



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

September 14, 2012

In reply refer to: PFR-6

To Parties Interested in the Rate Period High Water Mark (RHWM) Process for the FY 2014-2015 rate period:

The Bonneville Power Administration is announcing the completion of the Rate Period High Water Mark (RHWM) Process for the FY 2014-2015 rate period. Consistent with the Tiered Rate Methodology, BPA is posting its determination of values for the upcoming BP-14 Rate Case for: RHWM Tier 1 System Capability, including RHWM Augmentation; each customer's RHWM; each customer's Forecast Net Requirement; and each customer's Above-RHWM Load.

As this is the first time through the process, BPA has allowed a longer schedule than initially anticipated in the Tiered Rate Methodology. The Tier 1 System Firm Critical Output (T1SFCO) Study was completed in May, with a draft posting of RHWMs in June, and a collaborative review process through mid-July. Initial RHWMs were posted on July 24, 2012, followed by a public meeting on August 9, 2012 and a formal public comment period from August 9 through August 28, 2012.

BPA received 12 comments, which were related to either individual customer load forecasts or on the possible inclusion of WNP-3 Settlement exchange resource energy in the calculation of Tier 1 System Resources (T1SR). BPA has considered these comments and completed its determination of RHWMs. BPA is posting final RHWM outputs on its external website. The RHWM outputs will serve as inputs in the Initial and Final Proposal for the BP-14 Rate Case.

<http://www.bpa.gov/power/pl/regionaldialogue/implementation/documents/#HW>

Individual Load Forecast Determinations

BPA accepted most suggested changes related to individual customer load forecasts by City of Seattle, Emerald PUD, Tillamook PUD, PNGC Power (for Umatilla), as well as Pend Oreille PUD's comments related to its forecast New Large Single Load.

BPA has decided not to include the change requested through public comment by Pend Oreille for its Total Retail Load (TRL). Pend Oreille identified their forecast for TRL at approximately 121 aMW. BPA's forecast in the Initial RHWM posting on July 24 was approximately 117 aMW. BPA believes the original forecast is more consistent with overall regional economic trends and average load growth rates. Therefore, BPA is not changing Pend Oreille's TRL forecast for these RHWM determinations.

Determination on Inclusion of WNP-3 Settlement Exchange Resource in T1SR

An issue to include exchange energy associated with the 1985 WNP-3 Settlement Agreement was presented and discussed at the August 9, 2012 customer meeting. The Settlement agreement permits BPA to call upon IOU combustion turbine resources at the cost of specific resources, as part of an exchange and under certain conditions. BPA has the right to include these resources in its planning so that BPA's power deliveries to IOUs under the Settlement would not impose a planning obligation on either BPA or its public customers. However, BPA does not rely on these resources to support the IOU sale. In practice, these resources are generally much more expensive than BPA surplus power or market purchases. Since the mid-1990s, BPA has reflected operational realities in ratemaking, choosing to augment the federal system with market purchases rather than reflecting the expected costs of purchasing exchange energy from the IOUs. Because the ratemaking cost of augmentation has been much less than the costs of purchasing from the IOUs, rates are generally lower with this ratemaking assumption. The TRM construction of RHWMs was developed based on the past ratemaking treatment of the WNP-3 obligation and resource. The current TRM includes the WNP-3 obligation to the IOUs as a Designated BPA System Obligation, and does not include the IOU combustion turbine exchange resource as a Designated BPA Contract Purchase.

BPA received several comments for and against inclusion of this resource as a Tier 1 System Resource. Customers supporting inclusion noted that if inclusion resulted in substantial rate impacts in the future, they were less likely to support its treatment as a Tier 1 System Resource. Customers opposing inclusion argued that historically the resource has not been firm, that BPA expressly did not include this resource in the resource tables in the TRM, and that formal change procedures are expressed in the TRM, Section 13, and would have to be used to make a change to include the resource.

As a potential "work-around," BPA suggested setting the forecast of WNP-3 Settlement load obligation to zero for the Tier 1 System Firm Critical Output (T1SFCO) Study. After extended internal discussion taking into account the customer comments, BPA has determined that such a work-around is not consistent with the spirit of the TRM, which has prescribed procedures for changing the TRM. BPA fully anticipates forecasting deliveries to IOUs under the 1985 WNP-3 Settlement Exchange agreement for the BP-14 Initial Proposal, as has been done in past rate cases. Setting the obligation to zero for RHWM purposes would depart from expected operations. The TRM clearly, and *intentionally*, excluded this resource from T1SFCO determination; however BPA recognizes that at the time of TRM drafting, the planning obligation this treatment could impose on customers self-supplying Above-RHWM load was not raised. BPA has no fundamental objection to including the exchange resource but if the change is to be made, then the formal change procedures should be observed and followed.

BPA therefore will not change the T1SR to include the WNP-3 Settlement exchange resource for this RHWM process for the FY 2014-2015 rate period. However, customers may consider a formal change if they continue to have concerns about this issue. BPA encourages continued

discussion among our customers, and if customers so choose, BPA will work with customers to follow the procedures prescribed in the TRM for making a formal change.

BPA would like to thank all our customers for their thoughtful comments and engaged presence throughout this process.

Sincerely,

A handwritten signature in black ink, appearing to read "Raymond D. Bliven", followed by a long horizontal line extending to the right.

Raymond D. Bliven
Power Rates Manager