Tiered Rates Design

This proposal is designed to meet the principles distributed by BPA on May 18. It provides *stability* by specifying each component of the rate design (demand, customer charge, and load variance charge), by eliminating energy charges, and by limiting the frequency of potential changes in the marginal capacity resource; *incentives* through the application of a demand charge to load at the margin as well as limits on each customer's Tier 1 energy rights; *equity* because the bulk of the Tier 1 revenue requirement is recovered through customer charges and because all load following customers will see the same incentive to manage peak loads; and *simplicity* because each element can be reduced to a formula that can be solved in each rate case.

1. Actual 2010 loads (with adjustments as proposed by BPA) should be used to define each customer's Tier 1 (T1) *annual* firm energy right.
2. T1 *monthly* energy rights should be defined by each customer's *annual* share of the firm (i.e., critical energy) T1 system. For example, if a customer's annual T1 energy right is 2.5% of the total, that customer would have the right to 2.5% of the projected T1 monthly energy capability each month of the year.
3. For those customers purchasing Block or Load Following services, each customer's forecasted monthly energy load on BPA (net of any Tier 2 purchases from BPA) will be compared with that customer's forecasted monthly T1 energy right.
   - If the customer's load on BPA is forecast to be *greater* than its T1 right for the month, the customer will be charged "load shaping": the additional costs incurred by BPA in meeting difference between the forecasted load and the T1 right.
   - If the customer's load on BPA is forecast to be *less* than its T1 for the month, the customer will be credited for "load shaping": the additional revenues received by BPA due to selling off the customer's "extra" T1 right.
   - Load shaping charges and credits are based on forecasted market prices (true-up?).
4. The billing factor for demand should be the difference between (a) the customer's peak load on BPA for the month and (b) the customer's average Tier 1 HLH energy right for the month.
5. The demand charge should be equal to the full fixed cost of a generic marginal capacity resource, as identified in the Council's most recent Power Plan. The marginal capacity resource for rate design purposes will change only if the Council identifies that the marginal capacity resource for the region has changed, but in any case no more often than every other rate case (assuming two-year rate periods).
6. The T1 total revenue requirement minus forecasted demand revenues minus forecasted secondary energy revenues should be recovered on a take-or-pay basis by a customer charge equal to each customer's T1 right, in %, multiplied by the T1 net revenue requirement. The total annual customer charge, in dollars, may be shaped to the customer's forecasted retail loads or revenues.
7. T1 services include energy and capacity, but not Load Variance (LV).
   - LV should be offered as a separate service because it cannot reliably be provided by the T1 system under all conditions.

- LV is defined as the difference between forecasted and actual energy loads on BPA for each month (diurnally differentiated).
- LV should be priced at the forecasted marginal cost (i.e., the forecasted diurnally differentiated spot market price) to BPA of providing this service from the market.
- Because forecasted loads will be assumed equal to actual loads during a rate case, there will be no forecasted revenues from LV charges. Actual LV revenues are intended to cover actual LV costs.

In addition to supporting the BPA principles as summarized at the beginning of this proposal summary, the proposal provides the following additional benefits:

- It provides a consistent means across all BPA customers for collecting BPA's revenue requirement that is not subject to change with changing market prices and varying theories as to how to price demand, energy and load variance.
- It is easily converted to a formula rate which can be embedded in contract thus providing customers surety with respect to how their rate will be calculated and consistency over time.
- It ensures that customers are exposed to market price signals for taking more or less Tier 1 energy than they are entitled to and because of this limits the opportunity for Tier 2 costs to "bleed" into Tier 1.