Tiered Rate Methodology Rate Case

DIRECT TESTIMONY

May 2008

OTHER RATE DESIGN:
Gustafson, Bliven, Hirsch, Thompson

TRM-12-E-BPA-07

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Witnesses for Bonneville Power Administration

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SUBJECT: OTHER RATE DESIGN

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Greg Gustafson, and my qualifications are contained in TRM-12-Q-BPA-07.

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

A. My name is Jon Hirsch, and my qualifications are contained in TRM-12-Q-BPA-08.

A. My name is Garry Thompson, and my qualifications are contained in TRM-12-Q-BPA-17.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to discuss the Low Density Discount and Irrigation Rate Mitigation portion of the Tiered Rate Methodology (TRM), TRM-12-E-BPA-01, sections 10.1 and 10.2. This testimony makes use of defined terms in the TRM; *see* TRM pages v-xvii.

Q. How is your testimony organized?

A. Section 1 is this introduction. Section 2 describes the Low Density Discount. Section 3 describes Irrigation Rate Mitigation.

Section 2: Low Density Discount

Q. What is the Low Density Discount?

A. In order to avoid adverse impacts on retail rates of BPA's customers with low system densities, the Northwest Power Act directs BPA to apply a discount, to the extent appropriate, to BPA's rates for such customers. This discount is known as the Low Density Discount (LDD). The LDD currently applies to the Priority Firm Power (PF) Preference, PF Exchange, and New Resources rates.

Q. Are you proposing any changes to the LDD under tiered rates?

A. Yes. We are proposing to change the definition of "consumers" in the consumers per mile (C/M) ratio; the formula for calculating the applicable LDD percentage to accommodate tiered rates; and the method by which BPA determines LDD benefits for qualifying Slice customers.

Section 2.1: Change in the Definition of "Consumers" in the C/M Ratio

Q. What is the current definition of consumers?

A. As currently defined in BPA's General Rate Schedule Provisions (GRSPs), for the LDD C/M calculation "consumers" means the maximum number of consumers within the distribution system in any one month during the calendar year. This includes every billed consumer, regardless of usage. Separately billed services for water heating and security lights are not counted as an additional billed consumer.

Q. What is the definition of consumers you are proposing?

A. As shown in TRM section 10.1.1, we propose the following definition of consumers:

> Consumers means the number of consumers, by classification, having a current service connection in December of each year. Residential consumers (seasonal and non-seasonal) should be counted on the basis of the number of residences served. If one meter serves two residences, then two consumers should be counted. If a water heater is metered separately

from other appliances on the same premises, the water heater load will not count as a separate consumer.

Security or safety lights, billed to a residential customer, will not be counted as an additional consumer.

Seasonal consumers expected to resume service during the next seasonal period will be counted during off-season periods as well.

A residence and commercial establishment on the same premises, receiving service through the same meter and being billed under the same rate schedule, would be classified as one consumer based on the rate schedule. If the same rate schedule applies to both the residential and the commercial class, the consumer should be classified according to the principle use.

Consumers for Public Street and Highway Lighting should be counted by the number of billings, regardless of the number of lights per billing.

This is the same as the definition of consumers used by the United States Department of Agriculture's Rural Utilities Service. U.S. Department of Agriculture, Rural Utilities Service, Bulletin 1717B-2, p. 47-48.

Q. Why are you proposing this change to the definition of consumers?

A. Because the density of a customer's system is the basis for the LDD, a uniform and sound basis for calculating density is essential. This change would ensure that the LDD is provided only to BPA's customers with low system densities, promote equity among such customers, and support efficient and effective administration of the LDD.

The current definition of "consumer" has been interpreted differently by different customers. The current LDD reporting criteria and the resulting annual customer reporting of what constitutes a "consumer" have caused confusion and inconsistency in the determination of LDD benefits. Customers eligible for LDD benefits have been reporting numbers of consumers differently based on, for example, the number of meters, the number of consumers, or the number of members (for cooperatives). These variations in data reporting can affect LDD eligibility and the discount level.

Because BPA is directed by statute to administer the LDD, we believe the proposed change in the definition of consumers more accurately reflects a utility's density; provides a uniform basis for calculating the C/M ratio; ensures greater equity among customers; and provides eligible customers a clear, understandable, and verifiable reporting standard. Additionally, the proposed change would create administrative efficiencies in BPA's implementation of the LDD.

Section 2.2: Adapting the LDD to Tiered Rates

Q. Would the LDD need to be modified to accommodate tiered rates?

A. Yes. We believe that the level of a customer's LDD benefits should not be affected by the customer's choice between purchasing BPA power sold at a Tier 2 Rate(s) or applying power from Non-Federal Resources. To accomplish this goal and still provide an equivalent amount of LDD benefit as would have been provided in the absence of tiered rates, we are proposing certain modifications to the LDD.

Q. Please describe your proposed modifications.

A. Instead of continuing the current practice of basing the discount on PF purchases, we propose to base the discount on a customer's Total Retail Load, minus any Existing Resources listed in its Subscription Contract applied to load in FY 2010. The discount amounts listed in the LDD percentage table in the GRSPs would serve as the basis for an annual adjustment, if warranted, to reflect an increase or decrease in a customer's Total Retail Load.

For example, a customer may receive an LDD of 5 percent and have a Rate Period High Water Mark (RHWM) of 10 aMW. If that customer's Total Retail Load increases to 11 aMW (a 10 percent increase over its RHWM), then the customer would have its LDD percentage adjusted upward to 5.5 percent (a corresponding 10 percent increase). For affected customers, the 7 percent cap would be adjusted upward by the same amount

as the LDD percentage. All other remaining existing criteria to qualify for the LDD would be retained.

Q. How would these modifications be applied?

A. The modifications resulting in the updated LDD percentage would be applied to all firm power purchased at Tier 1 Rates (Customer Charge, Load Shaping Charge, and Demand Charge) of the customer receiving the LDD. These costs will be allocated to the Composite Cost Pool and only to the PF rate pool.

Q. Would the LDD apply to the amount of customer load served with power purchased at Tier 2 Rates?

A. No. In order to allow a level playing field in choices between BPA service and self-supply, the LDD would not be applied to the amount of customer load served with power purchased at Tier 2 Rates.

Section 2.3: Calculation of the LDD for Slice Customers

Q. How are you proposing to calculate LDD benefits for qualifying Slice customers?

A. We propose to combine the LDD benefits for a Slice/Block customer into a single credit. BPA would use the customer's previous Fiscal Year's metered PF-eligible load, minus any Existing Resources listed in the customer's Subscription Contract applied to load in FY 2010, and minus the customer's above-RHWM load, to estimate PF Tier 1 Billing Determinants as though the customer was a Load Following customer. Then BPA would multiply these estimated PF Billing Determinants by the appropriate Tier 1 Rates. The sum of these products then would be multiplied by the Total Retail Load-adjusted LDD percentage to derive the annual LDD benefit. This benefit would be divided into 12 equal monthly amounts.

Q. Why are you proposing this change?

A. The previous method for calculating the LDD to apply to the Slice portion of a customer's PF purchase was complicated and time-consuming. At the suggestion of some customers and in the interest of administrative efficiency, we are proposing this change.

Section 3: Irrigation Rate Mitigation

Q. What is Irrigation Rate Mitigation?

A. Irrigation Rate Mitigation (IRM) is a proposed discount to BPA's wholesale power rate for eligible irrigation load served by a customer. The discount would be a fixed percentage discount to the Tier 1 Rate. The fixed percentage would be the effective reduction in the melded, weighted average of the spring and summer energy rates due to the Irrigation Rate Mitigation Product (IRMP) in the average FY 2007-2009 PF energy rates. This discount would be seasonally available to eligible loads during May, June, July, August and September.

Q. Why would BPA offer Irrigation Rate Mitigation?

A. Reclamation of lands through irrigation for the agricultural industry is one of the primary historical reasons for constructing Federal dams in the Pacific Northwest, along with flood control, navigation, recreation, and power production. Historically BPA has provided rate discounts to customers that serve agricultural loads. This has encouraged the cultivation and irrigation of land in the Pacific Northwest that was otherwise barren and nonproductive. The discounts have provided direct benefits to farmers, and because agriculture is the dominant—if not the sole—economic driver in many rural Northwest communities, indirect benefits to supporting industries such as irrigation equipment sales, fertilizer companies, food processors, and trucking. Irrigation and associated energy use are most intensive over a 5-6 month time frame in the Pacific Northwest. Making this discount available would support BPA's statutory objective to encourage the widest

possible diversified use of electric energy while avoiding adverse rate impacts on any one consumer class.

Q. How would BPA apply the IRM?

A. We expect CHWM Contracts to include a provision acknowledging the IRM as a rate adjustment that would be determined in rate proceedings and subject to BPA's GRSPs. The amounts of a customer's eligible irrigation loads would be specified in CHWM Contracts. BPA would determine the eligible customer-served irrigation load for the IRM twice: 1) at contract execution for those customers who have received BPA's currently effective IRMP in calendar year 2008 or the Summer Seasonal Product; and 2) 90 days after the issuance of the TRM Final Record of Decision. If a New Public requests the IRM for its eligible irrigation load, BPA would make a load determination and any needed contract amendments to reflect eligible kilowatthour amounts.

Q. How would BPA determine the eligibility of a customer's irrigation load for the IRM?

A. To qualify for the IRM discount, a customer serving irrigation load would need to meet one of the following criteria:

a) participated in BPA's FY 1997-2001 Summer Seasonal Product;

b) participated in BPA's FY 2007-2011 Irrigation Rate Mitigation Product; or

c) had irrigation rate schedule sales, May through September in FY 2002-2004, divided by the customer's Total Retail Load for FY 2002-2004, of at least 5 percent; or if less than 5 percent, the average megawatthour use for May through September in FY 2002-2004 (15 months in 3 years) is 7,500 MWh or more. In addition, at least 75 percent of a customer's Total Retail Load must be placed on BPA as of October 1, 2011.

Q. Are there any other aspects of IRM that are significant for the TRM?

A. Yes. For a Slice/Block customer, the rate adjustment would be applied to the lesser of the customer's monthly block purchased at Tier 1 Rates or the qualifying irrigation kilowatthours specified in its contract.

Additionally, for all customers receiving the IRM, there would be a true-up process at the end of the irrigation season to ensure the full amount of irrigation load was equal to or greater than the load eligible for mitigation. If a customer's May to September measured irrigation load is less than the amount of load eligible for mitigation, a true-up would be owed to BPA at end of the irrigation season. The details and requirements of the true-up would be developed in the relevant rate cases and included in the GRSPs for each applicable Rate Period.

Finally, BPA would require customers participating in the IRM to implement cost-effective conservation measures on eligible irrigation systems in its service territories as described in the GRSPs.

Q. Does this conclude your testimony?

A. Yes.