UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

Fiscal Years 2018-2019 Proposed Power and Transmission Rate Adjustment Proceeding

BPA Docket No. BP-18

TESTIMONY OF:

Public Power Council
Northwest Requirements Utilities

as

JOINT PARTY 8

SUBJECT:
Spill Surcharge

WITNESSES:
Michael Deen
Bo Downen
Megan Stratman

May 25, 2017
INTRODUCTION

Q: Please state your name and qualifications.

A: My name is Michael Deen. My qualifications are shown at BP-18-Q-PP-03.

A: My name is Bo Downen. My qualifications are shown at BP-18-Q-PP-05.

A: My name is Megan Stratman. My qualifications are shown at BP-18-Q-NR-01.

Q: What is the purpose of your testimony?

A: The purpose of this testimony is to respond to parties’ supplemental testimony regarding BPA staff’s supplemental proposal for a Spill Surcharge. This proposal was presented by BPA staff in BP-18-E-BPA-55. Specifically, we are responding to certain elements of the testimony of Idaho Rivers United (BP-18-E-IR-01), Industrial Customers of Northwest Utilities (BP-18-E-IN-05), and Western Public Agencies Group (BP-18-E-WG-07).

RESPONSE TO IDAHO RIVERS UNITED

Q: What aspects of the Idaho Rivers United (“IRU”) testimony would you like to respond to?

A: The IRU testimony raises concerns regarding BPA staff’s proposal in two general areas. First, the testimony questions whether or not BPA staff’s proposed procedure is superior to other potential alternatives. Second, the testimony expresses concerns regarding the use of “estimated” values in the surcharge formula rather than “actual” hydro data and market prices.

Q: What are some of the alternatives to BPA staff’s proposed procedure for the Spill Surcharge?

A: The IRU testimony notes that BPA could potentially rely on existing NFB mechanisms or conduct a “mini-7(i)” proceeding. Additionally, we note that BPA staff could have taken
the approach of proposing to simply update the final proposal based on a projection of potential changes to spill operations.

Q: Are any of these approaches preferable from a technical perspective to BPA staff’s proposal?

A: No, they are not. This is especially true considering the context of this situation and the potential increased costs from additional spill for consumers. In response to data request PP-BPA-26-63, BPA staff provided a reasonable explanation as to why the existing NFB mechanisms would likely not be an appropriate way to handle this particular circumstance. This response is attached to this testimony as Attachment A.

Although a targeted 7(i) process would be potentially feasible, it would be time-consuming, expensive, and impose restrictions on communication between BPA and customers. Under these specific circumstances, it is our view that a 7(i) process would not add sufficient value from a technical or policy perspective to outweigh the costs and restrictions. If BPA staff were not proposing such limited changes to its modeling from the BP-18 final proposal, our analysis could very well be different.

Finally, as discussed in our direct testimony, BPA staff’s proposed approach is clearly superior to speculating on the outcome of court-ordered proceedings or a future Biological Opinion (“BiOp”).

Q: Are you concerned that whatever procedure BPA adopts in this proceeding will set a precedent for how future changes in hydro operations may be handled?

A: Our analysis is that the proposed rate solution is very particular to the current circumstances and is unique historically. These circumstances include the timing of the

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1 See Deen et. al., BP-18-JP08-01 at 6, lines 6-15.
court opinion, the particular content of that opinion, and additionally BPA’s current financial situation. Given these factors, we do not view BPA staff’s proposal to constitute a new “standard practice.”

Q: Please describe IRU’s concern regarding the use of forecasts in calculating the Spill Surcharge.

A: In general terms, IRU expressed concerns that the lost generation and market price components of the surcharge will be based on forecasts rather than actual data after the fact. Since the spill surcharge will be calculated during the rate period, IRU argues that BPA should wait until the conclusion of the spring spill period and base the cost component on actuals.

Q: Please respond to this concern and recommendation.

A: While we agree that it is desirable to use the most accurate information available, we do not support IRU’s recommendation in this instance. Delaying calculation and collection of costs until after the spring spill period would create significant potential issues for power customers in terms of cash flow management and would also be inconsistent with BPA’s general ratemaking practices. BPA staff’s proposal has the effect of collecting the same revenue through rates as if the unknown spill operations were already known during the rate case process. It also mitigates concerns regarding cash flow by collecting for the surcharge (net of any available cost reductions) as early as possible in the fiscal year. BPA staff’s responses to data requests IR-BPA-26-1 and IR-BPA-26-5 further elaborate on these issues and are attached to this testimony in Attachment A.
RESPONSE TO INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

Q: Please describe the issues raised by the Industrial Customers of Northwest Utilities ("ICNU") that you wish to respond to in this testimony.

A: ICNU has raised the issue that increased spill during the spring period would lead to reduced regional supply of generation and therefore increased market prices. These increased market prices would raise the value of BPA’s remaining inventory, which in turn would mitigate the impact of reduced generation relative to the BP-18 market prices (that do not include any increased spill assumptions). ICNU proposes that BPA include this factor as an additional component to the Spill Surcharge formula or alternately modify the CostR parameter to include the impact of increased prices on secondary revenues.

Q: What is your response to this concern and proposal?

A: ICNU has raised a valid issue regarding the impact of increased market prices on BPA’s remaining sales inventory on a forecast basis. We support further exploration of the magnitude of this issue following the rate case and inclusion of an offset in the CostR parameter if appropriate. If necessary, BPA should modify the definition of the CostR parameter to allow this recommendation to be effectuated.

RESPONSE TO WESTERN PUBLIC AGENCIES GROUP

Q: What aspects of the Western Public Agencies Group ("WPAG") testimony do you wish to respond to?

A: We would like to respond to the proposal for BPA to commit to a minimum of $10 million in cost reductions and also to expand the public process and comment period if BPA goes ahead with its proposed mechanism and procedure.
Q: What is your position regarding cost offsets to minimize the rate impact of the proposed Spill Surcharge?

A: As described in our supplemental direct testimony, we strongly support the Administrator’s use of cost reductions to the maximum extent possible to offset the financial impact of increased spill. We therefore support any commitment by BPA that can be made in that regard.

Q: What is your response to WPAG’s recommendations regarding BPA staff’s proposed public process?

A: We support as transparent and comprehensive of a public process as possible. In particular, we would support moving the comment period to at least two weeks and a commitment by BPA to work closely and proactively with customers to resolve questions and respond to requests for information.

Q: Does this conclude your testimony?

A: Yes.
ATTACHMENT A
TO REBUTTAL TESTIMONY OF JOINT PARTY 8
ON SPILL SURCHARGE
DATA RESPONSE
BONNEVILLE POWER ADMINISTRATION
BP-18 RATE CASE

DATA REQUEST NUMBER: PP-BPA-26-63

DATE/TIME\(^1\) OF RECEIPT OF REQUEST: 5/1/17; 1:53pm

DIRECTED TO: BP-18-E-BPA-55

REQUESTOR'S NAME: Michael Deen
AGENCY: PPC

PAGE(S): 5
LINE(S): 22-24

DATA REQUEST:

Please describe why changes in spill operations covered in the supplemental testimony could not and/or should not be addressed through the operation of the NFB mechanisms.

For technical questions about this request please contact Michael Deen. Phone: (503.595.9774) Email: (mdeen@ppcpdx.org)

For legal questions about this request please contact Irene Scruggs. Phone: (503.595.9779) Email: (iscruggs@ppcpdx.org)

RESPONSE:

Consistent with our statements in Fisher et al., BP-18-E-BPA-55, at 2, lines 1-6, the combination of the (1) financial size (substantial); (2) asymmetrical nature (most, if not all, of the possible outcomes will result in a positive expected cost); and (3) likelihood of occurring (extremely likely, particularly in FY 2018) caused us to determine that the NFB mechanisms would not properly address cost recovery during the BP-18 rate period. The NFB mechanisms and the CRAC are designed to mitigate cost risk and support Treasury Payment Probability rather than ensure the recovery of expected costs within a rate period. For example, we do not believe BPA can ignore a known cost, say a new annual maintenance expense at Grand Coulee, when setting rates and still demonstrate cost recovery over the BP-18 rate period – even though, all else equal and assuming financial reserves equal to the CRAC threshold, the CRAC would trigger and recover those costs in the next year. This is further emphasized with expected costs not recovered in FY 2019 because those costs would have to be recovered through mechanisms included in BP-20 rates.

\(^1\) Requests received after 4:30 pm PST shall be deemed to have been received on the next business day.
DATA RESPONSE
BONNEVILLE POWER ADMINISTRATION

BP-18 RATE CASE

This issue is further complicated in this particular rate period given the proposed Financial Reserves Policy. Depending on the NFB mechanisms alone to recover expected increased spill costs would, all else equal, result in the expected use of any available Power financial reserves before a CRAC was triggered and, as a result, could effectively undermine some of the proposed goals and solutions being considered for the Financial Reserves Policy.

For questions about this response, please contact Kurt R. Casad by phone at 503-230-4024 and/or email krcasad@bpa.gov.
DATA REQUEST NUMBER: IR-BPA-26-1

DATE/TIME³ OF RECEIPT OF REQUEST: 5/1/17; 2:57pm

DIRECTED TO: BP-18-E-BPA-55

REQUESTOR'S NAME: Todd True
AGENCY: Idaho River United

PAGE(S): 6
LINE(S): 2-4

DATA REQUEST:

On page 6, lines 2-4, of BPA’s supplemental testimony, you explain that “the Spill Surcharge is to allow BPA to increase its revenue collection . . . when the planned annual spill levels increase relative to the spill levels assumed in setting rates.” For voluntary spill for fish passage during the spring juvenile migration season, did you assume in setting rates the voluntary spill levels would be those specified in the 2014 BiOp that the Court in NWF v. NMFS concluded in May of 2016 was arbitrary and illegal? Were you aware that the NWF plaintiffs had informed the Court in June and July of 2016 that they were considering seeking an injunction to require increased voluntary spill for juvenile fish passage during future migration seasons above the levels in the 2014 BiOp?

For technical questions about this request please contact Todd True. Phone: (206.343.7340) Email: (ttrue@earthjustice.org)

For legal questions about this request please contact Todd True. Phone: (206.343.7340) Email: (ttrue@earthjustice.org)

RESPONSE:

BPA’s power rates, like utility rates generally, are established using forecasts. These forecasts often span two years to reflect BPA’s two-year rate periods, and are developed several months (measured to the beginning of the rate period) to more than two years (measured to the end of the rate period) in advance of actual hydro operations for the rate period. At the time BPA prepared the resources portion of the BP-18 Initial Proposal (late spring and early summer of 2016), the spill operations information included in the 2014 BiOp was the best information available to develop BPA’s initial hydro studies. Bellcoff et al., BP-18-E-BPA-19, at 12, lines 13:23. In the

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³ Requests received after 4:30 pm PST shall be deemed to have been received on the next business day.
DATA RESPONSE  
BONNEVILLE POWER ADMINISTRATION  
BP-18 RATE CASE  

May 2016 summary judgment opinion and order in the NWF litigation, the district court ordered the Federal agencies to continue implementing the 2014 BiOp until a new BiOp was in place, and this included the spill operations identified in the BiOp.

BPA was aware that in the briefing on a remand schedule in June 2016, the NWF plaintiffs indicated they were “evaluating whether to seek additional injunctive relief regarding FCRPS operations.” Joint Br. Resp. of NWF, Oregon, and the Nez Perce Tribe to Fed. Defs.’ Opening Br. Re Remand Schedule at 20, NWF v. NMFS, 3:01-cv-00640-SI (D. Or. June 17, 2016), ECF No. 2074. However, the fact that a party in litigation is “considering” some future action before a court does not provide sufficient factual information upon which to base comprehensive hydro operations for the purpose of developing BPA’s Initial Proposal. Moreover, after publishing a Federal Register notice announcing the BP-18 Initial Proposal in late 2016, interested parties had the opportunity to intervene in the rate case, and rate case parties had a full opportunity to challenge BPA’s hydro studies, including whether BPA should have assumed for ratemaking purposes a different forecast of assumed spill. No party in the BP-18 proceeding argued that BPA was incorrect in proposing to use the operations described in the 2014 BiOp to develop its hydro studies.

For questions about this response, please contact Kurt R. Casad by phone at 503-230-4024 and/or email at krcasad@bpa.gov.
DATA REQUEST NUMBER: IR-BPA-26-5

DATE/TIME\(^1\) OF RECEIPT OF REQUEST: 5/1/17; 3:01pm

DIRECTED TO: BP-18-E-BPA-55

REQUESTOR'S NAME: Todd True
AGENCY: Idaho River United

PAGE(S): 7-8
LINE(S): 3-25, 1-23

DATA REQUEST:

On page 7, lines 3-25 and page 8, lines 1-23, of BPA’s supplemental testimony you explain how you calculate the “spill cost component” of the proposed Spill Surcharge and on page 11, lines 2-17, you provide an example of this calculation.

Please explain how this calculation of the spill cost component accounts for the actual river flow, spill and power market conditions that will occur at the lower Snake and lower Columbia River dams in the spring of 2018 and in any subsequent year, when for example, if river flows in spring 2018 or any subsequent year are similar to those this year, much of the spill that occurs at these dams during the spring juvenile migration season will be what is typically called involuntary spill (as has occurred thus far this year), such that any increase in voluntary spring spill as compared to the voluntary spill levels of the 2014 BiOp would have no effect on “cost (or lost revenue) associated with increased spill relative to the spill assumed in setting rates.”

For technical questions about this request please contact Todd True. Phone: (206.343.7340) Email: (tttrue@earthjustice.org)

For legal questions about this request please contact Todd True. Phone: (206.343.7340) Email: (tttrue@earthjustice.org)

RESPONSE:

The spill cost component is not designed to account for “the actual river flow, spill and power market conditions that will occur . . . in the spring of 2018 and in any subsequent year . . .”

\(^1\) Requests received after 4:30 pm PST shall be deemed to have been received on the next business day.
DATA RESPONSE
BONNEVILLE POWER ADMINISTRATION

BP-18 RATE CASE

As noted in Data Response IR-BPA-26-1, BPA’s rates are set prospectively for two years using forecasts. BPA must calculate and file rates with the Federal Energy Regulatory Commission for confirmation and approval before actual rate period conditions are known. As a result, with very few exceptions, BPA’s rates are set on a forecast of variables such as generation and market prices. These rate case forecasts are developed several months prior to the beginning of the rate period. With regard to calculating rates for the Initial and the Final Proposals, the forecast generation is based in part on modeling the planned spill assumptions in HYDSIM against the range of flows in the 80-year set of historical water conditions. The proposed Spill Surcharge would function in this same way. When information regarding changes in planned spill assumptions becomes available for each year of the rate period, BPA would use those new spill assumptions to generate an updated generation forecast to calculate the cost of additional spill. The proposed Spill Surcharge adjusts power rates to recover costs that would have been included in power rates had Staff known what the planned spill operation would be for the FY 2018-2019 rate period when calculating the final rates. As with most components of BPA’s rates, actual costs will be higher or lower than forecast costs.

For questions about this response, please contact Kurt R. Casad by phone at 503-230-4024 and/or email krcasad@bpa.gov.
CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing on the Bonneville Power Administration’s Office of General Counsel, the Hearing Clerk, and all litigants in this proceeding by uploading it to the BP-18 Rate Case Secure Website pursuant to BP-18-HOO-02 and BP-18-HOO-05.


__________________________
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UNITED STATES OF AMERICA
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Fiscal Years 2018-2019 Proposed Power and Transmission Rate Adjustment Proceeding

BPA Docket No. BP-18

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JOINT PARTY 8

SUBJECT:
Spill Surcharge

WITNESS:
Michael Deen
Bo Downen
Megan Stratman

May 11, 2017
INTRODUCTION

Q: Please state your name and qualifications.

A: My name is Michael Deen. My qualifications are shown at BP-18-Q-PP-03.

A: My name is Bo Downen. My qualifications are shown at BP-18-Q-PP-05.

A: My name is Megan Stratman. My qualifications are shown at BP-18-Q-NR-01.

Q: What is the purpose of your testimony?


Q: Please describe your approach to evaluating the proposed Spill Surcharge and its components.

A: We use four criteria to evaluate BPA staff’s supplemental proposal for a Spill Surcharge:

- Effects on BPA competitiveness and cost control;

- Clear and transparent definition of costs attributable to the court opinion;

- Collection of the correct amount of revenue;

- Does not pre-judge or bias the outcomes of the processes to determine potential changes in spill operations.

Q: Please summarize your conclusions.

A: The potential for additional costs in rates for the BP-18 rate period is highly problematic for power customers given the trajectory of power rates in recent years. It is also particularly harmful given the difficult market and financial situations that are already
likely to put upward pressure on the rate increase from the BP-18 Initial Proposal. Given these circumstances, BPA staff’s proposal to include the “Cost Reduction Component” is appropriate and we urge the Administrator to use it to its full potential to mitigate any costs that arise due to increased spill operations.

Within that context, it appears that BPA staff’s proposal meets the goals set out above as a mechanism to collect these costs. The surcharge costs will be transparent and based on the minimum possible changes from the BP-18 final proposal. Because the approach will model actual spill requirements when they are known, it will minimize chances that BPA will collect unnecessary revenues. Because BPA will not be speculating on the outcome of the 2018 spill design or the 2019 Federal Columbia River Power System Biological Opinion (“BiOp”), it will allow those processes to proceed unhindered by any rate case assumptions. Finally, given that the surcharge is meant to recover costs for a single year of operations or for unknown future BiOp operations, it is appropriate from a ratemaking perspective to have a separate charge rather than to simply roll the operational assumption into the baseline hydrological studies.

COMPETITIVENESS AND COST CONTROL

Q: Please describe the context in which you are evaluating BPA staff’s supplemental proposal for a Spill Surcharge adjustment to rates.

A: We are evaluating BPA staff’s supplemental proposal in the context of BPA’s efforts to move the agency’s costs and rates towards a more competitive long-term position, the agency’s current financial situation, and also the overall level of fish and wildlife costs that impact rates.

Q: Please describe your perspective on BPA’s long-term competitiveness situation.
A: As has been discussed both prior to and in this proceeding, BPA’s rates are on an unsustainable trajectory. Since FY 2009, BPA rates have gone up approximately 28 percent, well more than twice the rate of inflation during that time. BPA rates are currently well above the price of market power. If this trend continues unabated, there is a serious danger that BPA’s financial stability and viability will be threatened, including the ability of the agency to fund initiatives such as fish and wildlife programs.

Q: What immediate pressures are facing BPA rates and costs both currently and in the upcoming rate period?

A: Although BPA’s initial proposal was for a relatively modest power rate increase compared to other recent cases, we are concerned about the adverse market conditions and financial pressures facing the agency and what that may portend for rates. In FY 2016, Power Services lost $175 million relative to the BP-16 rate case forecast, driven in large part by weak market prices for secondary energy. In the current fiscal year, in spite of what is likely to be a high water year and also significant cost control efforts, Power Services is still forecasted to lose an additional $29 million relative to the rate case forecast.

Q: What does this financial and market situation potentially mean for rates in the BP-18 rate period?

A: BPA’s initially proposed rates for BP-18 are already subject to significant upward pressure, through continued erosion in the assumption of net secondary sales revenue and also through a high likelihood of costs through a Cost Recovery Adjustment Clause or other risk mitigation mechanisms.

Q: How does the potential for increased spill during the BP-18 rate period affect the
prospects for a sustainable rate increase?

A: The potential for additional spill significantly adds to the potential for increased rates in the upcoming rate period, exacerbating the pressures described previously. This is highly problematic for BPA’s power customers who bear the burden of the increase, and also for the efforts to put the agency’s power rates on a sustainable trajectory.

Q: What do you conclude from this analysis?

A: There are two significant conclusions. First, BPA staff’s proposal to include a “Cost Reduction Component” in the Spill Surcharge is both appropriate and needed. Second, given the pressures facing rates in the upcoming rate period, we urge the Administrator to make every effort to maximize cost reductions to mitigate the impacts of any increased spill. Power customers are committed to working collaboratively with BPA in this process.

CLEAR AND TRANSPARENT DEFINITION OF COSTS

Q: Please describe how BPA staff proposes to calculate the spill cost component of the surcharge.

A: BPA staff is proposing to calculate a difference in hydro generation between the HYDSIM study for the BP-18 final proposal and a revised HYDSIM study that adjusts only for the changes in spill operations. This change in generation will then be multiplied by the final market prices from the BP-18 final proposal to come up with a dollar amount. Finally, the amount is adjusted proportional to the amount of Non-Slice PF power sales. This last step reflects that Slice sales are impacted directly by increased spill and also subject to annual true up of program expenses.

Q: Does this approach reasonably meet the goal of developing clear and transparent costs
associated with a change in spill operations?

A: Yes. BPA staff’s proposed approach is transparent and based on the minimum amount of changes from the BP-18 final studies. BPA staff is also proposing to publish its assumptions and results for review, hold a public workshop, and accept comments from stakeholders.

COLLECTION OF THE CORRECT AMOUNT OF REVENUE

Q: Does BPA staff’s proposal reasonably meet the goal of collecting the correct amount of revenue associated with the impact of changes in spill operations?

A: Yes. BPA staff’s proposed methodology is consistent with other rate case assumptions and limits any rate adjustment to that based on modeling of known spill operations. This approach has the benefit of coming as close as possible to setting rates during the BP-18 rate period at the same level as if the spill operations were known during the case. It also avoids the issue of forcing BPA staff to speculate on assumptions that are ultimately unknown at this time and outside the scope of decision making in this proceeding. Given these specific circumstances, a separate surcharge calculated per the schedule and methodology proposed by BPA staff is appropriate.

Q: Does BPA staff’s proposal single out fish and wildlife costs for special treatment?

A: No. The proposed surcharge is limited to a very specific cost and circumstance. The vast majority of potential fish and wildlife related costs, both in terms of programmatic spending and operational limitations, are included in BPA’s base rates.

Q: What level of fish and wildlife costs are already paid by BPA power customers?

A: During the FY 2011 through FY 2016 time period, it is our understanding that BPA power customers bore an average total cost of approximately $614 million per year for
fish and wildlife actions. This constitutes an annual $698 million in total program expenses, foregone revenues, and power purchases offset by $83 million in 4(h)(10)(C) credits.

For context, reducing the BPA revenue requirement by this amount in BP-18 would be a 29% reduction in the net cost of PF power.

**DOES NOT BIAS OR PRE-JUDGE OUTCOMES OF OTHER PROCESSES**

Q: Does BPA staff’s proposal reasonably meet the goal of not biasing or pre-judging the outcome of the processes that will ultimately determine what, if any, changes may be made to spill operations for the BP-18 rate period?

A: Yes. The outcomes of the both the court process to determine spill operations for FY 2018 and a future BiOp to take effect during FY 2019 are unknown. By not speculating on the outcomes, BPA staff’s proposal will allow those processes to proceed unhindered by any rate case assumptions. Conversely, we would be concerned if BPA staff adopted an approach that involved predicting these outcomes as it could potentially have an effect on the processes themselves.

Q: Does this conclude your testimony?

A: Yes.
CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing on the Bonneville Power Administration’s Office of General Counsel, the Hearing Clerk, and all litigants in this proceeding by uploading it to the BP-18 Rate Case Secure Website pursuant to BP-18-HOO-02 and BP-18-HOO-05.


s/ Megan Stratman
Northwest Requirements Utilities