Tier 2 Overhead Allocation and Recovery

Various proposals have been discussed concerning the allocation of costs to cover the overhead of BPA personnel involved in purchasing power for serving loads above HWMs. These discussions have delved into topics such as what costs are measurable and what costs should be included. Some of the discussion has included accounting for time spent on Tier 2 activities and studies to determine the allocation of time.

It is probable, especially in the early years when the total amount of load served at Tier 2 prices in smaller, that the time and effort spent on tracking and analyzing time spent on Tier 2 activities would exceed the actual time spent on Tier 2 activities. Such a result would not be a prudent use of time or money.

However, to ignore any cost assignment to Tier 2 activities would not be proper, either. Hence, this proposal.

Proposal for recovery of Tier 2 Activity Costs

BPA believes that an acceptable rule-of-thumb for determining the amount of Tier 2 activities would be approximately one FTE per 100 aMW of Tier 2 acquisitions. It may be a bit more in the beginning as there is a fixed time component, but it seems like this would work. BPA spoke with those who track BPA's internal costs and determined that a 40% overhead adder to cover costs that are not assignable to any of the business lines is a reasonable figure. Starting with the rule-of-thumb of $100,000 per FTE for salary and benefits and allowing for the 40% overhead, one FTE works out to about $140,000.

If BPA were to charge its Tier 2 customers $0.25 per MWh for overheads, it would work out to about $220,000 per 100 aMW. This seems to hold some rough comparability, especially when the 1 FTE per 100 aMW is a guess at this time. Therefore, a $0.25 adder provides some room to absorb costs in excess of the estimate while not being too a large an adder to the Tier 2 rates.

An exception would be made for time and effort spent on specific resource purchases procured the vintaged options. In these cases, a more focused effort would be made to identify the specific costs incurred for these purchases and those costs would be included in the cost of the purchase. However, for more routine forward-block purchases, the costs would appear to be much cheaper than acquisition costs of specific resources.

The table below shows the amounts recovered from a $0.25 adder for various amounts of Tier 2:

aMW	T2 Charges		aMW	T2 Charges
100	$220K		1100	$2,410K
200	440K		1200	2,630K
300	660K		1300	2,850K
400	880K		1400	3,070K
500	1,100K		1500	3,290K
600	1,310K		1600	3,500K
700	1,530K		1700	3,720K
800	1,750K		1800	3,940K
900	1,970K		1900	4,160K
1000	2,190K		2000	4,380K

The amounts collected from this adder would be credited against Tier 1 costs, which would contain all of the underlying internal and direct costs.

No true-up would be calculated after-the-fact. The amounts calculated in the rate case would be deemed to be correct.

In each subsequent rate case, BPA would examine the basis for the adder and propose adjustments as an issue in the rate case.