average cost of actual and planned resource  
24 acquisitions from non-7(b)(2) customers consistent with the program case. *These*  
25 *resources will include any conservation programs undertaken or acquired by*  
26 *BPA. They will be assumed to come online to meet the remaining general*  
*requirements of 7(b)(2) customers after FBS service in order of least cost first.*  
*The first two types of resources will come online in discrete increments,*  
*reflecting the actual size of the resource or the increment actually acquired by*  
*BPA. The third type will be brought on-line in the exact amount required to meet*  
*the 7(b)(2) customers’ general requirements, reflecting their generic nature.*

1 See Section 7(b)(2) Implementation Methodology Administrator's ROD, b-2-84-F-02,  
2 page 42 (emphasis added). Because the three types of resources include any conservation  
3 resources and are to come online after the FBS resources are exhausted, conservation  
4 resources are not FBS resources in the 7(b)(2) rate test.

5 This distinction between conservation and FBS resources can be seen in the  
6 treatment of their respective costs in the Cost of Service Analysis (COSA) that BPA uses  
7 to determine the cost of resource pools and the allocation of those costs to rate pools. In  
8 the COSA06 tables, FBS resource costs are shown on lines 2-11, New Resource costs are  
9 shown on lines 12-17, Residential Exchange resource costs are shown on line 18, and  
10 Conservation and Energy Services Business costs are shown on lines 19 and 20.

11 See Wholesale Power Rate Design Study, WP-02-E-BPA-05A, pages 49-53.

12 Further, BPA counsel has advised that section 7(b)(1) of the Northwest Power Act  
13 outlines how the costs of FBS resources, Residential Exchange resources, and new  
14 resources are allocated to rate pools. BPA counsel has also advised that section 7(g)  
15 outlines how other costs, including the costs of conservation, are allocated. As a  
16 section 7(g) cost, the cost of conservation is removed from the Program Case PF rates  
17 before the calculation of the 7(b)(2) rate test trigger.

18 *Q. The IOUs argue that as FBS resources, conservation must be used before other resources*  
19 *are assumed to be acquired and used by preference customers and they must be used*  
20 *before other resources acquired under section 7(b)(2)(D). Hoff, et al.,*  
21 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 24. Do you agree?*

22 *A. No. As noted above, conservation resources are not FBS resources.*

23 *Q. The IOUs argue that since 1982, BPA has acquired approximately 723 average*  
24 *megawatts (aMW) of conservation and BPA treats conservation as a resource. Hoff,*  
25 *et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 25. Do you agree?*

26

1 A. As noted above, the Section 7(b)(2) Implementation Methodology treats conservation as  
2 a resource to be placed in the 7(b)(2) Case resource stack, to be used after FBS resources  
3 are exhausted.

4 *Q. The IOUs argue that BPA has replaced at least some of the reduction in the FBS by*  
5 *acquiring conservation. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 26. The*  
6 *IOUs argue that BPA acquired conservation to replace lost FBS resources because, as*  
7 *an example, BPA lost its share of Trojan nuclear plant output in 1996 and in 1992 BPA*  
8 *said that conservation is its highest priority in resource acquisition activities to meet*  
9 *power needs over the next decade. Id. at 27. Do you agree?*

10 A. No. BPA counsel has advised that resources do not automatically become replacements  
11 for reductions in the capability of the FBS. BPA has never proposed that conservation be  
12 used as an FBS replacement.

13 *Q. The IOUs argue that including conservation in the FBS will encourage cost-effective*  
14 *conservation throughout the region because if BPA charges artificially low rates due to*  
15 *incorrectly applying the 7(b)(2) rate test, this will tend to make new conservation*  
16 *measures comparatively more costly, thus tending to decrease the amount of*  
17 *conservation. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 24. Do you agree?*

18 A. BPA agrees with the general theoretical argument that if electric power costs were made  
19 to be artificially high in the Pacific Northwest, conservation would be a comparatively  
20 more cost-effective alternative. However, BPA does not believe that higher energy costs  
21 are a net benefit to the region.

22 **Section 8. DSI Loads and Elasticity of Demand**

23 *Q. The IOUs argue that BPA included 847 aMW of DSI “within or adjacent” load in the*  
24 *7(b)(2) Case, which is 85.6 percent of 990 aMW, while at a minimum BPA should have*  
25 *included the amount of load projected to be served under Subscription, or 1,440 aMW,*  
26

1 85.6 percent of which is 1,233 aMW. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03,  
2 at 28. Do you agree?

3 A. No. In the 7(b)(2) rate test, BPA calculated rates using the firm DSI loads that were  
4 included in the Loads and Resources Study. The 7(b)(2) rate test is performed in the Rate  
5 Design Step of the RAM rates models. This step calculates rates assuming costs  
6 associated with providing traditional Residential Exchange Program benefits rather than  
7 the costs of a Subscription settlement of the Residential Exchange Program. In the  
8 Program Case of the Rate Design Step, the Administrator is assumed to serve the DSIs  
9 with 990 aMW of firm power sold under the IP-02 rate. The “within or adjacent” portion  
10 of the 990 aMW is the 847 aMW used in the 7(b)(2) Case. The IOUs are proposing to  
11 include the “within or adjacent” portion of an additional 450 aMW in the 7(b)(2) Case.  
12 This is incorrect. That 450 aMW of firm service to DSI load is sold under the  
13 Subscription Strategy Industrial Firm Power Targeted Adjustment Charge rate and is  
14 served with DSI specific market price purchases in the Subscription Step of the RAM rate  
15 models. These additional RAM Subscription Step firm DSI loads and their associated  
16 costs are not included in the RAM Rate Design Step and should not be included in the  
17 section 7(b)(2) rate test Program or 7(b)(2) Cases.

18 Q. *The IOUs argue that the Northwest Power Act calls for the inclusion of DSI customer*  
19 *loads “served by the Administrator” located within or adjacent to the geographic service*  
20 *boundaries of public bodies in the PF loads of the 7(b)(2) Case. Hoff, et al.,*  
21 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 28. They argue that since the rate case includes*  
22 *loads for DSIs as high as 1,959 aMW in FY 2001, the amount added to PF load should be*  
23 *1,677 aMW. Id. Please respond.*

24 A. The IOUs’ contention that the rate case includes loads for DSIs as high as 1,959 aMW  
25 (in FY 2001) is in error. DSI loads in the Program Case are forecasted for the FY 2002 to  
26 FY 2010 7(b)(2) rate test period, which does not include FY 2001. However, as

1 discussed below, BPA recognizes that DSI “within and adjacent” loads should be  
2 increased due to the section 7(b)(2) rate test natural consequence of elasticity of demand.

3 *Q. The IOUs argue that elasticity of demand is one of the natural consequences that should*  
4 *be modeled in the rate test. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 29. The*  
5 *IOUs argue that to test whether elasticity of demand should be considered, the rate*  
6 *offered to the DSIs by the publics (best approximated by the PF rate plus a margin, or*  
7 *22.44 mills) should be compared to the assumed market price of 28.1 mills, leading one*  
8 *to assume that most of the DSIs would elect to take service from the neighboring public*  
9 *utility. Id. Do you agree?*

10 *A. Yes. The initial loads used in the 7(b)(2) Case are the same as those used in the Program*  
11 *Case, except that they do not include estimates of programmatic conservation and the*  
12 *Program Case DSI load that is “within or adjacent” to a public customer is added to the*  
13 *7(b)(2) Case PF load. Because the 7(b)(2) methodology recognizes the elasticity of*  
14 *demand as one of the natural consequences of the five 7(b)(2) assumptions, BPA agrees*  
15 *with the IOUs that the DSI “within or adjacent” load used in the 7(b)(2) Case should be*  
16 *increased above the 847 aMW used in the Initial Proposal.*

17 *Q. The IOUs argue that because elasticity of demand is one of the natural consequences that*  
18 *should be modeled in the rate test, preference agencies’ loads in the 7(b)(2) Case should*  
19 *be increased by up to 2,010 aMW. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 29.*  
20 *Do you agree?*

21 *A. While BPA believes it is appropriate to address the elasticity of demand, the increase in*  
22 *preference agencies’ loads would be much less than 2,010 aMW. If a DSI load leaves the*  
23 *region or is no longer served by BPA, it will not be assumed to transfer from BPA’s*  
24 *service in the Program Case to utility service in the 7(b)(2) Case. See Section 7(b)(2)*  
25 *Implementation Methodology ROD, b-2-84-F-02, at 41. As reflected in BPA’s 1996 rate*  
26 *case, the DSIs argued that BPA should allow them to reduce the amount of power they*

1 were required to purchase. BPA allowed the DSIs to take a reduced amount of power  
2 from BPA and diversify their load to other suppliers. That diversified load cannot  
3 become PF load in the 7(b)(2) Case. After assuming diversification, the forecast of DSI  
4 load placed on BPA for FY 2001 is 1,947 aMW. Assuming all of the “within or  
5 adjacent” portion of this load would be placed on preference customers during the rate  
6 test period in the 7(b)(2) Case, a preliminary calculation of the additional PF load in the  
7 7(b)(2) Case is:

$$(1,947 \text{ aMW} - 990 \text{ aMW}) * .856 = 819 \text{ aMW}$$

8  
9 *Q. Does the additional service from BPA’s preference customers to the DSIs in the 7(b)(2)*  
10 *Case that is described above affect the treatment of any additional DSI load in the*  
11 *Program Case of the section 7(b)(2) rate test or the Subscription Step in the RAM?*

12 *A. No. For purposes of this rate proceeding, BPA has assumed that any DSI service beyond*  
13 *what BPA is serving in the Program Case of the section 7(b)(2) rate test (990 aMW), or*  
14 *the Subscription Step in the RAM (1,440 aMW), would be from preference utilities that*  
15 *purchase power under the New Resource Firm Power (NR) rate. This assumption reflects*  
16 *BPA’s current rate treatment regarding shifts in DSI load to preference customers, which*  
17 *is assumed to continue to apply to service after 2001. Because the NR rate is expected to*  
18 *be above market rates for power during the rate period, BPA assumes that the DSIs*  
19 *would decline service from BPA’s preference customers.*

20 **Section 9. Service of 7(b)(2) Customers’ Loads**

21 *Q. The DSIs argue that additional resources in excess of FBS resources are not needed to*  
22 *serve 7(b)(2) customers’ loads from the start of the test period, as evidenced by the size*  
23 *of the FBS (8,766 aMW), which exceeds the 7(b)(2) loads (from 5,423 aMW to*  
24 *7,191 aMW). Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1), at 11. Do you agree?*

25 *A. Yes. Additional resources in excess of the FBS are not needed because the FBS is*  
26 *sufficient to meet 7(b)(2) customers’ loads.*

1 Q. *The DSIs argue that the resources BPA has added in the 7(b)(2) Case are actually used*  
2 *to serve the surplus sales as reflected in this rate filing and that the additional resources*  
3 *BPA has called upon, the Mid-Columbia resources, may only be used in the 7(b)(2) Case*  
4 *to serve preference customer loads and then only if the existing FBS is inadequate.*  
5 *Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1), at 13. Do you agree?*

6 A. Yes. Where the FBS is sufficient to meet the 7(b)(2) customers' loads, additional  
7 resources, such as the Mid-Columbia resources, are not needed.

8 Q. *The DSIs argue that the FBS is 8,845 aMW and the PF load is 5,591 aMW since only*  
9 *840 aMW of within and adjacent DSI load is included in the 7(b)(2) Case, therefore no*  
10 *additional resources are required to serve the PF load yet BPA pulled 456 aMW of*  
11 *resources from the least cost stack which were used as part of the cost basis of BPA's*  
12 *surplus sales in the 7(b)(2) Case. Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1),*  
13 *at 13-14. Please respond.*

14 A. BPA agrees with the DSI argument that in the 7(b)(2) Case, the FBS must be used to  
15 serve the 7(b)(2) customers' loads first and that resources taken from the resource stack  
16 can only be used to serve 7(b)(2) customers' loads.

17 Q. *The DSIs argue that BPA's use of Mid-Columbia resources to serve the surplus sales in*  
18 *the 7(b)(2) Case is the reason for the large rate test trigger, as seen by comparing the*  
19 *"Surplus Firm Power Revenue Surplus/(Deficiency)" adjustment between the two cases.*  
20 *Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1), at 14-15. Please respond.*

21 A. BPA now believes that resources from the 7(b)(2) resource stack should not have been  
22 used to serve load in the 7(b)(2) rate test in BPA's Initial Proposal. However, the DSI  
23 argument regarding the cause of the trigger is an overly simplistic view of the 7(b)(2) rate  
24 test. For example, for the year 2002 in the 7(b)(2) Case, the Mid-Columbia resources  
25 taken from the stack account for just 5 percent of the resources used to serve all loads and  
26 just 13 percent of the resources used to serve the surplus sales. *See Section 7(b)(2) Rate*

1 Test Study Documentation, WP-02-E-BPA-06A, at 50. The large rate test trigger is  
2 caused by several factors including: (1) BPA's ongoing cost containment, which causes  
3 the cost of FBS resources to be well below market; (2) relatively high exchanging  
4 utilities' ASCs; (3) reductions in BPA's conservation costs; and (4) the absence of a DSI  
5 value of reserves in PBL's rates.

6 *Q. The DSIs argue that the surplus revenue adjustment, which had been a deficit in the*  
7 *Program Case of \$316 million, becomes a substantial surplus of over \$1.1 billion, which*  
8 *reduces the PF rate in the 7(b)(2) Case by 4.4 mills/kWh and causes a difference of about*  
9 *5.3 mills/kWh between the two cases. Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1),*  
10 *at 15. Please respond.*

11 *A.* Again, the DSI argument is an overly simplistic view of the 7(b)(2) rate test. The  
12 differences in the surplus revenue adjustments in the Program and 7(b)(2) Cases are  
13 indicative of the cost differences between the two cases, not a cause of those cost  
14 differences. In the Program Case, 29 percent of the Firm Power Products and Services  
15 (FPS) contracted-for-sales are served with expensive exchange resources and new  
16 resources. The remainder, 71 percent, is served with less expensive FBS resources.  
17 *See Section 7(b)(2) Rate Test Study Documentation, WP-02-E-BPA-06A, at 8.* In the  
18 7(b)(2) Case, 87 percent of the FPS contracted-for-sales are served with less expensive  
19 FBS resources. The remainder, 13 percent, is served with less expensive new resources  
20 from the resource stack. *See Section 7(b)(2) Rate Test Study Documentation,*  
21 *WP-02-E-BPA-06A, at 50.* In addition to the costs of expensive exchange resources, the  
22 Program Case also allocates conservation costs to the FPS contracted-for-sales. The  
23 7(b)(2) Case does not allocate conservation costs to the FPS contracted-for-sales. Along  
24 with higher cost allocations, the Program Case also has a lower excess revenue credit  
25 allocated to the FPS contracted-for-sales. *See Section 7(b)(2) Rate Test Study*  
26 *Documentation, WP-02-E-BPA-06A, Table RDS17, at 31 and 71.* The higher allocated

1 costs and lower allocated excess revenue credit in the Program Case result in the revenue  
2 deficiency. The lower allocated costs and higher allocated excess revenue credit in the  
3 7(b)(2) Case result in the revenue surplus.

4 *Q. The DSIs argue that there are two general methods that could be used to determine the*  
5 *load/resource balance in the 7(b)(2) Case: (1) the surplus market sales should have been*  
6 *reduced to match the available supply level if all existing contracted for resources were*  
7 *insufficient and the Implementation Methodology requires that the 7(b)(2) Case adjust*  
8 *the surplus sales level as a natural consequence of the required changes and the natural*  
9 *consequence of serving more preference load with FBS resources would be a decrease in*  
10 *surplus sales; and (2) resources could be used to serve the projected load but at a cost*  
11 *reflective of actual resource acquisitions and/or opportunities in today's market.*  
12 *Schoenbeck, et al., WP-02-E-DS/AL/VN-04(E1), at 16. Please respond.*

13 *A. BPA now believes that the Section 7(b)(2) Implementation Methodology supports*  
14 *reducing the amount of FPS contracted-for-sales in the 7(b)(2) Case in order to avoid*  
15 *adding resources from the resource stack after all 7(b)(2) customer load has been served.*  
16 *However, the 7(b)(2) methodology does not support the second load/resource balance*  
17 *method suggested by the DSIs. In the 7(b)(2) Case, resources come from either the FBS*  
18 *or the resource stack. A third option of market-based purchases that are not associated*  
19 *with the resource stack is not contemplated in the 7(b)(2) methodology.*

20 *Q. The DSIs argue that all of BPA's existing non-FBS resources should be used to serve the*  
21 *surplus, just as is done in the Program Case, and to the extent additional resources are*  
22 *still needed to meet the "extra" surplus sales which should have been assumed not to be*  
23 *made, the logical choices are BPA's conservation acquisitions or additional market*  
24 *purchases using the same block sales price from the Program Case. Schoenbeck, et al.,*  
25 *WP-02-E-DS/AL/VN-04(E1), at 16. Please respond.*

26

1 A. The size of the FBS is the same in both the Program and 7(b)(2) Cases. The  
2 Section 7(b)(2) Implementation Methodology specifies what types of additional resources  
3 are to be used and in what order they are to be used to serve 7(b)(2) Case loads after the  
4 FBS is exhausted. BPA counsel has advised that the DSI scheme is not supported by the  
5 7(b)(2) methodology or section 7(b)(2) of the Northwest Power Act.

6 **Section 10. Mid-Columbia Resources**

7 *Q. The IOUs raise a number of arguments opposing the inclusion of Mid-Columbia*  
8 *hydroelectric resources in the 7(b)(2) Case resource stack. Hoff, et al.,*  
9 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 20-24. Do you agree?*

10 A. No. These arguments regard Mid-Columbia resources that are owned by regional public  
11 bodies and cooperatives that are not committed to their loads and were not committed to  
12 their loads in the year preceding enactment of the Northwest Power Act. These resources  
13 are not committed to serving these customers' loads in their current power sales contracts  
14 as confirmed by the IOUs' argument that the power is nearly all committed to purchasers,  
15 such as the IOUs, other than BPA. BPA's responses to the IOUs' specific arguments are  
16 provided below. Because BPA has determined that the FBS is sufficient to meet the  
17 7(b)(2) customers' loads in the 7(b)(2) Case, however, this issue is unlikely to affect the  
18 development of the PF Exchange Program rate.

19 *Q. The IOUs argue that the 7(b)(2) Case and Program Case resource stacks are to*  
20 *represent power rather than the physical assets of generating facilities. Hoff, et al.,*  
21 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 21. Do you agree?*

22 A. No. The 7(b)(2) Case resource stack contains power amounts and costs associated with  
23 physical generating assets or conservation investments. Most of these assets are named  
24 resources that exist now and are producing power now. In some cases, generic future  
25 costs are included. The listing of generating assets as well as conservation investments is  
26 consistent with BPA's listing of resources in prior rate cases. The Section 7(b)(2)

1 Implementation Methodology addresses the issue of listing resources and the sorting of  
2 these resources by cost, providing that “[t]hey [the resources] will be assumed to come  
3 online to meet the remaining general requirements of the 7(b)(2) customers after FBS  
4 service in order of least cost first. The first two types of resources will come online in  
5 discreet increments, reflecting the actual size of the resource or the increment actually  
6 acquired by BPA.” Section 7(b)(2) Implementation Methodology at 42. Thus, the  
7 methodology indicates that physical resources, rather than power, come “online” in order  
8 of least cost first and in amounts that “reflect the size of the actual resource.”

9 *Q. The IOUs argue the Mid-Columbia resources are not available for the 7(b)(2) resource*  
10 *stack because it is essentially all committed by contract to purchasers other than BPA*  
11 *under contract rights that continue until after the 7(b)(2) analysis period in the initial*  
12 *proposal. Hoff, et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 21. Do you agree?*

13 *A. No. While entities other than public bodies and cooperatives have purchased power from*  
14 *the owners of the relevant Mid-Columbia resources, the public bodies and cooperatives*  
15 *are still the owners of those resources. BPA counsel has advised that the issue of whether*  
16 *Mid-Columbia resources can be used in the 7(b)(2) Case resource stack is in part a legal*  
17 *issue that may be addressed by parties in their briefs and by BPA in its Draft ROD. The*  
18 *issue of including Mid-Columbia resources in the 7(b)(2) case was fully addressed in*  
19 *the 1996 Final Rate Proposal, Administrator’s ROD, WP-96-A-02, at 248-255.*

20 *Q. The IOUs argue that the Priest Rapids power sales contract expires October 31, 2005,*  
21 *but is subject to a right of first refusal by the existing purchasers, thus the purchasers of*  
22 *the resource will own or control the resources through the 7(b)(2) rate period. Hoff,*  
23 *et al., WP-02-E-AC/GE/IP/MP/PL/PS-03, at 21. Do you agree?*

24 *A. No. As noted above, BPA does not agree with the argument that a purchase agreement*  
25 *constitutes ownership of the resource. Resources owned by 7(b)(2) customers, which are*  
26

1 not dedicated to their own regional loads, are eligible to be placed in the 7(b)(2) resource  
2 stack. See Section 7(b)(2) Implementation Methodology at 42.

3 *Q. The IOUs argue that the power or output of the Mid-Columbia resources is virtually all*  
4 *committed to load and BPA identifies these resources as resources committed to serve*  
5 *regional loads in its White Book, therefore supporting the conclusion that these resources*  
6 *are not available for inclusion in the 7(b)(2) resource stack. Hoff, et al.,*  
7 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 21-22. Do you agree?*

8 A. No. A primary issue regarding the treatment of the Mid-Columbia resources is whether  
9 such resources are not committed to the requirements loads of the public bodies and  
10 cooperatives who own the resources. The White Book shows the resources as committed  
11 to serving regional loads but it does not show the resources as being used to meet the  
12 requirements loads of the public bodies and cooperatives who own the resources. BPA  
13 counsel has advised that the sale of output from the Mid-Columbia resources does not  
14 preclude such resources from inclusion in the 7(b)(2) resource stack.

15 *Q. The IOUs argue that the fact that BPA did not include any Mid-Columbia resources in*  
16 *the resource stack before 1996 also demonstrates that BPA did not consider resources*  
17 *dedicated to regional load as available for inclusion in the resource stack. Hoff, et al.,*  
18 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 22. Do you agree?*

19 A. No. In rate cases prior to the 1996 rate case, BPA included portions of the Mid-Columbia  
20 resources in the 7(b)(2) Case resource stack that were not committed to public body or  
21 cooperative loads and were the least expensive resources owned or purchased by public  
22 bodies or cooperatives. In those rate cases, BPA only included a portion of the  
23 Mid-Columbia resources in the resource stack, which represented power from those  
24 resources that was sold outside the region. BPA mistakenly treated Mid-Columbia power  
25 for purposes of the resource stack based on whether it was sold inside or outside the  
26 region. In its 1996 rate case, BPA acknowledged this erroneous prior treatment. BPA

1 therefore did not allocate the Mid-Columbia resources in the section 7(b)(2) rate test  
2 based on “ownership” of the output, as the IOUs characterize their purchases of power  
3 from the projects, but rather on the erroneous standard of whether the sale was in-region  
4 or out-of-region.

5 Furthermore, as noted above, prior to the 1996 rate case, BPA has historically  
6 included Mid-Columbia power that was sold outside the region in the resource stack.  
7 Thus, despite the fact that entities other than regional public bodies and cooperatives who  
8 dedicated the power to their regional firm loads purchased a portion of the output of the  
9 Mid-Columbia resources, BPA’s prior rate cases included such power in the resource  
10 stack. BPA’s current inclusion of Mid-Columbia resources is consistent with its  
11 treatment in the 1996 and prior rate cases. BPA addressed this issue in the 1996 Final  
12 Rate Proposal, Administrator’s ROD, WP-96-A-02, at 244-255.

13 *Q. The IOUs argue that, even assuming that the power from the Mid-Columbia resources*  
14 *was properly included in the resource stack, it is unreasonable to include the resources*  
15 *at a cost less than market, which would reflect the cost of buying out the non-preference*  
16 *purchasers that own the resources so that they can become resources owned by*  
17 *preference customers and thus available for the 7(b)(2) resource stack. Hoff, et al.,*  
18 *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 23. Do you agree?*

19 *A.* No. The central issue regarding the Mid-Columbia resources is whether they should be  
20 included in the 7(b)(2) Case resource stack. In the event that such resources should not  
21 be included in the resource stack, the cost issue is irrelevant. In the event that such  
22 resources should be included in the resource stack, the IOUs’ proposal is inappropriate  
23 because the Mid-Columbia resources would be included in the resource stack in spite of  
24 existing contracts with third parties executed in the 1950s and 1960s. If the existence of  
25 the contracts did not preclude the Mid-Columbia resources from being included in the  
26

1 resource stack, the buyout of such contracts at market value would not provide a proper  
2 basis for determining the cost of the Mid-Columbia resources.

3 The IOUs' proposal to base the cost of the Mid-Columbia resources on the cost of  
4 buying out contracts at market price is also inappropriate because such an approach  
5 would give little meaning to the requirement to use resources to meet load in the  
6 7(b)(2) Case in the order of least cost first. Under the IOUs' proposal, each  
7 Mid-Columbia resource would have an identical cost, the market cost of power. This  
8 would render the least cost rule superfluous for these resources.

9 The IOUs' proposal is also inconsistent with the manner in which BPA has  
10 previously determined the cost of the Mid-Columbia resources included in the  
11 7(b)(2) Case resource stack. BPA's determination of the cost of the Mid-Columbia  
12 resources is consistent with its determination in BPA's 1996 rate case. In addition, prior  
13 to the 1996 rate case, BPA previously included a small amount of power from the  
14 Mid-Columbia resources in the 7(b)(2) Case resource stack. This was power sold outside  
15 the region. BPA mistakenly assumed that the distinction between a sale to an end-user  
16 that was inside or outside the region was relevant to the inclusion of the resources in the  
17 stack. This small amount of power from the Mid-Columbia resources had been included  
18 at an average cost of about 2 mills/kWh. This shows that the cost of these resources in  
19 the resource stack was determined based on the costs of operation of the resources and  
20 not the cost of buying out the contracts at market price. The IOUs' proposal would  
21 therefore be inconsistent with the manner in which BPA has previously determined the  
22 cost of these resources.

23 *Q. The IOUs argue that for the minor portions of the Mid-Columbia resources that are*  
24 *available preference agency surplus, under the IOUs availability criteria of neither*  
25 *committed by contract to non-preference customers nor committed to regional load, BPA*  
26 *should not assume that it would be included at a price less than market because of recent*

1            *actions by preference customers to sell such surplus at market, with BPA's forecast of*  
2            *market prices as a conservative assumption for the cost of such resources. Hoff, et al.,*  
3            *WP-02-E-AC/GE/IP/MP/PL/PS-03, at 23. Do you agree?*

- 4    A.    No. The distinction between available preference agency surplus and power that is sold  
5            under contract to entities other than public bodies and cooperatives does not affect  
6            whether such power should be included in the 7(b)(2) Case resource stack. Both types of  
7            power are properly included in the stack. BPA disagrees with the IOUs' pricing proposal  
8            for the reasons stated in the previous answer.

9    **Section 11.    Implementation of Section 7(b)(2) Rate Test**

10    *Q.    WPAG argues that BPA has only allocated costs excluded from the PF rate by the rate*  
11            *test to the PF Exchange rate under which BPA is forecasting no sales during the rate*  
12            *period, thereby ultimately reassigning these costs back to the PF rate and depriving*  
13            *preference customers of rate protection. Cross, et al., WP-02-E-WA-01, at 17-18.*  
14            *Please respond.*

- 15    A.    The 7(b)(2) rate test is conducted in the Rate Design Step of the RAM. At this point in  
16            the modeling, the traditional Residential Exchange Program, complete with PF Exchange  
17            load, is assumed. The PF Preference rate protection costs are allocated to PF Exchange  
18            rate load, IP rate load, and NR rate load. *See Wholesale Power Rate Development Study*  
19            *Documentation, WP-02-E-BPA-05A, at 72. The 7(b)(2) rate test trigger increases the PF*  
20            *Exchange Program rate to 37.1 mills from the its pre-7(b)(2) test level of 26.8 mills.*  
21            *See Wholesale Power Rate Design Study Documentation, WP-02-E-BPA-05A, at 77*  
22            *and 81. This has the effect of greatly reducing the net exchange costs to be recovered*  
23            *from all non-PF Exchange Program rate customers. In the RAM, the Rate Design Step is*  
24            *followed in sequence by the Subscription Step, which uses the Rate Design Step results*  
25            *as a starting point. The Subscription Step assumes no traditional Residential Exchange*  
26

1 Program and allocates Subscription-specific costs and credits to develop the proposed  
2 rates.

3 *Q. WPAG argues that the PF rate for preference customers is higher than it would be under*  
4 *the proper application of the rate test and the rates paid by customers who are supposed*  
5 *to bear the costs excluded by the rate test are understated. Cross, et al.,*  
6 *WP-02-E-WA-01, at 17-18. Please respond.*

7 A. This rate case is unique in that during the rate case BPA will not know whether the  
8 exchanging IOUs will choose to continue the traditional Residential Exchange Program  
9 or choose the proposed Subscription settlement of the Residential Exchange Program.  
10 BPA must develop a PF Exchange Program rate for the traditional Residential Exchange  
11 Program as well as a Residential Load (RL) rate/PF Exchange Subscription rate for  
12 Subscription settlement sales. To accomplish this, a sequential ratemaking methodology  
13 was adopted. If the IOUs choose to continue their participation in the traditional  
14 Residential Exchange Program, the PF Exchange Program rate calculated in the Rate  
15 Design Step will be used. BPA, however, anticipates exchange settlements. Thus,  
16 BPA's initial proposed rate schedules have PF Preference, IP, RL, and PF Exchange  
17 Subscription rates developed in the Subscription Step of the RAM.

18 *Q. Alcoa, et al., argue that BPA offered no explanation in its testimony why the section*  
19 *7(b)(2) rate test shows that preference customers are entitled to an average PF rate of*  
20 *20.69 mills and yet the final PF rate after the Subscription Step is 22.19 mills. Speer,*  
21 *et al., WP-02-E-AL/AN/EG-02, at 17. Please respond.*

22 A. This specific numerical issue is not expressly addressed in BPA's testimony, but the  
23 general subject matter is addressed in BPA's testimony describing the Subscription Step  
24 of BPA's rate development. *See Doubleday, et al., WP-02-E-BPA-18, at 16-19.* In  
25 addition, an explanation of the Subscription Step in the RAM is contained in section 3.4  
26 of the Wholesale Power Rate Design Study, WP-02-E-BPA-05, starting on page 67.

1 Q. *Does this conclude your testimony?*

2 A. Yes.

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