Tiered Rate Methodology
Supplemental Rate Case

DIRECT TESTIMONY

June 2009

BPA Exhibit No.	**Witness**
TRM-12S-E-BPA-02	Bliven, Bolden, Davis, Fisher, Hustad, Stene, Wilson

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TESTIMONY of

RAYMOND D. BLIVEN, GERARD C. BOLDEN, REED C. DAVIS, DANIEL H. FISHER,

CAROL S. HUSTAD, LARRY M. STENE, and SCOTT K. WILSON

Witnesses for Bonneville Power Administration

SUBJECT: TIERED RATE METHODOLGY CLEAN-UP

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SUBJECT: Tiered Rate Methodology Clean-Up

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

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

A. My name is Gerard C. Bolden, and my qualifications are contained in TRM-12S-Q-BPA-02.

A. My name is Reed C. Davis, and my qualifications are contained in TRM-12S-Q-BPA-03.

A. My name is Daniel H. Fisher, and my qualifications are contained in TRM-12S-Q-BPA-04.

A. My name is Carol S. Hustad, and my qualifications are contained in TRM-12S-Q-BPA-05.

A. My name is Larry M. Stene, and my qualifications are contained in TRM-12S-Q-BPA-06.

A. My name is Scott K. Wilson, and my qualifications are contained in TRM-12S-Q-BPA-07.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to sponsor a limited set of proposed modifications to the Tiered Rate Methodology (TRM), TRM-12S-E-BPA-01. In addition, we provide background and explanations for the proposed modifications to the TRM.

Q. How is your testimony organized?

A. Our testimony is organized into five sections. Section 1 is this introduction. Section 2 discusses the background and context of the proposed modifications. Section 3 discusses proposed changes to the calculation of Contract High Water Marks (CHWMs). Section 4 discusses a proposed change to an Existing Resource of Public Utility District No. 1 of Pend Oreille County (Pend Oreille PUD). Section 5 discusses proposed general clarification edits to the TRM.

Section 2: Background and Context

Q. Why are you proposing modifications to the TRM?

A. The modifications are proposed in accordance with section 12 of the TRM. Section 12 provides that changes to the TRM that are identified and agreed to between BPA and preference customer representatives designated by the Public Power Council (PPC) prior to February 1, 2009, would be proposed in a future 7(i) Process and would not be subject to the more restrictive procedural requirements contained in sections 12 and 13.

Q. Why was the provision to propose changes that would be identified before February 1, 2009, included in the TRM?

A. The TRM was developed and established before the Regional Dialogue Contracts were finalized and signed. This special modification procedure was included in TRM section 12 to assure BPA and its customers that the TRM and the accompanying power sales contracts would be consistent and work together.

Q. *How were the proposed modifications developed?*

A. Consistent with section 12 of the TRM, BPA staff met with representatives identified by the PPC and other interested parties to develop a list of proposed modifications. These meetings occurred during January 2009 and concluded on January 30, 2009, when BPA staff and PPC representatives agreed on the *TRM Clean Up: Final list of clean up items to be proposed in a future 7(i) process (TRM Clean Up List).* The TRM Clean Up List is available on BPA's Web site at http://www.bpa.gov/corporate/ratecase/2008/2008_TRM/docs/Final_TRM_Clean_Up_List_01-30-09.pdf.

Q. *How was the TRM Clean Up List developed?*

A. BPA staff invited interested parties to submit proposed changes. Lists of issues to be addressed were submitted to BPA by the PPC and Northwest Requirements Utilities (NRU). BPA held two public meetings, January 16 and January 22, 2009, to discuss the proposed modifications. Most of the suggested modifications involved minor revisions to the wording of the TRM that were intended to provide clarity. One of the revisions, however, called the Provisional CHWM Amount, involved a more substantive change to the TRM and required additional discussions past the January 31, 2009, deadline in order to resolve the precise wording of the revision. In order to effectuate the change, BPA and PPC representatives agreed to add this proposed change to the list and also agreed to continue discussions in an effort to reach agreement over the wording. It was agreed that final language for the proposed modification must be agreed to by March 31, 2009. The Provisional CHWM Amount described in Section 3 below was agreed to by that date.

Q. Why did the proposed Provisional CHWM Amount require additional discussion to establish final language?

A. The Provisional CHWM Amount alters the manner in which CHWMs are determined. A change to the CHWM calculation methodology is inherently complicated, because the calculation affects the core of the TRM. As a consequence, additional time was needed for BPA and customer representatives to fully consider the implementation details.

Q. Are you proposing any other modifications to the TRM beyond what BPA and PPC representatives agreed to?

A. No. We are proposing only changes that BPA staff and PPC representatives agreed to at the conclusion of the public process, as specified in the TRM Clean Up List. Any further modifications to the TRM that BPA might consider would be subject to the procedural requirements outlined in the other parts of TRM sections 12 and 13.

Section 3: Provisional CHWM Amount

Section 3.1: Background

Q. What is the Provisional CHWM Amount?

A. The Provisional CHWM Amount refers to a temporary increase in a customer's CHWM for fiscal year (FY) 2012 and FY 2013 based on two approaches that account for a customer's load loss due to the current economic downturn. The load must return by September 30, 2013, or the customer will not continue to benefit from the Provisional CHWM Amount.

Q. Why are you proposing the Provisional CHWM Amount?

A. We are aware that the U.S. economy, including the Pacific Northwest economy, has experienced a general downturn since the summer of 2008. The unemployment rates in Oregon and Washington hover around 12 percent, which affects regional load.

BPA is responding to customer concerns arising from this recent economic downturn. Such a steep and persistent downturn was not expected when the CHWM calculation methodology was developed and finalized. Customers are concerned that their Measured FY 2010 Load will not be representative of their normal load service, because of the effects of the economic downturn. Some customers have expressed further concern that, under the current method of calculating the CHWM, they will receive smaller CHWMs than they would have absent the economic downturn. As a result, customers with load that returns after FY 2010 would increase their exposure to higher power rates.

Q. *Please describe the policy reasons for this proposed change in the CHWM calculation methodology.*

A. The proposed change is consistent with the original intent of the TRM, which was formulated prior to the economic downturn. At that time, it was thought that using Measured FY 2010 Load as the basis for each customer's CHWM would provide a fair cost treatment for loads served at BPA's lowest-cost rates. However, without the proposed Provisional CHWM Amount, increased amounts of CHWM gained by some customers due to temporary load loss experienced by other customers could provide greater benefits to some than what was contemplated at the time the TRM was formulated. We believe that providing Provisional CHWM Amounts would rebalance the distribution of CHWMs in a manner that better aligns with the original expectations of customers and BPA. The provisional aspect would result in a distribution of CHWMs that includes only temporary load loss. It is not known at this time which customers would be entitled to Provisional CHWM Amounts and which ones would not. The proposed change would be insurance for any customer that may experience a temporary loss of load due to the economic downturn.

Q. How would the TRM be changed to include the proposed Provisional CHWM Amount?

A. The current basis for determining a customer's CHWMs is its Measured FY 2010 Load. Some customers have expressed concerns that this load amount will no longer be a fair baseline load measurement. We address this concern by proposing a change to the determination of each customer's CHWM by providing an opportunity for a provisional load adjustment to compensate for recent load loss.

Q. Please generally describe your proposal.

A. We retain the original approach for calculating CHWMs based on Measured FY 2010 Load. In addition to the original approach, we are proposing to change the CHWM calculation methodology to provide an option of two alternative paths to address either general or specific load loss that may be reflected in a customer's Measured FY 2010 Load:

> **Adjustment Path 1:** Measured FY 2010 Load, with an adjustment for specific load loss meeting certain criteria.
>
> **Adjustment Path 2:** Average FY 2007-2008 Total Retail Load (TRL), adjusted for abnormal weather, conservation, and new large single loads (NLSLs).

The Path 1 or Path 2 load adjustments could result in a provisional load amount that would be added to the customer's Measured FY 2010 Load for purposes of calculating its CHWM. The amount of the CHWM increase due to the provisional load amount is called the Provisional CHWM Amount. A Provisional CHWM Amount is retained by the customer after FY 2013 only if the load actually returns within a specific time period as described in section 4.1.8 of the TRM Supplemental Proposal. If a customer does not choose one of the two paths for load loss adjustment or does not qualify for a load loss adjustment, then the load used for the customer's CHWM would be the customer's Measured FY 2010 Load.

Q. Describe how the load loss adjustment in this proposal differs from the current TRM.

A. The load loss adjustment in section 4.1.1.1 of the current TRM would result in a permanent adjustment to the customer's CHWM. If the load lost does not fully return, then the customer would receive a higher CHWM than its load would justify. Under the proposed changes, any load loss adjustment would be provisional and would require that the load actually return by FY 2013 for the customer to retain the higher CHWM after FY 2013.

Q. Why do you propose to extend the load return period to FY 2013?

A. The current adjustment for load loss required substantial evidence that lost load would return by FY 2011 and could be reasonably expected to persist through FY 2028. However, the current load loss adjustment is expected to be used more for *force majeure*-like events; it was not written to accommodate loads lost due to a general economic downturn. We recognize that the effects of an economic downturn are less defined than a *force majeure*-like event, and the effect of the downturn could extend well beyond FY 2011. The additional two years give loads a fair chance for recovery.

Q. Why did you not provide longer than FY 2013 for loads to return?

A. A key intent of the TRM is to establish long-term certainty for BPA's and customers' obligations. As long as CHWMs are subject to change, there is uncertainty for all customers about how much power they will be able to purchase at Tier 1 Rates. As part of the transition to rates under the TRM, we are comfortable with some uncertainty due to load loss during the initial rate period (FY 2012-2013), but not beyond. Keeping it open beyond FY 2013 would make the need for resource acquisition too uncertain and may unnecessarily increase the cost of service.

Q. *In the definitions section, the proposed defined terms of "Adjusted FY 20__ Load" and "Measured 20__ Load" are different from other definitions because of blanks in place of the year. Please explain.*

A. The blanks are intentional. With the addition of Provisional CHWM Amounts in this proposal, we needed to address load levels in several different years for comparison to FY 2010. The blanks are included in the definitions to allow each definition to apply generically for several individual years. For example, Adjusted FY 2009 Load has the meaning defined and would use the data appropriate for FY 2009, and Adjusted FY 2010 Load would use the data appropriate for FY 2010.

Q. *How does the Adjustment for Unauthorized or Anomalous Increases in section 4.1.1.2 differ from what is in the current TRM?*

A. It does not differ. We have retained the ability to reduce a customer's Measured FY 2010 Load for actions that increase loads resulting from practices that are outside accepted utility practice. The change proposed here is simply organizational to keep this ability and to distinguish it from other adjustments so the other adjustments can be expanded to better address the effects of the economic downturn.

Q. *Please explain the notification deadline proposed in section 4.1.3.1.*

A. In order to receive a provisional increase in its Eligible Load, a customer must notify BPA that it wants a provisional increase and whether the increase will be calculated using Adjustment Path 1 or Adjustment Path 2. Such notification would be required no later than 30 days after BPA publishes relevant data regarding provisional load adjustments.

Q *What is meant by relevant data regarding provisional load adjustments?*

A BPA would publish the information on the potential magnitude of Provisional CHWM Amount that would be granted by either path for all customers as early as possible in FY 2011. Once this information is published by BPA, each customer would have

30 days to let BPA know if it wants to have a Provisional CHWM Amount calculated by BPA. The deadline is important, because BPA needs to know the Provisional CHWM Amounts to be able to calculate the CHWMs for all customers, as well as the Augmentation Limit.

Q *What would happen if the customer disagrees with the data BPA publishes relevant to provisional loads?*

A. A customer would have to make its decision within the 30-day deadline as to which Adjustment Path it would pursue, based on the information that BPA publishes. If the customer believes there is an error in the information published or BPA's decision on whether a specific load qualifies for a provisional adjustment, the customer would have to weigh the chances of a successful appeal in its decision as to which Adjustment Path to pursue. A BPA decision to exercise or not exercise judgment is not subject to any form of dispute resolution. *See* section 4.1.3.1.

Q. Why do you propose to exempt BPA's judgment on Provisional CHWM Amounts from dispute resolution?

A. BPA and its customers need certainty and finality on the determination of CHWMs, including any adjustments made to the CHWMs. BPA is making the CHWM determinations in a public process and will consider information provided by customers in the course of making this determination. The proposed changes to the TRM provide BPA the ability to exercise judgment in limited specific situations. We believe these are circumstances where having the granted exemption will result in a timely determination of CHWMs.

Q. For customers seeking Provisional CHWM Amounts under Adjustment Path 1, what is the significance of the January 31, 2011, deadline for submission of data in proposed section 4.1.3.1.1?

A. This deadline would ensure that BPA will receive in a timely fashion data on individual loads of customers that are needed for Provisional CHWM Amounts. Receiving this data is critical to making decisions and publishing individual Provisional CHWM Amounts. Late data would compromise the ability to finalize CHWMs before power deliveries commence. Therefore, if a customer does not provide the necessary data by the deadline, the customer would be precluded from receiving a Provisional CHWM Amount under Adjustment Path 1.

Section 3.2: Adjustment Paths 1 and 2

Q. Please describe Adjustment Path 1.

A. Adjustment Path 1 would allow a customer to request an adjustment to its Measured FY 2010 Load for a load loss of at least 10 percent or 10 aMW that occurs due to a discrete event that affects the load of one or more of its consumers, or of at least 5 percent that affects one single consumer load. The adjustment would be based on the FY 2007 through FY 2009 average amount of the specific consumer load that exceeds the FY 2010 specific consumer load. BPA would have the discretion to include lost consumer load with less than three years of documented historical load data if BPA determines that using such data provides a more accurate representation of the expected load during the contract term.

Q *Why do you propose to reduce the current 10 aMW limit to 5 aMW for single consumer load adjustments?*

A Some of BPA's customers asked for this reduction. We agree that, in situations where only a single consumer's load is affected, this change makes sense. The difference in the number of potential qualifying loads still seems to be a manageable number.

Q. *Please give an example of where BPA might consider an upward adjustment to a customer's Measured FY 2010 Load above the three-year average.*

A. Suppose a customer has a single consumer whose load was 9 aMW in FY 2007 and grew to 16 aMW in FY 2008 and 20 aMW in FY 2009. In FY 2010, the load was completely shut down. BPA has information that if the load actually returns, it would be at the 20 aMW level. BPA could determine that the customer's Provisional CHWM Amount should be 20 aMW rather than the average of FY 2007-2009 historical load, 15 aMW.

Q. *Please describe Adjustment Path 2.*

A. Adjustment Path 2 is an alternative load loss adjustment to account for general load loss that occurs due to any reason, including the recent economic downturn. A customer could choose a load loss adjustment to its Measured FY 2010 Load in the amount that its average Adjusted FY 2007-2008 Load exceeds its Adjusted FY 2010 Load.

Q. *Adjustment Path 2 uses two related but distinct terms. What is the distinction between Adjusted Load and Measured Load?*

A. Adjusted Load begins with Measured Load and then adjusts for unauthorized or anomalous increases, atypical weather, Existing Resources, and accumulated conservation. Adjusted Load is established for each relevant year to establish a common basis for comparing loads between years.

Adjustment Path 2 compares a customer's FY 2007-2008 loads to FY 2010 loads to determine if there should be a Provisional CHWM Amount. FY 2013 loads are

compared to FY 2010 loads to determine whether a Provisional CHWM Amount will be made permanent. The comparison of these loads for different years needs to be made on an equivalent basis. The TRM defines Measured FY 2010 Load as a customer's Total Retail Load adjusted for Behind-the-Meter Resources, wholesale power transactions, meter errors, and NLSLs. The proposed changes to the TRM use these same adjustments to the customer's load for other years to establish a common basis for determining Measured Load for each specific year.

Q. Why are Adjusted Loads, including the conservation adjustment, used in determining Provisional CHWM Amounts for Adjustment Path 2?

A. Adjusted Loads are used so that the comparison of FY 2007-2008 loads with FY 2010 loads does not include the effects of atypical weather or conservation achievements.

Q. Explain how the conservation adjustment in proposed section 4.1.3.1.2 differs from the conservation adjustment calculated later in section 4.1.4.

A. These adjustments are related, but distinct. The adjustments to establish Adjusted Loads are individual customer load level adjustments, adding accumulated conservation to each year's adjusted Measured Load. For example, if a customer's Measured FY 2010 load is lower because it achieved 5 aMW of conservation in FY 2009, that conservation needs to be added back to its FY 2010 load for comparison to its FY 2007 and 2008 loads. If the conservation is not added, the conservation would be included in the customer's lost load.

While the use of Adjusted Load ensures that load reductions due to conservation are not included for load comparison purposes, the conservation adjustment in section 4.1.4 will continue to ensure that Scaled Eligible Loads are adjusted for accumulated conservation through FY 2010. This distinct adjustment would continue to include conservation differentials between customers in the CHWM calculation.

Q. *For customers seeking Provisional Load under Adjustment Path 2, what is the significance of the March 31, 2010, deadline in proposed section 4.1.3.1.2 for customers to provide necessary load data to BPA?*

A. Data from all customers are needed to finalize CHWM calculations. The deadline ensures that BPA will receive on a timely basis FY 2007 and FY 2008 data not otherwise available to BPA for purposes of CHWM calculations so Adjustment Path 2 data can be included in BPA's Adjusted Load calculations. We recognize that there will be many other TRM-related calculations performed during FY 2011. Finalizing FY 2007 and FY 2008 calculations in FY 2010 will reduce workload during FY 2011 and reduce some pressure on the timing of FY 2011 calculations. Because of the delays that would occur if a customer does not provide the needed data to BPA by the deadline, the customer would be precluded from utilizing Adjustment Path 2.

Q. *Would all customers qualify for a Provisional CHWM Amount?*

A. While all customers are eligible for receiving a Provisional CHWM Amount if they provide the necessary information by the deadlines noted above, we expect that many customers will not qualify, because they will not experience qualifying load losses. Further, a customer is not required to request a Provisional CHWM Amount.

Q. *What would be the effect of Provisional CHWM Amounts in redistributing eligibility to purchase power from BPA at Tier 1 Rates?*

A. The distribution of CHWMs is a zero sum game. Any increase in one customer's CHWM by adding a Provisional CHWM Amount would slightly decrease the CHWM of each other customer by each customer's pro rata share of the Provisional CHWM Amount. This redistribution effect would be mitigated by how much the Augmentation Limit increases due to the addition of provisional load. In fact, there would be no effect

on other customers if the increase in provisional load was exactly matched with an equal increase in the Augmentation Limit.

Q. How would the Augmentation Limit in section 4.1.3.3 be determined under the adjustment proposal?

A. The Augmentation Limit would be calculated in the same manner as before, except that provisional loads are included in the Eligible Loads used to determine whether augmentation is necessary. This proposal may result in a higher amount of augmentation with provisional loads included when determining the Augmentation Limit.

Q. Is a higher Augmentation Limit consistent with the intent of the TRM?

A. Yes. At the time the concept of Augmentation Limit was determined in the Long-Term Regional Dialogue Final Policy (Policy), there were expectations that the amount of augmentation would be significant. The potential amounts of customer loads lost that are associated with the recent economic downturn have greatly reduced the expected level of augmentation. The proposal to include provisional loads in determining the Augmentation Limit realigns the load amounts with the expectations of the Policy.

Q. Please explain how Provisional CHWM Amounts established in section 4.1.5 differ from the provisional load amounts established in section 4.1.3.2.

A. The distinction is essentially the same as between Eligible Load and CHWM. The provisional load amounts established pursuant to section 4.1.3.2 would be subject to scaling to the size of the Tier 1 System, as are Eligible Loads, established in section 4.1.5. The proposed additional step in section 4.1.5 would identify the amount of load that will be checked later to determine whether the Provisional CHWM Amounts become permanent.

Q. How will Provisional CHWM Amounts be identified in a customer's contract?

A. A Provisional CHWM Amount would be included in the contract, along with a non-provisional CHWM. Contractual provisions would need to be developed and included at the time the CHWM is added. These provisions should clearly identify and establish the Provisional CHWM Amount and incorporate the TRM process for making such provisional amounts permanent.

Q. How would a Provisional CHWM Amount be made permanent under Adjustment Path 1?

A. A Provisional CHWM Amount would become part of a permanent CHWM to the extent each specific consumer load loss actually returns before the end of FY 2013. In FY 2014, for each specific consumer load loss that is included as a part of a customer's provisional load, BPA would compare the consumer's load amounts measured during FY 2011-2013 to FY 2010 amounts to see how much of the load has returned.

Q. Which FY 2011-2013 amounts would BPA use as the measured amount for a specific consumer load?

A. The FY 2011-2013 amount used for the comparison would be the largest consecutive 12-month average measured for the consumer's load during that time. We propose that BPA reserve the right to reduce the load amount below this level if there is reasonable basis to conclude that the consumer load returned will not be sustained at such measured level after FY 2013.

Q. Why do you propose that BPA retain the discretion to reduce the measured load?

A. This discretion is proposed to address concerns that a consumer's load might manage to operate for 12 months during the FY 2011-2013 period but that subsequent events may occur or have occurred that make it clear that return of the load will not be permanent. For example, a mill could have subsequently been sold and part of its production equipment removed. In such circumstances it is clear that providing a permanent CHWM

increase would not be based on a better representation of the continuity of the load or the persistence of a customer's historical loads.

Q. How would a Provisional CHWM Amount be made permanent under Adjustment Path 2?

A. A Provisional CHWM Amount would become permanent CHWM to the extent the lost load returns and the customer's Adjusted FY 2013 Load increases above its Adjusted FY 2010 Load. The CHWM adjustment is limited to the Provisional CHWM Amount to distinguish between returned load and load growth; the load return will become permanent CHWM, and the load growth will not.

Q. Please explain the last paragraph of section 4.1.8, Retention of Provisional CHWM Amounts.

A. Section 4.1.8 accounts for the difference between CHWM and Eligible Load. CHWM is Eligible Load adjusted for the Tier 1 System size and conservation achieved. The section 4.1.8 revision recognizes the relationship between provisional load and Provisional CHWM Amount. The calculation adjusts the retained provisional load amount into retained Provisional CHWM Amount by the ratio between Eligible Load and CHWM.

Section 3.3: Billing Considerations

Q. Please explain how CDQs would be affected by Provisional CHWM Amounts.

A. The CDQ included in the customer's contract initially would be the same as established pursuant to the TRM. A Provisional CHWM Amount would have no effect on the CDQ during FY 2012 and FY 2013. However, if a Provisional CHWM Amount is made permanent, we propose adjusting the CDQ retroactively for all or a portion of the customer's demand billings during FY 2012 and FY 2013.

Q. Why is the CDQ amount not provisionally increased for FY 2012-2013 as with the CHWM?

A. It was never part of the agreed-upon changes, and BPA staff did not believe such an increase was necessary or appropriate to address the customers' concerns. The CDQ methodology includes a final calculation that reduces each customer's historical demand by 9 percent. This reduction is included to create an incentive for each customer to reduce its demand. Increasing CDQs for provisional load that may or may not return could remove the incentive and, if the provisional CHWM amounts are not made permanent, the customer would have received a financial windfall.

Q. If you are concerned about a financial windfall resulting from provisional CDQ, why are you not concerned about an energy-related financial windfall resulting from the Provisional CHWM Amount?

A. Each customer is allowed to purchase power only up to its net requirement. For a Load Following customer, BPA meets its actual hourly load net of the customer's resources applied to its load. This actual load amount means that if its provisional load does not return, the customer will not receive additional energy amounts at Tier 1 Rates. For a Slice/Block customer, its net requirement load is provided on a planned basis and is determined annually just before each fiscal year. This determination and other terms in the Slice contract will ensure that the Slice/Block customer is provided only the energy for load that BPA forecasts during those years. If there is no contemporaneous expectation that the provisional load will return, the provisional load will not be included in a Slice/Block customer's planned net requirement load.

Q. *What CDQ adjustment do you propose to account for provisional load that does return in FY 2012 or FY 2013?*

A. If BPA determines that all or a portion of the customer's Provisional CHWM Amount is to be made permanent, BPA would also adjust the customer's CDQ pursuant to section 4.1.9. These adjustments would occur during FY 2014. BPA would also retroactively adjust each affected customer's bills to provide a credit for demand charges the customer paid based on the difference between its original CDQ and its adjusted CDQ. The retroactive adjustment would begin with the earliest 12 months that correspond to the return of the provisional load.

Q. *Section 4.1.10 would establish that bills in FY 2014 and FY 2015 will no longer be based on the Provisional CHWM Amount, but on the permanent CHWM. How would this work when the adjustment that converts Provisional CHWM Amount to permanent CHWM occurs during FY 2014?*

A. We propose to retroactively adjust FY 2014 bills, as necessary, once the permanent CHWM is established.

Q. *In this retroactive adjustment, what rate would BPA charge for power that was provided and billed at Tier 1 Rates that should not have been billed at Tier 1 Rates?*

A. The Load Shaping Rates would be used to bill for the power that was inappropriately provided at Tier 1 Rates, based on the difference between the Provisional CHWM Amount and the permanent CHWM.

Q. *Why do you propose to use the Load Shaping Rates?*

A. The Load Shaping Rates are rates established in each rate case for each heavy load hour (HLH) and light load hour (LLH) monthly time period. They are designed to apportion BPA's costs of Balancing Power Purchases to the loads that require such services. Fisher *et al*., TRM-12-E-BPA-06, at 14. Using these rates, each customer that received more

than its allotment of Tier 1 power would pay the expected costs of purchased power for such service.

Q. *Why, in option 2a of section 4.1.10, would the Load Shaping Rates be used through FY 2015 instead of a Tier 2 Rate for what is now a Tier 2 purchase?*

A. The Tier 2 Rates would already have been set for the FY 2014-2015 Rate Period without expectation of this additional Tier 2 service. The Load Shaping Rates are set to account for the expected costs of Balancing Power Purchases, which are purchases made within a year when Federal resources are not sufficient to meet load. These purchases would be similar to the augmentation purchased to serve the provisional load.

Q *Why does option 2b of section 4.1.10 treat FY 2014 and FY 2015 differently?*

A. This option is applicable to customers that choose to provide non-Federal resources to serve their Above-RHWM Load. We propose to serve these customers at Load Shaping Rates through FY 2014, but these customers must provide additional non-Federal resource to meet the reduction in their CHWMs for FY 2015. In this case, because the loss of a Provisional CHWM Amount would occur during FY 2014, and BPA had planned on serving this load during FY 2014, the customer would purchase from BPA at Load Shaping Rates rather than trying to arrange its own non-Federal supply at some unpredictable time within the year. However, for FY 2015, the information about the reduced CHWM would be known with sufficient notice to the customer for it to arrange its own a supply of resources in a manner consistent with its decision to meet additional Above-RHWM load with non-Federal resources.

Q. *Please explain the proposal to extend the billing adjustment period under paragraph 4 of section 4.1.10.*

A. We recognize that there may be circumstances where a change in a CHWM could be so significant that the billing effects may need to be spread out over periods of more than a

single month. We propose that 30 percent of the customer's most recent bill be the threshold at which a customer could request that the revised billing amount be spread out over a longer period of time.

Q. Would a customer be guaranteed a longer time to pay if its billing adjustment exceeds 30 percent?

A. No. The proposal would establish a threshold at which a customer could request that BPA look at the payment consequences. We would expect BPA will work with customers in this situation to establish a payment plan that will work for both parties. In some circumstances this would require no extension and, in other circumstances, the payment consequences could be so severe that the payment would need to be spread over a few months.

Section 4: TRM Attachment C

Q. What changes are you proposing to TRM Attachment C, Existing Resources for CHWMs?

A. We are proposing to adjust the Pend Oreille Box Canyon Dam resource amount listed in Attachment C of the TRM, TRM-12-A-02, Attachment C, at C-6. This adjustment would change the amount for "Pend Oreille BoxCanyon Dam (serving TRL)" from 32.203 aMW to 24.479 aMW. We also propose to add a footnote to Attachment C to state that the 24.479 aMW number will be further adjusted in the CHWM calculation to account for any change in Pend Oreille's fiber mill NLSL from the 63.661 aMW amount assumed at the time the 24.479 aMW number was calculated.

Q. Why are you proposing to make this change to the resource amount established for Pend Oreille's Box Canyon resource?

A. The CHWM is applicable to the PF rate, which would apply to Pend Oreille's general requirements load, and BPA is not proposing to apply either Tier 1 or Tier 2 PF to its

NLSL. Pend Oreille serves the fiber mill NLSL with power from its Box Canyon Dam and the share it receives from Boundary Dam. If the power amount needed by the NLSL is reduced, then the Box Canyon resource would be applied to Pend Oreille's general requirements loads. This application would reduce the calculated amount of CHWM for Pend Oreille, because the CHWM is based on its general load less, or minus, its own resources. Therefore, we are proposing to adjust the Box Canyon resource amounts. This change avoids a potential inequitable Above-HWM exposure for Pend Oreille and better reflects the actual effect of the fiber mill load designated as an NLSL and the amount of non-Federal resource applied to serve the NLSL.

Q. Why does the fiber mill NLSL create a unique resource circumstance?

A. This NLSL is served entirely by Pend Oreille's Boundary and Box Canyon resources. The entire output of Boundary is used for the NLSL, and the Box Canyon output is divided between service to the NLSL and service to Pend Oreille's general requirements load. The size of this NLSL has a direct effect on the Box Canyon resource amounts available to serve the general requirements load of Pend Oreille.

Q. How is the variability of the NLSL accounted for in the Pend Oreille resource amount included in the current TRM?

A. The variability of the NLSL was not incorporated into the current resource amounts designated in the TRM. Instead, the size of the NLSL was forecast at 63.661 aMW, and the amount of Box Canyon output that would be needed to meet that forecast load left 32.203 aMW of Box Canyon as Pend Oreille's Existing Resource applied to its general requirement load assumed for the CHWM calculation. TRM-12-A-02, Attachment C, at C-6.

Q. In the current TRM, what would happen to Pend Oreille's CHWM if the NLSL is higher or lower than the 63.661 aMW forecast?

A. There would be no change to the Box Canyon resource amount used in calculating Pend Oreille's CHWM. The Existing Resource for CHWM ("BoxCanyon Dam (serving TRL)") is currently set in Exhibit C at 32.203 aMW and would be unaffected by the actual size of the NLSL in FY 2010.

Q. Describe the potential inequities Pend Oreille could experience.

A. If the actual NLSL is larger than forecast, Pend Oreille could face an additional amount of exposure to Tier 2 Rates due to the understatement of Pend Oreille resources available to serve those loads. Conversely, if the actual NLSL is smaller than forecast, Pend Oreille's CHWM would be high enough that Pend Oreille could be unduly advantaged relative to other customers because it could have more headroom than other customers.

Q. What is your proposed solution to fix the Pend Oreille inequity?

A. We propose that the FY 2010 metered (measured) NLSL amount be used rather than the forecast amount to establish the Existing Resource for CHWM for Pend Oreille. This would be consistent with the TRM's general use of actual metered FY 2010 loads as the basis for calculating CHWMs. We also propose to add footnote 21 to Attachment C to establish the formula that will be used to make this calculation. Footnote 21 would read:

> The 24.479 aMW amount in column C and D is only an estimate and is based on a 63.661 aMW forecast for the Pend Oreille NLSL load. The actual BoxCanyon resource amount that will be used for the CHWM calculation will depend on the actual measured amount of Pend Oreille's NLSL in FY 2010 and will be calculated using the following formula: 24.479 aMW + (63.661 aMW - the FY 2010 measured NLSL), where FY 2010 load is the greater of 42.240 aMW or the actual measured load.

Q. *In proposed footnote 21, why would the FY 2010 measured NLSL amount never go below 42.240 aMW?*

A. This part of the formula would ensure that the scope of potential changes for Pend Oreille's Existing Resources is limited to adjustments to the Box Canyon resource. The 42.240 aMW amount was established for Pend Oreille's Boundary resource. TRM-12-A-02, Attachment C, at C-6 ("Pend Oreille Boundary hydro (Article 49)").

Q. *What other changes do you propose for Pend Oreille resources?*

A. We propose to reduce the Box Canyon resource amount in Column C from 53.624 aMW (32.203+21.421) to 45.9 aMW (21.421+24.479, subject to footnote 21).

Q. *Where did these two different numbers for Box Canyon come from?*

A. The original 53.624 aMW was based on the number that Pend Oreille used for Box Canyon in its BPA Subscription Contract for FY 2010 as of September 30, 2006. The 45.9 aMW is the amount established for Box Canyon using critical water and is used for Box Canyon in Pend Oreille's Regional Dialogue Contract.

Q. *Why are you proposing the reduction in the Box Canyon resource amount?*

A. Pend Oreille provided evidence that, absent a change in the resource amount in its Regional Dialogue Contract, Pend Oreille would have higher exposure to Tier 2 Rates or the need to purchase resources than other customers.

Q. *Do other customers face similar circumstances?*

A. Other customers have approached BPA for changes to resource amounts that were used to calculate their Existing Resources for CHWM purposes. At the time BPA staff and the PPC representatives established the list for potential changes to the TRM, however, BPA staff was not aware of any other customer that could face as high a percentage of its net requirement exposed to Tier 2.

Q. Is BPA willing to entertain changes to other resource amounts in Attachment C?

A. No. BPA is not generally revisiting the decisions that were made to establish Existing Resources for CHWM purposes. The only change that was included on the TRM Clean Up List that BPA and the PPC representatives established January 31, 2009, was to propose the specific adjustment for Pend Oreille, due to its unique circumstances and inequitable cost exposure.

Q. Do the proposed changes ensure that Pend Oreille is better off?

A. No, they do not. These proposed changes for Pend Oreille are a package that could result in either a higher or lower CHWM for Pend Oreille than would have been established using Pend Oreille's current amount of Existing Resources for CHWM. The actual impact of the changes will not be known until after the actual NLSL amount is measured in FY 2010. However, we believe the results of the proposed changes are more equitable to Pend Oreille.

Q. How does the proposed Pend Oreille resource change relate to the changes for Provisional CHWM Amounts also being proposed?

A. These changes are not connected. BPA would establish Pend Oreille's Existing Resources for CHWM based on the measured load of the NLSL in FY 2010. That amount will not be subject to any further adjustment based on load in other years.

Q. Could Pend Oreille qualify for a Provisional CHWM Amount?

A. Yes. Pend Oreille's non-NLSL load has the same potential for Provisional CHWM Amounts, under the same terms and conditions, as other customers' non-NLSL load.

Q. Did BPA hear from other customers about the change in the Box Canyon resource amount?

A. Staff agreed to propose the change to Pend Oreille's Box Canyon amount only if there was considerable support from public power. BPA received letters of support and/or that

expressed a lack of objection to this reduction from the Public Power Council, PNGC Power, and the Slice customers.

Section 5: General Edits to the TRM

Q. Why are the edits detailed in this section being proposed?

A. The edits detailed below are proposed as clarifications to the current TRM. In reviewing the current TRM, we found several places where inexact terms were used. In our view, the proposed changes do not change the intent or calculations of the current TRM, but they would better assure all parties that future rate proposals are consistent with the TRM.

Q. What edit are you proposing to make to section 1.2?

A. We are proposing to replace the following:

> The Cost Pools on the Allocated Tiered Cost Table, Table 2, into which all line items on the Revenue Requirement Table are divided (allocated), address treatment of costs to be recovered through either Tier 1 Rates or Tier 2 Rates.

with:

> Each line item on the Revenue Requirement Table will be allocated to matching line items on Allocated Cost Tables established for each rate pool. The Cost Pools on the Allocated Cost Table for the PF Preference rate pool will establish the treatment of costs to be recovered through either the various Tier 1 Rates or the various Tier 2 Rates.

Q. What is the goal in editing this language?

A. Customers expressed concern that the original language lacked clarity. We agreed and are proposing the above language. The intent is to state that line items on the Revenue Requirement Table will be matched to line items on the Allocated Cost Tables. In the current TRM, there is lack of clarity about whether costs are the total revenue requirement or the portion allocated to rate classes. The intent is that the rates established

for Priority Firm Power (PF) Preference customers would be based on those costs allocated to PF Preference customers, not the entire revenue requirement. The Allocated Cost Tables will show to which rate class and Cost Pool the line item is allocated.

Q: Why is BPA proposing to add the definition of Net Requirement to the TRM?

A. This edit, and related edits in this TRM Supplemental Proposal (discussed below), are to simplify how the TRM accommodates certain differences in calculating the amount of power that Load Following and Slice or Slice with Block customers are eligible to purchase from BPA at PF Preference rates. To complete this particular edit, the definition for Net Requirement needs to be added to the TRM. The proposed definition of Net Requirement, consistent with the definition used in the CHWM Contracts, follows:

> **Net Requirement** means the amount of federal power that a customer is entitled to purchase from BPA to serve its Total Retail Load minus amounts of its Dedicated Resources shown in Exhibit A, as determined consistent with section 5(b)(1) of the Northwest Power Act.

Q: Are there other proposed edits associated with adding the definition of Net Requirement?

A: Yes. The additional edits in the TRM refer to the CHWM Contracts and BPA's [Revised] 5(b)/9(c) Policy. This ensures consistency between the CHWM Contracts, the 5(b)/9(c) Policy, and the TRM in calculating the Net Requirement for customers taking load service from BPA under different products. The edits also eliminate related obsolete language in the TRM. Identical edits are proposed for sections 4.0 and 4.2 of the Supplemental TRM.

Q. What edit was made to section 4.2.2, RHWM Timing and Transparency?

A. In this section, the TRM establishes a public process following the publication of Rate Period High Water Marks for upcoming Rate Periods. Customers requested that a minimum duration be set for the public process in the TRM. We are therefore proposing to add language stating the public process will be at least 10 business days in length.

Q. What changes are you proposing to the TRM definitions?

A. We are proposing to add a definition for Forecast Monthly/Diurnal Tier 1 Load. We also propose clarifying language changes on two existing definitions and a name change on one existing definition, as follows (changes are underlined).

> **Actual Annual Tier 1 Load** means the sum of a customer's electric loads (measured in kilowatthours) that were served at Tier 1 Rates for all of the Monthly/Diurnal periods during the relevant Fiscal Year.
>
> **Actual Monthly/Diurnal Tier 1 Load** means the amount of a customer's electric load (measured in kilowatthours) that was served at Tier 1 Rates during the relevant Monthly/Diurnal period.
>
> **Forecast Annual Tier 1 Load** means the sum of a customer's electric loads (measured in kilowatthours) that BPA forecasts in each 7(i) Process to be served at Tier 1 Rates for all of the Monthly/Diurnal periods a Fiscal Year.
>
> **Forecast Monthly/Diurnal Tier 1 Load** means the amount of a customer's electric load (measured in kilowatthours) that BPA forecasts in each 7(i) Process to be served at Tier 1 Rates during the relevant Monthly/Diurnal period.

Q. What is the benefit of making these changes?

A. The definitional changes add clarity. We believe the proposed changes add three forms of clarity: 1) parallel structure: "actual" definitions have a parallel structure to "forecast" definitions; 2) self-standing definitions: the definitions do not point to another definition; and 3) more specific term: the time-specific component, either "annual" or "monthly/diurnal," is addressed in the term itself, which makes it more apparent what the difference is between very similar defined terms.

Q. *In changing these definitions, how many changes would be made within the body of the TRM?*

A. As noted in Item 3 of the TRM Clean Up List, the definitional changes listed above require 25 other changes within the TRM. These 25 changes are detailed on the TRM Clean Up List.

Q. *Are the proposed definitional changes intended to change the meaning of their use in the calculations in TRM Section 5?*

A. No. The proposed changes are intended to add clarity, not to change the original purpose of the definitions or change the intent of their use.

Q. *What language are you proposing to delete in section 8.5 of the TRM?*

A. As specified in item 4 of the TRM Clean Up List of January 30, 2009, we are proposing to delete reference to the Diurnal Flattening Service (DFS) charge from the following paragraph, as follows:

> A resource that is contractually committed to be flat within each Monthly/Diurnal period of the year but not flat between those periods ~~will avoid the DFS charge but~~ will be subject to the Resource Shaping Charge. A resource that is contractually committed to be flat annually will avoid ~~both the DFS charge and~~ the Resource Shaping Charge.

Q. *Why delete this language?*

A. The references to the DFS charge in the current paragraph were included to provide clarity. After a conversation with customers, BPA staff discovered that the added reference provided the opposite effect—confusion. The subject of section 8.5 is the Resource Shaping Charge, not the DFS charge, which has its own section. The references to the DFS charge in section 8.5 are superfluous and confusing.

Q. Would removal of the DFS charge reference change the meaning of the original paragraph?

A. No. The reference to the DFS charge was intended to add clarity. Because the added language does not appear to add the intended clarity, it can be removed without changing the meaning. DFS is explained in TRM section 8.1.

Q. What addition are you proposing to section 12.5?

A. We are proposing to add the following bullet to the list of actions not considered to be a revision to the TRM:

> o) adjustments to the size of the base amount on which an interest credit is calculated for ratemaking purposes for crediting to the Composite Cost Pool (see section 2.5).

Q. Why are you proposing this addition?

A. This addition addresses an oversight, the basis for allocating an interest credit, and does not change the intent of the original language or the TRM. Section 2.5 establishes an allocation of the interest credit on the basis of $495.6 million of Power function reserves. Section 2.5 also discusses how this basis may change due to certain circumstances. The inclusion of this new language in section 12.5 clarifies that the change of the interest credit allocation basis is an action not considered to be a revision to the TRM pursuant to TRM sections 12 and 13. Any change to this allocation basis will be established in a future 7(i) Process.

Q. Does this conclude your testimony?

A. Yes.

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