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REBUTTAL TESTIMONY OF

GREG C. GUSTAFSON, GARRY R. THOMPSON, AND KIMBERLY A. LEATHLEY

Witnesses for Bonneville Power Administration

SUBJECT: Rebuttal Testimony for Low Density Discount (LDD)

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4

5 **SUBJECT: REBUTTAL TESTIMONY FOR LOW DENSITY DISCOUNT**

6 **Section 1. Introduction and Purpose of Testimony**

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

8 A. My name is Greg C. Gustafson. My qualifications are contained in WP-02-Q-BPA-26.

9 A. My name is Garry R. Thompson. My qualifications are contained in WP-02-Q-BPA-65.

10 A. My name is Kimberly A. Leathley. My qualifications are contained in WP-02-Q-BPA-42.

11 *Q. Please state the purpose of your testimony.*

12 A. The purpose of this testimony is to respond to the testimony of the Northwest
13 Requirements Utilities (NRU), Saven, *et al.*, WP-02-E-NI-02; the Pacific Northwest
14 Generating Cooperative (PNGC), Thayer, *et al.*, WP-02-E-PN-03; the Public Power
15 Council (PPC), Hansen and O'Meara, WP-02-E-PP-08; the Western Public Agencies
16 Group (WPAG), Cross, *et al.*, WP-02-E-WA-01; and PacifiCorp, Brattebo,
17 WP-02-E-PL-01; regarding the Low Density Discount (LDD).

18 *Q. How is your testimony organized?*

19 A. Following this introductory section, section 2 of this testimony discusses the Additional
20 Adjustment for Very Low Densities. Section 3 discusses the Benefits Legislation
21 Exclusion. Section 4 discusses the data requirements for determining pole miles.
22 Section 5 discusses the application of the LDD to the Slice Product. Section 6 discusses
23 the eligibility of multistate utilities for the LDD.
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26

1 **Section 2. Additional Adjustment for Very Low Densities**

2 *Q. A number of parties argue that BPA should retain the Very Low Density Discount*
3 *(VLDD). See Saven, et al., WP-02-E-NI-02, at 3-6; Thayer, et al., WP-02-E-PN-03,*
4 *at 2-5; Hansen and O’Meara, WP-02-E-PP-08, at 2-3. In support of this position, the*
5 *parties argue that: (1) even if only one utility is currently receiving the VLDD, it is still a*
6 *valid provision; (2) there may be more than one utility eligible for the VLDD during the*
7 *rate period; and (3) the time and expense to implement the VLDD is greatly exceeded by*
8 *the benefits provided to purchasers. Id. Please respond.*

9 *A. The parties’ arguments are well reasoned. Based on those arguments, the Bonneville*
10 *Power Administration (BPA) believes it would be appropriate to continue the VLDD for*
11 *the next rate period. BPA will continue to monitor the VLDD, however, to ensure that*
12 *there are still utilities eligible to receive the VLDD and that it continues to serve a*
13 *valuable purpose.*

14 **Section 3. Benefits Legislation Exclusion**

15 *Q. NRU, PNGC, and PPC argue that BPA should reject the Benefits Legislation Exclusion,*
16 *citing numerous concerns. Saven, et al., WP-02-E NI-02, at 6-8; Thayer, et al.,*
17 *WP-02-E-PN-03, at 6-8; Hansen and O’Meara, WP-02-E-PP-08, at 3-4. Please respond.*

18 *A. While BPA disagrees with virtually every argument raised by the parties in opposition to*
19 *the Benefits Legislation Exclusion, BPA is reconsidering its proposal to adopt the*
20 *exclusion. BPA believes that the policy underlying the Benefits Legislation Exclusion is*
21 *sound. The Benefits Legislation Exclusion was created by BPA in response to legislative*
22 *efforts to establish benefit programs similar to the LDD. It is reasonable to consider*
23 *whether BPA should offer an LDD when similar benefits are provided by other*
24 *governmental entities. Since the conception of the Benefits Legislation Exclusion,*
25 *however, BPA has not witnessed the adoption of such provisions by state or local*
26 *governments. While BPA believes that it may be inappropriate for utilities to receive the*

1 LDD at the same time that such utilities benefit from similar programs provided
2 elsewhere, BPA does not believe it is necessary to establish the Benefits Legislation
3 Exclusion at this time. BPA will continue to monitor retail access legislation on the
4 Federal, state, and local government level to determine whether LDD benefits are being
5 duplicated by another government's actions. The provision of benefits similar to the
6 LDD by other governmental entities during the rate period may require BPA to revisit
7 this issue in its next rate proceeding.

8 **Section 4. Pole Mile Data Requirements**

9 *Q. NRU argues that BPA should clarify the collection of data concerning the number of*
10 *miles of distribution line for purposes of calculating the C/M ratio to provide that it does*
11 *not exclude underground distribution lines from the calculation. Saven, et al.,*
12 *WP-02-E NI-02, at 10. Please respond.*

13 A. The reference to pole miles and the definition of pole miles in BPA's 2002 Initial Power
14 Rate Proposal, Wholesale Power Rate Schedules, WP-02-E-BPA-07, includes
15 underground distribution lines.

16 **Section 5. Application of LDD to Slice Product**

17 *Q. With regard to the application of the LDD to Slice, PNGC argues that the use of previous*
18 *calendar year data may falsely value the \$/megawatt-hour (MWh) value in years when*
19 *BPA experiences a rate change (i.e., third year of stepped-up rate, Cost Recovery*
20 *Adjustment Clause (CRAC), etc.). Thayer, et al., WP-02-E-PN-03, at 9. PNGC proposes*
21 *that BPA should use previous calendar year data to estimate the \$/MWh values and at*
22 *the end of the year BPA should use actual data to produce a final set of \$/MWh. Id. BPA*
23 *would then refund or bill any differences just like any other estimated bill. Id. Please*
24 *respond.*

25 A. PNGC has identified a legitimate concern. PNGC's proposal to treat the \$/MWh value as
26 an estimated amount and conduct a true-up at the end of the year is one approach to

1 addressing this problem. This approach, however, would place a greater administrative
2 burden on BPA. While there are some instances where it may be necessary, BPA would
3 like to minimize the use of estimates and true-up practices in the implementation of
4 BPA's rates. An approach that would not impose this burden would be to adjust the
5 \$/MWh value by percentage increases or decreases in the PF Preference rate. These
6 increases or decreases would include changes in rates from the first three years of the rate
7 period to the last two years of the rate period and the establishment of a new PF
8 Preference rate. This approach would not apply to increases due to the Targeted
9 Adjustment Charge (TAC), CRAC, or the Dividend Distribution Clause (DDC). The
10 reason BPA would not make an adjustment to the \$/MWh value for these changes is
11 because the Slice product and subsequent Slice rate are not subject to TAC, CRAC, or
12 DDC. Therefore, a change to the \$/MWh value for those rate adjustments is not
13 applicable. By adjusting the \$/MWh value by the percentage of a PF Preference rate
14 increase or decrease, PNGC's concern regarding a "false value" is addressed and a
15 true-up would not necessary.

16 *Q. PNGC argues that BPA proposes to determine a \$/MWh value for each discount bracket,*
17 *which may pose a problem if there are few or no non-Slice LDD recipients in a given*
18 *discount bracket. See Thayer, et al., WP-02-E-PN-03, at 10. PNGC proposes that BPA*
19 *determine a linear relationship among the discount brackets based on data available*
20 *from the non-Slice LDD customers, possibly using a regression analysis and not a*
21 *constant term. Id. The linearized \$/MWh value for each discount bracket would be what*
22 *was applied to the Critical Slice Amount to determine a Slice participant's LDD. Id.*
23 *BPA would use previous calendar year data for the estimate and actual data for the final*
24 *values. Id. Please respond.*

25 *A. Again, PNGC has identified a legitimate concern. BPA agrees that, when there are no*
26 *non-Slice LDD recipients available in a given discount bracket to calculate the \$/MWh*

1 value, it is appropriate to determine a linear relationship using a regression analysis and
2 not a constant term. Use of previous year data is adequate for determining the \$/MWh
3 value and, as stated in the previous answer, BPA proposes to increase or decrease the
4 \$/MWh value if a rate increase or decrease occurs in the year the discount is applied.
5 This would eliminate the need for later true-up calculations. The \$/MWh value would be
6 calculated using the following formula: Heavy Load Hours (HLH) and Light Load Hours
7 (LLH) Charges divided by the HLH and LLH Energy = \$/MWh. The necessary data
8 would be calculated by totaling each LDD recipient's charges and energy for each
9 percentage bracket, from .5 to 7.

10 *Q. WPAG argues that BPA's proposed billing methodology for applying the LDD to Slice is*
11 *unduly cumbersome, relies on data that may not be readily available, and has possible*
12 *inequities across customers. Cross, et al., WP-02-E-WA-01, at 73-75. Please respond.*

13 *A. Contrary to WPAG's claims, the proposed methodology is not cumbersome. Information*
14 *needed to implement BPA's methodology is readily available from the data submitted to*
15 *BPA by LDD recipients and each customer's power bill. Also, BPA's proposed*
16 *methodology maintains equity across customers. To apply the LDD to surplus power*
17 *deliveries would give the Slice customers more of a financial benefit than the non-Slice*
18 *customers receive because non-Slice customers will only receive the LDD discount*
19 *against PF Preference purchases.*

20 *Q. WPAG argues that BPA should simply apply the appropriate LDD percentage to the*
21 *monthly Slice payment on the monthly power bill, which can be trued-up annually and*
22 *avoids possible inequities between LDD participants. Cross, et al., WP-02-E-WA-01,*
23 *at 75. Please respond.*

24 *A. BPA disagrees with WPAG's proposal. The LDD is applied to the PF Preference rate*
25 *portion of a non-Slice customer's bill. The Slice monthly payment contains only some of*
26 *the components of the PF Preference rate. Therefore, if the Slice monthly bill were used,*

1 some adjustments would have to be made to make it comparable to the PF Preference rate
2 bill. BPA's approach has already accomplished this.

3 *Q. WPAG argues that the BPA errata methodology states the discount rate computation*
4 *incorrectly because the discount should be the total dollars divided by the MWh and not*
5 *the other way around. Cross, et al., WP-02-E-WA-01, at 75. Please respond.*

6 *A. WPAG is correct. The formula should be stated with total dollars divided by MWh.*

7 *Q. WPAG argues that investor-owned utilities (IOU) that participate in settlements of the*
8 *Residential Exchange Program may receive benefits greater than they would have*
9 *received under the Residential Exchange Program while LDD recipients would receive*
10 *LDD benefits at a level approximately the same as in the current rate period. See Cross,*
11 *et al., WP-02-E-WA-01, at 76-77. WPAG proposes reinstatement of the level of LDD*
12 *benefits in effect prior to 1996. Id. Please respond.*

13 *A. The benefits that may be received by IOUs in proposed settlements of the Residential*
14 *Exchange Program are unrelated to the benefits received by utilities under the LDD.*
15 *BPA has proposed a methodology for determining LDD benefits that BPA believes is*
16 *appropriate. The parties have presented their positions on all LDD issues. The level of*
17 *LDD benefits should be determined by addressing those issues that comprise the*
18 *development of the LDD. The arbitrary increase of LDD benefits to a past level is not*
19 *reasonable.*

20 Restoration of LDD benefits to the pre-1996 level is not appropriate for additional
21 reasons. The primary reasons for the reduction in total LDD benefits in BPA's 1996 rate
22 case were BPA's amendments of the LDD to "ensure that only customers meeting the
23 intent of the LDD qualify for the LDD." See Craig, et al., WP-96-E-BPA-50, at 3. In
24 addition, the LDD was amended in 1996 to apply to total power purchases instead of the
25 total monthly bill, which stopped application of the LDD to transmission charges. This
26 change was necessary to avoid violating the comparability principle contained in the

1 Federal Energy Regulatory Commission requirement for open-access transmission tariffs.
2 *Id.* at 9.

3 **Section 6. Eligibility of Multistate Utilities for LDD**

4 *Q. PacifiCorp argues that there is a disconnect between how IOU retail rates are set and*
5 *how BPA determines eligibility for the LDD. Brattebo, WP-02-E-PL-01, at 6.*
6 *PacifiCorp argues that the lower-cost higher density distribution systems in PacifiCorp's*
7 *other jurisdictions are not available to offset the adverse impacts of the higher-cost lower*
8 *density distribution system in Idaho. Id. Therefore, PacifiCorp's residential and rural*
9 *consumers in Idaho lose a discount given to other retail consumers in low density service*
10 *territories. Id. Please respond.*

11 *A. BPA recognizes that PacifiCorp's lower-cost higher density distribution systems in*
12 *PacifiCorp's other jurisdictions are not available to offset the adverse impacts of its*
13 *higher-cost lower density distribution system in Idaho. BPA is concerned, however, with*
14 *two issues. First, BPA counsel has advised that under the Northwest Power Act, the*
15 *LDD is applied "in order to avoid adverse impacts on retail rates of the Administrator's*
16 *customers with low system densities." Because the Act refers to "customers," BPA must*
17 *determine the proper customer for application of the LDD. On one hand, PacifiCorp is*
18 *BPA's customer, even though it has jurisdictions in numerous states. On the other hand,*
19 *as PacifiCorp points out, the Residential Exchange Program is implemented on a state*
20 *jurisdictional basis, with PacifiCorp's Idaho service territory served by its Utah Division.*

21 *Second, while the LDD is intended to avoid adverse impacts on retail rates of low*
22 *density customers, distribution costs are not the only costs that affect retail rates. While*
23 *lower-cost higher density distribution systems may not be available to offset the impacts*
24 *of higher density distribution systems, a large multistate utility might have economies of*
25 *size or efficiencies in administration, resource planning, or other areas that might help to*
26 *offset some of its higher distribution costs in its state jurisdictions. A utility might have*

1 low retail rates despite higher than normal distribution costs. BPA would like to review
2 the parties' testimony and briefs on these issues to make an informed decision.

3 *Q. PacifiCorp argues that a disconnect (of lower-cost higher density distribution systems in*
4 *PacifiCorp's other jurisdictions not being available to offset the adverse impacts of the*
5 *higher-cost lower density distribution system in Idaho) does not occur in BPA's*
6 *determination of an exchanging utility's benefits under the Residential Exchange*
7 *Program because those benefits are calculated on a state-by-state basis based on costs*
8 *used in determining retail rates in that state. Brattebo, WP-02-E-PL-01, at 6. Please*
9 *respond.*

10 *A. PacifiCorp correctly notes that Residential Exchange benefits are determined on a*
11 *state-by-state basis based on a comparison of the utility's Average System Cost (ASC)*
12 *with BPA's PF Exchange rate. As discussed in greater detail below, it is important to*
13 *note that the application of the LDD to the PF Exchange Program rate only affects the*
14 *determination of Residential Exchange benefits received by the utility. It does not affect*
15 *the benefits received by other exchanging utilities.*

16 *Q. PacifiCorp proposes that section II.P.1 of the General Rate Schedule Provisions be*
17 *amended to allow the qualification for the LDD to be calculated on a state-by-state basis*
18 *when a multistate utility's retail rates within a state are based on a revenue requirement*
19 *that contains only the costs of the utility's distribution facilities within that state.*
20 *Brattebo, WP-02-E-PL-01, at 6. Please respond.*

21 *A. BPA believes that PacifiCorp's proposal deserves serious consideration. As noted above,*
22 *however, BPA needs to review all parties' testimony and briefs on the issues before*
23 *reaching a conclusion. Assuming for the sake of argument that PacifiCorp were correct,*
24 *however, the LDD would be applied to the PF Exchange Program rate for BPA's*
25 *traditional Residential Exchange sales to the utility for that state jurisdiction.*

26

1 Q. *Would the foregoing logic, based on the nature of the Residential Exchange Program,*
2 *also apply to sales under the Residential Load (RL) rate and the PF Exchange*
3 *Subscription rate?*

4 A. No. In order to understand this response, it is necessary to understand the nature of the
5 sales governed by the RL and PF Exchange Subscription rates. In BPA's Subscription
6 Strategy, BPA proposed to offer regional IOUs the equivalent of 1,800 average
7 megawatts (aMW) of Federal power, in the form of power deliveries or monetary
8 payments, to settle the utilities' rights to participate in the Residential Exchange Program.
9 The RL and PF Exchange Subscription rates apply only to power sales and monetary
10 benefit calculations under the proposed settlements. In a separate administrative
11 proceeding, BPA is developing a methodology for the allocation of the 1,800 aMW
12 benefits among the regional IOUs. BPA is also taking public comment on whether the
13 settlement amount should be increased from 1,800 aMW to 1,900 aMW.

14 As noted above, Residential Exchange Program benefit calculations are based on
15 the comparison of a utility's ASC with BPA's PF Exchange rate. These determinations
16 are made for each individual exchanging utility. These determinations do not affect the
17 Residential Exchange benefits provided to other exchanging utilities. Similarly,
18 providing the LDD to an exchanging utility does not affect the Residential Exchange
19 benefits provided to other exchanging utilities. This is not true with regard to settlement
20 benefits if the LDD were applied to the RL and PF Exchange Subscription rates. BPA's
21 settlement proposal allocates a specific amount of settlement benefits among a limited
22 number of IOUs. BPA solicited the views of the Pacific Northwest state Public Utility
23 Commissions in order to develop its allocation proposal. The commissions proposed
24 specific amounts of the total benefits for each IOU, including specific amounts for each
25 of PacifiCorp's three state jurisdictions. BPA believes that the commissions' proposal
26 was very difficult to develop. BPA has no evidence that the commissions took into

1 account the possible increase in benefits to PacifiCorp's Idaho jurisdiction if the LDD
2 were applied to the RL and PF Exchange Subscription rates. If the LDD applied to those
3 rates, only PacifiCorp would pay a lower rate for power provided under the proposed
4 settlement agreements and only PacifiCorp would receive an increased amount of
5 monetary benefits due to a lower rate that, when compared with BPA's five-year market
6 forecast, is used to calculate monetary benefits under the proposed settlements. While
7 the settlement amounts contained in the allocation proposal for other utilities would not
8 be decreased, those utilities' percentages of the total settlement benefits would be
9 reduced. In summary, the RL and PF Exchange Subscription rates are special rates for a
10 specific purpose--the implementation of the proposed settlement agreements. It is
11 inappropriate to apply the LDD to these rates and indirectly affect the proposed
12 percentage allocation of benefits provided to the potential settling utilities.

13 *Q. Does this conclude your testimony?*

14 *A. Yes.*