MEMORANDUM
EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital

FROM: Erin Erben, Manager of Power Resources & Strategy Planning

Megan Capper, Senior Energy Resource Analyst

DATE: February 20, 2013

SUBJECT: Bonneville Power Administration FY2014-15 Rate Proceedings

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Issue
At the February 5, 2013 Board meeting, Commissioner Helgeson requested an update on the current BPA rate proceedings.

Background
Every two years BPA establishes the rates to be charged for power and transmission services in a formal evidentiary hearing process. During the current rate process BPA will establish power, transmission, control area services, and ancillary services for FY2014-15. EWEB has joined with Cowlitz as a Party to the Rate Case and we share legal costs. This relationship has worked well in the past and continues to provide benefit.

In November 2012, BPA filed its Initial Proposal (IP) with FERC. The IP outlined BPA's thoughts on how the rates would be calculated. On January 28, 2013, after interested Parties had the opportunity to submit data requests and ask clarifying questions, the rate case Parties filed their "Direct" Testimony challenging or supporting BPA's IP. Below is an outline of some key issues and EWEB's positions. As the rate case proceeds through rebuttal testimony, clarification, oral arguments, and cross examination we anticipate a number of additional issues to arise. The Administrator's Record of Decision (ROD) is due the end of July 2013.

Discussion

Power Rate Case Issues
This is the second rate case conducted under the Tiered Rate Methodology and Regional Dialogue contracts implemented in 2011. Many of the key issues were debated and resolved in the FY2012-13 rate case. For this rate case EWEB has presented the following positions on power rates:

- With low forecasted secondary revenues and increased capital costs, BPA needs to look at alternatives to rate increases to recover costs especially as BPA's rates continue to be above market.

- BPA's proposal to delay their decision to manage risk by relying more heavily on net revenues from rates rather than a Cost Recovery Adjustment Clause (CRAC) mechanism needs additional customer review. We are recommending BPA develop a proposal for customer review.

- EWEB requests BPA add language to the Energy and the Generation Imbalance Rates to authorize BPA to waive the penalty portion of those rates when an imbalance occurs from factors outside the control of the customer. Our testimony uses the Persistent Deviation authority to waive a penalty as a model.

- We support testimony provided by slice customers to revise the definition of a slice customer's demand entitlement. We believe the proposed methodology falls short of the intended definition as defined by BPA in their initial proposal.

<u>Transmission Rate Case Issues</u>
BPA hasn't fully litigated a transmission rate case since 1996. Each rate case since has been settled. For this reason, there is a focus on revisiting the cost allocation methodologies in this rate case. The key issues are defined below.

- BPA has proposed a network cost allocation change from a one-month coincident peak load bill factor (1CP) to a method using twelve monthly, non-coincident peak load factors (12NCP). While EWEB supports this change as a step in the right direction, we are also strong advocates for BPA to move to a twelve-month, coincident peak (12CP) methodology, as we believe BPA's transmission costs are driven more by capacity use at the time of their system peak, rather than the peaks of the individual utilities. As an NT customer, this would provide a significant rate reduction and align BPA with the FERC's approved methodology.

- BPA collected $70 million more in revenue than expected last year. We've seen this trend over the past few rate cases and have asked BPA to revisit its revenue requirement assumptions.

- EWEB supports the concept of using part of BPA's current $450 million of financial reserves to buy down the rate increase. One party testified BPA could use $100 million in financial reserves and still meet the required 95% Treasure Payment Probability.

- BPA is under political pressure to roll the costs of the Montana Intertie into the BPA Network. While the short term costs are insignificant, the potential long term costs appear extreme and the precedent it sets for a decision with regard to the Southern Intertie concerns us.

<u>Generation Inputs Rate Case Issues</u>
While this is not a separate rate case proceeding it is comprised of a separate set of hearings that impact both the transmission and power rate cases.

The uses of federal generation to support the transmission system and maintain reliability are generally referred to as generation inputs. These include capacity products such as balancing reserves, where the system stands ready to make up any energy deviations between energy produced and scheduled. Given the variability of wind generation and the forecasted increase of wind turbines in the BPA balance authority, generation inputs and how their costs are allocated is a primary issue in this rate case.

This week BPA made a generation input settlement proposal in which they are asking customers to agree on a two-year cost allocation method to allow BPA and the region time to develop mechanisms to reduce capacity requirements and develop internal systems to further address wind integration needs. Parties are evaluating the proposal and will reconvene in the next two weeks to discuss. Below are the positions EWEB has taken to date outside of the settlement proposal.

- BPA is forecasting that the federal system will no longer has excess capacity to allocate to reserve services at the end of the next rate period. BPA proposes to proportionally allocate the costs of the balancing reserves on the federal system to generation and load. This approach would have any costs associated with additional acquisition of reserves allocated to those incurring the costs (primarily wind generation). We support BPA's proposal and appreciate its cost causation approach. We are cautious, however, to fully endorse the method until we see how it is implemented under an ever-changing wind environment.

- BPA should allocate the embedded costs of the "Big 10" hydro projects to reserve services based on the larger of "incs" and "decs" (ramp up and down on the system) needed to provide the service, as opposed to BPA only allocating costs to incs (as historically done). In the last rate case, we footnoted ourselves out of PPC's testimony on this matter because they wanted to add the incs and the decs together. This year we have been successful in convincing PPC to argue the allocation should be based on the larger of the incs and decs (which would usually result in decs).

<u>Oversupply Rate Case Issues</u>
BPA is conducting a third rate case to determine who will pay the past and future costs incurred during spring oversupply (OS) conditions. The plan is to develop a formula rate to be applied to actual costs, which will be collected at the end of each year. This formula rate may apply to the past costs incurred ($2.7 million in 2012 and $12 million in 2011) and would likely set precedent for OS costs incurred in 2014 and 2015. BPA estimates future OS costs will average $12million/year with a range between $0-$50 million/year.

In July 2012, BPA filed a revised Oversupply (OS) Protocol with FERC, called Attachment P, to the Open Access Transmission Tariff (OATT). In the revised Attachment P, BPA described its initial cost allocation proposal of a 50/50 cost split between transmission and power customers. This was their initial proposal prior to the public rate case process required by the NW Power Act. In FERC's December 2012 response, this requirement was overlooked when FERC ruled the 50/50 split did not produce comparable rates. As a result of this ruling, BPA filed a stay and request for rehearing to FERC. In the meantime, BPA has stopped its rate case to discuss alternative proposals with customers. In these discussions it appears there are two opposing arguments likely to be filed, detailed below.

1. Full Cost Allocation to Transmission Customers - This is the position EWEB/Cowlitz is planning to argue. We believe this is consistent with FERC's intent. FERC ruled that managing OS is a cost of managing the transmission system under certain conditions. The costs of managing the transmission system are transmission costs that must be equitably allocated to all uses of the transmission system under both the Transmission System Act and the NW Power Act.

2. Full Cost Allocation to Power Customers - This appears to be the wind position. The rationale used with this position is that OS costs are the result of the fish and all fish costs are to be allocated to power rates according to the NW Power Act. Allocating fish costs to power rates is not the same as keeping all fish costs out of transmission rates. With this argument we will likely argue that Transmission Services buys power for generation inputs from Power Services, and the price paid for such inputs is in effect a power rate, and the costs of generation inputs to support transmission are transmission costs.

The table below provides the anticipated cost share to EWEB on future OS costs from various rate case outcomes.

BPA OS COSTS	**Costs Allocated to Tx EWEB = .0136**	**Costs Allocated to Power EWEB =.0349**
Future avg of $12m/yr	$163,000/year	419,000/year
Future high of $50m/yr	$680,000/year	1,750,000/year

Within the next week we anticipate BPA will send out a new OS rate case schedule. BPA is expected to file a Record of Decision (ROD) in August this year.