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REBUTTAL TESTIMONY OF

RODNEY E. BOLING AND WILLIAM J. DOUBLEDAY

Witnesses for Bonneville Power Administration

**SUBJECT: Rebuttal Testimony for Residential Exchange Average System Cost
Forecasts, Load Forecasts, and Residential Exchange Program Policy**

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Attachments

1. Marshall and Burns, WP-96-E-BPA-44
2. BPA's 1996 Rate Case Record of Decision, WP-96-A-02 (pages 230-239)

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5 **SUBJECT: REBUTTAL TESTIMONY FOR RESIDENTIAL EXCHANGE AVERAGE**
6 **SYSTEM COST FORECASTS, LOAD FORECASTS, AND RESIDENTIAL**
7 **EXCHANGE PROGRAM POLICY**

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

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

10 A. My name is Rodney Boling. My qualifications are contained in WP-02-Q-BPA-07.

11 A. My name is William Doubleday. My qualifications are contained in WP-02-Q-BPA-17.

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

13 A. Yes. We previously sponsored direct testimony on Residential Exchange Average
14 System Cost and Load Forecasts. See Boling and Doubleday, WP-02-E-BPA-30.

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

16 A. The purpose of this testimony is to respond to direct testimony filed by the Direct Service
17 Industries (DSI), the Public Power Council (PPC), and the investor-owned utilities (IOU)
18 regarding Bonneville Power Administration's (BPA) Residential Exchange.

19 *Q. How is your testimony organized?*

20 A. This testimony is in four sections, including this introductory section. Section 2
21 discusses the effect of potential "in-lieu" transactions on the Residential Exchange
22 Program. Section 3 discusses whether BPA should exclude certain costs from
23 exchanging utilities' average system costs (ASCs). Section 4 discusses issues related to
24 Residential Exchange Program policy.

1 **Section 2. In-Lieu Transactions**

2 *Q. The DSIs argue that BPA improperly included certain transmission costs in the*
3 *forecasted cost of in-lieu purchases. Schoenbeck, et al., DS/AL/VN-04(E1), at 9-10.*
4 *The DSIs argue that a determination to in-lieu compares an IOU's ASC to the cost of*
5 *purchasing power delivered to the BPA system. Id. Because the block purchase price is*
6 *a price for energy delivered to BPA's system, the DSIs argue that adding additional*
7 *transmission costs is wrong. Id. Do you agree?*

8 A. No. BPA counsel has advised that BPA has the authority to conduct an in-lieu
9 transaction if the cost of the in-lieu acquisition (*i.e.*, the combined cost of the resource
10 and delivery of that resource to BPA's system) is less than the cost of purchasing the
11 electric power offered by the exchanging utility at the utility's ASC. However, it does
12 not follow that Power Business Line (PBL) would always exercise its discretion to
13 conduct an in-lieu transaction in all such circumstances. Such a determination would be
14 based on a consideration of the economic viability of the entire transaction, taking into
15 account all transaction costs and other factors. For example, in order to accomplish the
16 power delivery to the exchanging utility required by the in-lieu transaction, the PBL
17 might find it necessary to purchase transmission services from the Transmission Business
18 Line (TBL) that would not be required in the absence of an in-lieu transaction. If the
19 PBL incurs such costs, they will be included in the assessment of whether to conduct an
20 in-lieu transaction. If such costs are sufficient to make the in-lieu transaction more
21 expensive, in the aggregate, than the traditional exchange, then BPA would not exercise
22 its ability to in-lieu.

23 In summary, an in-lieu transaction is authorized and will be considered based on
24 an initial comparison between ASC and the cost of the in-lieu resource delivered to
25 BPA's system. At this stage, an assessment of the economic viability of the transaction
26 based on total transaction costs will be used to determine whether conducting the in-lieu

1 transaction would be prudent. While the DSIs are correct that the block purchase price is
2 a price for energy delivered to BPA's system, this is not the end of the question because
3 the PBL must determine if there are additional costs that must be considered.

4 *Q. The DSIs argue that the cost to deliver the power to PBL's customer in an in-lieu*
5 *transaction will be paid by the customer in transmission charges paid to the TBL.*
6 *Schoenbeck, et al., DS/AL/VN-04(E1), at 9. Do you agree?*

7 *A. No. The customer will not pay the TBL for transmission. The PBL will purchase*
8 *transmission, most probably from the TBL, and the PF Exchange Program rate revenues*
9 *will reimburse the PBL for its transmission expenses. The PF Exchange Program rate is*
10 *a bundled rate with transmission included.*

11 *Q. The DSIs argue that deliveries of in-lieu power do not have to be at the same point of*
12 *receipt on the BPA system as deliveries of the exchange purchase because the*
13 *transmission paid by the load moves the power from the BPA system point of receipt to*
14 *the utility's point of delivery. Schoenbeck, et al., DS/AL/VN-04(E1), at 9. Therefore, the*
15 *additional transmission adder is not needed for the in-lieu purchase. Id. Do you agree?*

16 *A. BPA agrees that deliveries of in-lieu power to BPA do not have to be at the same point of*
17 *receipt on the BPA system as deliveries of the exchange purchase. As discussed above,*
18 *however, BPA power must be delivered to a utility's point or points of delivery in an*
19 *in-lieu transaction. Regarding the "additional transmission adder," the DSIs apparently*
20 *believe that the utility pays the transmission provider for the transmission from BPA's*
21 *system to the utility's point of delivery, so transmission costs should not be included in*
22 *the in-lieu resource cost determination. However, the load does not pay directly for*
23 *transmission. In the case of an in-lieu transaction, the PF Exchange Program rate paid by*
24 *the exchanging utility includes transmission costs. This transmission portion of the PF*
25 *Exchange Program rate reimburses the PBL for the costs of transmission it pays to the*
26 *transmission provider. The load pays for transmission through the PF Exchange Program*

1 rate, but these revenues go to the PBL. From the PBL's point of view, in-lieu related
2 transmission of BPA power is both a cost, which it pays to the TBL, and a revenue,
3 which it recovers by way of the PF Exchange Program rate.

4 *Q. The DSIs argue that the transmission costs for in-lieu power are already properly*
5 *recognized as a part of the PF Exchange rate. Schoenbeck, et al., DS/AL/VN-04(E1),*
6 *at 9. The DSIs state that on the purchase side, BPA costs power where it comes to the*
7 *system and on the sale side, BPA adds transmission costs to get the power across the*
8 *system to the delivery point. Id. The DSIs argue that for BPA to add transmission to the*
9 *in-lieu purchase price is double-counting the transmission charges because the*
10 *transmission is already charged on the sales side. Do you agree?*

11 *A. No. When determining whether an in-lieu transaction is financially prudent, the PBL*
12 *must consider the total cost of the in-lieu transaction it will face. Where an in-lieu*
13 *purchase is delivered to BPA's system, such total in-lieu transaction costs include the*
14 *cost of acquiring the in-lieu resource, the cost of transmission to get the power to BPA's*
15 *system, and the cost to wheel BPA power to the utility's point of delivery. Only if the*
16 *PBL's total costs of the proposed in-lieu transaction, including all transmission costs, are*
17 *less than the exchange transaction costs (i.e., the utility's ASC) would the in-lieu*
18 *transaction be financially prudent. On the in-lieu transaction revenue side, the customer*
19 *is charged the PF Exchange Program rate, which includes a transmission charge. This is*
20 *not double-counting the transmission costs. From the PBL's point of view, the in-lieu*
21 *transaction has a cost of transmission component and an offsetting transmission revenue*
22 *component. These two transmission components are not added together, they cancel each*
23 *other out. Therefore, there is no double-counting.*

1 Q. *The DSIs argue that BPA should use the in-lieu purchase price without transmission*
2 *costs to compare with the utility's ASC when determining if an in-lieu transaction is*
3 *indicated. Schoenbeck, et al., DS/AL/VN-04(E1), at 10. Do you agree?*

4 A. No. As discussed above, in-lieu transaction costs must include any costs of wheeling
5 BPA power to the point or points of delivery. The PBL must consider the full cost of the
6 in-lieu transaction, not just the cost of getting in-lieu power to BPA's system. If the
7 DSIs' recommendation were followed, the PBL could enter into an in-lieu transaction
8 that would be more costly than the associated exchange transaction. For example,
9 consider a situation where a utility's ASC is \$39 per megawatt-hour (MWh), the PF
10 Exchange Program rate is \$37 per MWh, the cost of the in-lieu resource delivered to
11 BPA's system is \$36 per MWh, and TBL transmission from BPA's system to the utility's
12 point of delivery is \$4 per MWh. Traditional exchange benefits, a net cost to the PBL,
13 would be \$2 per MWh (\$39-\$37), with the utility's ASC representing a fixed total
14 transaction cost. Using the DSI method, the PBL would compare the cost of the in-lieu
15 resource delivered to BPA's system of \$36 per MWh with the utility's ASC of
16 \$39 per MWh and determine that the in-lieu transaction should occur. However, this
17 method fails to account for the additional costs associated with the in-lieu transaction.
18 These costs include the \$4 per MWh associated with the PBL's purchase of TBL
19 transmission from BPA's system to the utility's point of delivery. This additional cost is
20 made necessary by the fact that an in-lieu transaction, unlike the traditional exchange
21 transaction, requires that BPA actually deliver power to the exchanging utility's point of
22 delivery. For this reason, the correct method is to compare the \$40 per MWh (\$36+\$4)
23 total in-lieu transaction cost with the utility's ASC of \$39 per MWh. In this situation, an
24 in-lieu transaction would cost the PBL a total transaction cost of \$3 per MWh (\$40-\$37),
25 \$1 per MWh more than the \$2 per MWh traditional exchange payment.

1 Q. The DSIs argue that BPA should assume that it will in-lieu 100 percent of residential
2 exchange load because if it is economic to in-lieu 50 percent then it is economic to in-lieu
3 100 percent. Schoenbeck, et al., DS/AL/VN-04(E1), at 10. Do you agree?

4 A. No. As BPA previously noted, there are economic and other factors that are involved in a
5 decision to in-lieu an exchanging utility. See Boling and Doubleday, WP-02-E-BPA-30,
6 at 13. Even assuming for the sake of argument, however, that economic factors were the
7 only criteria to be used in determining an in-lieu amount, BPA would still be reluctant to
8 in-lieu 100 percent of exchange load. The DSIs note that there should be “sufficient
9 margin” between ASCs and the PF Exchange rate “to assure that there is a likelihood that
10 the Exchange transaction will actually occur.” Schoenbeck, et al., DS/AL/VN-04(E1),
11 at 10. BPA noted in its direct testimony that the lack of current data to forecast ASCs,
12 uncertainty regarding market forces, and industry restructuring create risk and uncertainty
13 that the utilities’ ASCs could be less than the PF Exchange rate. See Boling and
14 Doubleday, WP-02-E-BPA-30, at 13-14. Such risk has appropriately influenced BPA’s
15 economic assessment of in-lieu transactions.

16 In addition, BPA placed considerable emphasis on certain non-economic factors.
17 *Id.* at 14. BPA counsel has advised that in-lieu transactions are neither mandatory nor
18 required to be based solely upon economic considerations but are exercised in the
19 Administrator’s discretion consistent with law. In making its determination that BPA
20 would in-lieu 50 percent of exchanging loads, BPA considered factors such as reducing
21 the possible adverse impact that an in-lieu transaction might impose on an exchanging
22 utility and ensuring that some level of Federal power benefits would be available to the
23 residential and small farm consumers of utilities that continue the Residential Exchange
24 Program. *Id.* A 100 percent in-lieu assumption would disregard these factors.

1 Q. *The DSIs argue that BPA should assume that the utility deems its ASC to be equal to the*
2 *purchase price of the in-lieu power. Schoenbeck, et al., DS/AL/VN-04(E1), at 10. If the*
3 *in-lieu price is less than the PF Exchange rate, BPA should treat the utility as a deemer,*
4 *and where the in-lieu price is greater than the PF Exchange rate, BPA should include the*
5 *utility's load as if it were exchanging at its full ASC. Id. Do you agree?*

6 A. No. This treatment of load would only be appropriate for a 100 percent in-lieu
7 transaction. If the in-lieu cost exceeds the PF Exchange rate, the utility's exchangeable
8 load would continue to receive monetary benefits. However, if the in-lieu cost is less
9 than the PF Exchange rate, the utility's exchangeable load would build a deemer balance,
10 which would not (under a new exchange contract containing similar deemer account
11 provisions) be a cash obligation to the utility and its consumers. As discussed in our
12 direct testimony, an in-lieu for less than 100 percent could lead to anomalous and
13 undesirable results unless the utility is allowed to terminate any in-lieued load when the
14 in-lieu cost is less than the PF Exchange rate. *See* Boling and Doubleday,
15 WP-02-E-BPA-30, at 15-16. As discussed earlier, a decision by the Administrator to
16 in-lieu 50 percent of a utility's exchange load might be based in part on spreading some
17 level of Federal power benefits. Without an option to terminate its in-lieued exchange
18 load, a utility with some actively exchanging load could find itself in the perverse
19 situation of receiving zero, or even negative, overall benefits.

1 **Section 3. Forecast of Average System Costs for Exchanging Utilities**

2 *Q. The DSIs argue that the transmission costs BPA has included in ASCs are incorrect*
3 *because, due to the Energy Policy Act of 1992 (EPA-92) and Federal Energy Regulatory*
4 *Commission (FERC) Order 888, BPA has the means to determine which transmission*
5 *costs are resource costs for purposes for inclusion in a utility's ASC and which are not.*
6 *Schoenbeck, et al., DS/AL/VN-04(E1), at 18. Do you agree?*

7 A. No. BPA has properly included transmission costs in its ASC forecasts. ASCs must be
8 established consistent with BPA's ASC Methodology. While the ASC Methodology may
9 be changed in the future, BPA has an existing methodology and it is not known what
10 possible changes would be made in developing a subsequent methodology. It is therefore
11 appropriate for purposes of this rate proceeding to use the current ASC Methodology in
12 making ASC forecasts. BPA's forecasted ASCs include transmission costs that have
13 been (or would be) allowed consistent with the current ASC Methodology, escalated
14 based on assumptions regarding inflation and plant additions and retirements. Basing
15 ASC forecasts on transmission costs that are determined to be resource costs due to the
16 EPA-92 and FERC Order 888 would be inconsistent with the ASC Methodology.

17 *Q. The DSIs argue that all costs that FERC allows a utility to recover under its Open Access*
18 *Tariff should be excluded from a utility's ASC and all transmission costs FERC assigns*
19 *to generation for ratemaking purposes should be allowed as part of a utility's ASC.*
20 *Schoenbeck, et al., DS/AL/VN-04(E1), at 18. Do you agree?*

21 A. No. As noted above, ASCs must be determined in accordance with BPA's ASC
22 Methodology. The DSIs' proposal would require that BPA's ASC forecasts determine
23 exchangeable transmission costs differently than prescribed by the current ASC
24 Methodology. While the DSIs may advocate changes in the determination of eligible
25 costs in a future proceeding to develop a new ASC Methodology, BPA's forecasts are
26

1 properly based on the requirements of the current ASC Methodology rather than a
2 speculative new methodology.

3 *Q. The DSIs argue that the estimation of generation-integration and generator step-up*
4 *transformation costs for utilities should be based on the same percentage of those costs to*
5 *transmission costs for BPA, which is 2.8 percent. Schoenbeck, et al., DS/AL/VN-04(E1),*
6 *at 19. Do you agree?*

7 A. No. Again, the DSIs' recommended approach is inconsistent with the current ASC
8 Methodology, which is properly used for the forecast of exchange costs in this rate
9 proceeding.

10 *Q. The DSIs' estimates of the ASCs of exchanging utilities include generation-integration*
11 *and generator step-up transformers (GSU) costs, but because BPA's PF Exchange rate is*
12 *a delivered rate, they added BPA's transmission costs to their forecasted ASCs to*
13 *compute the net cost of the exchange, and did not assume that additional transmission*
14 *costs would be exchanged. Schoenbeck, et al., DS/AL/VN-04(E1), at 19. Do you agree?*

15 A. No. Since the PF Exchange rate is a delivered rate, it is appropriate that ASCs include
16 transmission costs when determining net exchange costs. The DSIs, however, essentially
17 have substituted BPA's transmission costs in the ASC determination for the utilities' own
18 transmission costs. This approach is inconsistent with the current ASC Methodology.

19 *Q. The DSIs argue that BPA should not include any estimate of its own transmission costs*
20 *other than generation-integration and GSU costs when it forecasts the net cost of the*
21 *exchange, that is, the PF Exchange rate should be developed to be a power-only rate.*
22 *Schoenbeck, et al., DS/AL/VN-04(E1), at 19. Do you agree?*

23 A. No. Utilities' ASCs include transmission costs under the current ASC Methodology.
24 Under the traditional implementation of the Residential Exchange Program, BPA's PF
25 Exchange rate has also included transmission costs in order to establish an
26 apples-to-apples comparison for purposes of determining exchange benefits. Given the

1 current ASC Methodology, it would be inappropriate to exclude transmission costs from
2 the PF Exchange rate.

3 *Q. The DSIs argue that BPA's calculations of ASCs for Avista and Idaho Power are based*
4 *on an assumption that generation, transmission, and distribution costs are growing in the*
5 *same proportion, which is not true. Schoenbeck, et al., DS/AL/VN-04(E1), at 20. The*
6 *DSIs argue that it is incorrect to tie the ASC, which is based only on generation and some*
7 *transmission costs, to any change in the residential rate, which has been driven mainly by*
8 *changes in distribution costs that are not exchangeable. Id. Do you agree?*

9 *A. No. BPA estimated current ASCs for Avista and Idaho Power by adjusting the utilities'*
10 *last approved ASCs based on changes to the utilities' average residential rates. The DSIs*
11 *assert that non-exchangeable distribution costs have been driving changes in Avista's and*
12 *Idaho Power's residential rates. This, however, is not the case. The DSIs' contention is*
13 *based on an incomplete assumption and incorrect data. The DSIs assume that changes in*
14 *net plant would be a good indicator of changes in rates and exchangeable costs. While*
15 *this may be one element, it is revenue requirement, not net plant, which drives changes in*
16 *rates. It is true that distribution net plant has grown faster for both companies since 1990*
17 *than production and transmission plant. However, only 62 percent of Avista's and*
18 *39 percent of Idaho Power's net plant growth is due to distribution, whereas the DSIs*
19 *calculated 93 percent and 89 percent, respectively. Regardless, changes in net plant do*
20 *not directly lead to changes in revenue requirements and rates. Net plant affects rates*
21 *through depreciation, interest, and rate of return. Such amounts for Avista and Idaho*
22 *Power are offset or even outweighed by the respective increases that have occurred in*
23 *production and transmission operations and maintenance (O&M) expense, most of which*
24 *is directly exchangeable. Based on FERC Form 1 data for 1990 and 1998, Avista's*
25 *production and transmission O&M expense (less purchased power) has increased*
26 *\$58 million, or 53 percent. Idaho Power's production and transmission O&M expense*

1 (less purchased power) has increased \$54 million, or 27 percent. Thus, increases in
2 production and transmission O&M expense for the two utilities, most of which is
3 exchangeable, is a more important determinant of ASC than is growth in distribution
4 plant.

5 *Q. The DSIs argue that another problem with BPA's proxy is that it does not take into*
6 *account the large increase in other revenues that are credited against the ASC, citing*
7 *Avista and Idaho Power's sales for resale. Schoenbeck, et al., DS/AL/VN-04(E1),*
8 *at 20-21. Do you agree?*

9 *A. No. Avista's growth in sales for resale revenue cited by the DSIs was \$362 million. This*
10 *potential credit against ASC would be more than offset by increased purchased power*
11 *costs of \$404 million. Idaho Power's sales for resale revenue growth was \$536 million,*
12 *whereas its purchased power costs increased \$496 million.*

13 *Q. The DSIs attempted to follow the ASC Methodology and develop ASCs for Avista and*
14 *Idaho Power based on 1998 FERC Form 1 data, including only the production expenses*
15 *and return on production assets and a portion of transmission costs representing*
16 *generation-integration and generator step-up transmission, then escalating these*
17 *1998 ASCs in the same way BPA escalated the PacifiCorp, Puget Sound Energy (PSE),*
18 *Portland General Electric (PGE), and Montana Power Company (MPC) ASCs.*
19 *Schoenbeck, et al., DS/AL/VN-04(E1), at 21. Is this correct?*

20 *A. No. Under the current ASC Methodology, BPA does not determine ASCs based on*
21 *FERC Form 1 data. In fact, when BPA revised the ASC Methodology in 1984, one*
22 *possible revision considered by BPA involved the use of FERC Form 1 information to*
23 *determine ASCs. This approach was widely criticized by parties and rejected by BPA*
24 *and is not the basis for determining ASCs under the current ASC Methodology. During*
25 *the implementation of the Residential Exchange Program since 1981, BPA has*
26 *periodically estimated ASCs from FERC Form 1 data and then compared the results to an*

1 approved ASC. Such estimates consistently differed from approved ASCs, often by large
2 margins and in no predictable direction. Therefore, the DSIs' estimates are likely to be
3 flawed. In addition to problems inherent in using FERC Form 1 data, the DSIs used only
4 a portion of transmission costs representing generation-integration and generator step-up
5 transmission in their ASC forecasts. As noted above, including only
6 generation-integration and generator step-up transmission costs in ASC is inconsistent
7 with the ASC Methodology.

8 *Q. What would be the effect of accepting the DSIs' ASC estimates for Avista and Idaho*
9 *Power, but adjusting the estimates upward to include allowable transmission costs?*

10 *A. Including only generation-integration and generator step-up transmission costs in ASC,*
11 *as discussed above, reduced BPA's forecasted five-year rate period ASCs for Montana*
12 *Power, the Pacific Power and Light and Utah Power and Light divisions of PacifiCorp,*
13 *PGE, and PSE by an average of 4.71 mills per kWh. See Schoenbeck, et al.,*
14 *DS/AL/VN-04(E1), at 21. Adding this transmission cost component to the five-year*
15 *average ASCs for Avista and Idaho Power that were estimated by the DSIs results in*
16 *ASCs of 23.71 mills per kilowatthour (kWh) and 22.30 mills per kWh, respectively.*
17 *ASCs at this level would likely have the same effect as the ASCs estimated by BPA,*
18 *i.e., neither utility is forecasted to receive Residential Exchange benefits under the*
19 *current proposal.*

20 **Section 4. Residential Exchange Program Policy**

21 *Q. The IOUs argue that BPA misapplied the 7(b)(2) rate test in the 1996 rate case to arrive*
22 *at a predetermined outcome, which was to keep DSI customers from leaving BPA*
23 *because of higher than market rates, and attach their testimony from the 1996 rate case.*
24 *Eakin, et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 3. Please respond.*

25 *A. BPA disagrees with the IOUs' argument, just as BPA disagreed with the argument in*
26 *BPA's 1996 rate case. Attached is BPA's rebuttal testimony responding to the testimony*

1 the IOUs attached to their direct testimony in this proceeding. *See* Attachment 1,
2 Marshall and Burns, WP-96-E-BPA-44. All such issues regarding BPA's 1996 rate case
3 were addressed in BPA's 1996 Rate Case Record of Decision (ROD), WP-96-A-02.
4 *See* Attachment 2. BPA counsel has advised that FERC granted final approval to BPA's
5 rates and the only petition for review filed with the United States Court of Appeals for the
6 Ninth Circuit was voluntarily dismissed. BPA's 1996 rates are final.

7 Furthermore, triggering the section 7(b)(2) rate test is not an effective tool to
8 lower the cost of power sold to the DSIs. When the section 7(b)(2) rate test triggers
9 positively, it allocates PF Preference protection costs to the DSI rate class. Those costs
10 remain even after the section 7(c)(2) adjustment links the IP rate to the now lower PF
11 Preference rate. In BPA's 1996 Final Rate Proposal, the section 7(b)(2) rate test
12 triggered by 3.2 mills, providing \$621.4 million in rate protection to the PF Preference
13 rate class over five years. *See* Wholesale Power Rate Development Study
14 Documentation, WP-96-FS-BPA-05A, page 195, Table RDS 30, line 3. Before the rate
15 test triggered, the costs allocated to the DSI rate class were \$1,556.6 million for
16 five years. After the rate test triggered by 3.2 mills and the IP-PF link was reestablished,
17 the costs allocated to the DSI rate class were \$1,539.3 for five years, about a 1 percent
18 reduction or just \$3.5 million per year. *See* Wholesale Power Rate Development Study
19 Documentation, WP-96-FS-BPA-05A, page 197, Table RDS 33. The alleged massive
20 reallocation of benefits from residential customers of IOUs to the DSIs did not happen in
21 the 1996 rate case.

1 Q. *The IOUs argue that although BPA's circumstances have fundamentally changed, with*
2 *forecasted rates as much as \$2 billion below market, BPA continues the inappropriate*
3 *assumptions and calculations that were used to reduce benefits and reduce DSI rates in*
4 *1996. Eakin, et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 3-4. Please respond.*

5 A. BPA does not develop its PF Exchange rate based simply on whether or not BPA's rates
6 are below market. If BPA is continuing some of the same assumptions and calculations
7 used in developing its 1996 rates, it is doing so because it believes that those assumptions
8 and calculations are correct. BPA's assumptions regarding the section 7(b)(2) rate test
9 are contained in the Section 7(b)(2) Rate Test Study and Documentation,
10 WP-02-E-BPA-06 and WP-02-E-BPA-06A, as well as in BPA's testimony, Kaptur, et al.,
11 WP-02-E-BPA-34 and Kaptur, et al., WP-02-E-BPA-56.

12 Q. *The IOUs argue that BPA improperly revised the ASC Methodology in 1984. Eakin,*
13 *et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 5-6; Swofford, WP-02-E-PS-01, at 9.*
14 *Please respond.*

15 A. BPA counsel has advised that BPA properly revised the ASC Methodology in 1984.
16 BPA counsel has advised that the 1984 ASC Methodology was reviewed and approved
17 by FERC and the United States Court of Appeals for the Ninth Circuit.

18 Q. *The IOUs argue that the methodology was developed without engaging in the*
19 *consultative process with the state commissions or the Northwest Power Planning*
20 *Council as required by law. Eakin, et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 5-6;*
21 *Swofford, WP-02-E-PS-01, at 9. Please respond.*

22 A. BPA counsel has advised that the 1984 ASC Methodology was developed in a
23 consultation process conducted in accordance with law. BPA counsel has advised that
24 the United States Court of Appeals for the Ninth Circuit did not find any procedural
25 impropriety with the consultation proceeding held by BPA to establish the 1984 ASC
26 Methodology.

1 Q. *The IOUs argue that BPA should in a separate proceeding revise the ASC Methodology*
2 *and adjust deemer balances to reflect that corrected methodology. Eakin, et al.,*
3 *WP-02-E-AC/GE/IP/MP/PL/PS-02, at 12. Please respond.*

4 A. BPA counsel has advised that the ASC Methodology is not established in a section 7(i)
5 hearing but instead, as the IOUs correctly acknowledge, in a separate administrative
6 consultation proceeding. Any decision by BPA to revise the ASC Methodology will be
7 made in a separate forum. BPA counsel has also advised that deemer balances are not
8 determined in a section 7(i) hearing. BPA counsel has advised that deemer balances are
9 contract issues that must be addressed by BPA and exchanging utilities in implementing
10 the Residential Purchase and Sale Agreements.

11 Q. *The IOUs argue that BPA's statement that under a different methodology benefits would*
12 *be different illustrates how BPA can manipulate "the result" with incorrect or arbitrary*
13 *assumptions. Eakin, et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 6-7. Please respond.*

14 A. BPA's statement that exchange benefits can differ under different ASC Methodologies
15 does not illustrate that BPA can manipulate results with incorrect or arbitrary
16 assumptions. It merely recognizes that a methodology that was developed in 1981 may
17 differ from a methodology developed in 1984, which may differ from a subsequent
18 methodology.

19 Q. *The IOUs argue that BPA made a number of incorrect assumptions and calculations in*
20 *its 1996 rate case to keep the DSIs from leaving BPA, citing BPA testimony regarding the*
21 *7(c)(2) Industrial Margin Study. Eakin, et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 7.*
22 *Please respond.*

23 A. Issues regarding the development of BPA's 1996 IP rate were addressed in BPA's 1996
24 Rate Case ROD, WP-96-A-02. As noted previously, BPA's 1996 rates are final. Issues
25 regarding the development of BPA's 2002 IP rate are addressed in separate testimony.
26 *See Ebberts, WP-02-E-BPA-22; Ebberts, WP-02-E-BPA-47.*

1 Q. *The IOUs argue that instead of fixing the exchange calculations, BPA has proposed a*
2 *Subscription settlement, which it intends to substitute for a properly calculated*
3 *Residential Exchange Program. Eakin, et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 8.*
4 *Please respond.*

5 A. BPA presumes that by “a properly calculated” program, the IOUs mean one that
6 incorporates their recommendations regarding the ASC Methodology and section 7(b)(2).
7 These issues were addressed previously. Further, BPA is not proposing the Subscription
8 settlements as a substitute for a properly calculated Residential Exchange Program. BPA
9 is implementing a properly calculated Residential Exchange Program. The Subscription
10 settlements are offered as a manner of settling the disputes between BPA and the IOUs
11 regarding implementation of the Residential Exchange Program. IOUs are not required
12 to execute a Subscription settlement. IOUs may continue participation in the Residential
13 Exchange Program.

14 Q. *The IOUs argue that because BPA forecasts that the power it sells will be as much as*
15 *\$2 billion a year lower than the market price of power in the 2002-2006 period and*
16 *beyond, BPA has hundreds of millions of dollars a year in potential benefits for the*
17 *region’s consumers, which can be provided by: (1) reducing by \$700 million the*
18 *reserves of \$1.2 billion it intends to accumulate; and (2) adjusting the preference rate so*
19 *that preference customers receive the same rate (on a comparable basis) that they*
20 *received in 1996 for flat power, which would produce approximately \$150 million.*
21 *Eakin, et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 9-10. PSE argues that BPA has the*
22 *money to produce a more favorable result by making the adjustments noted by the IOUs*
23 *and by ending \$370 million in DSI subsidies. Swofford, WP-02-E-PS-01, at 4. Please*
24 *respond.*

25 A. As noted above, BPA does not develop its PF Exchange rate based simply on whether or
26 not BPA’s rates are below market. BPA does not determine Residential Exchange

1 Program benefits for the IOUs by reducing reserves, adjusting the design of the PF
2 Preference rate, or adjusting the design of the IP rate, although each of these issues would
3 have some indirect effect on rates paid by the IOUs. Residential Exchange Program
4 benefits are determined by comparing an exchanging utility's ASC with BPA's PF
5 Exchange Program rate. The PF Exchange Program rate level is determined in large part
6 by incorporating the results of the section 7(b)(2) rate test. *See* Section 7(b)(2) Rate Test
7 Study, WP-02-E-BPA-06; Kaptur, *et al.*, WP-02-E-BPA-34; and Kaptur, *et al.*,
8 WP-02-E-BPA-56. Each issue regarding the 7(b)(2) rate test is considered and
9 determined on its merits. Similarly, other rate case issues must be determined on their
10 merits. Issues regarding BPA's reserves are addressed in separate testimony.
11 *See* DeWolf, *et al.*, WP-02-E-BPA-13; DeWolf, *et al.*, WP-02-E-BPA-39. The design of
12 the PF Preference rate is also addressed in separate testimony. *See* Keep, *et al.*,
13 WP-02-E-BPA-17; Keep, *et al.*, WP-02-E-BPA-43. Development of the IP rate is also
14 addressed in separate testimony. *See* Ebberts, WP-02-E-BPA-22; Ebberts,
15 WP-02-E-BPA-47.

16 *Q. The IOUs argue that BPA can manipulate the 7(b)(2) rate test to reduce or deny*
17 *Residential Exchange benefits by changing assumptions to increase the Program Case*
18 *costs or decrease the 7(b)(2) Case costs. Eakin, et al., WP-02-E-AC/GE/IP/MP/PL/PS-*
19 *02, at 10-11; Swofford, WP-02-E-PS-01, at 4-5. Please respond.*

20 *A. BPA cannot simply change assumptions used in the 7(b)(2) rate test on a whim. As noted*
21 *above, each issue regarding the 7(b)(2) rate test is considered and determined by BPA on*
22 *its merits. BPA believes that BPA's decisions are well reasoned and based on the*
23 *administrative record. BPA respects, however, that parties may disagree with BPA's*
24 *positions on certain issues.*

1 Q. *The IOUs argue that the Administrator’s proposal to provide 1,900 average megawatts*
2 *of “flat” power or financial benefits does not go far enough and does not provide fair or*
3 *comparable benefits for the IOUs’ residential and small farm consumers. Eakin, et al.,*
4 *WP-02-E-AC/GE/IP/MP/PL/PS-02, at 13. Please respond.*

5 A. The IOUs refer to the proposed settlements of the Residential Exchange Program
6 discussed in BPA’s Subscription Strategy. BPA counsel has advised that settlements of
7 the Residential Exchange Program are not negotiated in BPA’s section 7(i) hearings.
8 BPA will be negotiating the settlement agreements in a separate forum with interested
9 utilities and conducting a public comment process on the proposed settlements where
10 parties may raise issues regarding the proposed settlements. As noted previously, IOUs
11 are not required to execute the proposed settlement agreements and can choose to
12 continue participation in the Residential Exchange Program. The description of the
13 proposed settlement agreements contained in the Subscription Strategy is the best
14 information currently available for use in the rate case.

15 Q. *The IOUs argue that they oppose BPA’s limiting Subscription power sales for IOUs’*
16 *residential customers to flat blocks, because it denies their customers benefits of the*
17 *Federal Columbia River Power System comparable to those made available to other*
18 *customers and, at a minimum, a discount to capture more accurately the low cost of*
19 *shaping flat power should be adopted (citing Koehler, et al., WP-02-E-HL-01). Eakin,*
20 *et al., WP-02-E-AC/GE/IP/MP/PL/PS-02, at 13-15. Please respond.*

21 A. As noted above, issues regarding the proposed settlement agreements are not determined
22 in section 7(i) hearings but rather in separate negotiation and public comment processes.
23 Issues regarding the pricing of flat power are addressed in separate testimony. *See Keep,*
24 *et al., WP-02-E-BPA-17; Keep, et al., WP-02-E-BPA-43.*

1 Q. *The IOUs argue that BPA's Subscription Strategy offer of flat block power to the IOUs is*
2 *made worse because BPA has improperly set the demand rate low, imposed a cap on the*
3 *demand rate and load variance charges, and has reduced the market differential between*
4 *heavy and light load hours (citing Koehler, et al., WP-02-E-HL-01). Eakin, et al.,*
5 *WP-02-E-AC/GE/IP/MP/PL/PS-02, at 16. Please respond.*

6 A. Issues regarding the level of the demand rate, a cap on the demand rate and load variance
7 charge, and the market differential between heavy and light load hours are addressed in
8 separate testimony. *See Keep, et al., WP-02-E-BPA-17; Keep, et al., WP-02-E-BPA-43.*

9 Q. *The Public Power Council argues that BPA should require IOUs to pay off deemer*
10 *balances prior to being able to receive benefits under the proposed Subscription*
11 *settlements. Hansen, et al., WP-02-E-PP-07, at 5. Please respond.*

12 A. BPA's current proposal is that deemer balances will be held in abeyance for IOUs that
13 execute settlements of the Residential Exchange Program. The issue of deemer balances
14 is currently in dispute. The existence of deemer balances and the amount of such
15 balances, if any, must be determined in negotiations between BPA and the IOUs. This
16 decision cannot be made in the rate case. BPA's current assumption for ratemaking
17 purposes is that such balances, if any, will be held in abeyance during the settlement
18 term.

19 Q. *Alcoa, et al., argue that some IOU deemer balances are quite large and Idaho Power's*
20 *deemer balance is \$142 million. Speer, et al., WP-02-E-AL/VN/EG-02, at 14. Please*
21 *respond.*

22 A. BPA's estimates of IOU deemer balances are BPA's preliminary calculations and have
23 not been discussed with or verified by the IOUs. In fact, the IOUs contest BPA's
24 calculation of the deemer balances. The IOUs' deemer balances, if any, will not be
25 finally determined until BPA and the IOUs have discussed and resolved the issue or the
26 issue is resolved through litigation.

1 *Q. Alcoa, et al., argue that without Subscription settlements, several IOUs would not receive*
2 *any Residential Exchange benefits under any foreseeable circumstances. Speer, et al.,*
3 *WP-02-E-AL/VN/EG-02, at 14. Please respond.*

4 *A. As BPA has noted, there are a number of variables that affect potential Residential*
5 *Exchange benefits for the IOUs. As just discussed, the issue of deemer balances has not*
6 *yet been resolved. If such deemer balances did not exist or were small, this would not be*
7 *an impediment to receiving benefits. Also, while BPA has used the current ASC*
8 *Methodology for its rate case forecasts, the methodology could be revised. If the*
9 *methodology is revised and exchanging utilities are allowed to exchange greater costs,*
10 *this would increase their ASCs and exchange benefits. Furthermore, in-lieu transactions*
11 *are dependent on resources available at less cost than the utilities' ASCs. Increases in*
12 *market prices could reduce BPA's ability to conduct in-lieu transactions. Also, the IOUs*
13 *contest a number of assumptions BPA made in developing the proposed PF Exchange*
14 *Program rate. If BPA retains those assumptions and the IOUs successfully challenge that*
15 *rate, the rate could be reduced and exchange benefits increased. While BPA has*
16 *developed its rate proposal based on the best information available, BPA recognizes that*
17 *there are variables that could allow all IOUs to receive substantial exchange benefits.*

18 *Q. The IOUs argue that if BPA provides mitigation for small farm customers, that relief*
19 *should be available for all small farm customers, but that it should be phased out by the*
20 *end of the rate period (citing Koehler, et al., WP-02-E-HL-01). Eakin, et al.,*
21 *WP-02-E-AC/GE/IP/MP/PL/PS-02, at 16. Please respond.*

22 *A. Issues regarding mitigation for small farm customers are addressed in separate testimony.*
23 *See Keep, et al., WP-02-E-BPA-17; Keep, et al., WP-02-E-BPA-43.*

1 Q. PSE argues that there is an end results test with regard to the provision of the economic
2 benefits of low-cost Federal power to consumers served by IOUs. Swofford,
3 WP-02-E-PS-01, at 2. Please respond.

4 A. BPA counsel has advised that neither the Northwest Power Act, nor any other law, to
5 BPA's knowledge, establishes an end results test with regard to the provision of the
6 economic benefits of low-cost Federal power to consumers served by IOUs.

7 Q. PSE argues that BPA's initial proposal will provide 60 percent of the region's citizens
8 with less than 23 percent of Federal power benefits, which leads to increased pressure to
9 form government-owned utilities and condemn property owned by IOUs in order to get
10 access to BPA power, and threatens to reignite the private-public battles Congress
11 intended to end by the Northwest Power Act. Swofford, WP-02-E-PS-01, at 2-3. Please
12 respond.

13 A. Federal power benefits are provided to IOUs in large part through the Residential
14 Exchange Program. As noted above, Residential Exchange Program benefits are
15 determined by comparing an exchanging utility's ASC with BPA's PF Exchange
16 Program rate. The PF Exchange Program rate level is determined in large part by
17 incorporating the results of the section 7(b)(2) rate test. See Section 7(b)(2) Rate Test
18 Study, WP-02-E-BPA-06; Kaptur, *et al.*, WP-02-E-BPA-34; and Kaptur, *et al.*,
19 WP-02-E-BPA-56. Each issue regarding the 7(b)(2) rate test is considered and
20 determined on its merits. It is not BPA's intent to create pressure to form
21 government-owned utilities or to reignite battles between public and private power.
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1 Q. PSE notes that more than 80,000 of PSE's residential customers have signed cards and
2 letters telling BPA and Congress that BPA's end result is not fair to them. Swofford,
3 WP-02-E-PS-01, at 4. PSE also notes that a number of PSE's residential customers have
4 formed a group called "We Care." Id. Please respond.

5 A. In response to data requests, PSE acknowledged that sample cards were provided to its
6 residential customers in June and July of 1999. PSE also acknowledged that PSE
7 "strongly advised and encouraged its customers to submit cards, letters, petitions and any
8 other communications to inform BPA and Congress of the importance of the residential
9 exchange to them," noting that PSE had previously encouraged the passage of the
10 Northwest Power Act to help benefit PSE's residential customers. PSE also
11 acknowledged that it has provided "We Care" with \$45,000.00 in funding for some of its
12 organizational expenses and has provided verbal and written information about the BPA
13 Subscription plan and its potential effects on PSE's customers.

14 Q. PSE quotes testimony from an employee of the Washington Utilities and Transportation
15 Commission arguing that, based on statements in a 1979 Senate Committee report,
16 benefits received by IOUs' residential consumers were expected to be \$650 million per
17 year in 1994 but that benefits were under \$200 million per year; that larger monetary
18 benefits were intended; and that DSIs were expected to pay higher rates. Swofford,
19 WP-02-E-PS-01, at 7-8. Please respond.

20 A. BPA counsel has advised that issues regarding the legislative history of the Northwest
21 Power Act are legal issues that may be raised in parties' briefs and will be addressed in
22 BPA's Draft ROD.
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1 Q. PSE quotes a statement from the Oregon Public Utility Commission (OPUC) which
2 argues that BPA is providing more benefits to the DSIs than to IOUs' residential
3 consumers when BPA has no obligation to serve the DSIs and that BPA is proposing to
4 sell the DSIs as much power as they want. Swofford, WP-02-E-PS-01, at 11-12. Please
5 respond.

6 A. The OPUC statement appears to refer both to benefits that may be provided to IOUs
7 under the Residential Exchange Program settlement agreements as noted in BPA's
8 Subscription Strategy and the proposed power sales to the DSIs as noted in BPA's
9 Subscription Strategy. As noted above, issues regarding the proposed settlement
10 agreements are not determined in section 7(i) hearings but rather in separate negotiation
11 and public comment processes. It should be noted, however, that BPA's Subscription
12 Strategy did not require that BPA would sell the DSIs all the power they wanted, but
13 rather that BPA's goal was to serve DSI loads and that BPA expected to be able do so.
14 See Power Subscription Strategy, at 10. In fact, BPA's proposed power sales to the DSIs
15 forecasted in this rate proceeding do not result in selling the DSIs "as much power as they
16 want." See Berwager, et al., WP-02-E-BPA-09.

17 Q. Does this conclude your testimony?

18 A. Yes.

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