

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

**2012 RATE ADJUSTMENT
PROCEEDING**

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) **Docket Number BP-12**
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REBUTTAL TESTIMONY

OF

**NORTHWEST REQUIREMENTS UTILITIES, PACIFIC NORTHWEST GENERATING
COOPERATIVE AND WESTERN MONTANA GENERATION AND TRANSMISSION
COOPERATIVE**

WITNESSES:

GEOFFREY H. CARR

DOUGLAS R. BRAWLEY

WILLIAM K. DRUMMOND

SUBJECT: Rebuttal testimony to BP-12-E-JP07-01

March 8, 2011

1 Q. Who is sponsoring this testimony?

2 A. The sponsors of this testimony are Geoffrey H. Carr (BP-12-Q-NR-01-E01), Douglas R.
3 Brawley (BP-12-Q-PN-02), and William K. Drummond (BP-12-Q-WM-01-E01).

4

5 Q. What is the purpose of your testimony?

6 A. This testimony responds to Joint Party 7's recommendations on the demand charge,
7 which are found in BP-12-E-JP07.

8

9 Q. Were you involved with the development of the rate design that is included in the Tiered
10 Rate Methodology (TRM)?

11 A. Yes, we were deeply involved throughout the entire TRM development process. These
12 discussions were held under the auspices of the Public Power Council largely in 2007. Load
13 following customers, Slice customers, and their representatives were fully involved in these
14 discussions over many months of meetings. Through those meetings and the subsequent TRM
15 rate case, we have developed a thorough understanding of the TRM Rate Design and the
16 Demand Charge and Rate.

17

18 Q. Were the effects of different demand charges examined?

19 A. Yes, in great depth. As we noted in our Direct Case, "Rate design matters." BP-12-E-
20 JP02-01, p. 3, ln. 10-19. Many different rate design options and approaches to the demand
21 charge were considered. Since the Customer Charges recover more than 90% of a customer's
22 total bill and the sum of these charges is flat in each month, the key "swing variables" for the

1 load following customers were the demand charge and the load shaping charge. Since the load
2 shaping charge is driven by market forecasts, particular focus was given to the demand charge.

3

4 *Q. Please describe the results of this analysis.*

5 A. After numerous iterations, we arrived at the final rate design that was incorporated in the
6 TRM. Attachment 1 provides the results of the rate design and its impact on each individual
7 BPA customer. [http://www.bpa.gov/corporate/ratecase/2012/docs/05-26-2010_2012-](http://www.bpa.gov/corporate/ratecase/2012/docs/05-26-2010_2012-RateCaseWorkshop_MarginalDemand-PriceSignal.pdf)
8 [RateCaseWorkshop_MarginalDemand-PriceSignal.pdf](http://www.bpa.gov/corporate/ratecase/2012/docs/05-26-2010_2012-RateCaseWorkshop_MarginalDemand-PriceSignal.pdf). It should be noted that, as was also
9 described in our Direct Case, this result was based on an analysis of the billing determinants we
10 had at the time (including BPA's policy decision that all customers should have a small amount
11 of their demand included in the billing determinant). BP-12-E-JP02-01, p. 4, ln. 4-6. Also, this
12 result was based on an \$8.50 per kW month demand rate.

13

14 *Q. What would have been the effect of a higher demand rate such as the one that is being put*
15 *forward by the Joint Party 07 (JP-07) panel as described in BP-12-E-JP07-01?*

16 A. Using the higher demand rate as proposed by JP-07, much higher rate increases would
17 occur, as shown in Attachment 2 of the BPA July 2010 rate analysis, as cited below. The July
18 2010 analysis performed by BPA shows the effect on each BPA customer of increasing demand
19 rates. It starts with the \$8.50 demand rate and increases the demand rate based on different
20 assumptions about the basis for the demand rate. As can be seen there, with each increase in the
21 demand rate, more and more customers are adversely affected by higher rates due to the effect of
22 the rate design alone. We would interpret JP-07's recommendations to be consistent with a
23 \$16.18/kW/month demand rate. See

1 http://www.bpa.gov/corporate/ratecase/2012/docs/7_19_DemandRate.pdf, page 4 of 4. At that
2 level of a demand rate, 20 of BPA's load following customers would face a rate increase above
3 5%.

4
5 *Q. What was the demand rate used in BPA's Initial Proposal?*

6 A. The demand rate in BPA's Initial Proposal is higher than the 2007 analysis at \$9.57 per
7 kW per month.

8
9 *Q. What are the estimated rate impacts of this higher proposed demand rate on individual*
10 *coalition members?*

11 A. Attachment 3, see:

12 http://www.bpa.gov/corporate/ratecase/2012/docs/WedRateImpact_12_8_2010.pdf, graph C,
13 shows the rate increase that result from the application of the \$9.57 per kW per month. Clearly a
14 number of customers are more significantly affected than under the assumption of an \$8.50
15 demand rate. Whereas at an \$8.50 demand rate only one customer had a higher than 5% rate
16 increase, with a \$9.57 demand rate six customers face a higher than 5% rate increase. We
17 recognize that while the billing determinants were different in the 2007 analysis in Attachment 1
18 compared to Attachment 3, we expect that the increase in the demand rate from Attachment 1 to
19 Attachment 3 is a major reason for the rate increases being exhibited here.

20
21 *Q. How do you respond to the statement in BP-12-E-JP07-01 that there are "deficiencies"*
22 *in BPA's calculation of the Demand Rate?*

1 A. We agree in part and disagree in part.

2

3 *Q. Where do you disagree?*

4 A. First, we disagree with the JP-07 characterization of the purpose of the Demand Rate. In
5 the TRM there is a distinction between the Demand Charge and the Demand Rate. The purpose
6 of the Demand Charge as it is designed “is to send a price signal to a limited portion of a
7 customer’s overall demand on BPA and is applicable to customers purchasing the Load
8 Following and Block with Shaping Capacity products.” Tiered Rate Methodology (TRM),
9 TRM-12S-A-03, Section 5.3, p. 66, ln. 24-26 (September 2009). The “Demand Rate” is the
10 value that BPA applies to the Demand Billing Determinant. The TRM establishes specific
11 criteria that should be followed for setting the Demand Rate. Our direct testimony provided the
12 proper factors and values for calculating the Demand rate.

13

14 *Q. Based on your understanding, is the Demand Charge required to recover the cost of the*
15 *capacity delivered with energy to the extent that capacity is over and above the capacity supplied*
16 *with flat Blocks of Heavy Load Hour Energy?*

17 A. No, it is not. The purpose of the Demand Charge is to send a price signal to a limited
18 portion of the customer’s overall demand. TRM, p. 66. The demand charge is levied on a
19 portion of the customer’s peak load that is above a historic component, the Contract Demand
20 Quantity (CDQ), plus the actual average heavy load hour energy each month. These underlying
21 components of CDQ and average Heavy Load Hour energy are paid for in the composite
22 customer charge. It was never intended that the Demand Charge and the Demand Rate
23 established in each rate case would recover all the cost of capacity for Tier 1 loads.

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Q. How do you respond to the statement that “If BPA fails to correct its assumptions, Tier 1 customers will be required to subsidize Tier 2 customers and the non-federal resources of customers that buy Resource Support Services from BPA”? BP-12-E-JP07-01, p. 4, ln. 4-7.

A. We do not believe that this is the case. First, it is unclear what the term “Tier 2 customers” means. If this means customers taking power from BPA at a Tier 2 rate, then there is no subsidy. A higher or lower demand charge simply increases or decreases the revenue credit to the Non Slice cost pool and has no effect on the determination of the cost basis for the Tier 2 rate. Also, whether the demand charge is higher or lower simply increases or decreases the cost of certain components of Resource Support Services (RSS). This may have a slight impact on the RSS revenue credit to the Tier 1 cost pool. We fail to see how this represents a subsidy from Tier 1 customers to customers purchasing RSS services from BPA.

Q. How do you respond to this statement “The Demand Rate was meant to reflect the actual fixed cost of a resource that BPA could reasonably acquire to meet its incremental capacity needs”? Id. p. 3, ln. 21-22.

A. We disagree with this statement and can find no reference in the TRM or the Records of Decision to support this statement. The TRM only states that "the Demand Charge is designed to send a price signal to a limited portion of a customer’s overall demand on BPA." TRM, p. 66. The TRM then goes on to list relevant possible data sources for the demand charge. *Id.* at p. 72-73. Therefore, nothing more can be read into the purpose of the demand charge other than simply to send a price signal to a limited portion of overall demand on BPA based on the prices

1 of a number of possible capacity engines or markets. There is nothing in the TRM that implies
2 that BPA should be able to “*reasonably acquire*” this capacity resource.

3 *Q. How do you respond to this statement, “[T]he purpose of the Demand Rate is to incent*
4 *customers to engage in economically rational behavior by charging them for incremental*
5 *demand, at a cost that reflects BPA’s cost of incremental capacity”?* BP-12-E-JP07-01, p. 2, ln.
6 23 – p. 3, ln. 2.

7 A. We disagree with this statement. First, the purpose of the Demand Rate is to “send a
8 price signal to a limited portion of overall demand on BPA.” TRM, p. 66. Second, as noted
9 above, the demand charge is not a measure of “*BPA’s cost of incremental capacity.*” The TRM
10 makes it clear that the purpose of the demand charge is simply to send a price signal to a limited
11 portion of overall demand on BPA based on the prices of a number of possible capacity engines
12 or markets. Whether BPA could or could not actually acquire these resources is irrelevant to the
13 calculation of the demand charge.

14
15 *Q. How do you respond to the statement that: “BPA has made unreasonable assumptions*
16 *regarding the annual fixed cost of the marginal capacity resource ... BPA’s own analysis, and*
17 *some of the modifications it has made to the Council’s inputs and assumptions, are not*
18 *reasonable”?* BP-12-E-JP07-01, p. 4, ln. 2-19.

19 A. We agree with the sentiment stated here, although we arrive at a very different
20 conclusion. We agree that BPA’s analysis is not reasonable and that it is straying from the clear
21 language of the TRM. In the Initial Proposal, BPA staff includes costs that are not reasonable
22 and are not stated in the TRM. The new costs added by BPA staff are insurance and fixed fuel
23 costs. These new costs are not specified in the TRM. The language of the TRM is clear on this

1 topic: “BPA will base the Demand Rate on the annual fixed costs (capital and O&M) of the
2 marginal capacity resource as determined in each 7(i) Process.” TRM, p. 72. This is all that is
3 required by the language of the TRM. The findings of our testimony in JP-02 are based on the
4 plain wording of the TRM. Both BPA’s Initial Proposal and to a much greater extent, the
5 testimony of JP-07, go beyond the explicit text of the TRM.

6

7 *Q. How do you respond to the statement: “Any resource developed for sale of the output to*
8 *BPA would be subject to property taxes or, if the developer were somehow exempt from property*
9 *taxes, it would be subject to an in lieu fee of some kind”?* BP-12-E-JP07-01, p. 9, ln. 10-12.

10 A. As noted above the TRM does not imply any need to assume a sale of the output of the
11 generic capacity resource to BPA. In addition, as noted above, the inclusion of property taxes in
12 the demand charge goes well beyond the very specific language of the TRM.

13

14 *Q. What is your reaction to this statement: “Thus, until BPA reaches the point where public*
15 *agencies’ needs for capacity outstrip the capability of the FBS (which BPA has stated has not*
16 *occurred), any need BPA may have for additional capacity at this time cannot be attributed to*
17 *BPA’s public agency customers”?* *Id.*, p. 6, ln. 16-19 .

18 A. We find JP-07 to be internally inconsistent within its own testimony. First, JP-07 says
19 “the purpose of the Demand Rate is to incent customers to engage in economically rational
20 behavior by charging them for incremental demand, at a cost that reflects BPA’s cost of
21 incremental capacity” *Id.* p. 2, ln. 23 – p. 3, ln. 1-2. Later, JP-07 then says, “any need BPA may
22 have for additional capacity at this time cannot be attributed to BPA’s public agency customer”.
23 *Id.* p. 6, ln. 19.

1 JP-07 suggests that load following customers are not imposing a need for additional
2 capacity but should be made to pay higher demand charges all the same. Apparently, the
3 capacity resource assumptions made by JP-07 would have been different if the need had been
4 driven by public utility demand as opposed to the needs for wind integration.

5
6 *Q. In general how do you respond to the statement made by these witnesses that the BPA*
7 *proposal departs from the goal of the TRM? Id., p. 10, ln. 6-8.*

8 A. The goal of the TRM is to send marginal price signals to a limited quantity of demand,
9 not to punish customers as a result of this new rate design. The conversations between BPA and
10 the public power community in 2007 would have been very different if we had known we were
11 going to be facing a sharply higher demand rate, resulting in much higher costs to load following
12 and block with shaping customers, as a consequence of the demand charge four years later. BPA
13 attempts to reach the goal of the TRM but misses the mark by including costs not specified in the
14 TRM. JP-07 goes well beyond the goal of the TRM. Load following customers have already
15 made significant concessions on the demand charge and should not be asked to face further cost
16 increases as a result of interpretations not contained in the TRM.

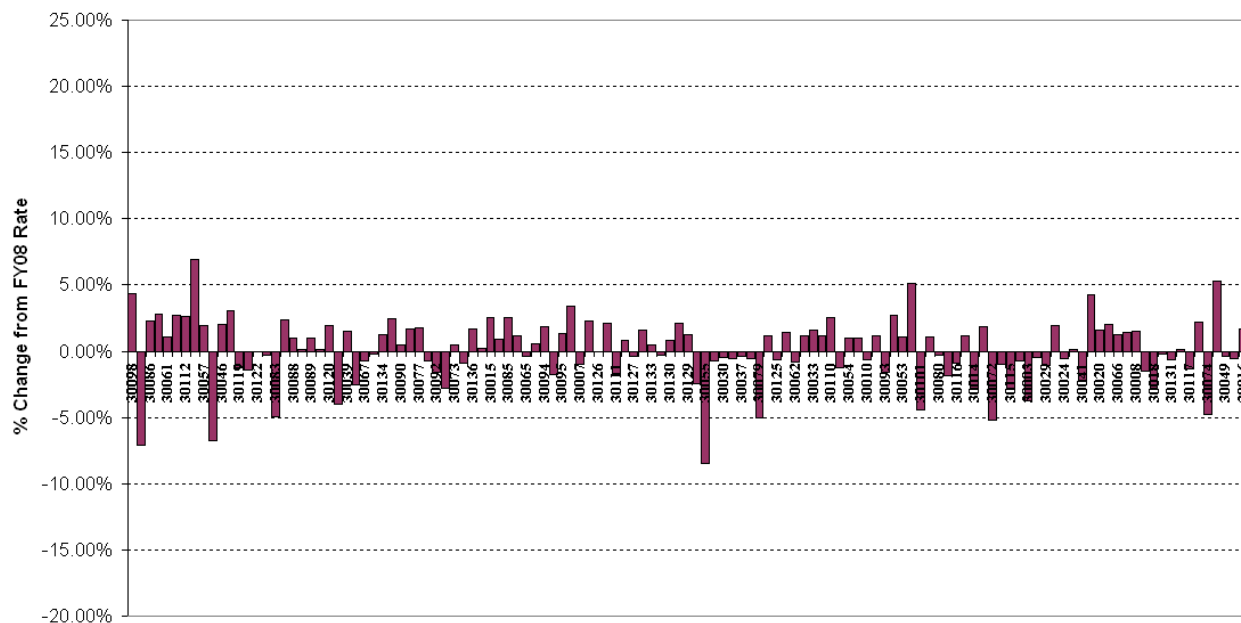
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18 *Q. Does this conclude your testimony?*

19 A. Yes.

TRM Rate Design and Rate Impacts

In 2007, BPA conducted multiple rate impact tests to illuminate how different TRM rate designs impacted our different customers. The graph below was the last rate impact conducted and represents the rate design captured in the TRM. An average monthly demand rate of \$8.50/kW/mo was used for this analysis. Absent cost changes, the customers and BPA attempted to create a TRM rate design that kept the majority of customer rate impacts within plus or minus 5% when compared to the WP-07 rate design.

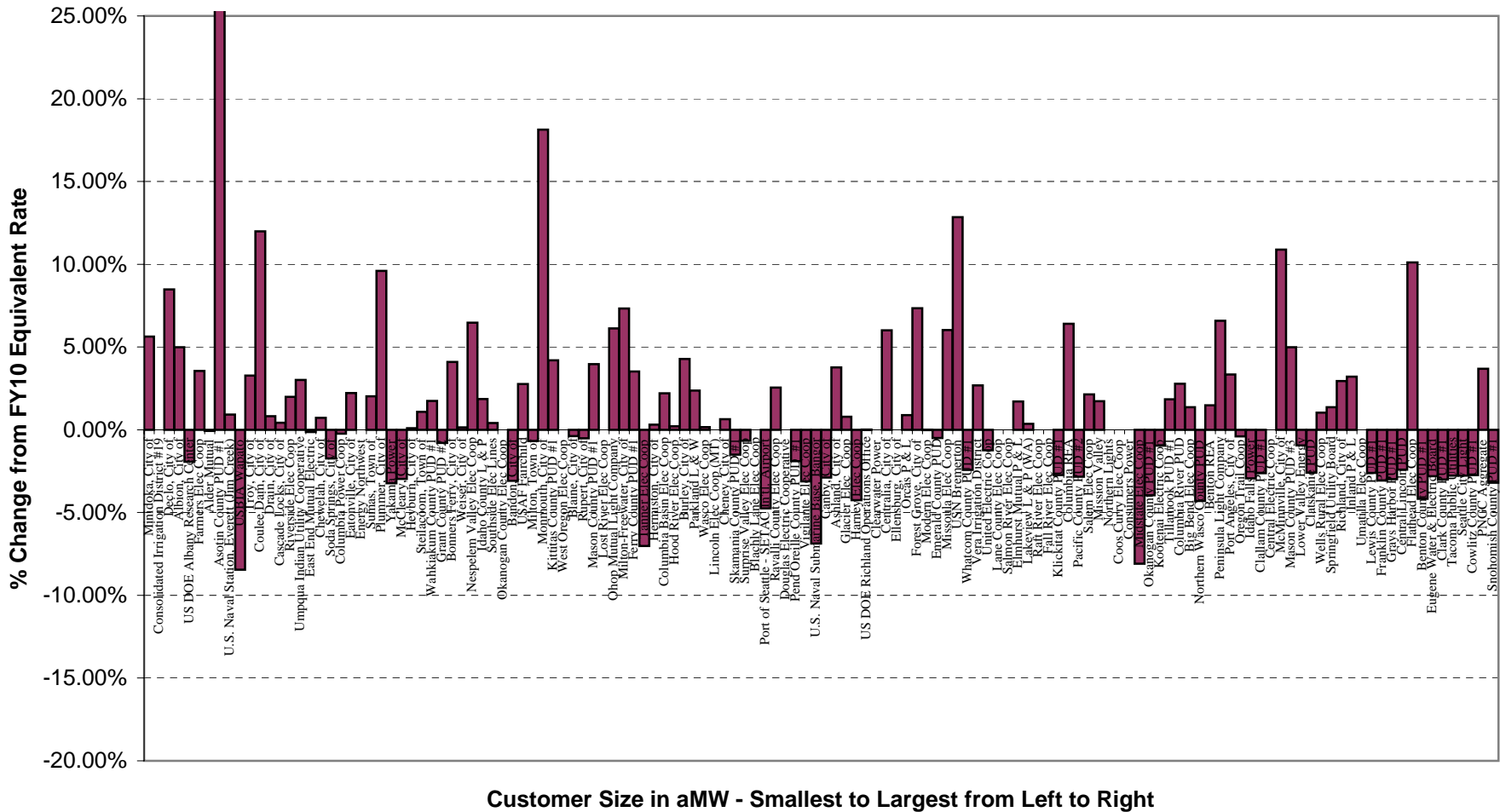
TRM Rate Design
 Tier 1 Demand (If > 0) = ((CSP - aHLH Energy) - CDQ) * [Fixed Capital Cost of SCCT]
 Shaped Demand



Customer Size in aMW - Smallest to Largest from Left to Right



TRM Rate Design \$16.18/kW/mo Demand Rate v WP-10



B O N N E V I L L E P O W E R A D M I N I S T R A T I O N

Graph C

