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REBUTTAL TESTIMONY OF
ZOEANNE ARRINGTON, BYRON G. KEEP, AND LAWRENCE E. KITCHEN
Witnesses for Bonneville Power Administration

SUBJECT: Rebuttal Testimony for Targeted Adjustment Charge

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1 REBUTTAL TESTIMONY OF

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5 **SUBJECT: REBUTTAL TESTIMONY FOR TARGETED ADJUSTMENT CHARGE**

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

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

8 A. My name is ZoeAnne Arrington. My qualifications are contained in WP-02-Q-BPA-02.

9 A. My name is Byron Keep. My qualifications are contained in WP-02-Q-BPA-34.

10 A. My name is Lawrence Kitchen. My qualifications are contained in WP-02-Q-BPA-37.

11 *Q. Have you previously filed testimony in this proceeding?*

12 A. Yes. We previously sponsored direct testimony on the Targeted Adjustment Charge
13 (TAC), WP-02-E-BPA-24.

14 *Q. What is the purpose of your rebuttal testimony?*

15 A. The purpose of this testimony is to respond to the direct testimony filed by the Public
16 Power Council (PPC) and Northwest Requirements Utilities (NRU).

17 *Q. How is your testimony organized?*

18 A. This testimony is organized in two sections. Section 1 outlines the purposes of our
19 testimony. Section 2 responds to arguments regarding the TAC.

1 **Section 2. Targeted Adjustment Charge**

2 *Q. PPC argues that the proposed policy on sections 5(b) and 9(c) as initially proposed*
3 *[p]rior to its revision as published in 64 Fed. Reg. 58039] would have a negative effect*
4 *on public agencies. PPC describes three examples that are of concern. First, some*
5 *utilities are in the process of disposing of their interest in regional resources which will*
6 *increase their net requirements. Under the revised policy, this load, if placed on the*
7 *Bonneville Power Administration (BPA), will be treated as incremental load and charged*
8 *the TAC. On advice of counsel, PPC believes this is inconsistent with statute and that*
9 *TAC should not apply. O’Patrny et al., WP-02-E-PP-02, at 10. Please respond.*

10 *A. Our previous testimony on the TAC remains the same. Application of the TAC to*
11 *customers requesting firm power to serve load previously served by the customer’s*
12 *section 5(b)(1)(A) and (B) resources will iterate with BPA’s final policy on sections 5(b)*
13 *and 9(c). We understand the concern raised by PPC, nonetheless we believe the TAC is*
14 *necessary to provide BPA the flexibility to meet increases in its regional firm load*
15 *obligations during the next rate period. We believe rate concerns are proper for*
16 *consideration in this rate proceeding; however, the first example presented is not a rate*
17 *concern. Therefore, the proper forum for consideration of PPC’s first example is through*
18 *public comment on BPA’s revised policy proposal as published in 64 Fed. Reg. 58039.*

19 *Q. In PPC’s second example, it argues that the TAC should not apply, to the extent public*
20 *agencies have hydroelectric generation that is subject to nonpower constraints due to*
21 *Federal relicensing requirements that impose operational changes and financial*
22 *obligations that increase a customer’s net requirements, if the change is known before*
23 *Subscription contracts are executed. O’Patrny et al., WP-02-E-PP-02, at 11. Please*
24 *respond.*

25 *A. Our previous testimony on the TAC remains the same. Application of the TAC to*
26 *customers’ requesting firm power to serve load previously served by the customer’s*

1 section 5(b)(1)(A) and (B) resources will iterate with BPA’s final policy on sections 5(b)
2 and 9(c). We understand the concern raised by PPC, nonetheless we believe the TAC is
3 necessary to provide BPA the flexibility to meet increases in its regional firm load
4 obligations during the next rate period. We believe rate concerns are proper for
5 consideration in this rate proceeding; however, the second example presented is not a rate
6 concern. Therefore, the proper forum for consideration of PPC’s second example is
7 through public comment on BPA’s revised policy proposal as published in 64 Fed. Reg.
8 58039.

9 *Q. In its third example, PPC states that many public agencies diversified by executing
10 amendatory agreements in 1996. Doing so cost utilities “lost margins” or severance
11 payments intended to make BPA whole for having reduced load. Some of the non-Federal
12 power supply contracts that these customers executed have termination options that may be
13 exercised during the upcoming rate period. PPC does not believe the TAC should apply to
14 customers that simply exercise existing contract rights, nor should BPA impose conditions
15 on a contract to which it is not a party. O’Patrny et al., WP-02-E-PP-02, at 11. Please
16 respond.*

17 *A. Our previous testimony on the TAC remains the same. Application of the TAC to
18 customers requesting firm power to serve load previously served by the customer’s
19 section 5(b)(1)(A) and (B) resources will iterate with BPA’s final policy on sections 5(b)
20 and 9(c). We understand the concern raised by PPC, nonetheless we believe the TAC is
21 necessary to provide BPA the flexibility to meet increases in its regional firm load
22 obligations during the next rate period. We believe the proper forum for consideration of
23 PPC’s example is through public comment on BPA’s revised policy proposal as
24 published in 64 Fed. Reg. 58039.*

25 In regard to PPC’s testimony regarding diversification payments, we fail to see
26 how it is relevant to the proposed TAC. Diversification payments covered the estimated

1 costs of removing requirements service under the Priority Firm Power (PF) rate schedule
2 from BPA during the 1996 rate period. Nor do we agree that the TAC imposes
3 conditions on its customer's contracts with other suppliers. Customers remain free to
4 choose as they wish as they evaluate their power supply alternatives.

5 *Q. PPC notes that the TAC will not be applied to the PF Exchange Program rate, the*
6 *PF Exchange Subscription rate, or the New Resources rate. PPC then argues that BPA*
7 *could incur unanticipated costs for these services and be harmed financially. By way of*
8 *example, the Subscription Strategy declared BPA would offer the PF Exchange*
9 *Subscription rate for 1800 average megawatt (aMW) of physical and financial power.*
10 *Since that time BPA has said it will increase that offer to 1900 aMW or more but will not*
11 *apply the TAC to the additional 100 aMW. PPC argues that all customers will be paying*
12 *for unanticipated loads that BPA will serve as a result of post-Subscription Strategy offer*
13 *to investor-owned utilities (IOU) and direct service industry (DSI) loads. O'Patrny et al.,*
14 *WP-02-E-PP-02, at 12. Please respond.*

15 *A. It is true that BPA did not propose applying the TAC to the PF Exchange Program rate,*
16 *the PF Exchange Subscription rate, or the New Resources rate. The PF Exchange*
17 *Program rate does not need a TAC for two reasons. First, the residential and small farm*
18 *loads of the IOUs are forecasted and that forecast is used in setting the PF Exchange*
19 *Program rates. Those forecasts are the basis for the benefits and will not change,*
20 *although who serves these loads and, thus, who is responsible for distributing the*
21 *exchange benefits may change. Therefore, the PF Exchange Program rate does not need*
22 *a TAC. Second, if an IOUs' average system cost (ASC) changes, a TAC is not required*
23 *because if the ASC is rising, BPA cost exposure could be reduced by the in-lieu provision*
24 *of the Power Act. Therefore, because of the in-lieu provisions of the Northwest Power*
25 *Act, BPA does not need a TAC.*

1 The TAC will not be applied to the PF Exchange Subscription rate because the
2 settlement is only available through the Subscription window, and this rate only applies
3 to the IOUs' settlement amount if BPA decides that direct sales to the IOUs are to be
4 made under section 5(c) of the Power Act.

5 PPC's example of increasing the Federal benefit available to the IOUs by
6 100 aMW from 1,800 aMW to 1,900 aMW is misplaced. As proposed, the increase of
7 100 aMW is being considered by BPA in this rate case and will only be done as long as
8 there is no increase in the proposed rates BPA charges its other preference customers.
9 *See Burns, et al., WP-02-E-BPA-08, at 12.* This load would be included in the IOUs'
10 initial contract amount that is signed during the Subscription window and calculated as
11 part of the load that BPA would expect to serve in the final rate case numbers. Because
12 this load would be included in the final rate case numbers, it would not be unexpected.

13 BPA did not propose to apply the TAC to the New Resource Firm Power (NR) rate.
14 The purpose of the TAC is to protect the BPA from the unanticipated cost of incremental
15 loads which, if market prices are above the PF rate, would otherwise go unrecovered. BPA
16 believed that the NR rate in the Initial Proposal was high enough that BPA would be
17 protected from increases in future market prices should a customer request power under this
18 schedule.

19 Upon subsequent reconsideration, BPA agrees with PPC that the TAC should also
20 apply to the NR rate. The TAC will cover the cost of additional resources if they cost
21 more than the cost of resources as demonstrated in the NR rate schedule. While BPA
22 believes that it is unlikely that the cost of purchasing resources for a sale under the NR
23 rate will exceed the NR rate, applying the TAC would provide additional protection to
24 BPA's ratepayers.

1 Q. PPC takes issue with the design of the TAC and argues that BPA should not artificially
2 place a floor on market prices as proposed in BPA's testimony, WP-02-E-BPA-24, at 7,
3 lines 1-5. O'Patrny et al., WP-02-E-PP-02, at 12. Do you agree?

4 A. No, we do not agree. The PF rate is not intended to be a device for customers to play the
5 market, but rather is a rate schedule to accompany long-term purchase commitments of a
6 customer to BPA. If the price of purchasing at market is below PF, BPA believes that a
7 customer can make arrangements on its own to purchase at market or purchase a surplus
8 firm power product, if available, from BPA under the Firm Power Products and Services
9 rate schedule.

10 Q. PPC opposes BPA's assumption that power available to BPA to remarket is not available
11 to meet new requests for requirements power. PPC and NRU also oppose the rate design
12 that would require new requests for the power to pay the PF rate plus costs that BPA
13 would not incur, i.e., the remarketing credit. O'Patrny et al., WP-02-E-PP-02, at 12.
14 Saven, WP-02-E-NI-04, at 17. Please respond.

15 A. BPA is assuming that PPC is referring to the remarketing provision that BPA proposed
16 under its Products Catalog for inclusion in Subscription contracts. Our response is based
17 on that assumption. BPA is no longer proposing a remarketing credit. The TAC is set up
18 to determine, on a planning basis, if existing Federal Base System (FBS) resources are
19 available to serve the requested loads. If so, the requested service will be served with
20 those resources and the TAC will not apply. The TAC will apply if, on a planning basis,
21 existing FBS resources are unavailable to serve the requested load.

1 Q. PPC and NRU do not support BPA's decision to not recall power sold to extraregional
2 customers in order to meet TAC loads. PPC and NRU believe BPA's decision is contrary
3 to its obligation to recall Federal power in order to meet regional loads. O'Patrny et al.,
4 WP-02-E-PP-02, at 13. Saven, et al., WP-02-E-NI-04, at 16. Please respond.

5 A. While BPA does have a statutory obligation to include a right to recall surplus firm
6 power sold or exchanged under extraregional contracts, as well as surplus firm power
7 sold as replacement power within the Pacific Northwest (PNW), BPA has determined
8 that it is not necessary at this time to exercise that right. On a planning basis, BPA has
9 determined that it can meet all expected PNW customer requirements without having to
10 exercise its right to recall surplus firm power by purchasing in the market or relying on
11 seasonal surplus firm power. BPA counsel advises that BPA's decision not to recall at
12 this time is within its discretion under law.

13 Q. PPC does not support BPA actions, such as the TAC, that have an effect that
14 disadvantages customers with existing renewable resources or other "legitimate
15 variations" in load requirements. O'Patrny et al., WP-02-E-PP-02, at 13. Please
16 respond.

17 A. The purpose of the exception to the TAC for renewables is to encourage new renewable
18 resources. BPA utility customers may consider firm purchases of renewable resources
19 more risky than conventional resources because development and reliability may be more
20 uncertain. Thus, BPA made a policy decision to encourage new renewable resource
21 development and use in the region and will allow a limited exception of the TAC for
22 requirements service which may return to PF during the 2001 to 2006 rate period after a
23 period when such loads were served by a new renewable resource. The limited
24 exemption to the TAC will apply to amounts and types of resources as provided, in
25 accordance with the Policy on Determining Net Requirements. If PPC believes that
26 additional renewables or other load variations should also be exempt from the TAC, the

1 appropriate forum for presenting these views is BPA's policy on 5(b)/9(c). (Esvelt, *et al.*,
2 WP-02-E-BPA-44)

3 *Q. PPC recommends that TAC not be applied to public agency requirements loads that are*
4 *forecast to materialize during the upcoming rate period and are identified before the*
5 *close of the Subscription window. O'Patrny et al., WP-02-E-PP-02, at 13. Please*
6 *respond.*

7 A. BPA will not apply the TAC to certain requirements loads that are forecast to materialize
8 during the upcoming rate period. A public customer will be allowed to include net
9 requirements load in the initial amount under the Subscription contract, which is being
10 served with resources the customer demonstrates to BPA will terminate during the period
11 from October 1, 2001, through September 30, 2006. The customer's load that was served
12 by the resource(s) will not be subject to the TAC if such demonstration can be made at
13 the time the contract is executed consistent with the Record of Decision for the Policy on
14 Determining Net Requirements. Load that does not meet this requirement will be subject
15 to the TAC.

16 *Q. Does this conclude your testimony?*

17 A. Yes.