Executive Summary of WP-02 Power Rates Record of Decision
5/15/00

The Record of Decision (ROD) of the power rate case contains the decisions of the Bonneville Power Administration (BPA) for the adoption of power rates for the five-year rate period beginning October 1, 2001 through September 30, 2006. This rate proceeding is the pricing aspect of the implementation of BPA's Power Subscription Strategy, adopted December 12, 1998. It includes only power rates, since BPA's Transmission Business Line is conducting their own separate rate proceeding.

Chapters 1 and 2 of the ROD provide the context and policy decisions for this rate proceeding. The ROD incorporates the results of decisions made during the public processes associated with the Business Plan, the Cost Review, the Subscription Strategy, and the Fish and Wildlife Funding Principles. This upcoming rate period presents BPA with a major uncertainty for which BPA had to make assumptions: For example, since the power sales contracts will expire 9/30/01, how many customers will sign new contracts for power, and for how long? Plus, there are unknowns about the level of expenses BPA will have for fish and wildlife obligations and changes to the hydro system.

The rate case adopts the four principal goals of the Subscription Strategy:
- To promote the spread of the benefits of the Federal Columbia River Power System (FCRPS) as broadly as possible, with special attention given to the residential and rural customers of the region;
- To avoid rate increases through a creative and business-like response to markets and additional aggressive cost reductions;
- To allow BPA to fulfill its fish and wildlife obligations while assuring a high level of Treasury payment; and
- To support BPA's role as being a leader in the regional effort to capture the value of conservation and renewable resources.

Chapter 3 of the ROD describes how BPA compiles load and resource data. This is equivalent to BPA's sales and inventory estimates. There are three inter-related components: a federal system load forecast, a federal system resource forecast, and the federal system load and resource balances.

Chapter 4 describes the Marginal Cost Analysis which informs (but does not directly set) the price level at which BPA buys and sells in the bulk power market. Marginal costs are also used in the rate design to help BPA's rates send economic price signals.

Chapters 5, 6, and 7 describe how BPA established its revenue requirements, determined the financial risks, and then developed a risk mitigation package. BPA's Revenue Requirement Study for power is a detailed analysis of the level of revenue from wholesale power rates required to recover all costs of producing, acquiring, marketing, and conserving electric power. BPA has set its rates so that there is an 88% probability that it will make all five payments to the Treasury on time and in full during the rate period.

BPA conducted a number of studies of the financial risks that BPA faces as a consequence of uncertainties. BPA looked at operational risks (such as weather and plant outages) and policy-related non-operational risks (related to uncertainties in revenue or expense levels). BPA then developed an integrated package of risk mitigation measures to account for the uncertainty. This risk mitigation package consists of: 1) starting reserves; 2) credits under the Fish Cost Contingency Fund; 3) a Cost Recovery Adjustment Clause (an automatic, temporary upward adjustment to posted power prices if the actual accumulated net revenues fall below a threshold level); and 4) Planned Net Revenues for Risk (a component of the revenue requirement added to annual expenses that increase cash flows so that financial reserves, in conjunction with the other risk mitigation tools, achieve the Treasury payment goal).

In the event that BPA's actual accumulated net revenues rise beyond a level need to ensure that all costs are covered, BPA has developed a mechanism known as the Dividend Distribution Clause to distribute dividends to customers and potentially to other stakeholders. The details of how to allocate and distribute any dividends among stakeholders will be made in a separate public process, prior to 10/1/01, but BPA has committed to setting aside the first $15 million of any dividends to support conservation and renewable resources.

In **Chapter 8** of the ROD, BPA describes the decisions made regarding transmission and inter-business line issues. The chapter describes how BPA will continue to provide existing General Transfer Agreements to current loads for delivery of federal power through the rate period. These costs will be spread over all BPA power sales. BPA will also provide a limited amount of GTA service or comparable transfer service under an open access tariff for deliveries of federal power to certain new preference customers. This decision was made in the Supplemental Subscription ROD, and reflected in the rates. However, BPA will not provide GTA service to preference customers for deliveries of federal power to annexed load. BPA forecasted the inter-business line revenues and expenses that the Power Business Line will incur during the FY 2002-2006 rate period. The forecasted transmission expenses do not constitute a transmission rate proposal, and will not be binding on any transmission rate case or settlement. However, allocation methodologies for the PBL-supplied generation inputs to the TBL for ancillary services are binding on the TBL.

Chapter 9 states that the Transmission Business Line at BPA will pay up to $6.5 million per year for transmission over third-party systems to deliver non-federal power to customers historically served by GTAs, and will roll those costs into network (transmission) sales.

Chapter 10 contains all the details of rate design. Some of the key issues discussed in this chapter include descriptions of the changes in the calculation and design of wholesale power rates to accommodate the new Subscription contracts, and to reflect cost causation and provide price signals for more efficient use of the Federal Base System (FBS). Some of the major changes described in this chapter are changes to energy and demand charges (12 monthly seasons per year), a new load variance charge, optional stepped rates for the five year rate period, a charge for stepping up block sales amounts over the term on the contract (SUMY), and a Targeted Adjustment Charge on regional firm load that results in an unanticipated increase in BPA's projected loads within the rate period. BPA has also developed a Conservation and Renewable Discount to encourage and support the development of conservation projects and renewable resources in the region.

Chapters 11, 12, and 13 are a technical discussion of the models and assumptions used by BPA as it sets rates for it's various customer groups in compliance with the rate directives in the Northwest Power Act. As part of this ratemaking process, costs associated with the Residential Exchange Program are determined. Those costs and all other power revenue requirement costs are examined in a Cost of Service Analysis and allocated to the various customer loads. These initial allocations of costs are then adjusted in accordance with the Northwest Power Act's rate directives. These rate directives include the Section 7(b)(2) Rate Test, which determines whether BPA's public body and cooperative customers are entitled to rate protection. If the public customers receive rate protection, costs are shifted away from the public customers and absorbed by other customers who purchase firm BPA power. To calculate final Subscription rates, additional ratemaking adjustments were made to allocate Subscription specific costs and credits to the various customer groups.

In **Chapter 14**, the ROD describes the benefits and settlement of service to the Investor Owned Utilities (IOUs). BPA has determined that the rate levels will allow it to provide 1900 aMW to the IOUs, as decided in the Supplemental Subscription ROD. The RL rate, for power the IOUs purchase from BPA for service to their residential and small commercial load, is equal to the PF rate.

Chapter 15 reflects the Compromise Approach discussions in the ROD's description of service to the Direct Service Industrial customers (DSIs). The ROD indicates that BPA will provide service up to 1440 aMW in a firm power block, allocated among DSIs based on each DSI's purchases under the current IP-96 rate. Of that service, 990 aMW is comprised of power priced at a base rate. It is combined with 450 aMW priced to directly reflect the cost of BPA purchasing that power, and results in the IP TAC rates for DSI purchases. BPA will also offer the DSIs a cost-based indexed IP rate option, tied to the price of aluminum.

Chapter 16 describes how BPA intends to offer its preference customers a Slice of the system product. The Slice revenue requirement is comprised of all the line items identified in the 2002 power rate case, with certain limited exceptions. The Slice methodology is described in the Attachment to the ROD. BPA will seek a ten-year approval of that methodology from FERC.

Chapter 17 addresses technical issues related to the rate schedules. In **Chapter 18**, the ROD describes how hundreds of participants to the rate case also helped shape the decisions. BPA held 9 field hearings, and received over 700 comments from the attendees. BPA also received over 6,400 written comments which it analyzed and addressed in the ROD.

Chapter 19 contains a special issue discussed in the 2002 rate case that adjusts the PF-96 and NR-96 rates. The purpose of the Targeted Adjusted Charge for Uncommitted Load (TACUL) is to recover costs BPA may incur to provide firm power requirements service to those customers with loads uncommitted to BPA in the 1996 rate case, and whose current power sales contracts expire on or before July 31, 2000.

The **Appendices** to the ROD are published in a separate volume. They contain the actual rate schedules that will be applied to purchases for the next rate period. BPA has included the 1996 rate schedule adjustment for TACUL as Appendix 2 of that volume.

Next steps?

BPA will file the entire record of the case (as much as 80,000 pages) with the Federal Energy Regulatory Commission (FERC) for review and approval. FERC generally grants interim approval within 60 days of the filing. The rates will be in effect from 10/1/01 until 9/30/06. BPA will ask FERC for a 10-year approval of the Slice methodology.

BPA will also ask FERC for interim approval of the PF-96 adjustment (TACUL) within 60 days, and final approval by January 1, 2001. The rate will expire 9/30/01.

The Record of Decision for the Power Rate Case

Volume 1	Chapters 1 through 9	DOE/BP-3293
Volume 2	Chapters 10 through 13	DOE/BP-3294
Volume 3	Chapters 14 through Slice Attachment	DOE/BP-3295
Appendices	Rate Schedules	DOE/BP-3296