

Tiered Rate Methodology Rate Case

# Supplemental Testimony

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July 2008

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**TIER 1 RATE DESIGN:**  
Fisher, Bolden, Chalker, Gustafson, Bliven

TRM-12-E-BPA-14



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SUPPLEMENTAL TESTIMONY of

DANIEL H. FISHER, GERARD C. BOLDEN, ANNICK E. CHALIER,

GREG C. GUSTAFSON, and RAYMOND D. BLIVEN

Witnesses for Bonneville Power Administration

**SUBJECT: TIER 1 RATE DESIGN**

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4 Witnesses for Bonneville Power Administration

5  
6 **SUBJECT: TIER 1 RATE DESIGN**

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

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

9 A. My name is Daniel H. Fisher, and my qualifications are contained in  
10 TRM-12-Q-BPA-06.

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

13 A. My name is Annick E. Chaler, and my qualifications are contained in  
14 TRM-12-Q-BPA-03.

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

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

19 *Q. What is the purpose of your supplemental testimony?*

20 A. The purpose of our supplemental testimony is to describe the significant  
21 modifications to the Tier 1 Rate design, Tier 2 Rate Design, Shared Rate Plan,  
22 Resource Support Services, and Irrigation Rate Mitigation proposals reflected in  
23 the Tiered Rate Methodology, TRM-12-E-BPA-09, Sections 5, 6, 7, 8, and 10,  
24 that resulted from the settlement discussions with parties and that are not already  
25 addressed elsewhere in other sections of supplemental testimony.

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Witnesses: Daniel H. Fisher, Gerard C. Bolden, Annick E. Chaler,  
Greg C. Gustafson, and Raymond D. Bliven

1 Q. How is your testimony organized?

2 A. Our testimony is organized in five sections. Section 1 is this introduction.  
3 Section 2 discusses the calculation of Contract Demand Quantity.  
4 Section 3 discusses application of the Load Shaping Rate for participants in the  
5 Shared Rate Plan. Section 4 discusses refinements to the Forced Outage Reserve  
6 Services and a new service called the Transmission Curtailment Management  
7 Service. Section 5 discusses the treatment of Slice in the Irrigation Rate  
8 Mitigation program.

9  
10 **Section 2: Calculation of Contract Demand Quantity**

11 Q. *How do you propose to modify the manner in which the Contract Demand*  
12 *Quantity (CDQ) would be calculated?*

13 A. Under the Initial Proposal, we proposed to calculate the customer-specific CDQs  
14 based on the average of each customer's FY 2005-2007 monthly load factors  
15 applied to the customer's monthly Fiscal Year (FY) 2010 Total Retail Load  
16 (TRL) in Heavy Load Hours (HLH), less Existing Resources, both as used in the  
17 calculation of the customer's Contract High Water Mark (CHWM). *See* TRM-12-  
18 E-BPA-01, at 61. In the Supplemental Proposal, we propose that each customer's  
19 CDQs would be derived from the weighted average of each customer's FY 2005-  
20 2007 monthly HLH load factors applied to the customer's adjusted Measured  
21 FY 2010 Load for monthly average HLH, less the HLH Existing Resources  
22 amounts (and NLSLs) for the corresponding months for FY 2012 as set forth in  
23 Exhibit A of the customer's CHWM Contract on the effective date of the CHWM  
24 Contract. *See* TRM-12-E-BPA-09, section 5.3.5.

1 Q. *Why do you propose to use the FY 2012 resource shapes as determined in the*  
2 *CHWM Contract for calculating the CDQ?*

3 A. In the Initial Proposal, we tried to develop a CDQ methodology that could be  
4 applied consistently across all Publics. Because the shape of FY 2010 Existing  
5 Resources for some customers is incomplete or unavailable, we initially proposed  
6 to use the annual average Existing Resource amounts from the CHWM Process to  
7 calculate CDQs. While we recognize the benefits of using shaped resource data,  
8 we lack a uniformly available source for such information. This led us to propose  
9 a simplified method of collecting resource amounts. During settlement  
10 discussions, parties raised objections to our simplified method. Parties objected  
11 to the fact that the use of annual average resource amounts could adversely impact  
12 the monthly calculation of the CDQ. We recognize that the use of annual average  
13 resource amounts for calculation of the CDQ could distort the calculation for  
14 some customers during particular months. As a result, we have decided to modify  
15 our proposal. Rather than using annual average resource amounts, BPA would  
16 use Existing Resource amounts for Fiscal Year 2012 contained in Exhibit A of the  
17 customer's CHWM Contract on the effective date of the CHWM contract.  
18 Because all CHWM Contracts contain an Exhibit A with monthly resource  
19 amounts, this proposal should avoid many of the concerns associated with using  
20 annual average resource amounts.

21 Q. *Are there any circumstances where you are proposing an adjustment to the*  
22 *calculation of the CDQ?*

23 A. Yes. If it is anticipated that a customer would have a disproportionate amount of  
24 its Customer System Peak (CSP) subject to the Demand Rate in FY 2012, then  
25 BPA would make an adjustment to the calculation of the CDQ. BPA would apply  
26 the Demand Billing Determinant methodology to FY 2010 actual loads. BPA

1 may adjust a customer's CDQ, if the Demand Billing Determinant exceeds  
2 25 percent of a customer's CSP. If BPA determines an adjustment is warranted,  
3 BPA would apply the HLH load factor (see TRM-12-E-BPA-09, section 5.3.5.1)  
4 for such month without application of the 91 percent adjustment to the HLH load  
5 factor. In determining whether to recalculate the HLH load factor, BPA would  
6 give consideration to whether 1) there was a discrete event beyond the control of  
7 the customer that caused the size of the Demand Charge Billing Determinant;  
8 2) the size of the Billing Determinant is likely to recur in the future; and 3) the  
9 recalculation of the adjusted HLH load factor and CDQ would not materially  
10 frustrate BPA's policy objective of having all customers with HLH load factors  
11 under 100 percent face the marginal cost of capacity.

12 Q. *Are you proposing a similar adjustment if the determined percent of the*  
13 *customer's CSP is zero?*

14 A. Yes. If the determined percent of the customer's CSP computed consistent with  
15 TRM-12-E-BPA-09, section 5.3.5.2, is zero, BPA may modify the HLH load  
16 factor for such month, with application of a number larger than 91 percent. As  
17 with instances where the Demand Billing Determinant is greater than 25 percent  
18 of the CSP, BPA would give consideration to whether 1) there was a discrete  
19 event beyond the control of the customer that caused the size of the Demand  
20 Charge Billing Determinant and 2) the size of the Billing Determinant is likely to  
21 recur in the future. In these circumstances, the objective would be to remove  
22 excess CDQ headroom and not to reduce the CDQ, so as to place the customer  
23 back on the margin for the cost of capacity.

24 Q. *Do you propose to clarify how CDQs would be calculated for New Publics*  
25 *formed from an entity other than an Existing Public?*

26 A. Yes. As originally proposed, the CDQ for New Publics that are formed from

another entity (e.g., an Investor-Owned Utility) would receive monthly adjusted HLH load factors calculated using monthly average adjusted HLH load factors for all customers. After settlement discussions with parties, we propose to continue to use the same basic methodology to allow the customer's CDQs to be more reflective of similarly situated utilities, taking into account such factors as geographic location, Non-Federal Resources, and the nature of the retail load. In addition, we propose to clarify that when New Public's CHWMs are phased in as described in TRM-12-E-BPA-09, section 4.1.6.5, the CDQ would change each Rate Period until the CHWM phase-in process has concluded.

### **Section 3: Shared Rate Plan**

*Q. What did you propose in the TRM Initial Proposal regarding the PF rate design applicable to Shared Rate Plan (SRP) participants?*

A. In the Initial Proposal, we proposed that SRP participants receive a Shared Rate Cost Allocator (SRCA) in addition to their Tier 1 Cost Allocator (TOCA). Each participant would pay the SRP Customer Rate multiplied by its SRCA. Each participant would also pay Load Shaping Rates and Demand Rates based on its TOCAs as if it was not an SRP participant. The Load Shaping Rate True-Up was proposed to be applied in the same way as for non-SRP participants. In addition, we proposed a special SRP Load Shaping Rate True-Up adjustment to offset any incentive to over-forecast Tier 2 amounts.

*Q. Are you now proposing changes to the SRP?*

A. Yes. We are now proposing to include the Load Shaping Charge in the SRP billing.

*Q. Please explain this proposed change.*

A. Instead of calculating and applying the Load Shaping Charges on an individual

1 customer basis, we are proposing to calculate the individual Load Shaping  
2 Charges, aggregate them, and then allocate them to the SRP participants based on  
3 their SRCAs. In proposing this change, we also withdraw the proposed  
4 adjustment to the Load Shaping Rate True-Up for SRP participants from the  
5 Initial Proposal, because the risk it was designed to mitigate no longer exists.

6 Q. *Why are you proposing to change the SRP billing design by allocating the*  
7 *aggregate of all SRP participants' Load Shaping Charges based on their SRCAs?*

8 A. We are proposing to modify the billing design of the Load Shaping Charges for  
9 participants in the SRP based on the settlement discussions with party  
10 representatives. There was sufficient party interest in making this modification to  
11 cause us to propose this change.

12 Q. *Do you anticipate any consequences to this modification?*

13 A. Yes. We anticipate this modification could cause SRP participants with "lower-  
14 cost" load shapes to pay a portion of the cost of serving SRP participants with  
15 "higher-cost" load shapes. This may be an incentive for those customers to  
16 choose to leave this rate option.

17  
18 **Section 4: Resource Support Services (RSS)**

19 Q. *Have you refined the application of Forced Outage Reserve Services (FORS)?*

20 A. Yes. We propose to refine the manner in which FORS will be offered. The Initial  
21 Proposal failed to distinguish between offering this service for a qualifying  
22 resource and for other assets that impact the generation associated with a  
23 qualifying resource. Under the Supplemental Proposal, we propose that these  
24 services would be priced separately and will be resource-, location-, and situation-  
25 specific. Currently, we propose to offer FORS only for qualifying resources.  
26 BPA may in the future offer FORS for other assets that impact the generation of

1 qualifying resources. However, that decision would be made in the future.

2 Q. *Have you added any new services to the list of RSS included in the Initial*  
3 *Proposal?*

4 A. Yes. We propose to include an offer of a Transmission Curtailment Management  
5 Service to customers with a CHWM Contract for their qualifying resources,  
6 provided the probability of transmission curtailment is within allowable limits.  
7 We will acquire electric power in accordance with 9(i) of the Northwest Power  
8 Act to replace the qualifying resource when there is a transmission curtailment  
9 between the qualifying resource and the customer load to provide this service.  
10 BPA intends to pass through the costs of providing this service directly to the  
11 customers purchasing this service. The specific rate design will be decided in a  
12 future 7(i) Process.

13  
14 **Section 5: Irrigation Rate Mitigation**

15 Q. *What changes are you proposing to Irrigation Rate Mitigation in section 10.3 of*  
16 *the TRM, TRM-12-E-BPA-09?*

17 A. Originally we proposed a cap on the Irrigation Rate Mitigation (IRM) benefit for  
18 the Slice/Block customers. The cap was the lesser of a customer's monthly Block  
19 purchased at Tier 1 rates, or the qualifying irrigation kilowatthours specified in  
20 the CHWM Contract. Thus, the cap had prevented Slice customers from  
21 including their Slice Percentage in the kilowatthours of irrigation load eligible for  
22 the IRM discount. We now propose to allow the inclusion of a customers' Slice  
23 Percentage, in addition to the Block Amount, when comparing the kilowatthours  
24 of irrigation load eligible for the IRM discount to the amount of requirements  
25 power the customer has purchased.

1 Q. *Why are you proposing these changes?*

2 A. When we first developed this criterion it was assumed the Priority Firm Power  
3 rate design would be similar for purchases under CHWM Contracts as it was for  
4 purchases under Subscription contracts. To the contrary, the proposed Tiered  
5 Rate Methodology is very different from the rate design implemented in the  
6 Subscription contracts. Under the TRM, all IRM costs would be included as  
7 Tier 1 costs. Slice/Block customers would be paying Tier 1 costs for their Slice  
8 Percentage amounts and Block amounts; therefore the “lesser of cap” would  
9 create an inequity between customers purchasing a Load Following product and  
10 those purchasing a Slice/Block product. Elimination of the cap would  
11 re-establish the equity between these power products under Irrigation Rate  
12 Mitigation.

13 Q. *Does this conclude your testimony?*

14 A. Yes.