

Tiered Rate Methodology Rate Case

# DIRECT TESTIMONY

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May 2008

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**FEDERAL SYSTEM RESOURCES:**  
Roberts, Bliven, Lee, Misley, Schiewe

TRM-12-E-BPA-04



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INDEX  
TESTIMONY of  
TIMOTHY ROBERTS, RAYMOND D. BLIVEN, CARIE E. LEE,  
TIMOTHY C. MISLEY, and ROGER SCHIEWE  
  
Witnesses for Bonneville Power Administration

**SUBJECT: FEDERAL SYSTEM RESOURCES**

	<b>Page</b>
Section 1: Introduction and Purpose of Testimony.....	1
Section 2: Existing Federal Resources.....	3
Section 2.1: Federal System Resource Process.....	3
Section 2.2: Federal System Hydro Generation Forecast .....	7
Section 2.3: Designated Non-Federally Owned Resources Forecast.....	9
Section 2.4: Designated BPA Contract Purchases .....	10
Section 2.5: Designated BPA Contract Obligations .....	10
Section 2.6: Augmentation Resources .....	11
Section 3: Slice.....	12
Section 3.1: Slice Resources .....	12
Section 3.2: Slice Percentage Determination .....	12
Section 3.3: Slice and Augmentation.....	13
Section 3.4: Reduction in Slice Percentage .....	14
Section 4: New Federal Resources.....	16

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4 Witnesses for Bonneville Power Administration

5  
6 **SUBJECT: FEDERAL SYSTEM RESOURCES**

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

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

9 A. My name is Timothy C. Roberts, and my qualifications are contained in TRM-12-Q-  
10 BPA-14.

11 A. My name is Raymond D. Bliven, and my qualifications are contained in TRM-12-Q-  
12 BPA-01.

13 A. My name is Carie E. Lee, and my qualifications are contained in TRM-12-Q-BPA-11.

14 A. My name is Timothy C. Misley, and my qualifications are contained in TRM-12-Q-BPA-  
15 13.

16 A. My name is Roger Schiewe, and my qualifications are contained in TRM-12-Q-BPA-15.

17 *Q. What is the purpose of your testimony?*

18 A. The purpose of this testimony is to describe the proposed process that will be used to  
19 calculate the projected amounts of Federal system resource output, contract purchases,  
20 and contract obligations for inclusion in the tiered rates processes necessary for  
21 developing tiered rates and billing determinants according to the Tiered Rate  
22 Methodology (TRM), TRM-12-E-BPA-01. The projected output of resources will be  
23 assigned to the respective rate tiers and will be used to determine each customer's  
24 Contract High Water Mark (CHWM) and Rate Period High Water Marks (RHWMs) and  
25 incorporated in the ratemaking process. We also address Slice and New Federal

1 Resources. This testimony makes use of defined terms in the TRM; *see* TRM pages v-  
2 xvii.

3 *Q. How is your testimony organized?*

4 A. Our testimony includes four sections. The first is this introduction. Section 2 discusses  
5 existing Federal resources. Section 3 addresses Slice. Section 4 discusses new Federal  
6 resources.

7 *Q. Do you have any changes or corrections to make to the TRM?*

8 A. Yes. The definition of Augmentation, page v of TRM-12-E-BPA-01, inadvertently  
9 omitted the words “firm critical period” in line 3. The definition should read:

10  
11 Augmentation. A component of Tier 1 System Resources; BPA power  
12 purchases or resource acquisitions necessary to achieve an annual firm  
13 critical period energy load-resource balance. The amount of  
14 Augmentation included in Tier 1 System Resources is subject to the  
15 limits of Augmentation established in this TRM. *See* TRM section 3.2.

16 The sentence beginning on line 10 of TRM page 13 uses an incorrect date. The sentence  
17 should read:

18 Resource forecasts revised after September 30 will not change the results of the  
19 RHW process, however.  
20

21 The same change should be made to the sentence beginning on line 5 of TRM page 18.

22 The sentence should read:

23 In the event that there is a loss of a Tier 1 System Resource subsequent to  
24 September 30 of the Forecast Year (the cutoff date for establishing the Tier 1  
25 System Resources and RHWs for the following Rate Period), in that Rate Period  
26 Tier 1 System Resources will not be augmented for the loss of the resource.

1 **Section 2: Existing Federal Resources**

2 *Q. Do you propose to distinguish between existing Federal resources and new Federal*  
3 *resources under the TRM?*

4 A. Yes. Resource forecasts would separately identify the projected output of existing  
5 Federal resources and new Federal resources to better support the process of determining  
6 cost allocations, developing Billing Determinants, and ratemaking.

7  
8 **Section 2.1: Federal System Resource Process**

9 *Q. What resources comprise existing Federal resources?*

10 A. Existing Federal resources are comprised of a specific set of Federal system resources,  
11 contract purchases, contract obligations, and system augmentation. In the proposed  
12 TRM, this set of resources is called “Tier 1 System Resources.” The firm critical output  
13 of these resources would be used to establish the quantity of power to be sold at Tier 1  
14 Rates.

15 *Q. What distinguishes this set of resources from all of BPA’s resources?*

16 A. The set of resources identified as Tier 1 System Resources would be specific to the  
17 ratesetting process and the determination of power available for Slice customers. For  
18 operational and planning purposes, there are no distinctions among Federal system  
19 resources. Tier 1 System Resources are comprised of the Federal system resources,  
20 contract purchases, and contract obligations, and are BPA’s existing resources and  
21 contracts as of September 30, 2006, that BPA markets or is contracted to market. The  
22 specific components of Tier 1 System Resources are listed in TRM Table 3.1. In  
23 addition, as BPA augments the Federal system up to the limits proposed in TRM  
24 section 3.2, those contract purchases or resource acquisitions attributed to Augmentation  
25 would be included as Tier 1 System Resources.

1 To meet Tier 2 Loads during the Rate Period, BPA may contract for or acquire  
2 resources that would not be included in Tier 1 System Resources. Instead, for the Rate  
3 Period, Tier 2 Loads would be priced at the cost of purchases or resources acquired by  
4 BPA after September 30, 2006.

5 *Q. What is Augmentation?*

6 A. System augmentation (Augmentation) is a component of Tier 1 System Resources.  
7 Augmentation represents the amount of energy that BPA would purchase, or resources  
8 BPA would acquire, to achieve an annual critical period firm energy amount sufficient to  
9 balance loads and resources for each year in the Rate Period. However, the amount of  
10 Augmentation included in Tier 1 System Resources is subject to the limits of  
11 Augmentation proposed in TRM section 3.2.

12 *Q. How would the amount of Augmentation included in Tier 1 System Resources be  
13 calculated?*

14 A. In each RHWM Process, BPA would determine the amount of Augmentation to be  
15 included in Tier 1 System Resources. This Augmentation amount would be determined  
16 by subtracting the sum of all CHWMs from the forecast firm critical output of Tier 1  
17 System Resources before any Augmentation is included. Amounts of Augmentation then  
18 would be added until either the firm critical output of augmented Tier 1 System  
19 Resources equals the sum of CHWMs or the Augmentation limits proposed in the TRM  
20 are reached. See TRM sections 3.2.1.1, 3.2.1.2, 3.2.1.3, and 3.2.1.4.

21 *Q. Why is Augmentation of Tier 1 System Resources limited?*

22 A. The proposal to limit Augmentation arises from BPA's February 2005 Policy for Power  
23 Supply Role for FY 2007-2011, where BPA decided to limit its sales of firm power at the  
24 lowest cost-based rate to public power preference customers to meet their regional firm  
25 requirements loads to approximately the firm capability of the existing Federal system.  
26 The Regional Dialogue Policy determined that limiting BPA's open-ended obligation

1 would accomplish shared regional goals, including limiting the dilution of the value of  
2 the Federal Base System (FBS) and promoting regional infrastructure development.

3 *Q. How are the Augmentation limits determined?*

4 A. The Regional Dialogue Policy established the proposed limits to Augmentation. The  
5 Policy established a general limit on Augmentation and four exceptions. The general  
6 limit is that Augmentation of Tier 1 System Resources would not exceed 300 aMW per  
7 year. However, the Policy also placed another limit on general Augmentation. The  
8 300 aMW would be reduced to the amount of Augmentation needed to balance the firm  
9 critical output of Tier 1 System Resources with total Eligible Load in the development of  
10 CHWMs, as long as this balancing amount did not exceed the 300 aMW and did not  
11 cause the total firm critical output of Tier 1 System Resources to exceed 7,400 aMW.

12 The Policy established exceptions to the general Augmentation limit. These  
13 exceptions allow Augmentation for specific new loads (New Publics, specific tribal  
14 utility load growth, a specific new load of DOE-Richland, and potential load service for  
15 BPA's Direct Service Industrial Customers. The incorporation of the Augmentation for  
16 these exceptions has been structured so that the CHWMs and RHWMs of PF purchasers  
17 will not be affected.

18 *Q. How would existing Federal resources be forecast to establish the quantity of power to be  
19 sold at Tier 1 Rates?*

20 A. BPA would base the quantity of power to be sold at Tier 1 Rates on the firm critical  
21 output of Tier 1 System Resources. Prior to each rate proceeding under the TRM, BPA  
22 would forecast the firm critical output of Tier 1 System Resources in the RHWM  
23 Process, as described in TRM section 3.1.

24 In the RHWM Process, BPA would release a forecast of the firm critical output of  
25 Tier 1 System Resources for stakeholder review by August 15 of the Forecast Year. BPA  
26 would explain its forecast, answer inquiries, and take comments. BPA would review the

1 comments and make adjustments to the forecast as necessary. Then, by September 30 of  
2 the Forecast Year, BPA would publish its final forecast of the firm critical output of  
3 Tier 1 System Resources.

4 *Q. What is the source of the data to be used for these forecasts?*

5 A. The source of the resource and contract data used in the calculation of the firm critical  
6 output of Tier 1 System Resources will be BPA's latest published Pacific Northwest  
7 Loads and Resources Study (the White Book), or its successor, updated in the RHW  
8 Process for known changes in river operations, resource availability, contract purchases,  
9 and contract obligations.

10 *Q. Why is the White Book proposed as the data source?*

11 A. The White Book is published annually by BPA and establishes the planning basis for  
12 supplying electricity to BPA customers and other regional entities. To assure accurate  
13 information, the White Book contains information obtained from formalized resource  
14 planning reports and data submittals from the Northwest Power and Conservation  
15 Council (Council), the Pacific Northwest Utilities Conference Committee (PNUCC), and  
16 other Federally mandated reporting processes. The White Book is not an operational  
17 planning guide; nor is it used for determining BPA revenues; however, the database that  
18 generates the load obligations, contracts, and resource data for the White Book analysis  
19 contributes to the development of BPA's ratemaking process.

20 *Q. How do the White Book forecasts compare with the resource forecasts that have been  
21 used in BPA rate cases?*

22 A. The latest published White Book is generally the basis for use in BPA's rate cases.  
23 However, hydroregulation studies are normally updated for rate cases. Also, the rate case  
24 forecast excludes power that BPA can call upon from the WP3 Settlement contracts  
25 (85BP-92185 and 85BP-92186), typically shown as firm resources in a White Book  
26 study. These two contracts would also be excluded from the forecast of the firm critical

1 output of Tier 1 System Resources because it is unlikely that BPA could reliably  
2 purchase this power on an annual basis.

3 *Q. What would happen if the resource forecast changed after September 30 of the Forecast*  
4 *Year?*

5 A. Once the firm critical output of Tier 1 System Resources is used to establish RHWMs,  
6 any subsequent changes to the forecast of resource output would not change RHWMs. If  
7 conditions that lead to a change in the forecast of resource output are known before a rate  
8 case is concluded, the forecast may be changed, but RHWMs would not change for that  
9 Rate Period. The cost or value of the change in forecast resource output could be  
10 included in the determination of rate levels. If there is a decrease in resource output, the  
11 costs of replacement resources would be included as Balancing Power Purchases and  
12 allocated to the Non-Slice Cost Pool. This allocation is appropriate because Slice  
13 customers would receive a lower amount of power due to the decrease in resource output.

14 If conditions that lead to a change in the forecast of resource output are known  
15 after a rate case has concluded, BPA would incorporate the changes into its actual  
16 operations. The costs or value of the change in resource output would be reflected in  
17 BPA's net revenues and affect BPA's financial reserves.

18  
19 **Section 2.2: Federal System Hydro Generation Forecast**

20 *Q. What Federal hydro resource generating projects would be included in the calculation of*  
21 *the Tier 1 System Resources in the forecast?*

22 A. BPA markets the generation produced by a number of hydro resources. These resources  
23 are owned by the Bureau of Reclamation (Reclamation), the US Army Corps of  
24 Engineers (COE), and other hydro project owners. The hydro resources that will be used  
25 in determining Tier 1 System Resources are listed in TRM Table 3.1. The estimated  
26 hydro generation for these resources would be used in the calculation of the Rate Period

1 forecast of Tier 1 System Resources. These generation estimates will most likely differ  
2 from actual output produced by these hydro resources due to the variability of water  
3 conditions in the Columbia River basin.

4 *Q. How would the Federal hydro resource generation be estimated in the forecast?*

5 A. BPA would use the HydroSim hydroregulation simulation model (or its successor model)  
6 and project owner generation estimates to forecast the Federal system hydro resource  
7 generation. There are two types of hydro generation modeled in the forecast: 1) regulated  
8 hydro projects, forecast using the hydroregulation simulation model; and 2) independent  
9 hydro projects, forecast using data provided by Reclamation, COE, and other hydro  
10 project owners.

11 Estimates for the generation from regulated hydro projects would incorporate  
12 known reservoir operating assumptions and information from any agreed-upon operations  
13 concerning a Federal Columbia River Power System (FCRPS) Biological Opinion (BiOp)  
14 or such replacement operating regime established in the future.

15 *Q. Please describe the primary inputs of expected reservoir operations in the hydro  
16 regulation studies.*

17 A. Besides incorporating known reservoir operating assumptions and BiOp operations, the  
18 forecast would incorporate PNCA planning in BPA's estimated hydro generation.  
19 Operating requirements and project operating characteristics used in the forecast would  
20 be based on data submittals taken from the Pacific Northwest Coordination Agreement  
21 (PNCA) (or successor agreement(s)). Operating requirements would include, but would  
22 not be limited to, storage content limits determined by rule curves, maximum project  
23 draft rates determined by each project, and flow and spill objectives. The Federal system  
24 regulated and independent hydro generation forecast would include estimated generation  
25 increases due to capital improvements at specific Federal system projects. The Federal  
26 system regulated and independent hydro generation forecast also would reflect any

1 sustained peaking reductions based on the availability of water in the Columbia River  
2 basin and generation losses due to maintenance outages and operational reserves.

3 *Q. What time period would be used to simulate hydro system operations?*

4 A. The firm critical output of the Tier 1 System Resources would be forecast for each Rate  
5 Period during the duration of the TRM. For other ratemaking purposes, generation  
6 estimates for the Federal hydro system under current operating requirements would be  
7 simulated over a number of historical water conditions using the hydroregulation  
8 simulation model. In the event that a final BiOp for any future year is not available, BPA  
9 would forecast BiOp operations during the Rate Period.

10  
11 **Section 2.3: Designated Non-Federally Owned Resources Forecast**

12 *Q. What is the difference between the TRM's defined Non-Federal Resources and the*  
13 *Designated Non-Federally Owned Resources described in the TRM?*

14 A. The TRM's defined Non-Federal Resources include resources not owned, operated, or  
15 contracted by BPA. *Designated Non-Federally Owned Resources* are specific non-hydro  
16 resources that have been contracted for or assigned to BPA during the Rate Period.  
17 These resources include Columbia Generating Station (CGS), small thermal, and  
18 renewable resources. *See TRM Table 3.1, beginning at line 36.*

19 *Q. What Designated Non-Federally Owned Resources would be included in the Tier 1*  
20 *System Resources for the forecast?*

21 A. The forecast of Tier 1 System Resources would include the forecast firm output of non-  
22 Federally owned generating projects that are contracted for or assigned to BPA as of  
23 September 30, 2006. The firm output of these *Designated Non-Federally Owned*  
24 *Resources* would be included in the forecast of the firm critical output of Tier 1 System  
25 Resources. *See TRM Table 3.1, beginning at line 36.*

1 **Section 2.4: Designated BPA Contract Purchases**

2 *Q. What Designated BPA Contract Purchases would be forecast for the Tier 1 System*  
3 *Resources for the forecast?*

4 A. BPA purchases or receives power under various contractual arrangements to meet firm  
5 load obligations. The contracts are categorized as 1) power purchases and resource  
6 acquisitions; 2) power or energy exchange contracts; 3) capacity or capacity-for-energy  
7 exchange contracts; and 4) power purchased or assigned to BPA under the Columbia  
8 River Treaty. These *Designated BPA Contract Purchases* are considered firm resources  
9 that are delivered to the Federal system regardless of weather, water, or economic  
10 conditions. The *Designated BPA Contract Purchases* included as Tier 1 System  
11 Resources would include all existing on September 30, 2006. See TRM Table 3.1,  
12 beginning at line 50.

13  
14 **Section 2.5: Designated BPA Contract Obligations**

15 *Q. What Designated BPA Contract Obligations would be included for the Tier 1 System*  
16 *Resources forecast?*

17 A. BPA has a number of obligations that are imposed on BPA by statutes, treaties,  
18 memoranda of agreement, court rulings, and contracts that require the generation or  
19 delivery of power, or forbearance from generating power, in order to support the  
20 operation of the FCRPS. Like BPA's contract purchases, the designated BPA contract  
21 obligations change over time and are assumed to be served by Federal system firm  
22 resources regardless of weather, water, or economic conditions. For the purposes of the  
23 TRM, these contract obligations would reduce Federal system resources, thus reducing  
24 the firm critical output of Tier 1 System Resources.

25 The *Designated BPA Contract Obligations* will include all existing obligations on  
26 September 30, 2006, and additional obligations that include, but are not limited to,

1 contracts pertaining to BPA transmission and reliability services, Resource Support  
2 Services, contract agreements that are load obligations on the Federal system, and other  
3 estimated reductions to Federal system resources that may or may not have specific  
4 signed contracts. *See* TRM Table 3.1, beginning at line 70.

5  
6 **Section 2.6: Augmentation Resources**

7 *Q. What type of resources can be included in Augmentation of Tier 1 System Resources?*

8 A. Any type of resource can be included as an Augmentation resource as long as the  
9 acquired resource amount would not cause BPA to exceed the Augmentation limits.

10 *Q. What would happen if BPA acquires physical resources for Augmentation and then  
11 subsequently discovers that it does not need that much Augmentation?*

12 A. BPA would determine what the amount of excess Augmentation power is and allocate the  
13 power and related costs to another obligation, if possible. For example, BPA could  
14 include the resource in the Tier 2 Short-Term Cost Pool. If there is no other BPA  
15 obligation that could absorb the use of the excess augmentation power, then this amount  
16 would be marketed and sold. If it is known during the rate case that excess  
17 Augmentation power exists, and there is no other obligation that could absorb its use,  
18 then this amount would be assumed to be marketed, with the associated costs and credits  
19 assigned to the Composite Cost Pool as an Augmentation expense.

20 *Q. CHWMs, RHWMs and above-RHWM load are all energy amounts. What if BPA needs to  
21 acquire capacity or capacity resources?*

22 A. Through a public process BPA would identify the need for capacity and acquire the  
23 capacity or capacity resources necessary to meet the capacity need. The capacity costs  
24 related to the acquisition would be assigned to the Cost Pool that is associated with the  
25 capacity obligation. *See* section 4 of this testimony.

1 **Section 3: Slice**

2 **Section 3.1: Slice Resources**

3 *Q. What resources would BPA use to deliver power sold as the Slice product?*

4 A. The resources used to deliver power sold as the Slice product would be the same set of  
5 resources, contract purchases, obligations, and Augmentation amounts defined as Tier 1  
6 System Resources.

7  
8 **Section 3.2: Slice Percentage Determination**

9 *Q. What is the Slice Percentage?*

10 A. The Slice Percentage would be the percentage share of services from Tier 1 System  
11 Resources selected by a Slice customer for its purchase under the Slice portion of the  
12 Slice/Block product contract. The accumulated Slice Percentage would be used for  
13 operational purposes to deliver a percentage share of the energy production capability of  
14 the Tier 1 System Resources, after all system obligations and operating constraints have  
15 been met, to Slice customers during each hour of each year. The Slice Percentage would  
16 be the Billing Determinant for the Slice Customer Rate for those customers purchasing  
17 the Slice product. *See Fisher et al., TRM-12-E-BPA-06, for a description of Slice*  
18 *Customer Charges.* The Slice Percentage would also be a portion of the Billing  
19 Determinant for the Composite Customer Rate for those customers purchasing the Slice  
20 product.

21 *Q. What amounts of power would Slice customers receive?*

22 A. Slice customers would receive a Slice Percentage share of the as-available power output  
23 and peaking capability of Tier 1 System Resources. The Slice product includes a  
24 planned amount of power for service to the customer's planned Net Requirement load,  
25 as well as an advance sale of as-available surplus power.

1 Q. *How would the Designated BPA Contract Obligations that are included in Tier 1 System*  
2 *Resources be treated with regard to Slice customers?*

3 A. Slice customers would receive a Slice Percentage share of the power associated with  
4 such obligations or contribute their Slice Percentage share of the power associated with  
5 such obligations. For example, some of the *Designated BPA Contract Obligations* are  
6 power purchases. Slice customers would receive their Slice Percentage share of those  
7 power purchases. Some of the *Designated BPA Contract Obligations* are power  
8 deliveries. Slice customers would contribute their Slice Percentage share of the power  
9 and system capability associated with such obligations by virtue of this power being a  
10 reduction of the amount of power and system capability available from Tier 1 System  
11 Resources. For Slice delivery purposes, the actual contract schedules for power would  
12 be added to or subtracted from the hourly output of the remaining Tier 1 System  
13 Resources.

14  
15 **Section 3.3: Slice and Augmentation**

16 Q. *Would Slice customers receive a share of Augmentation?*

17 A. Yes. Slice customers would receive a Slice Percentage share of the Augmentation  
18 amounts determined in the RHW process for the relevant Rate Period. *See TRM*  
19 *section 3.5.*

20 Q. *How is Augmentation treated in the existing Slice product?*

21 A. In the existing Slice product, Slice customers do not receive any power associated with  
22 Augmentation. *See Mesa et al., WP-02-E-BPA-32 at 13-14.*

23 Q. *How would Augmentation be treated under the TRM?*

24 A. Under the TRM, we are proposing a methodology to determine the amount of power  
25 charged at Tier 1 Rates and a PF cost allocation and rate design methodology that treats  
26 all customers similarly to the maximum extent possible while recognizing fundamental

1 product differences. All PF customers purchasing under tiered rates would be served  
2 from the same set of Tier 1 System Resources, including Augmentation, and all these  
3 customers would be charged for Tier 1 Costs to the extent such cost is associated with  
4 the customer's service. *See* TRM section 2.

5 *Q. Would Augmentation power amounts determined in the relevant RHWM Process be*  
6 *subject to the Slice true-up?*

7 *A. No. We are proposing that the Augmentation power amounts not be subject to the Slice*  
8 *true-up. Augmentation would be delivered as a firm flat annual amount of power to*  
9 *Slice customers for the Rate Period whether BPA makes actual Augmentation purchases*  
10 *or not. The costs or benefits arising from BPA's operational decisions would flow to*  
11 *BPA's net revenues and financial reserves.*

12  
13 **Section 3.4: Reduction in Slice Percentage**

14 *Q. Could a customer's Slice Percentage be reduced?*

15 *A. Yes. A customer's Slice Percentage could be reduced prior to or during the Rate Period*  
16 *due to load loss if its Net Requirement is less than its RHWM. See TRM section 3.5.1.*  
17 *However, the Slice Percentage could be reduced only after the entire Block portion of*  
18 *power deliveries to the customer had been reduced to zero and after the Slice customer*  
19 *had exhausted its ability to remove resource amounts consistent with BPA's 5(b)9(c)*  
20 *Policy. Id.*

21 *Q. How would the Slice Percentage be adjusted in this situation?*

22 *A. The customer's Slice Percentage would be adjusted according to the provisions of the*  
23 *Slice contract. See section 3.2 of this testimony.*

1 Q. *What would happen if the Slice Percentage is reduced?*

2 A. If the Slice Percentage was reduced due to load loss, the Slice Billing Determinant for  
3 the Composite Customer Rate and the Slice Customer Rate would be reduced. *See*  
4 *Fisher et al.*, TRM-12-E-BPA-06.

5 Q. *Could the customer's Slice Percentage be increased, back to its previous level, if the*  
6 *customer's Net Requirement increased due to partial or full recovery of lost load?*

7 A. Yes.

8 Q. *If the customer's Slice Percentage is increased due to partial or full recovery of lost*  
9 *load, would the Billing Determinants for the Composite Customer Rate and the Slice*  
10 *Customer Rate be increased as a result?*

11 A. Yes.

12 Q. *What would happen to the unsold firm power from a customer whose Slice Percentage*  
13 *had been reduced due to load loss?*

14 A. The unused firm power would be considered “unused RHWm amounts” and would be  
15 “sold” and the resulting revenues credited back to all customers. *See* TRM section 3.5.  
16 If the reduction occurred prior to or within the rate case, then the amounts credited  
17 would be forecast and included in rates. If the reduction occurred after rates are  
18 determined, or if the reduction amount changed, then the Slice True-Up would be  
19 adjusted to account for the value of this unused RHWm amount, and all Slice customers  
20 would receive a Slice Percentage share of this credit through the Slice True-Up  
21 Adjustment. *Id.* To determine the value of this credit, BPA would multiply the amount  
22 of the unused power by the forecast market prices determined in the relevant rate case,  
23 whether or not an actual sale of the power occurs. *Id.*

24 Q. *How else could the customer's Slice Percentage be reduced?*

25 A. The customer's Slice Percentage could be reduced when Augmentation purchases are  
26 made for DOE-Richland, New Publics, and DSI power sales. *See* TRM section 3.5.2.

1 In this situation, the customer's Slice Percentage would be adjusted according to the  
2 provisions of the Slice contract. The adjusted Slice Percentage would maintain the same  
3 level of firm power output service from Tier 1 System Resources as before the  
4 adjustment.

5 *Q. If these additional Augmentation purchases for DOE-Richland, New Publics, and DSI*  
6 *power sales are decreased in a subsequent Rate Period, would the customer's Slice*  
7 *Percentage increase as a result?*

8 A. Yes. In this situation, the Slice customer's Slice Percentage would be adjusted  
9 according to the provisions of the Slice contract.

10  
11 **Section 4: New Federal Resources**

12 *Q. What are new Federal resource acquisitions?*

13 A. New Federal resource acquisitions are those market power purchases or resource  
14 acquisitions that BPA makes after September 30, 2006. BPA would allocate the costs of  
15 such resources to specific Cost Pools for the duration of the purchase or the Regional  
16 Dialogue Contract period, whichever ends sooner.

17 *Q. How are new Federal resource acquisition costs allocated in the current Subscription*  
18 *period?*

19 A. In the current Subscription period, BPA allocates the costs of new Federal resource  
20 acquisitions into several financial accounts: long-term generating project expenses,  
21 renewables expenses, augmentation expenses, and other (balancing) power purchase  
22 expenses. These expenses are recovered depending on which resource pool the costs are  
23 in. Some of the resources are in the Federal Base System resource pool and some are in  
24 the New Resources resource pool. Some costs are not included on the Composite Cost  
25 Pool Table.

1           In addition, in the current Subscription period, BPA does not distinguish between  
2 the energy and capacity components of the costs of new Federal resource acquisitions.

3 *Q. How do you propose to allocate the costs of new Federal resource acquisitions in the*  
4 *post-FY 2011 period?*

5 A. We propose to allocate costs of new Federal resource acquisitions in the TRM period in  
6 a different manner. First, we expect that resources acquired to serve future load growth  
7 of consumer-owned utilities would be included in the FBS resource pool as FBS  
8 replacements. This would also be the case for resources acquired to replace reductions  
9 in FBS capability in the future. We propose that several new Cost Pools be established  
10 for the allocation of such costs.

11           Second, to the extent that it is necessary, BPA would differentiate between new  
12 energy and capacity resource acquisitions and allocate those costs accordingly. For  
13 example, the capacity costs of meeting specific obligations, such as Load Following for  
14 Tier 1 customers, Transmission function capacity obligations, and Resource Support  
15 Services (RSS) capacity obligations, would be allocated to those Cost Pools who must  
16 share in those costs.

17 *Q. Why are you proposing to allocate costs of new resource acquisitions in a different*  
18 *manner in the TRM period?*

19 A. Our proposal would more closely allocate resource acquisition costs to those who are  
20 causing the costs to be incurred. This allocation method is critical to meeting the goals  
21 of preserving the value of the existing system envisioned by the Regional Dialogue  
22 Policy.

23 *Q. How would BPA allocate the costs of new Federal resource acquisitions to the different*  
24 *Cost Pools under your proposal?*

25 A. BPA would first determine the amount of the energy or capacity obligations that need to  
26 be met by a new Federal resource acquisition. BPA then would acquire the new Federal

1 resources that have operational attributes that meet the obligations. To the extent that  
2 new Federal resources are acquired before the beginning of a Rate Period, BPA would  
3 include the costs of the resources in the appropriate Cost Pools for ratemaking purposes.

4 *Q. What if BPA made new Federal resource acquisitions during the Rate Period?*

5 A. If BPA acquired a new Federal resource during the Rate Period, BPA would propose the  
6 proper Cost Pool and include such costs in the Slice True-Up, as appropriate.

7 *Q. What new Federal resource acquisition costs would be subject to the Slice True-Up?*

8 A. For the most part, the costs of capacity purchases made for the purpose of Transmission  
9 function obligations and the costs of capacity purchase made for the purpose of RSS  
10 obligations would be tracked and included for purposes of the Slice True-Up.

11 *Q. Would Slice customers share directly in the output of any capacity purchases for the  
12 purposes of Transmission function obligations or for RSS obligations?*

13 A. No, Slice customers would not share in any power or capability from the capacity  
14 purchases for the purposes of Transmission function obligations or for RSS obligations.  
15 However, the capacity purchase used to meet the obligation would result in a reduction  
16 of Tier 1 System Resource obligations, and a corresponding amount of Tier 1 System  
17 Resource capability available for Slice would increase, as appropriate. The effect on the  
18 Federal system resources for Slice delivery limit purposes will be described in the Slice  
19 contract.

20 *Q. Would Slice customers share in any of the revenues that Power receives from  
21 Transmission or for sales of RSS?*

22 A. Yes, Slice and all other customers would share in the revenues that Power receives from  
23 Transmission or for sales of RSS. Such revenues would be subject to the Slice true-up.

24 *Q. What if the need for the obligation decreases?*

25 A. In this instance, as described in TRM section 3.4, BPA could allocate the costs of the  
26 new Federal resource acquisition to another Cost Pool or multiple other Cost Pools.

1 Q. *Would the costs of new Federal resource acquisitions for the purposes of Augmentation*  
2 *for existing public utilities or for New Publics, DSIs, and DOE-Richland be subject to*  
3 *the Slice true-up?*

4 A. No. Augmentation costs would not be subject to the Slice true-up.

5 Q. *Please explain the statement in the TRM, “to ensure cost recovery, BPA will allocate to*  
6 *the Composite Cost Pool costs for energy and capacity resources not fully recovered*  
7 *through the revenues from the obligation for which the costs were incurred.”*

8 A. For non-Slice customers, this means that all actual costs and revenues of such resources  
9 would affect the Power function’s financial reserves. Financial reserve levels would  
10 determine whether any amounts of Planned Net Revenues for Risk are needed to ensure  
11 cost recovery in subsequent Rate Periods. For Slice customers, this means that for the  
12 most part, such costs and revenues would be subject to the Slice True-Up, and Slice  
13 customers would have paid their proportionate share of the net costs of the new Federal  
14 resource acquisitions that they should share in.

15 Q. *Does this conclude your testimony?*

16 A. Yes.

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