



Department of Energy

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

POWER SERVICES

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To Parties Interested in the Rate Period High Water Mark (RHWM) Process for the FY 2016-17 rate period:

The Bonneville Power Administration is announcing the completion of the Rate Period High Water Mark (RHWM) Process for the FY 2016-17 rate period. Consistent with the Tiered Rate Methodology (TRM), BPA is posting its determination of values for the upcoming BP-16 Rate Case for: RHWM Tier 1 System Capability, including RHWM Augmentation; each customer's RHWM; and each customer's Above-RHWM Load. BPA will post each customer's Forecast Net Requirement following completion of certain elections for Above-RHWM load service that may be made following posting of final determinations in the RHWM Process.

BPA engaged customers in a longer-than-expected public process spanning three months, three public comment periods, and three public workshops. We have appreciated the interaction with customers and believe this process was conducted in the spirit of regional collaboration. BPA received 42 public comments in all during the three public comment periods. Relevant comments were either related to individual customer load forecasts or the assumptions behind the Tier 1 System Firm Critical Output (T1SFCO) computation. In general, BPA incorporated those individual customer load forecast changes that were uncontested, material, and warranted.

The more difficult issue addressed during the RHWM Process involved the assumptions used in the T1SFCO study. The combination of a revised Canadian operations plan under the Columbia River Treaty and a change in spill assumptions for fish passage along the Snake and Columbia rivers reduced the proposed T1SFCO by about 180 aMW. Many customers questioned a number of the assumptions, especially the assumption that spill would continue at the Snake River dams in dry years. In prior years it was assumed that spill would not be provided in dry years, such that the transport of fish by barges would be maximized. BPA staff had proposed changing the no-spill-in-dry-years assumption, citing the 2010 experience where the decision was made to not implement maximum transport and reduce spill, even though at the time the Northwest was anticipating very low stream flows during the spring fish migration season.

Many customers commented that a T1SFCO reduction would have very real implications to their contract rights under the Regional Dialogue contracts. Lowering the T1SFCO, and thereby lowering the size of the Tier 1 System Capability to which customer's RHWMs are scaled, in turn lowers the amount of power that customers are eligible to purchase at the low-cost Tier 1 rates. As customers' loads grow beyond their access to the Tier 1 System, Above-RHWM load must be served either through Tier 2 acquisitions from BPA or through self-supply. Some

customers argued that in either case, this imposes a planning burden on them. If the T1SFCO changes significantly from rate period to rate period, this planning burden may be more difficult to manage.

Through several discussions by way of external and internal outreach, BPA considered a modification to implementation of the maximum transport assumption. The 2014 FCRPS Supplemental Biological Opinion calls for an annual review of information to determine what operation would be best for fish. Therefore, a maximum transport operation is still possible – if it is determined to be best for fish. This modification acknowledges that while there are many factors to consider in determining what operation will be best for fish, it is likely that water supply will be a more influential factor when flow forecasts are very low. Accordingly, to approximate the uncertainty on what might occur under the relevant water conditions, BPA is revising its assumption regarding transport operation and associated spill in the T1SFCO study for the FY 2016-17 rate period. The study now assumes that a maximize transport/no spill operation would be implemented at Lower Granite, Little Goose and Lower Monumental dams in the spring half the time in very dry years with an average April – June flow of less than 55 kcfs at Lower Granite Dam on the Snake River. The maximum transport operation is therefore assumed in 2017 under 1937 hydrology, while a spread-the-risk strategy of spill *and* barge transport is assumed in 2016. This increases the T1SFCO for the FY 2016-17 rate period by 38 aMW from the initial RHWM computations.

The actual decision regarding operations will continue to be made on an annual basis to determine what operation will provide the best survival for returning adult fish, consistent with the biological opinion. The water supply forecast will be an element in that decision, but decision makers will continue to consider other available information in determining the operation that is best for fish. Decisions regarding how these projects will operate are made by the U.S. Army Corps of Engineers (the entity that owns and operates the dams) in coordination with BPA, the Bureau of Reclamation, NOAA Fisheries and the sovereigns that are members of the Regional Implementation Oversight Group.

When proposed, customers responded favorably to this change in assumptions, but remain concerned about the volatility in the T1SFCO from rate period to rate period, as well as threats to their contract rights under Regional Dialogue. BPA plans to revise the RHWM process for future rate periods to allow for extended review of the T1SFCO study before posting its initial determinations. Moreover, BPA plans to engage customers in the early spring prior to the RHWM process on revisions to the process that would improve the opportunity to engage and communicate with interested stakeholders. In turn, customers may need to be more engaged in regional public forums that discuss changes to river operations – especially those that may have implications for future rate assumptions.

Regarding load forecast modification requests, BPA received comments from the City of Blaine, Springfield Utility Board, and Lower Valley Energy with respect to individual Total Retail Load forecasts, as well as Pacific Northwest Generating Cooperative comments related to forecasted New Large Single Loads for Umatilla, and Dr. Pace's comments on forecasted weather conditions for planning.

BPA has decided not to include the changes identified in the customer load forecast comments provided by City of Blaine and Lower Valley Energy. The City of Blaine identified 0.013 MW of conservation that has materialized since the initial forecast was prepared. This change does not meet the threshold of a 5% change. Making this change has no impact on any RHWMM calculated values nor will it impact the total loads for the rate case. BPA will include this change in the annual forecast update between October 2014 and the end of December 2014 and it will be reflected in final rates and Blaine's Priority Firm Tier 1 billing determinants for the upcoming rate period.

Lower Valley noted the "forecast is 1 aMW too high and would like to see it reduced." Lower Valley further commented that "[the forecast should be] properly excluding our Strawberry Hydro Plant production which is about 1 aMW whereas the BPA website included the Strawberry production." Total Retail Load (TRL) is determined as the amount of load, regardless of who provides the energy, to meet the retail customer requirements within a service territory. Strawberry Hydro does meet load within Lower Valley's service territory. The proper treatment of the Strawberry Hydro Plant is to include the entire load in the TRL forecast and then remove the plant output as a dedicated resource, as directed in the contract. We have confirmed that the Strawberry Hydro Plant output is included correctly in the current forecast. Lower Valley further states that "Due to some confusion on our part, we had [BPA's load forecaster] increase the Lower Valley forecast from his original estimate." In addition, this change also fails to meet the materiality threshold. As such, BPA will not be making this change for the upcoming BP-16 rate period.

Finally, BPA will not include the changes identified by Dr. Pace relative to forecasted weather conditions. Because the forecasts for El Niño events are not reliably accurate two to three years into the future, it would be imprudent planning to expose customers to this uncertainty. Although forecasters are predicting an El Niño event in 2015, there is no certainty that this will be the case in FY 2016 and 2017. It would create inaccuracy by changing the expected central tendency of future weather conditions and induce bias in the modeled load forecast. BPA realizes that planning for the uncertain future already carries a burden that utilities must bear and does not care to increase that burden in this manner. We undertake a large effort to coordinate these forecasts with customers and including this additional uncertainty would undermine that effort.

All other customer load forecast change requests were reviewed, accepted and incorporated into the final determinations.

In summary, we realize every rate process brings with it its own unique challenges and opportunities. In the case of this RHWM Process for BP-16, the challenge was finding the balance between what our analysts believed were reasonable assumptions and our customer interests, while acknowledging a range of uncertainty. Stakeholders and BPA staff rolled up their sleeves, engaged respectfully and worked through the issues to find that balance.

Sincerely,



Mark Gendron
Senior Vice President for Power Service
Bonneville Power Administration