

Tiered Rate Methodology Issues

This issues list is intended to lay out some of the details regarding the issues that need to be addressed in the Tiered Rates Methodology. Some of the issues will be decided in the Regional Dialogue Policy ROD and those decisions will be implemented in the TRM. The TRM is not intended to revisit those decisions; rather the TRM will address the issues needed to implement those RD-ROD decisions.

Question	What the RD Says	TRM Issues
<p>1. How will the size of the Tier 1 resource pool be determined?</p>	<p>Use critical water to calculate the firm power, as it has traditionally been defined for regional planning purposes (p13).</p> <p>BPA will not augment the existing FBS by more than 300 aMW (plus up to 250 aMW to serve the HWM amounts of new publics). The limit on augmentation would also be addressed in BPA’s Tiered Rate Methodology 7(i) process and the Regional Dialogue contracts (p14).</p> <p>BPA contracts and the long-term rate methodology would list the FBS resources and capabilities that would be used to establish the initial HWMs, and the source of information and the rate case process that would be used to periodically adjust resource capabilities and HWMs (p16).</p> <p>In each rate case BPA would change each utility’s HWM in proportion to any change in FBS capability. Changes to the FBS that occur during the rate period would be absorbed by BPA through balancing purchases to meet the committed Tier 1 rate eligible loads of all customers except Slice (p22).</p>	<p>The limit on Tier 1 augmentation for existing publics during the contract period (not to exceed 300 aMW) will be determined in the 2012 rate case. The TRM will specify the determination of this amount.</p> <p>The TRM will list the resources included in Tier 1 and will specify the process for determining the associated generation in each rate case.</p> <p>The TRM will specify how each rate case will determine the size of Tier 1. HWMs will be revised for each utility based on this determination.</p> <p>The TRM will discuss the methods for determining the amounts of balancing purchases and sales.</p> <p>The TRM will discuss how load forecasts of full service customers are constructed to minimize cost shifting due to potential under-forecast of utility loads.</p>
<p>2. How will the results of the Net Requirements calculation be reflected in tiered rates?</p>	<p>BPA proposes to calculate net requirement loads each year to determine the amount of power each customer is eligible to purchase from BPA that year. However, to provide resource and rate planning certainty, customers would be provided short-term mechanisms for load loss within the rate period that maintain both BPA and the customer’s risks and benefits in that rate period, such as limited resource removal rights for purchases at Tier 1 rates (p17).</p> <p>Prior to the signing of new Regional Dialogue contracts BPA would conduct a public process that establishes a consistent, simple and transparent approach that would be used to establish net requirements for and during the contracts, consistent with BPA’s 5(b)9(c) Policy (p14).</p>	<p>The TRM will define how the net requirements determinations will be implemented in rate cases.</p> <p>The TRM will define the interactions between net requirements determinations and rate and service commitments to Tier 1 and Tier 2 products.</p> <p>The TRM will be consistent with the resource removal rights determined in the RD-ROD and 5b/9c Policy.</p>

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<p>3. How will the results of the HWM determination be incorporated?</p>	<p>The HWM approach would be established in the Tiered Rates Methodology established through a 7(i) process concluding about the same time new long-term contracts are signed (p12).</p> <p>Six steps to establish each customer’s HWM (p14).</p> <p>Among other things, the methodology must address the methods that would be used during the rate cases for establishing and changing HWMs, and accounting for the existing FBS resources and the changes in the firm capability of the system, including the source of information and the process that would be used to periodically adjust the resource capabilities (p29).</p>	<p>The TRM will establish the HWM approach in a manner consistent with the RD-ROD.</p> <p>The TRM will incorporate the six step of the HWM determination and provide further detail about the steps.</p> <p>The TRM will address how new public customers will be included in the tiered rates construct consistent with the decisions of the RD-ROD.</p>
<p>4. How will excess resources associated with unused HWMs be used and credited to Tier 1 rates?</p>	<p>When the new contracts start in FY 2012, some customers are likely to have net requirement loads below their HWMs, resulting in fewer purchases than the available firm power output of the FBS. BPA proposes to retain the value and costs of the existing Federal system in the Tier 1 rate, including this temporarily available FBS power, to keep Tier 1 rates as low as possible (p30).</p> <p>To the extent that FBS power is provided to serve load beyond a customer’s HWM, it would be priced at BPA’s marginal cost of power with the excess value above the average FBS cost being credited back to Tier 1 rates (p30).</p>	<p>The TRM will define how excess Tier 1 resources are utilized for Tier 2 service and how the value of that power will be determined.</p> <p>The TRM will define the manner in which the value of the excess resources is credited to Tier 1 rates.</p>
<p>5. How will tiering affect the crediting of revenues from secondary energy and other surplus power?</p>	<p>BPA proposes to retain the value and costs of the existing Federal system in the Tier 1 rate, including this temporarily available FBS power, to keep Tier 1 rates as low as possible (p30).</p>	<p>The TRM will define the manner in which the revenues from sales of secondary energy and temporary surplus power are credited to Tier 1 rates.</p>

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<p>6. How will revenue requirements be determined and allocated in a tiered rates world?</p>	<p>Tier 1 rates would include the cost of the existing FBS and other costs such as the following: REP costs (including costs for REP settlements for both public and IOU customers); public benefits; conservation; renewables; power purchases (balancing purchases, and up to 300 aMW of augmentation to serve existing customers); costs of augmentation (up to 250 aMW) to serve new publics; GTA costs; DSI service; recovery of lost revenue for LDD and Irrigation Rate Mitigation (p29-30).</p> <p>The level of the Tier 1 rate would be recalculated every rate period based on the costs of the FBS output and all non-Tier-2 rate costs (p30).</p> <p>BPA proposes to provide Tier 2 rate service priced to reflect the full costs of the generating resources or market purchases, or marginal costs in the event power is provided from the existing system (p28).</p>	<p>The TRM will determine which costs are Tier 1 and which are in Tier 2.</p> <p>The TRM will set parameters to guide the allocation of new costs between Tier 1 and Tier 2.</p> <p>The TRM will determine the allocation of the costs of balancing purchases?</p> <p>The TRM will speak to which other costs will be included in Tier 2, such as risk mitigation, overheads, and transmission costs.</p>
<p>7. What Tier 1 & Tier 2 rate design issues does tiering introduce?</p>		<p>The TRM will determine if rate design flexibility under a tiered rates construct should be preserved to the individual rate cases.</p>
<p>8. How will shaping costs be reflected in tiered rates?</p>	<p>To meet a load following customer’s regional consumer load needs, the shape of the FBS under critical water must be transformed to a more load-friendly and useful shape. For each rate case, BPA proposes to design the rates for these shaping services so that the projected reshaping costs are borne by the customers that use the services. To do this, BPA would compare the costs of the shape of the FBS under critical water with the cost to provide the same amount of energy in the shape required by the customers. Customers purchasing products that have shaping services would be required to pay a charge to reshape the FBS into the projected shape of their product. This charge would reflect costs incurred by BPA for shaping. In addition, customers that purchase load-following products would pay a charge for the cost and risks BPA faces serving their actual loads rather than their forecast load (p31).</p> <p>BPA’s proposal is designed to ensure that a customer’s use of FBS flexibility is provided equitably to all customers. By charging the opportunity cost for buying and selling energy to shape amounts of FBS power to what a customer actually purchases that customer’s use of these services does not erode the value of BPA’s secondary energy, which maintains the rate-reduction benefits of the credits for this secondary revenue (p31).</p>	<p>The TRM will distinguish the amount of shaping services supplied by the system and set principles for costing those services.</p> <p>The TRM will address how to include the costs of shaping services from other sources and whether they are included in the Tier 1 and/or Tier 2 requirements.</p> <p>The TRM will address how the demand and load variance rates are integrated with the rates for shaping services.</p> <p>The TRM will explore and suggest options for charging for shaping services, resulting in a flexible methodology that can accommodate changing circumstances of specific rate cases.</p>

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<p>9. How will Residential Exchange benefits be incorporated into Tiered Rates?</p>	<p>BPA’s Regional Dialogue contracts would include a provision to settle the exchange for all existing public customers so that the tiered rate paradigm of defined access to BPA’s lowest-cost-based rates and a differentiated rates structure would work ... BPA expects the settlement amount for most current public customers to be nominal. However, settlement amounts may be higher for the small number of new or current public customers that have existing high-cost resources.... There is a large amount of uncertainty around what this amount would be, but for purposes of this threshold a settlement offer of \$45/MWh is reasonable because it is the approximate level BPA expects a customers’ average system cost would need to exceed to receive REP benefits ... Because of the broad agreement that it would not be appropriate for customers to shift costs of new resource acquisitions to other customers through the exchange, BPA expects that public customers would agree to settle their residential exchange rights (p20; repeated on p30).</p>	<p>The TRM treatment of Residential Exchange benefits will be consistent with the RD-ROD determination of either a settlement of the REP or the Fallback Proposal implementation of the REP.</p>
<p>10. How does BPA conduct the 7(b)(2) rate test under tiered rates?</p>		<p>The TRM will preserve the current 7(b)(2) Implementation Methodology allowing that it may be potentially modified.</p> <p>The TRM will investigate and resolve alternative rate test methodologies under tiered rates that are consistent with both the 7(b)(2) Methodology and the Regional Dialogue pricing constructs.</p>
<p>11. Does tiering of BPA rates affect the computation of the Average System Costs of exchanging utilities?</p>	<p>Under the proposed settlement prior to each rate period, BPA would calculate a proxy ASC for each investor-owned utility using a new “cookbook approach,” i.e., an Excel-based program assigning costs by function and estimating ASC, which would be negotiated as part of the proposed settlement (p50).</p> <p>No settlement of residential exchange rights for either IOUs or public utilities. BPA would reinstitute the exchange programs for both starting in FY 2012. BPA would develop an in-lieu policy, initiate a consultation process to revise the ASC methodology, and update the 7(b)(2) methodology, all prior to the rate period starting in FY 2012 (p92).</p>	<p>The TRM application of ASCs will be consistent with the RD-ROD determination of either a settlement of the REP or the Fallback Proposal implementation of the REP.</p>

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<p>12. How does the tiering rates affect the determination of Residential Exchange benefits?</p>	<p>For IOUs – The RD Policy assumes settlement of IOU REP benefits. If no settlement is achieved, the Fallback Policy Proposal goes into effect. In the Fallback Policy, the following would happen prior to start of FY 2012 rate period: reinstitute exchange programs for IOUs and publics, develop in-lieu policy, revise ASC methodology, update 7(b)(2) methodology, earlier determination of HWMs, no augmentation to serve either existing publics or new publics at a Tier 1 rate, no resource removal rights, etc. (p92-93)</p> <p>For Publics – BPA’s Regional Dialogue contracts would include a provision to settle the exchange for all existing public customers so that the tiered rate paradigm of defined access to BPA’s lowest-cost-based rates and a differentiated rates structure would work... . BPA expects the settlement amount for most current public customers to be nominal. However, settlement amounts may be higher for the small number of new or current public customers that have existing high-cost resources.... There is a large amount of uncertainty around what this amount would be, but for purposes of this threshold a settlement offer of \$45/MWh is reasonable because it is the approximate level BPA expects a customers’ average system cost would need to exceed to receive REP benefits.....Because of the broad agreement that it would not be appropriate for customers to shift costs of new resource acquisitions to other customers through the exchange, BPA expects that public customers would agree to settle their residential exchange rights (p20)</p>	<p>In the event of the Fallback Proposal, the TRM will explore and resolve the calculation of benefits based on ASCs and a tiered Priority Firm rate.</p>

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<p>13. How will rate setting accommodate new publics?</p>	<p>Publics that do not currently exist but are able to form, meet BPA’s standards for service, and sign a Regional Dialogue contract before the contract signing deadline would be treated the same as other existing public utilities (p20).</p> <p>A new public customer would have the same access to the REP as an existing public customer and, subject to notice periods, could purchase power to serve all of its net requirement load from BPA at PF. Their access to BPA’s lowest-cost PF would depend on the HWM they receive (p20).</p> <ul style="list-style-type: none"> • BPA would earmark 250 aMW of Tier 1 power for new publics; • 3-year notice provision for new publics; • Max of 50 aMW for new publics each rate period; • New publics larger than 10 aMW would be phased-in in 3-year increments. • Special provisions proposed to allow small new publics (<10aMW) to get around the 50 aMW limit (p20). <p>New public loads in excess of the 250 aMW HWM limit over the course of the Regional Dialogue contracts would be served at Tier 2 rates (p21).</p> <p>New publics would be eligible for REP benefits. However, BPA expects they would choose to settle their rights to REP in order to receive a HWM (p22).</p>	<p>The TRM will define any distinction in the rate treatment of new publics to the extent that they do not participate in the HWM rate construct.</p> <p>The TRM will examine if the resolution of the Residential Exchange methodology negatively impacts the decisions of new publics about exchanging.</p>
<p>14. How is the Slice rate impacted by tiering, and how does Slice impact the tiering of non-Slice rates?</p>	<p>The Slice product is only available to serve load below a customer’s HWM and subject to the Tier 1 rate because it ties directly to the amount of generation from FBS resources. As a result, any service to load above the customer’s HWM at the Tier 2 rate would need to be made in the form of a Block product (p26).</p>	<p>The TRM will implement the RD-ROD decisions pertaining to Slice and will examine the effect of tiered rates on Slice.</p>
<p>15. Are there any new unmitigated risks imposed by tiering?</p>		<p>The TRM will examine risk issues and build a framework that isolates risks between Tier 1 and Tier 2 products and put structures in place that will keep the risks isolated from each other.</p>
<p>16. How will tiering impact BPA’s operational risks captured in our rates?</p>		<p>The TRM and Tier 2 product definitions will seek to minimize the operational risk impacts of Tier 2 on Tier 1.</p>

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<p>17. What are the necessary items to modify in our rate modeling?</p>		<p>The TRM will demonstrate how rates models would be adapted for tiering.</p>
<p>18. How are the aspects of dispute resolution criteria memorialized in the TRM?</p>	<p>BPA recognizes that many customers would like a specific and known dispute resolution process that applies uniformly, and this is an understandable desire. However, it would be disingenuous of BPA to suggest such a process is possible at this point or that a single process can be used to resolve all disputes (p79).</p> <p>There are, however, principles, criteria and factors that BPA can lay out at this time that will help define a clearer direction for future dispute resolution (p79 – see criteria & factors on p81-82).</p> <p>Overall, BPA proposes that its contract could empower the rate case hearing officer in specified cases to make a determination as to whether any BPA-proposed rate change is a contractually prohibited change (p79).</p> <p>The overall construct – To address the concern that BPA statutorily can and, in certain situations, must change its rates, BPA could in the rate itself state that the overall construct of tiered rates would not be abandoned or changed for a period of 20 years, that each customer’s contract would include a guarantee against identified changes, and that the contract would provide for a binding process to ensure that the guarantee was enforceable (p83).</p> <p>Customers understand that the Administrator must recover costs. However, they have expressed concern that the Administrator might not take appropriate care to avoid creating situations where the consequence would be that BPA must allocate Tier 2 costs to Tier 1 in order to assure total cost recovery (p86).</p> <p>BPA believes a necessity test should be clearly articulated in the Tiered Rates Methodology and contracts as a condition to recovery of Tier 2 costs from Tier 1, or vice versa. (p86).</p>	<p>The TRM will set forth the terms by which the TRM may be modified in the future, consistent with the discussion on dispute resolution.</p> <p>The TRM will examine the conditions under which unrecoverable Tier 2 costs would be recovered by Tier 1.</p>
<p>19. How will the Low Density Discount be reflected in tiered rates?</p>	<p>BPA proposes to continue to review and possibly revise the LDD in future 7(i) general rate case proceedings, including implementation details relating to eligibility, the discount level and applicable rate (p31).</p>	<p>The TRM will define how the LDD works in a tiered rates world.</p> <p>The TRM will determine whether Tier 2 service by BPA is eligible for the LDD and whether it should be offered as an option.</p>

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<p>20. How is irrigation mitigation achieved in a tiered rates world?</p>	<p>Beginning with the FY 2012 rate period, BPA proposes to make available irrigation rate mitigation in the form of a fixed mills-per-kWh discount limited to the Tier 1 rate in the PF rate schedule, and not as a separate product (p32).</p> <p>A section 7(i) rate proceeding would establish the need for, and amount of, an irrigation discount applied to qualifying irrigation loads starting with the FY 2012 rate period. Regional Dialogue contracts would include a provision acknowledging the irrigation discount program, the terms of which would be determined in rate proceedings and subject to BPA’s general rate schedule provisions. Any discount, if adopted by the Administrator, would be included in BPA’s General Rate Schedule Provisions for BPA’s FY 2012 Tier 1 power rates or successor rates (p32).</p>	<p>The TRM will discuss the need for irrigation mitigation, the methodology for determining qualifying loads, and explore options for providing any needed mitigation.</p>