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TESTIMONY OF

LEON D. NGUYEN, DANIEL H. FISHER, and ALEC L. HORTON

Witnesses for Bonneville Power Administration

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Witnesses for Bonneville Power Administration

SUBJECT: Power Rate Schedules and GRSPS

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Leon D. Nguyen, and my qualifications are contained in BP-26-Q-BPA-31.

A. My name is Daniel H. Fisher, and my qualifications are contained in BP-26-Q-BPA-13.

A. My name is Alec L. Horton, and my qualifications are contained in BP-26-Q-BPA-20.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to explain the changes we propose to make to the Power Rate Schedules and General Rate Schedule Provisions in the BP-26 rate proceeding.

Section 2: Unauthorized Increase (UAI) Charge

Q. What is the Unauthorized Increase (UAI) charge?

A. Because energy is essentially consumed when generated, BPA cannot perfectly ensure that customers consuming BPA power are taking only the amount they are contractually and legally entitled to. When a customer consumes more power than otherwise permitted, BPA must have mechanisms in place to both compensate BPA for the loss as well as send price signals to the customer to deter the behavior in the future. The UAI charge is a charge intended to do both. It has an energy component as well as a capacity component (*e.g.,* demand) and—consistent with its intended

purpose—is applied if a customer takes more energy, capacity, or power (both energy and capacity) than it is contractually entitled to take.

Q. How did BPA develop the UAI in BP-24 rates?

A. The BP-24 UAI was the result of a design BPA had used for several rate periods with the addition of a cap that limited the maximum mills per kilowatthour (mills/kWh) rate that would apply. Although the design of the UAI had not changed for quite some time, it was a source of frustration for some customers that felt it was too punitive. We had planned to potentially redesign the UAI for application in the BP-24 rate period, but ultimately reached the BP-24 Settlement Agreement that applied the BP-22 UAI design and incorporated a cap to partially address customers' concerns with the BP-24 design. The concern, as we understand it, is twofold. The first concern is that the UAI demand charge is too punitive when the duration of the UAI in a month is short—potentially lasting for only a single hour. In such a situation, the UAI demand charge would cause the aggregate cost of the UAI to exceed most market energy caps. This first concern was the impetus of the settled approach that included a cap on the total amount charged by the UAI.

The second concern, again as we understand it, is that the UAI energy charge is calculated using the monthly maximum hour market value in a month when the UAI energy may have been taken during a much less valuable hour. The BP-24 settled approach did not directly address this particular concern. Taken together, the BP-24 UAI rate design was a combination of the BP-22 UAI rate design and a BP-24 settlement cap to provide a temporary stopgap until a more thorough and comprehensive review of the UAI could be completed. The pre-BP-26 workshops provided this thorough and comprehensive review and resulted in a completely redesigned BP-26 UAI design that we believe addresses these two concerns while

also keeping the UAI as a meaningful deterrent to keep energy and capacity use within a customer's contractual entitlement.

Q. Can you provide a quick summary of the BP-24 UAI design?

A. As stated earlier, the UAI design has two components: an energy charge and a capacity charge (demand). One, the other, or both charges could apply depending on the conditions of the UAI event. The demand UAI charge is applied when the amount of measured demand during a Heavy Load Hour (HLH) billing hour exceeds the amount of demand the purchaser is contractually entitled to take during that hour. It is billed at 1.25 times the applicable monthly demand rate. If applied, it is applied only once a month to the exceedance amount taken during a Load Following customer's system peak, the largest HLH exceedance in the month for a Block customer, or demand in excess of the Slice entitlement during the peak Delivery Request (Right To Power) HLH of the month for the Slice portion of the Slice/Block product.

The UAI energy charge is applied in every hour that the amount of energy taken is greater than the amount the customer is contractually entitled to take. The rate applied to the UAI energy amount is equal to the greater of 1) 150 mills/kWh; or 2) two times the highest hourly Load Aggregation Point (LAP) price for BPA as determined by the Market Operator (MO) under Section 29.11(b)(3)(C) of the MO Tariff for the month in which the unauthorized increase occurs.

The monthly cap of the UAI charges (UAI cap) is the higher of 2,500 mills/kWh or 125 percent of the MO's Hard Energy Bid Cap defined in Appendix A of the MO Tariff.

Q. What is your proposal for the UAI in the BP-26 rates?

A. We are proposing to make changes to both the UAI energy and UAI demand and are proposing to remove the UAI cap. The UAI energy component will still be assessed

to customer's bill every hour the customer takes energy in excess of its contractual entitlement. However, the UAI energy rate will be based upon the hourly LAP price for BPA when the excess energy was taken, which better reflects the marginal market energy price in which the UAI occurred, rather than the highest hourly LAP price as was applied in BP-24.

Q. What about the UAI for demand?

A. When applicable, the UAI demand component will still be assessed once a month to a customer's bill. For a Load Following product, the UAI demand will apply if more than four hours of UAI energy is applied in a month *and* the UAI energy occurred during the hour of the customer's system peak. The UAI Demand Billing Determinant for a Load Following product would be the amount of the UAI energy taken during the customer's system peak.

For all other products and services, the UAI demand applies if more than four hours of UAI energy is applied in a month. The UAI Demand Billing Determinant for these products and services would be the customer's single highest hourly UAI energy in that month.

The four-hour demand charge grace period allows customers to mitigate any inadvertent incident or correct any equipment or system failure or outage that the Power customer could not have reasonably foreseen or avoided before the monthly UAI demand component is applied. In other words, this provides customers with the opportunity to correct resource schedules without being subject to the UAI demand right away. In addition, applying the UAI demand over a minimum of five hours also helps mitigate the concern with the size of the UAI demand when a monthly capacity-based charge is spread over a single hour.

Lastly, the four-hour grace period aligns with battery sources of capacity that many utilities are investing in to meet capacity needs. The capacity provided by

such batteries have maximum deployment times that are frequently measured in hourly duration periods. Duration periods of batteries often range from 2 to 10 hours. Thus, we wanted to select a grace period long enough to allow customers time to mitigate inadvertent incidents but not so long as it becomes a source of capacity comparable, or better than, a common source of capacity purchased by utilities.

Q. If a customer had two UAI events that each lasted three hours long, would the demand UAI apply?

A. For a Load Following customer, if one of the hours coincided with the customer's system peak, yes. If not, no. For all other products and services, yes. Our proposal, setting aside the additional customer system peak factor for a Load Following product, is to apply the UAI demand if more than four hours of UAI energy occurs in a month regardless of whether the hours are consecutive or multiple events totaling five hours.

Q. Why are you making these changes to the energy and demand components of the UAI?

A. We are making these changes to better align the UAI with the market conditions when the UAI event occurs. Further, the introduction of a four-hour grace period provides customers time to correct forecast errors, fix mistakes, or implement an operational alternative before the length of the event warrants the addition of a capacity component—*e.g.*, UAI demand. With these changes, the charge better matches the market conditions during the time of the event. The grace period provides customers with more opportunities to mitigate any inadvertent incidents and prevents applying unnecessarily large charges for UAIs due to equipment or

system failures or an outage that the customer could not have reasonably foreseen or avoided.

Q. Are you making any other changes to the UAI for the BP-26 rate period?

A. Yes. We have two other changes.

First, we removed the monthly cap for UAI of $2,500 per megawatthour (MWh). As stated earlier, the impetus of the cap was to mitigate the impact of the UAI demand charge when a UAI event occurred over one or two hours. This is because the UAI demand charge is assessed only once in a month and the longer the UAI event, the more UAI energy there is to spread the UAI demand charge costs over. As a result, the $/MWh impact of the UAI demand decreases quickly as the length of the event gets longer. As such, the grace period not only provides time to avoid the UAI demand but also removes the opportunity for four-hour-or-less events from incurring a UAI demand. The cap is not needed for UAI energy as the UAI energy rate is tied to the LAP that inherently includes the market's defined Market Operator Hard Energy Bid Cap.

Second, we added language to the UAI rate schedule that made clear BPA's waiver policy will apply to the UAI. The BP-26 Power Rates Schedule and General Rate Schedule Provisions (GRSPs) language is as follows:

> BPA may, in its sole discretion, waive up to 40 percent of the UAI Energy Charge, 100 percent of the UAI Demand Charge, or a combination of the two, to a Power customer. A Power customer seeking a reduction or waiver must demonstrate good cause for relief, including demonstrating that the event that resulted in the UAI:
>
> a) was inadvertent or was the result of an equipment failure or outage that the Power customer could not have reasonably foreseen or avoided; and
>
> b) did not result in harm to BPA's power system or services, or to any other Power customer.

2026 Power Rate Schedules and General Rate Schedule Provisions, BP-26-E-BPA-10, GRSP II.N.3.

We added this language to make clear BPA's policy to consider extenuating circumstances that could weigh in favor of waiving the UAI charge in a specific situation. To be clear, it is not our expectation that this language would be used routinely. The norm should be the application of the UAI. Nonetheless, we recognize that cases can occur where additional factors should be weighed before assessing the UAI, and this language makes clear BPA's consideration of those factors.

Section 3: NR Rate Flattening Service

Q. What is the NR Resource Flattening Service Charge?

A. The NR Flattening Service (NRFS) charge is a charge applicable to a Load Following customer that applies the generation output of a non-dispatchable Specified Resource to serve a New Large Single Load (NLSL). NRFS is akin to Resource Support Services (RSS), but NRFS is only applicable to non-federal resources serving an NLSL.

Q. What is RSS?

A. Under Section 5(b) of the Northwest Power Act, 16 U.S.C. § 839c(b), BPA's power supply obligation to a customer (public or investor-owned utility) is determined by netting against these customers' loads their own, non-federal resources. Often, these non-federal resources require additional energy and capacity services to shape the energy output to the customer's load. Under Regional Dialogue contracts, BPA required public customers to acquire a shaping service for non-federal resources that were dedicated to serving a customer's loads. BPA offered RSS as a component of the Regional Dialogue contract. RSS is an amalgamation of seven

separate services used to support and manage non-federal resource integration. RSS was limited to non-federal resources that were dedicated to serve a customer's "general requirements" under Section 7(b). At the time of TRM development and RD Contract signing, RSS was not available to shape non-federal resources serving an NLSL (*i.e.*, a Section 7(f) load).

Q. Where does NRFS come in?

A. In the BP-16 rate case, BPA added NRFS as a new provision to the NR Rate Schedule. The NRFS was designed to be "[s]imilar to BPA's Resource Support Services offered under the PF rate schedule . . . [by] allow[ing] a Load Following customer to apply generation of a Specified resource directly to its NLSL." Stiffler *et al.*, BP-16-E-BPA-17, at 21. At the time, it was thought some customers would purchase this service to integrate new non-federal resources to serve NLSLs. None did.

Q. Why is BPA removing this service?

A. The NRFS is a formula rate that was created in anticipation of commensurate contract language developed to provide the flattening service to customers electing to serve their NLSL with non-federal resources. In actuality, no such contract language was ever developed, and the NRFS has languished in the rate schedules without a clear use or purpose. To avoid confusion, we are proposing to remove it.

Section 4: Power RDC General Rate Schedule Provision Changes

Q. What is the Power Reserves Distribution Clause (RDC)?

A. The Power RDC is a rate mechanism under which the Administrator considers repurposing financial reserves when they exceed certain thresholds. The Power RDC GRSP lays out the terms for triggering the Power RDC, the process for reviewing the Power RDC Amount, and the steps BPA will take in deciding whether and how to repurpose any Power RDC Amount.

Q. What changes are you proposing to make to the Power RDC GRSP?

A. We are making a number of small adjustments to the rate schedule language to make it clearer and to make it easier to administer. The first change we made is to the description of the potential uses of the Power RDC. The Power RDC contains a set of criteria the Administrator must consider when determining how to use financial reserves eligible for the Power RDC. Those criteria were described in two places previously: in Section II.P. and II.P.3.(b). The issue we see is that the criteria are stated slightly different in each place. Thus, we propose to set forth the criteria in one place to avoid any confusion.

Q. What is the second change?

A. The second change we propose to make is to the process for issuing the Power RDC decision. Previously, BPA was required to notify regional parties by no later than November 30 of each year of whether there will be a Power RDC and, if so, how much. BPA would then hold a workshop on the calculation and take public comment. BPA then had until December 15 of the same year to make a decision on the uses of the Power RDC Amount. This timeline presumed that BPA's implementation of the Power RDC would be mathematical in nature. That is, BPA would calculate whether there was a Power RDC, take input on its use, and then make a decision.

For a few years, this is, in fact, what occurred. Recently, though, the Power RDC public process has garnered significant public attention. In both the FY 2022 Power RDC and FY 2023 Power RDC processes, a large number of public comments were submitted to BPA on the suggested use of the Power RDC Amount. Given the volume, complexity, and nature of the comments, BPA decided to issue a document responding to the comments to ensure BPA's rationale for its decision was clear. The combination of significant public participation and BPA's decision to issue a

response to those comments led BPA on two occasions to miss the December 15 deadline for issuing the Power RDC decision.

To avoid this problem in the future, we have added language to the rate schedule that will enable BPA to extend the Power RDC decision to February 1. The default Power RDC decision date will continue to be December 15. However, BPA may, with notice to its customers, extend that deadline to another date certain, but no later than February 1. We view this additional time as striking the proper balance between expeditious decision making and taking the time to review comments and ensure BPA's conclusion is well reasoned and supportable.

Q. *How do these adjustments affect BPA's ability to return Power RDC funds to customers as a rate reduction?*

A. The main impact of these changes is to potentially delay the distribution of any Power RDC earmarked for a rate reduction. It would not affect the overall amount of any such reduction. Essentially, the Power RDC previously required BPA to start rate reductions with the December billing. We propose to push this back to the day BPA issues the final Power RDC decision, which would be no later than February 1 of the following year. The amount would be equally applied to billing for the remaining full months between the Administrator's decision and September of the applicable year. That is, rather than applying a dividend distribution (DD) over the December through September billing, a delayed decision could result in a DD for the same overall amount over January through September, or February through September.

Q. *Did you make any other changes to the RDC language?*

A. Yes. The same as the product change adjustments to the risk provisions adopted for the BP-24 rate period, we once again need to make an exception to any risk adjustments that impact FY 2026 rates as a result of FY 2025 financial information.

The adjustments account for the different ways in which BPA's Priority Firm Power (PF) products recover costs and manage BPA's risk. The Slice portion of the Slice/Block product recover FY 2025 costs and risks through the variable output of the product itself and the Slice True-Up. Block and Load Following recover costs and risks through financial reserves and BPA's rate adjustments. As such, when a customer switches from the Slice/Block product to either a Block only or Load Following product, as is the case for three customers between the BP-24 and BP-26 rate periods, we must ensure that the customers switching products do not pay twice or get credited twice for FY 2025 financial results. Therefore, we added an exception for these three customers to ensure the Slice portion of their Slice/Block product is not subject to BPA's risk adjustments that change FY 2026 rates.

Q. Does this conclude your testimony?

A. Yes.

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