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

SUBJECT: Rebuttal Testimony for Targeted Adjustment Charge for Uncommitted Load

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5 **SUBJECT: REBUTTAL TESTIMONY FOR TARGETED ADJUSTMENT CHARGE**
6 **FOR UNCOMMITTED LOAD**

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

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

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

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

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

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

13 A. Yes. We previously sponsored direct testimony on the Targeted Adjustment Charge for
14 Uncommitted Load (TACUL), WP-02-E-BPA-36.

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

16 A. The purpose of this testimony is to respond to the direct testimony filed by the Pacific
17 Northwest Generating Company (PNGC), Public Power Council (PPC), and Northwest
18 Requirements Utilities (NRU).

19 *Q. How is your testimony organized?*

20 A. This testimony is organized in two sections. Section 1 outlines the purpose of our
21 testimony. Section 2 responds to arguments regarding the TACUL.
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1 **Section 2. Targeted Adjustment Charge for Uncommitted Load**

2 *Q. PNGC argues that the TACUL is a market-based rate, not an embedded-cost rate of the*
3 *type normally applied to requirements loads. Sabala and Nadal, WP-02-E-PN-06, at 3.*
4 *Please respond.*

5 A. The Bonneville Power Administration (BPA) serves requirements loads with Federal
6 Base System (FBS) resources. The costs that are included in the TACUL are FBS
7 replacement costs. Under the TACUL, BPA will determine if firm power is available to
8 serve a request. If firm power is unavailable, the request will be served with incremental
9 purchases and will face the TACUL. In this case, the TACUL costs are FBS replacement
10 costs which will be priced at BPA's cost to purchase these resources at market. If firm
11 power is available, it will be used to serve the request and the customer will be served
12 at Priority Firm Power (PF).

13 *Q. PNGC argues that it is not appropriate for BPA to institute the TACUL because the loads*
14 *BPA is targeting do not fit BPA's test of being uncommitted and not included in the 1996*
15 *rate case. When BPA issued its final 1996 rates it did not know how much preference*
16 *customer diversification would take place during the next rate period. PNGC argues that*
17 *BPA's Final rates [1996] were based on a forecast of customer loads and resources that*
18 *included a guess by BPA as to how much resource diversification would be undertaken*
19 *by its public agency customers. Consequently, it is inaccurate and misleading to state*
20 *after the fact that particular loads "were uncommitted and not included in the 1996 rate*
21 *case." Sabala and Nadal, WP-02-E-PN-06, at 3. Do you agree?*

22 A. No, we do not. BPA believes it is appropriate to establish the TACUL to serve loads that
23 customers elected to serve with non-Federal power when Federal power was previously
24 available under their power sales contracts. As PNGC points out BPA did not, and could
25 not, know the exact amount of preference customer diversification that would result
26 during the next rate period; however, BPA was aware that some customer diversification

1 would occur. Therefore, BPA made forecasts of the amount of diversification that could
2 be expected to occur in the rate period. That information was an estimate. Indeed, the
3 actual amount of diversification by BPA's preference customers was greater than BPA
4 forecasted, which resulted in greater amounts of load being uncommitted during the
5 1996-2001 rate period.

6 Notwithstanding forecasts or, what PNGC calls a "guess," of the level of
7 customer diversification, BPA's basis for identifying uncommitted loads is the actual
8 load the customers elected to serve with non-Federal power during the 1996-2001 rate
9 period. The actual eligible load not placed on BPA by customers during this rate period
10 fits within the test of being "uncommitted." These loads were diversified by the
11 customer and served with power supplied by resources other than the existing Federal
12 firm power available at the time.

13 *Q. PNGC argues that BPA's 1996 rate case forecast for the amount of diversification was*
14 *less than the amount of actual diversification. The effect of this difference is BPA would*
15 *have surplus firm power available to sell throughout the new rate period. Therefore,*
16 *BPA's PF-96 rate was set based on the assumption that BPA would serve considerably*
17 *more preference customer load throughout the rate period--approximately 800 average*
18 *megawatts more--than turned out to be the case. PF-96 implicitly reflected the*
19 *expectation that BPA would serve throughout the rate period the load BPA has identified*
20 *as "uncommitted load" in this proceeding. Because this load was "included in the*
21 *BPA's 1996 rate case," it was "committed" from the standpoint of BPA's rate planning*
22 *assumptions. Sabala and Nadal, WP-02-E-PN-06, at 4-5. Please respond.*

23 *A. Concurrent with BPA's 1996 rate case, BPA offered to its preference utility customers*
24 *the contractual ability to diversify, i.e., to purchase a portion of their power supply from*
25 *suppliers other than BPA. BPA offered to amend the 1981 power sales contract, or to*
26 *execute new contracts, to allow all such customers the ability diversify. The*

1 diversification process took a long time to complete and extended well beyond final
2 approval of BPA's 1996 rates. The rate case forecast PNGC refers to is simply that, a
3 forecast. BPA relied upon the best available forecast of loads it would serve. These
4 forecasts could not, however, demonstrate the actual load to be placed on BPA since
5 preference customers were engaged in the process of removing their load from BPA. The
6 posted PF-96 rate was based upon an expected economic outcome which did not occur as
7 forecast because the load assumptions that were expected to provide BPA cost coverage
8 did not materialize.

9 PNGC argues that this load was "committed" from the standpoint of BPA's rate
10 planning assumptions. However, the actual load customers diversified during this rate
11 period fits within the test of being "uncommitted" because these loads were served with
12 power supplied by resources other than the existing Federal firm power available at the
13 time.

14 PNGC argues that BPA had surplus firm power available to sell throughout the
15 1996-2001 rate period and that BPA's PF-96 rate was set based on the assumption that
16 BPA would serve considerably more preference customer load throughout this period
17 than turned out to be the case. However, with the reduction in the amount of firm power
18 BPA was obligated to provide under existing power sales contracts and corresponding
19 reductions in revenues, BPA began sales of the resulting surplus firm power. For
20 example, some sales were made to the same preference customers that diversified and at
21 prices below BPA's posted PF-96 rate. Some sales were made in accordance with BPA's
22 authority to sell Excess Federal Power (EFP) to purchasers both in and out of the region
23 for a period up to seven years without recall.

1 Q. PNGC argues that the TACUL is inappropriate because it is nothing more than a form of
2 quadruple dipping. Utilities that diversified paid “exit fees;” BPA received revenue from
3 sales of surplus power resulting from diversification; BPA would receive money from the
4 cost-based rate established in anticipation of serving returning loads, i.e., PF-96; and
5 BPA is receiving a surcharge in the form of the TACUL. Sabala and Nadal,
6 WP-02-E-PN-06, at 6-7. Similarly, PPC argues that BPA should eliminate the TACUL
7 because it has already recouped any potential costs that it could have incurred through
8 the severance payments and from revenues realized from selling freed-up diversification
9 power. O’Patrny, WP-02-E-PP-02, at 15. Please respond.

10 A. BPA does not agree with PPC’s statement that BPA has already recouped potential costs
11 through severance payments and from revenues realized from selling freed-up
12 diversification power. Nor does BPA agree with PNGC’s characterization of quadruple
13 dipping. PNGC and PPC describe scenarios in which BPA is attempting to cover its
14 costs. We will address each in turn. Concurrent with BPA’s 1996 rate case, BPA offered
15 to its preference utility customers the contractual ability to purchase a portion of their
16 power supply from suppliers other than BPA. BPA offered to amend the 1981 power
17 sales contract to allow all such customers the ability diversify up to 5 percent for no
18 additional cost. For customers wanting to diversify further, up to 30 percent, BPA
19 required that they pay the so-called exit or severance fees. Payment of exit fees gave a
20 customer the right to reduce its contract obligation to purchase from BPA and was a way
21 to help cover BPA’s losses from such foregone sales. As mentioned above, this process
22 took a long time to complete and extended well beyond final approval of BPA’s 1996
23 rates. These exit fees were not designed to cover the costs of customers wanting to return
24 diversified load to BPA service during the rate period.

25 With the reduction of its firm power obligations and corresponding revenues,
26 BPA began sales of what was then surplus firm power. Not all such sales resulted in the

1 “large revenue windfall” as alleged by PNGC, nor PPC’s claims that BPA recouped any
2 potential costs. Many of these surplus firm sales were made to the same preference
3 customers that diversified at prices below BPA’s posted PF-96 rate. Other sales, for
4 example, were made in accordance with BPA’s authority to sell EFP to purchasers both
5 in- and out-of the region for a period up to seven years without recall. Such sales are
6 firm contractual obligations. Congress granted BPA this authority in 1996 because
7 BPA’s regional customers were significantly reducing their requirements on BPA.
8 Together with BPA’s FPS-96 rate schedule BPA was given the ability to market EFP in a
9 competitive wholesale power market, albeit at the time below BPA’s cost.

10 The third “dip” is the revenue PNGC says BPA will earn from selling power at
11 the PF-96 rate. While it is true that BPA would receive revenue, BPA would also remain
12 at risk of underrecovering its cost to serve the load that is returning. In negotiating with
13 customers desiring to diversify, BPA agreed to move from the seven-year notice period
14 that was required to be given by customers under the 1981 power sales contract wanting
15 to return load to BPA to a two-year (24-month) notice to return load. Along with this
16 change, BPA’s preference customers agreed that BPA would have the right to establish a
17 new rate to cover the cost of meeting load placed on it at a future time, *i.e.*, the TACUL.
18 BPA does not agree with PNGC that this is a “dip” (*i.e.*, the fourth “dip”) for revenue;
19 rather, in spite of PNGC’s characterization, the TACUL is a prudent business decision
20 that, as contemplated in the customer’s contract, is needed to cover costs caused by an
21 individual customer’s exercise of a contract option that would otherwise have to be
22 recovered from other customers.

1 Q. PNGC and NRU argue that BPA should be willing to exercise the recall rights it has
2 under surplus power sales contracts, especially extraregional sales, in order to serve at
3 posted rates the loads of its regional preference customers that qualify for service under
4 section 5(b) of the Northwest Power Act. PNGC argues that BPA is obligated to do so
5 even if it is inconvenient or BPA believes it would obtain more revenue from an
6 out-of-region sale. Sabala and Nadal, WP-02-E-PN-06, at 8. Similarly NRU argues
7 that BPA should exercise its contractual right to recall power sold under extraregional
8 contracts subject to recall rights on an annual operating basis, and then make these
9 resources available to these “unanticipated” public preference customer loads. Saven,
10 WP-02-E-NI-04, at 14. Do you agree?

11 A. No, we do not. While BPA does have a statutory obligation to include a right to recall
12 surplus firm power or exchanged under extraregional contracts, as well as surplus firm
13 power sold as replacement power within the Pacific Northwest (PNW), BPA has
14 determined that it is not necessary at this time to exercise that right. BPA counsel advises
15 that BPA’s decision not to recall at this time is within BPA’s discretion under law. On a
16 planning basis, BPA has determined that it can meet all expected PNW customer
17 requirements without having to exercise its rights to recall surplus firm power by
18 purchasing in the market or relying on seasonal surplus firm power.

19 Q. Although PNGC does not take the position that it is necessary for BPA to recall power to
20 serve returning loads, PNGC does argue that BPA should use net revenues from those
21 sales or its accumulated revenues from the sale of power freed-up from preference
22 customer diversification, to offset any additional purchased power costs it incurs. Sabala
23 and Nadal, WP-02-E-PN-06, at 9. Do you agree?

24 A. The net revenues from both the long-term sales of surplus firm power to extraregional
25 purchasers and the sales of firm power made surplus or excess to BPA’s existing firm
26 power obligations as a result of diversification benefits all of BPA’s customers. For this

1 reason, BPA does not agree that these revenues should go to benefit one specific group of
2 customers; but rather, the revenues should continue to benefit all customer classes.

3 *Q. PNGC testifies that BPA is prohibited from applying the TACUL to load that PNGC*
4 *member utilities are returning to PF service under their existing contracts for the period*
5 *from November 2000, through April 2001. BPA was given 24-month notice as required by*
6 *contract. Sabala and Nadal, WP-02-E-PN-06, at 10. Do you agree?*

7 A. Yes, we do. PNGC member utilities provided the 24-month written notice to BPA as
8 required under the terms of their existing contracts with BPA. The load specified by each
9 utility that is returning to PF service during the period from November 2000, through
10 April 2001, will be served at the PF-96 rate without the TACUL. At the time the PNGC
11 member utilities made their request to return load BPA determined that it did not need to
12 set a new rate or TACUL to serve such load. Shortly thereafter, in December 1998,
13 preliminary results from BPA's annual loads and resources study, a.k.a. the White Book,
14 showed BPA was in loads and resources deficit. Based upon this new information BPA
15 determined that customers requesting to return load made after December 7, 1998, would
16 be subject to the TACUL.

17 *Q. PNGC argues that its member loads returned to requirements service for the months of*
18 *August and September 2001, should not be subject to the TACUL. Sabala and Nadal,*
19 *WP-02-E-PN-06, at 11. Please respond.*

20 A. July, August, and September 2001, are months in which some of BPA's customers will
21 not have a contract to purchase because their existing power sales contracts expire either
22 June 30, 2001, or July 31, 2001. Such customers have the right to request new contracts
23 to purchase power from BPA upon expiration of their existing contracts; or they may
24 amend their existing contract to extend its duration through September 30, 2001. BPA's
25 proposal to establish the TACUL in this section 7(i) rate proceeding means that a
26 customer that chooses either to extend the term of its existing contract or to execute a

1 new contract would be subject to the TACUL for its previously uncommitted load during
2 the July through September 2001, period. PNGC members chose to extend the term of
3 their existing contracts through September 30, 2001, and agreed that BPA may establish a
4 new PF rate to serve their returned load.

5 *Q. PNGC and PPC argue that, in addition to all the reasons it has made in this filed*
6 *testimony, BPA may apply a new PF rate as may be established in a section 7(i) rate*
7 *proceeding. PPC argues that BPA has not begun a 7(i) proceeding for purposes of*
8 *developing a new PF rate. Sabala and Nadal, WP-02-E-PN-06, at 11. O’Patrny, et al.,*
9 *WP-02-E-PP-02. Please respond.*

10 *A. There are several reasons why BPA decided to use this current section 7(i) rate*
11 *proceeding to establish a the TACUL. First, BPA determined that it was only necessary*
12 *to add a charge to the PF-96 rate to reflect the cost it incurs to serve returned incremental*
13 *load. Since it is not certain that BPA’s service to such load will result in increased costs,*
14 *the TACUL provides flexibility to recover costs only when the cost is certain to occur.*
15 *Second, parties can take advantage of the timing of this current section 7(i) rate*
16 *proceeding. This lessens the administrative burden and cost associated with having an*
17 *additional section 7(i) process just to establish a new PF rate to apply to returned load.*
18 *The section 7(i) proceeding gives parties the opportunity to present their cases, whether*
19 *in support or in opposition, to BPA’s proposed rates of which the TACUL is one. It is*
20 *working, as is evident from the testimony filed by parties opposing BPA’s proposed*
21 *TACUL.*

22 *Q. PNGC argues that the TACUL is not a cost-based rate and part of PF-96. PNGC argues*
23 *that the proposed TACUL should be rejected. Sabala and Nadal, WP-02-E-PN-06, at*
24 *12-13. Please respond.*

25 *A. BPA disagrees with PNGC’s characterization of the TACUL as “not cost-based” and “not*
26 *part of PF-96.” The cost of the TACUL will be based on BPA’s costs to expand the FBS*

1 to serve the specific uncommitted load the customer wishes to return to PF service.
2 Because these loads are returning to BPA service they are an additional load to the base
3 1996 rates and require additional FBS resources. Since these loads can be identified as
4 loads in addition to the customer's load that BPA is already obligated to serve during the
5 1996-2001 rate period, the costs incurred to serve such additional load can be identified.
6 BPA will base the cost to serve these additional loads on the costs that BPA will incur to
7 serve the additional load.

8 *Q. Does this conclude your testimony?*

9 *A. Yes.*

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