

2007 Wholesale Power Rate Case Initial Proposal

REBUTTAL TESTIMONY

**NFB ADJUSTMENT AND
EMERGENCY SURCHARGE**

March 2006

WP-07-E-BPA-34



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REBUTTAL TESTIMONY OF

BYRNE E. LOVELL AND MICHAEL R. NORMANDEAU

Witnesses for Bonneville Power Administration

SUBJECT: NFB ADJUSTMENT AND EMERGENCY SURCHARGE

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1 REBUTTAL TESTIMONY OF
2 BYRNE E. LOVELL AND MICHAEL R. NORMANDEAU
3 Witnesses for Bonneville Power Administration
4

5 **SUBJECT: NFB ADJUSTMENT AND EMERGENCY SURCHARGE**

6 **Section 1: Introduction and Purpose of Testimony**

7 *Q. Would you state your names?*

8 A. My name is Byrne Lovell. My qualifications are contained in WP-07-Q-BPA-32.

9 A. My name is Michael Normandeau. My qualifications are contained in
10 WP-07-Q-BPA-43.

11 *Q. Have you previously submitted testimony in this proceeding?*

12 A. Yes, we submitted direct testimony identified as exhibit WP-07-E-BPA-12 and exhibit
13 WP-07-E-BPA-14. Our direct testimony, as well as this rebuttal testimony, is submitted
14 on behalf of BPA.

15 *Q. What is the purpose of this testimony?*

16 A. Our testimony responds to direct testimony submitted by several parties in the WP-07
17 rate case. The parties are: Columbia River Inter-tribal Fish Commission, Nez Perce Tribe
18 and the Yakama Nation (*See, Sheets, et al.*, WP-07-E-CR/NZ/YA-01); NW Energy
19 Coalition/Save Our *Wild* Salmon Coalition (NWEC/SOS) (*See, Weiss*, WP-07-E-JP8-
20 01); The Preference Customer Group (*See, Saleba, et al.*, WP-07-E-JP1-01); the Public
21 Power Council (PPC) (*See, Crinklaw, et al.*, WP-07-E-PP-01); the Springfield Utility
22 Board (SUB) (*See, Nelson, et al.*, WP-07-E-SP-01); Northwest Requirement Utilities
23 (*See, Saven and Carr*, WP-07-E-NR-01) and Western Public Agencies Group (WPAG)
24 (*See, Saleba and Piliaris*, WP-07-E-WA-01).

25 *Q. How is your testimony organized?*
26

1 A. This testimony is organized into two sections, including this introductory section. The
2 second section addresses the NFB Adjustment and the Emergency NFB Surcharge.

3 **Section 2: NFB Adjustment/Emergency NFB Surcharge**

4 Q. *The NW Energy Coalition/Save Our Wild Salmon Coalition (NWECS/SOS) argues that the*
5 *NFB Adjustment is not robust enough to deal with risk from increased fish costs and that*
6 *BPA's "faith" in the NFB Adjustment is unjustified. (See, Weiss, WP-07-E-JP8-01, at 7,*
7 *lines 11-14) The Columbia River Inter-tribal Fish Commission, Nez Perce Tribe and the*
8 *Yakama Nation (Tribes) contend that the NFB Adjustment is not an effective tool for*
9 *meeting BPA's TPP goals. (See, Sheets, et al., WP-07-E-CR/NZ/YA-01, at 57-58) The*
10 *Tribes also contend that BPA should modify the NFB Adjustment so that it is forward-*
11 *looking and triggers whenever an Endangered Species Act (ESA) obligation is*
12 *established and that it should collect the full cost of the obligation. (See, Sheets, et al.,*
13 *WP-07-E-CR/NZ/YA-01, at 63-64) What is BPA's general response to these points?*

14 A. *NWECS/SOS and the Tribes have asserted that the proposed NFB Adjustment to the Cost*
15 *Recovery Adjustment Clause (CRAC) cap does not maintain BPA's TPP standard. They*
16 *performed a short test by modeling additional fish costs assumed to occur with 100%*
17 *likelihood within the ToolKit and adjusting the CRAC cap to test the NFB Adjustment*
18 *effect on TPP. Their result appeared to show that BPA's TPP was not maintained at*
19 *BPA's three-year target of 92.6 percent. BPA does not agree that this is a valid test.*
20 *However, BPA agrees that the lag in the recovery of cash through the CRAC of up-to-one*
21 *year does prevent the NFB from providing the TPP support BPA needs the NFB*
22 *Adjustment to provide in years when BPA's reserve levels are low. In years when BPA's*
23 *reserve levels are high, the up-to-one-year lag in receiving cash to compensate for the*
24 *reduced net revenue does not jeopardize BPA's Treasury payment. In response to this*
25 *testimony, BPA proposes to recover the FCRPS BiOp related financial impacts resulting*
26

1 from the current litigation through the forward-looking Emergency NFB Surcharge when
2 the time lag results in an agency TPP of less than 80 percent in that year.

3 BPA disagrees that the Emergency NFB Surcharge or NFB Adjustment should be
4 used to collect for ESA obligations other than for those related to the 2004 FCRPS BiOp
5 litigation. To provide context to BPA's rebuttal testimony on the NFB Adjustment
6 further described in the testimony that follows, we summarize our proposed changes to
7 the Initial Proposal here.

8 *Q. What is BPA doing to address their TPP concerns?*

9 *A.* BPA will update the final studies to reflect the most current operational and
10 programmatic assumptions for the FY 2007-2009 rate period as well as BPA's fish and
11 wildlife program financial obligations identified through the Power Function Review 2
12 process. To the extent that additional financial impacts associated with NFB trigger
13 events occur after the final studies, they will be handled through two separate
14 mechanisms. The primary mechanism to address NFB-related financial impacts is the
15 NFB adjustment to the cap of the CRAC, as proposed by BPA in the Initial Proposal.
16 The NFB Adjustment affects the CRAC cap only and there is no limit on the size of this
17 adjustment. The NFB Adjustment is implemented as part of the CRAC calculation
18 process in August/September of FYs 2006, 2007 and 2008, if the Accumulated Modified
19 Net Revenues (AMNR) falls below the CRAC threshold for that fiscal year. If the
20 AMNR is above the threshold, there will be no CRAC applied to the next fiscal year's
21 power rate, even if NFB triggering events have occurred, so there would be no need to
22 calculate the size of an NFB adjustment. Hence, NFB triggering events as defined in the
23 NFB Adjustment will not always affect power rates.

24 In response to the *Tribes* and *NWEC/SOS* direct testimony stating that BPA's TPP
25 calculations are overstated due to the time lag in recovering revenues associated with
26 financial impacts due to NFB Adjustment trigger events, BPA is proposing to add a

1 second mechanism called the Emergency NFB Surcharge. This mechanism will only
2 operate if the delay in BPA's receipt of the revenues would endanger BPA's ability to
3 make its next Treasury payment: the Emergency NFB Surcharge will trigger if 1) there is
4 an NFB Adjustment trigger event, and 2) the one-year Agency TPP is below 80 percent
5 for the remainder of that year. The surcharge will be in effect for the remainder of the
6 fiscal year for which it triggers. The amount of the surcharge is based on BPA's estimate
7 of the financial impact of the trigger event.

8 The *Tribes* and *NWEC/SOS* also raised a concern that BPA's TPP is overstated in
9 its Initial Proposal because it has not included in its risk analysis other fish and wildlife
10 cost uncertainties not associated with the 2004 FCRPS BiOp litigation. BPA has limited
11 the surcharge only to those financial impacts that ongoing litigation may cause and that
12 BPA has no control over. Neither the NFB Adjustment mechanism nor this NFB
13 surcharge is intended to cover all other potential or proposed fish and wildlife financial
14 impacts. To the extent additional obligations not related to the 2004 FCRPS BiOp
15 litigation are placed on BPA during the next rate period, BPA will manage those financial
16 impacts the same as it intends to manage all other financial impacts.

17 BPA has included proposed GRSP language to describe the Emergency NFB
18 Surcharge procedure in Appendix A of this testimony.

19 *Q. Why did you choose a forward-looking adjustment?*

20 *A.* The mechanism we are describing here is an emergency mechanism designed to deal with
21 circumstances in which it is imperative to begin collecting additional revenue
22 immediately for the purpose of making BPA's next Treasury payment. In such
23 circumstances, it is not possible to wait until after the fact to perform a backward-looking
24 assessment, because it would then be too late to generate additional cash for BPA's
25 Treasury payment.

1 Q. *Why are you proposing that the one-year agency TPP be below 80 percent as a criterion*
2 *for implementing the NFB Surcharge?*

3 A. BPA is balancing the need to raise additional revenues to meet current-year agency
4 obligations against the complexity of a with-in year rate adjustment and the hardship it
5 could cause the region. The 80 percent trigger is a step between the three-year
6 92.6 percent TPP standard and the criteria in the 2001 Hydro Operation Plan for
7 determining whether BPA would adjust operations in response to financial emergencies.

8 Q. *What financial impacts will be addressed by the Emergency NFB Surcharge?*

9 A. The Emergency NFB Surcharge addresses the same FCRPS BiOp changes proposed for
10 the NFB Adjustment to the CRAC cap.

11 Q. *Is the 80 percent criterion only measured at the time of the trigger event itself or can it be*
12 *measured at a different point in the year?*

13 A. BPA will monitor the financial impacts throughout the year following a trigger event.
14 If, at a point in time, the agency TPP drops below the 80 percent criteria, BPA will
15 initiate the Surcharge process.

16 Q. *The notification process for the NFB Surcharge described in the GRSPs covers a short*
17 *period time. Why?*

18 A. We consider the Surcharge as an emergency action by the agency to address the
19 financial impacts caused by court-related actions related to the FCRPS BiOp. Because
20 the timing and impact of these decisions are outside BPA's control, it is imperative that
21 BPA be able to adjust rates quickly in response. In some cases, either the court related
22 trigger event or the 80 percent agency TPP trigger could occur late in the year.
23 Implementing the surcharge and collecting revenues before September 30 is essential to
24 increase the probability of making the year-end Treasury payment.

1 Q. *In the proposed NFB Surcharge GRSP language you mention multi-year effects. Please*
2 *explain.*

3 A. The Surcharge is designed to collect for financial impacts, if the agency needs the
4 additional cash, in the fiscal year that the financial impacts occur. BPA will assess
5 agency TPP on an ongoing basis if a trigger event results in multi-year financial impacts.

6 Q. *Will Slice customers pay their proportionate share of the financial impacts described in*
7 *the NFB Adjustment and NFB Surcharge?*

8 A. Yes. Slice customers will pay their proportionate share of the financial impacts
9 described in the NFB Adjustment and NFB Surcharge through the Slice True-Up
10 Adjustment Charge and through changes in Slice power deliveries. Slice customers
11 assume power supply and market price risks *directly* (see, Lee, et al., WP-07-E-BPA-23,
12 at 3, lines 16-18), so the NFB Adjustment and the Emergency NFB Surcharge do not
13 apply to Slice rates.

14 Q. *A number of parties have proposed that the NFB Adjustment be capped at \$100 million*
15 *because they argue that it should not be “unlimited” (See, Saven, et al., WP-07-E-NR-01,*
16 *at 9-10; Corwin, et al., WP-07-E-JP9-02, at 2-4; Nelson, WP-07-E-BPA-SP-01, at 5-6)*
17 *and that it subjects customers to an “unbounded level of risk.” (See, Crinklaw, et al.,*
18 *WP-07-E-PP-01, at 8, line 11) Does BPA believe that the implementation of a \$100*
19 *million NFB Adjustment cap is reasonable?*

20 A. No. One of Bonneville’s statutory responsibilities is to recover the costs that are
21 associated with operating the FCRPS system. The Plaintiff’s 2006 proposal in *National*
22 *Wildlife Fed’N, et al., v. National Marine Fisheries Service and US Army Corps of*
23 *Engineers* was estimated to cause \$347 million to \$541 million in lost annual net
24 revenues (before Slice). Thus, BPA believes that applying a \$100 million cap on BPA’s
25 ability to recover financial impacts that are not subject to such a cap would be
26 inconsistent with its cost recovery responsibility. Furthermore, the NFB Adjustment

1 trigger language set forth in the Initial Proposal limits the risk that BPA's customers face
2 to the financial impacts that BPA incurs from just that certain set of trigger events.

3 *Q. In addition to supporting a \$100 million cap on the NFB Adjustment, the Springfield*
4 *Utility Board (SUB) and the PPC have suggested that the "\$100 million cap on the NFB*
5 *Adjustment be reduced by any increase in fish spending above the cost assumed in the*
6 *initial proposal." (See, Nelson, et al., WP-07-E-SP-01, at 6, line 5-6; Corwin, et al., WP-*
7 *07-E-JP9-02 at 4-5.) Does BPA agree?*

8 *A.* No. The NFB trigger events are largely outside of BPA's control since BPA cannot
9 control the court's decisions or the litigation outcomes. Limiting the NFB Adjustment
10 in the way SUB suggests would leave BPA more vulnerable to adverse financial impacts
11 due to these risks than would be prudent.

12 *Q. Joint customers, PPC and SUB also argue that a 7(i) process should be conducted that*
13 *includes a cost review of NFB-related costs that are greater than the proposed \$100*
14 *million cap. (See, Nelson, et al., WP-07-E-SP-01, at 5-6; Crinklaw, et al., WP-07-E-PP-*
15 *01, at 9-10.) How do you respond?*

16 *A.* Because BPA considers capping the NFB Adjustment and Surcharge to be imprudent, it
17 is similarly unreasonable to conduct a new 7(i) process if NFB-related financial impacts
18 are higher than \$100 million. However, BPA is sensitive to customers' concerns about
19 raising rates unnecessarily, which is one reason for the defined, and limited,
20 circumstances that can trigger the NFB Adjustment.

21 The agency already has the ability to trigger a 7(i) process if fish-related financial
22 impacts, or others for that matter, were to increase beyond a level that is reasonably
23 sustainable under the proposed rate structure. However, BPA remains committed to
24 providing customers with the opportunity to comment on its costs. As previously
25 described in this testimony, BPA regularly conducts processes with its customers and
26 constituents to review its costs. BPA remains committed to these processes as an effective

1 means of reviewing its cost structure. The parties will be free to urge the Administrator to
2 initiate a new 7(i) proceeding if they believe that would be prudent, given new information
3 about the financial impacts of BPA's fish and wildlife obligations.

4 *Q. Parties also criticize the NFB Adjustment's trigger language, with the PPC concerned that*
5 *the language set forth in the initial proposal "can be read too broadly, and other language*
6 *already lists 'court-approved agreements' relating to ESA compliance as a triggering*
7 *event." (See, Crinklaw, et al., WP-07-E-PP-01, at 10, lines 20-22; Corwin, et al., WP-07-*
8 *E-JP9-02, at 6-8.) Does BPA feel that language setting forth the events that trigger the*
9 *NFB Adjustment is too broad?*

10 *A. No. BPA believes the scope of the trigger language is appropriate, but we will clarify it.*
11 *We emphasize that the NFB Adjustment applies only to anadromous fish financial impacts*
12 *that increase substantially as a result of litigation, settlement, or agreements related to the*
13 *2004 NOAA Fisheries FCRPS BiOp resulting from the Federal District Court's remand of*
14 *the 2004 FCRPS BiOp. Consequently, agreements related to litigation or recovery plans*
15 *can only trigger the NFB Adjustment if they're related to anadromous fish financial*
16 *impacts arising from the 2004 BiOp litigation or compliance with the forthcoming new*
17 *NOAA Fisheries FCRPS BiOp.*

18 BPA is not certain how the parties to the litigation and the court will resolve the
19 outstanding 2004 BiOp issues. Part of the resolution could include a memorandum of
20 understanding presented to the court but not for the court's approval; hence the
21 appropriateness of the trigger including "an agreement related to litigation." Alternatively,
22 the resolution could include the FCRPS Action Agencies making a commitment to
23 implement certain aspects of a Recovery Plan in a memorandum of understanding or other
24 form; hence the appropriateness of ensuring BPA can recover appropriate Recovery Plan
25 financial impacts under this adjustment. However, we agree there may have been some
26

1 confusion. To clarify BPA's intention, BPA proposes to revise the trigger language as
2 follows:

3 The NFB Adjustment to the CRAC triggers if 1) a NFB trigger event
4 occurs, and 2) PBL accumulated modified net revenues are below the
5 CRAC threshold. The NFB Adjustment will address changes in FCRPS
6 Endangered Species Act compliance that result in financial impacts due to
7 the anadromous fish portion of BPA's fish and wildlife obligations. Such
8 changes can arise from a court order (including court-approved agreement),
9 agreements related to litigation, a new NMFS FCRPS BiOp, or BPA
10 commitments to implement Recovery Plans under the ESA related to
11 litigation.

12 Financial impacts include decreases in power sales, fish and wildlife credits,
13 and increases in power purchases, direct program expenses, Corps of
14 Engineers and Bureau of Reclamation Operations and Maintenance
15 expenses, and capital repayment costs. Financial impacts used to calculate
16 the NFB Adjustment will be net of changes in estimated 4(h)(10)(C) credits
17 and net of Slice. There can be more than one trigger event for the NFB
18 Adjustment in a year, but only one adjustment to the CRAC cap.

19 *Q. The PPC argues that BPA should clarify the procedures for implementing any NFB*
20 *Adjustment. They propose that BPA set forth a specific process for implementation and*
21 *review of costs incurred. (See, Crinklaw, et al., at 10-11.) Do you agree?*

22 *A.* No. To clarify, the procedure for implementing the NFB Adjustment is part of the
23 process that determines the CRAC. The NFB Adjustment itself does not produce a rate
24 change; it only results in the possibility of a higher CRAC by increasing the cap. The
25 impact on the CRAC cap due to the NFB Adjustment will be based on a comparison of
26 two computer model runs of system operations (with and without the financial impacts

1 of the NFB trigger events) plus information about other financial impacts of the NFB
2 trigger events. In the August/September timeframe, BPA will provide a full explanation
3 of the impact of the NFB trigger events, as detailed in the GRSPs as part of the CRAC
4 calculation. BPA will give customers and other interested parties as much advance
5 notice as is practical, and will provide at least one informational briefing on the CRAC
6 and NFB Adjustment prior to releasing the final CRAC and NFB Adjustment
7 calculations. BPA believes that this process is sufficient and that a separate process is
8 not required outside of the CRAC process.

9 *Q. The equitability of the CRAC and NFB cost allocation was questioned by the Western
10 Public Agencies Group. They state, “[t]his is not an equitable outcome, and will only
11 increase in favor of the IOUs the disparity between IOU and preference customer retail
12 rates.” In order to alleviate this worry, they suggested a modification to the proposed
13 NFB Adjustment. (See, Saleba, et al., WP-07-E-WA-01, at 21, line 12-18.) How do you
14 respond?*

15 *A. BPA’s proposal does not exempt the IOUs from contributing to payment for Fish and
16 Wildlife recovery measures beyond those assumed in BPA’s rate proposal. WPAG has
17 suggested particular scenarios in which it might appear to some that the IOUs’ share is
18 unfairly low. Both the PF customers and the IOUs face uncertainty over the financial
19 impact they will experience due to fish and wildlife recovery efforts; they do not face
20 identical uncertainty, and it is highly unlikely that there is a situation in which they
21 would face identical uncertainty. BPA believes its approach is fair, and unlike the
22 suggestion from WPAG, is compatible with the signed IOU REP Settlement agreement
23 stipulating how residential exchange benefits will be paid out in the FY 2007-2009 rate
24 period.*

25 *Q. The Western Public Agencies Group proposes that the NFB Adjustment mechanism
26 should be modified to include a provision equivalent to an access fee for any customer*

1 *that uses the PF Block Product to calculate monetary benefits. (See, Saleba and Piliaris,*
2 *WP-07-E-WA-01 at 22-23, 24-25.) Do you agree?*

3 A. No. BPA cannot implement WPAG's proposed access fee under the existing IOU REP
4 Settlement agreements and the proposed DSI contracts. BPA has endeavored to apply
5 the adjustments equitably but can only do so within the confines of the contracts and
6 how the PF Block Product rate is adjusted by mechanisms such as the CRAC and NFB
7 Adjustment.

8 *Q. The Western Public Agencies Group suggests that costs associated with the NFB*
9 *Adjustment be spread in a "broad-based manner" with costs spread to TBL through the*
10 *generation inputs PBL sells to TBL. (See, Saleba and Piliaris, WP-07-E-WA-01, at 27,*
11 *line 18) How does BPA respond?*

12 A. Transmission Business Line (TBL) and Power Business Line (PBL) rate periods do not
13 currently match up. TBL's current rate structure, which is in effect through FY 2007,
14 does not provide for a mechanism to adjust rates and collect the additional revenues
15 from TBL customers. It is also worth noting that the PF revenue subject to the CRAC as
16 modified by the NFB Adjustment (not including DSI and IOU benefits) is likely to be
17 over \$1,300 million per year; in contrast, the generation sales to TBL is forecast to
18 produce about \$44 million per year for TBL, or under 4% of the total revenue exposed
19 to the CRAC and NFB Adjustment. This issue is therefore of only very minor impact in
20 comparison to the complexity of its implementation. BPA does not agree with the
21 suggestion.

22 *Q. The Tribes contend that BPA has not adequately addressed the uncertainty associated*
23 *with future fish and wildlife funding. Specifically, they contend that BPA has failed to*
24 *address the uncertainties associated with amendments to the Columbia River Basin Fish*
25 *and Wildlife Program, NOAA recovery plans and revisions to the Biological Opinion.*
26 *(See, Sheets, et al., WP-07-E-CR/NZ/YA-01, at 29-31, 51-52) What is your response?*

1 A. BPA believes its proposed rate design, including the use of RiskMod, NORM, and
2 CRACs, provides reasonable protection against such uncertainties. With respect to the
3 2004 FCRPS BiOp litigation exposure, BPA has proposed the Emergency NFB
4 Surcharge and NFB Adjustment to the CRAC cap. In any event, BPA will meet its fish
5 and wildlife funding responsibilities.

6 *Q. The Tribes and the NW Energy Coalition/Save Our Wild Salmon Coalition contend that*
7 *BPA has not adequately addressed court-ordered fish costs associated with the 2004*
8 *FCRPS BiOp litigation or other pending litigation. (See, Sheets, et al., WP-07-E-*
9 *CR/NZ/YA-01, at 52-53; Weiss, WP-07-E-JP8-01, at 14) How do you respond?*

10 A. BPA is addressing only uncertainty surrounding the 2004 FCRPS BiOp litigation through
11 the NFB Adjustment, and in specific response to the testimony of these parties, the
12 Emergency NFB Surcharge proposed in this rebuttal testimony. BPA does not believe
13 there is significant exposure to additional financial impacts in any other ongoing fish-
14 related litigation. Consequently, the NFB Adjustment does not address other pending
15 litigation. In the unlikely event other pending litigation introduces additional fish and
16 wildlife mitigation and recovery actions for BPA; those will first be dealt with by
17 considering the priorities of projects funded through the Northwest Power and
18 Conservation Council's (Council) Fish and Wildlife Program (Program). In addition,
19 BPA intends to manage those financial impacts as they become known through regular
20 cost control efforts with customers and constituents. Even though these financial impacts
21 are not modeled, the CRAC would be able to recover them if the CRAC is not already
22 collecting up to its cap. Finally, BPA could choose to address such increased financial
23 impacts through a new rate case, if necessary.

24 *Q. What is BPA doing to address the risk of other Biological Opinions?*

25 A. The Libby BiOp is expected to be available in time to incorporate into the final studies
26 and BPA intends to do that; therefore, it will no longer be a risk at the time of the final

1 studies. It's uncertain whether other BiOps will be completed in time to impose financial
2 impacts on BPA during the coming rate period. Right now, no other BiOps are close
3 enough to completion to anticipate their financial impacts. Moreover, BPA already
4 implements extensive mitigation through the Council's Program including efforts
5 benefiting Kootenai River White Sturgeon, as discussed in the PFR. To the extent
6 the currently planned and ongoing efforts are inadequate, BPA could take the steps
7 described in the preceding question to address any revenue shortfalls resulting from
8 additional fish and wildlife mitigation and recovery financial impacts.

9 *Q. The NW Energy Coalition/Save Our Wild Salmon Coalition argues that BPA has*
10 *underestimated the potential cost of new fish requirements and has failed to develop risk*
11 *tools to address them. As a result, BPA is setting rates too low, given its unwillingness to*
12 *miss a Treasury payment and it should not be setting these rates if the agency is not*
13 *willing to miss a Treasury payment except under the most extraordinary circumstances.*
14 *(See, Weiss, WP-07-E-JP8-01, at 14-15.) Do you agree?*

15 *A. No. BPA proposed to deal with uncertainty in additional fish and wildlife financial*
16 *impacts for the 2007-2009 rate period by including the NFB Adjustment mechanism as a*
17 *way of modifying the CRAC cap to allow for more revenue to be collected through*
18 *power rates (or in the form of reduced benefits to IOUs and DSIs) to cover these*
19 *additional financial impacts if necessary. This approach also allows for increased*
20 *revenues from secondary sales and/or expense reductions to be used to reduce the*
21 *financial impacts by relying on the existing CRAC methodology to collect the necessary*
22 *revenue.*

23 *The NW Energy Coalition/Save Our Wild Salmon Coalition has argued, in support*
24 *of CRITFC's analysis, that BPA's risk analysis underestimates the TPP effect of possible*
25 *unplanned fish costs. BPA agrees that there is additional risk because of the time lag in*
26 *receipt of revenues that would not be collected until the fiscal year after the one in which*

1 the financial impacts occurred. In response, BPA is proposing the Emergency NFB
2 Surcharge.

3 Fish and wildlife mitigation is a critical component of the agency mission. To
4 that end, risk to fish and wildlife spending levels and system operations will be addressed
5 in the same manner as the agency's other risks. So, in the event there is a revenue
6 shortfall and BPA must call the question of whether to defer a Treasury payment, BPA
7 will examine all of its PBL program areas. Few, if any, will pass unreduced as a result of
8 a revenue shortfall. In times of financial difficulty, such as during the power emergency
9 in FY 2001 or the financial emergencies in FYs 2002-2003, BPA cut program area
10 budgets in every program *except* fish and wildlife. Ultimately, there is no dichotomy
11 between fish and power as these parties contend. When BPA faces revenue shortfalls, or
12 the threat of missing a Treasury payment, it's not a foregone conclusion that BPA will
13 curtail fish operations or spending more than its other program areas.

14 *Q. The Tribes argue that BPA should modify the explanation of the NFB Adjustment to make*
15 *it clear that it will include all ESA-related costs and not just the costs identified in the*
16 *modeled operation of the power system. (See, Sheets, et al., WP-07-E-CR/NZ/YA-01, at*
17 *64-65) How do you respond?*

18 *A.* BPA intended to include any financial impact resulting from allowable costs related to
19 the 2004 BiOp litigation, including those related to the direct program, in the calculation
20 of the size of the NFB Adjustment. BPA proposes to modify the GRSPs on page 84 from
21 “Where the Expected Net Revenue Before Financial Impacts is the modeled operation of
22 the power system...” to “Where the Expected Net Revenue After Financial Impacts is the
23 modeled operation of the power system and any changes to the direct program...” The
24 NFB Adjustment is designed to mitigate the financial impacts of the anadromous fish
25 portion of fish and wildlife cost categories when the impact is a result of specific
26 triggering conditions. (See, 2007 Wholesale Power Rate Schedule and General Rate

1 Schedule Provisions, WP-07-E-BPA-07, at 83) Financial impacts include “foregone
2 revenues, power purchases, direct program expense, fish and wildlife credits, Corps of
3 Engineers and Bureau of Reclamation operations, 4(h)10(C) credits and maintenance, and
4 capital repayment.” (*Id.* at 84) All of these changes will be captured in the calculation of
5 the NFB.

6 *Q. Does this conclude your testimony?*

7 *A. Yes.*

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APPENDIX A:
PROPOSED EMERGENCY NFB SURCHARGE LANGUAGE
FOR THE GRSPs

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E. Emergency NFB¹ Surcharge

The Emergency NFB Surcharge (Surcharge) is a surcharge to power rates to cover BPA's financial impacts relating to the anadromous fish portion of Fish and Wildlife cost categories only when 1) those impacts result from changes in FCRPS Endangered Species Act (ESA) compliance related to the litigation over the 2004 BiOp, and 2) BPA's reserves are low enough to jeopardize BPA's ability to make its next Treasury payment. This Surcharge is a separate adjustment from the NFB Adjustment that modifies the CRAC cap.

The Surcharge addresses the fact that the backward-looking, forward-adjusting CRAC does not produce revenues at the same time that the financial impacts occur. If such changes occur, and the agency Treasury Payment Probability (TPP) for the current year is below 80 percent, then the surcharge will be calculated and collected by the end of the current fiscal year. The Surcharge may be invoked in fiscal years 2007, 2008, and 2009 for triggering events that occur in those years. The Emergency NFB Surcharge may be invoked more than once a year.

The Emergency NFB Surcharge applies to Heavy Load Hour, Light Load Hour, Demand and Load Variance sales for power customers under the following firm power rate schedules:

- PF-07 [Preference (excluding the PF Slice Product) and PF Exchange Power];
- Industrial Firm Power (IP-07);
- New Resource Firm Power (NR-07);
- BPA's contractual obligations for Irrigation Rate Mitigation Product sales.

The Emergency NFB Surcharge also applies to the calculations of:

- the 2200 aMW of Monetary Benefits provided under the Investor-Owned Utility Residential Exchange Program Settlement benefits (IOU REP Settlement benefits); and
- the benefits provided to Direct Service Industry (DSI) customers under the FY 2005 DSI Service ROD^{2/3}.

The Emergency NFB Surcharge does not apply to:

- sales under the PF Slice Product; or
- power sales under Pre-Subscription contracts to the extent prohibited by such contracts.

a. Triggering the Emergency NFB Surcharge

The Emergency NFB Surcharge will trigger if 1) a NFB trigger event occurs, and 2) the one-year agency TPP for the current fiscal year falls below 80 percent. If the TPP is

1 National Marine Fisheries Service [NMFS] Federal Columbia River Power System [FCRPS] Biological Opinion [BiOp]

2 June 30, 2005 ROD: Bonneville Power Administration's Service to Direct Service Industrial (DSI) Customers for Fiscal Years 2007-2011.

3 The surcharge amount will be applied to the rate used to calculate the annual DSI service benefits. The calculation of the surcharge will not include any anticipated effect on the DSI service benefits.

above this level, including the impacts of the revised anadromous fish measures, then no surcharge will be assessed. NFB triggering events are changes in FCRPS Endangered Species Act compliance that result in financial impacts due to the anadromous fish portion of BPA's fish and wildlife obligations. Such changes can arise from a court order (including court-approved agreement), agreements related to litigation, a new NMFS FCRPS BiOp, or BPA commitments to implement Recovery Plans under the ESA related to litigation.

Financial impacts include decreases in power sales, fish and wildlife credits, and increases in power purchases, direct program expenses, Corps of Engineers and Bureau of Reclamation Operations and Maintenance expenses, and capital repayment costs. Financial impacts used to calculate the Surcharge will be net of changes in estimated 4(h)(10)(C) credits and net of Slice. There can be more than one trigger event for the Emergency NFB Surcharge in a year, therefore there could be more than one rate adjustment in a year.

If the NFB event is applicable to subsequent years:

The Surcharge may trigger for events that have implications for more than one year, and therefore affect rates in more than the current year. To incorporate the financial impacts in subsequent years, the surcharge will be assessed in the event BPA's agency TPP is below 80 percent using the same methodology described in section b.

b. Formula for Calculating the Emergency NFB Surcharge

The calculation will compare the financial results of two different computer simulations. In one, the modeling of the operation of the power system and changes in fish and wildlife program will be based on the best information available about what would take place without the NFB triggering event; in the second, the operational and programmatic implications of the triggering event will be incorporated. These calculations will make the best use of the information at the time (about, for instance, the secondary market, or the streamflows later in the year). The calculation for the amount of revenue to be generated by the surcharge will be determined by the following methodology:

$$\begin{aligned} &\text{Emergency NFB Surcharge Amount} &&= \\ &\text{Expected Value Modified Net Revenue without court ordered changes} \\ &\quad \text{Minus} \\ &\text{Expected Value Modified Net Revenue including court ordered changes} \end{aligned}$$

Where the Emergency NFB Surcharge Amount is the incremental cash flow BPA needs prior to September 30. In the event that the Emergency NFB Surcharge Amount is negative or zero, no surcharge will be implemented.

Where the Expected Modified Net Revenue without court ordered changes is the modeled programs and operation of the power system under the total set of fish and wildlife mitigation measures as estimated for the current fiscal year, net of estimated 4(h)(10)(C) credits.

Where the Expected Modified Net Revenue including court ordered changes is the modeled programs and operation of the power system under the same set of fish and wildlife mitigation measures as estimated except with court-ordered changes for the current fiscal year, net of estimated 4(h)(10)(C) credits.

c. Calculating IOU Impact on the Emergency NFB Surcharge

The IOU REP Settlement benefits are constrained by a cap and floor. The surcharge amount that will be collected through a reduction in the IOU REP Settlement benefits is calculated first before calculating the surcharge amount that will be collected from the PF portion subject to the Emergency NFB Surcharge.

A determination will be made of the portion of the surcharge amount to be collected from the IOU benefits via an increase in the PF rate used to calculate IOU benefits. This portion, if any, will be collected by reducing the payments to the IOUs during the months surcharges are billed to PF loads subject to the surcharge.

Since the calculations of the IOU REP Settlement benefits are generally made on the basis of an entire year, the calculation of the IOU portion of the Emergency NFB amount will also be made on the basis of an entire year. To do that, the NFB amount must be reverse-prorated to obtain an annual figure. For example, if BPA's estimate of the financial impacts of the NFB triggering event is \$90 million, and this is to be collected over three months, the corresponding annual figure is $\$90\text{M} / 3 * 12 = \360M . A recalculation of the IOU benefits will be made by adjusting the annual average PF rate upward until the increased PF revenue plus the reduction in IOU benefits, if any, equals the surcharge amount (\$360 million in the example). This recalculation is still constrained by the cap and floor on the benefit amounts. Except for the surcharge amount, the data used in this calculation will be the same data used in the most recent calculation of IOU benefits for this fiscal year, including any CRAC or DDC data used in the most recent calculation. The revised monthly IOU benefits will replace the previously-calculated benefits for the period of time over which the Emergency NFB Surcharge will be collected (three months in this example).

If the calculation yields a reduction in the IOU benefits, the total reduction during the collection period for the Emergency NFB Surcharge will be calculated and subtracted from the surcharge amount to produce the Firm Power portion. Otherwise, Firm Power portion of the surcharge will equal the Emergency NFB Surcharge amount.

Customers will receive a bill for the monthly surcharge in the month following the completion of the surcharge calculation.

d. Calculating Each Customer's Portion of the Surcharge and the Payment Schedule⁴

BPA will calculate 12-month totals of revenue from sales subject to the NFB for the previous fiscal year. Using this data, BPA will calculate the percentage of the total revenue associated with each customer who purchases any products subject to the NFB. This number, rounded to four decimal places, multiplied by the firm power portion of the NFB amount, divided by the number of months of surcharge collection, will be added to each customer's bill for each month in the surcharge billing period.

If this surcharge is applied to FY 2007 rates, the FY 2006 data will be the revenue without FB CRAC or SN CRAC revenue; revenue used in this calculation from pre-Subscription customers (except the Hungry Horse pre-Subscription customers) will be increased for these calculations by adding the LB CRAC rates for the first and second halves of FY 2006.

If the NFB event is applicable to subsequent years:

BPA will estimate the surcharge amount if agency TPP is below 80 percent in the fiscal year(s) following the triggering event. BPA will calculate 12-month totals of revenue from sales subject to the NFB for the previous fiscal year. Using this data, BPA will calculate the percentage of the total revenue associated with each customer who purchases any products subject to the NFB. This number, rounded to four decimal places, multiplied by the firm power portion of the NFB amount, divided by the number of months of surcharge collection, will be added to each customer's bill for each month in the surcharge billing period.

e. Emergency NFB Surcharge Notification Process

BPA shall use the following notification procedures:

(1) Notice of Emergency NFB Surcharge

BPA shall notify customers and rate case parties within two weeks of the trigger event occurrence of the Emergency NFB Surcharge, as defined above. This initial notification, posted to BPA's website, will include a description of the event and the time and location of a workshop to discuss the surcharge calculations. BPA staff shall conduct a public workshop to explain the trigger event, the data and assumptions used to estimate the financial impact, the TPP calculation, the amount of the surcharge, and demonstrate that the surcharge has been implemented in accordance with these GRSPs.

⁴ All revenues must be received by September 30 of the fiscal year in order to count toward BPA's TPP.

(2) Notice of Surcharge Amount by Customer

BPA will send letters to each customer affected by the Emergency NFB Surcharge indicating the monthly and total amount due to be recovered by September 30 of the fiscal year that the surcharge is in effect.