

2007 Wholesale Power Rate Case Initial Proposal

REBUTTAL TESTIMONY

SLICE REVENUE REQUIREMENT AND RATE

March 2006

WP-07-E-BPA-35



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INDEX

REBUTTAL TESTIMONY OF

**CARIE LEE, GERARD BOLDEN, RONALD HOMENICK, BYRON KEEP,
JOHN HAIRSTON, JANET ROSS KLIPPSTEIN, AND STEPHANIE KONESKY**

Witnesses for Bonneville Power Administration

SUBJECT: SLICE REVENUE REQUIREMENT AND RATE

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SUBJECT: SLICE REVENUE REQUIREMENT AND RATE

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Carie Lee. My qualifications are contained in WP-07-Q-BPA-28.

A. My name is Gerard Bolden. My qualifications are contained in WP-07-Q-BPA-05.

A. My name is Ronald Homenick. My qualifications are contained WP-07-Q-BPA-17.

A. My name is Byron Keep. My qualifications are contained in WP-07-Q-BPA-22.

A. My name is John Hairston. My qualifications are contained in WP-07.

A. My name is Janet Ross Klippstein. My qualifications are contained in

WP-07-Q-BPA-25.

A. My name is Stephanie Konesky. My qualifications are conta

Q. Have you previously submitted testimony in this proceeding?

A. Yes, we submitted direct testimony identified as exhibit WP-07-E-BPA-23. Our direct

A. In this testimony we will address arguments and assertions contained in the direct testimony of Brawley, *et al.* filed on behalf of the Slice Purchasers Group,

O. How is your testimony organized?

A. This testimony contains four sections, including this introductory section. Sections 2 and 3 of this testimony respond to the issues raised in the direct testimony of the Slice

Purchasers Group, in the same order in which they were raised. Section 2 addresses issues raised by the Slice Purchasers Group regarding BPA's treatment of the revenue and expense categories for the Slice Revenue Requirement. Section 3 presents an alternative version of the Slice Product Costing and True-Up Table in response to the issues raised in the Slice Purchasers Group testimony. The alternative version of the Slice Product Costing and True-Up Table follows this testimony (*see* Table 1 of this testimony). Section 4 addresses issues that arose as a result of BPA's reformat of the Slice Product Costing and True-Up Table.

Section 2: Treatment of Expenses and Revenue Credits

Section 2.1: Green Tag Revenue Credits

Q. The Slice Purchasers Group raised issues in their direct testimony regarding the revenue credits associated with BPA's sale of environmental attributes. See, Brawley, et al., WP-07-E-JP3-01, at 2-3. BPA referred to these revenues as "Green Tag revenues" in its direct testimony. See, Lee, et al., WP-07-E-BPA-23, at 4, lines 16-19. Please respond.

A. BPA recommends that the Administrator adopt the proposal on revenue credits associated with BPA's sale of environmental attributes, or "Green Tag revenues" as set forth in WP-07-E-BPA-31.

Section 2.2: Bad Debt Expense

Q. The Slice Purchasers Group raised issues in their direct testimony regarding the bad debt expense associated with BPA's marketing of surplus power or secondary energy. See, Brawley, et al., WP-07-E-JP3-01, at 4-5. Please respond.

A. BPA recommends that the Administrator adopt the proposal on bad debt expense associated with BPA's marketing of its share of surplus power or secondary energy as set forth in WP-07-E-BPA-31.

Section 2.3: Operating Reserves Credit

Q. The Slice Purchasers Group raised issues in their direct testimony regarding the

1 *operating reserve credit for Slice customers. See, Brawley, et al., WP-07-E-J3-01, at 5.*

2 *Please respond.*

- 3 A. BPA recommends that the Administrator adopt the proposal on the operating reserve
4 credit for Slice customers as set forth in WP-07-E-BPA-31.

5 **Section 3: Slice Product Costing and True-Up Table**

- 6 Q. *The Slice Purchasers Group raised issues in their direct testimony regarding
7 inconsistencies between the information contained in the Slice Product Costing and True-
8 Up Table and the information contained in various tables used as the basis for the PF
9 rate. See, Brawley, et al., WP-07-E-JP3-01, at 9. Please respond.*

- 10 A. BPA recommends that the Administrator adopt the proposal on the inconsistencies
11 between information contained in the Slice Product Costing and True-Up Table and the
12 information contained in various tables used as the basis for the PF rate as set forth in
13 WP-07-E-BPA-31.

- 14 Q. *The Slice Purchasers Group raised issues in their direct testimony regarding the
15 reformat of the Slice Product Costing and True-Up Table to be consistent with the “PBL
16 Statement of Revenues and Expenses.” See, Brawley, et al., WP-07-E-JP3-01, at 10-11.
17 Please respond.*

- 18 A. BPA recommends that the Administrator adopt the proposal on the reformat of the Slice
19 Product Costing and True-Up Table to be consistent with the “PBL Statement of
20 Revenues and Expenses” as set forth in WP-07-E-BPA-31.

21 **Section 4: Miscellaneous Issues**

- 22 Q. *Did BPA discover any changes that needed to be made to the Slice Product Costing and
23 True-Up Table as a result of its reformatting effort?*

- 24 A. Yes. When BPA reformatted the Slice Product Costing and True-Up Table, BPA
25 discovered that a change was needed in the Minimum Required Net Revenues
26 calculation.

Q. What changes need to be made to the Minimum Required Net Revenues calculation in the Slice Product Costing and True-Up Table?

A. One change that was needed was the addition of details in the Minimum Required Net Revenues calculation in the Slice Product Costing and True-Up Table. Specifically, BPA added annual estimates of dollar amounts for line items in the Minimum Required Net Revenues calculation (*see*, Table 1, Slice Product Costing and True-Up Table, WP-07-E-BPA-35, line items 142-150). These annual estimates had not been included in the Minimum Required Net Revenues calculation in the Slice Product Costing and True-Up Table in BPA's direct testimony.

Q. What other changes need to be made to the Minimum Required Net Revenues calculation in the Slice Product Costing and True-Up Table?

A. BPA discovered that the resulting annual amounts for Minimum Required Net Revenues in the Slice Product Costing and True-Up Table (*see*, Table 1, Slice Product Costing and True-Up Table, WP-07-E-BPA-35, line item 150) should be different from the amounts that appear in the total Generation Revenue Requirement (*see*, Table 1A, Generation Revenue Requirement, WP-07-E-BPA-02A, at 3, line 27). These differences are appropriate and are consistent with how the Minimum Required Net Revenues have been calculated in the Actual Slice Revenue Requirement in the FY 2002-2006 rate period.

Q. *What are the differences in the amounts?*

A. The Generation Revenue Requirement included Minimum Required Net Revenues amounts of \$34,105,000, \$42,876,000, and \$27,599,000 for FY 2007, FY 2008, and FY 2009, respectively. The Slice Product Costing and True-Up Table now includes Minimum Required Net Revenues amounts of \$28,926,000, \$37,697,000, and \$22,420,000 for FY 2007, FY 2008, and FY 2009, respectively.

1 *Q.* *Why are the differences appropriate?*

2 A. There is one element that is different between the two calculations. In the total
3 Generation Revenue Requirement, accrual revenues that are included in the revenue
4 forecast must be taken into account. Since these are non-cash revenues, the Minimum
5 Required Net Revenues calculation must adjust cash from current operations to ensure
6 adequate coverage of the annual cash requirements in order to demonstrate full cost
7 recovery for proposed power rates. *See*, Revenue Requirement Study,
8 WP-07-E-BPA-02, at 28. These accrual revenues stem from two settlements in which
9 BPA/PBL received cash payments that, in the accounting treatment, are recognized as
10 revenues on a straightline basis over the remainder of the term of the settled contracts.
11 However, these settlements and the associated accrual revenues are not relevant to cost
12 recovery for Slice and do not appear in the calculation of Minimum Required Net
13 Revenues for the Slice Revenue Requirement.

14 *Q.* *How much are these annual accrual revenues?*

15 A. As reflected in the Generation Revenue Requirement Cash Flow table, the accrual
16 revenues are \$5,179,000 in each year of the FY 2007-2009 rate period. *See*, Revenue
17 Requirement Study, WP-07-E-BPA-02 at 49. However, subsequent to the development
18 of BPA's initial proposal, one of the settlements was fully recognized in BPA's/PBL's
19 financial statements in FY 2005. Therefore, in the final proposal, the accrual revenues
20 associated with the remaining settlement will be \$3,523,810 in each year of the FY
21 2007-2009 rate period.

22 *Q.* *Does this change the Slice rate?*

23 A. Yes. If everything else in the Slice Product Costing and True-Up Table remains the
24 same in BPA's final studies as what was contained in BPA's WP-07 Initial Proposal,
25 this change in the Slice Minimum Required Net Revenues would lower the Slice rate
26 that is calculated at the bottom of the table (*see*, Table 1, WP-07-E-BPA-35, line 163).

1 Q. *Did BPA discover any other changes that need to be made to the Slice Product Costing
2 and True-Up Table?*

3 A. Yes. Line items in the Revenue Credits section of the Slice Product Costing Table have
4 changed. Specifically, the line items entitled “COE & USBR Project Revenues” and
5 “Sup/Ent. Cap.; Irr. Pump.” (*see*, Table 1, WP-07-E-BPA-23, at 27, line items 111 and
6 115) have been combined into one line item entitled “Downstream Benefits and
7 Pumping Power” (*see*, Table 1, WP-07-E-BPA-35, line item 125).

8 Q. *Why was this change made?*

9 A. This change was made so that the revenue credit line items in the Slice Product Costing
10 and True-Up Table would be consistent with the line items in the Wholesale Power Rate
11 Development Study Documentation (*see*, Wholesale Power Rate Development Study,
12 WP-07-E-BPA-05A, Table 3.6.2, at 154, line 32).

13 Q. *Does the change have an effect on the Slice rate?*

14 A. No. The combining of two line items into a single line item has no effect on the
15 calculation of the Slice rate.

16 Q. *Does this conclude your testimony?*

17 A. Yes.

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Table 1, Slice Product Costing and True-Up Table

SLICE PRODUCT COSTING AND TRUE-UP TABLE (\$000s)					
		Audited Actual Data	FY 2007 forecast	FY 2008 forecast	FY 2009 forecast
1	Operating Expenses				
2	Power System Generation Resources				
3	Operating Generation				
4	COLUMBIA GENERATING STATION (WNP-2)		256,300	206,300	238,800
5	BUREAU OF RECLAMATION		71,654	74,760	77,766
6	CORPS OF ENGINEERS		161,519	165,742	170,407
7	LONG-TERM CONTRACT GENERATING PROJECTS		24,666	25,054	25,452
8	Sub-Total		514,139	471,056	512,425
9	Operating Generation Settlement Payment				
10	COLVILLE GENERATION SETTLEMENT		16,968	17,354	17,749
11	SPOKANE GENERATION SETTLEMENT		-	-	-
12	Sub-Total		16,968	17,354	17,749
13	Non-Operating Generation				
14	TROJAN DECOMMISSIONING		9,300	5,200	2,200
15	WNP-1&3 DECOMMISSIONING		50	52	54
16	Sub-Total		9,350	5,252	2,254
17	Contracted Power Purchases				
18	PNCA HEADWATER BENEFIT		1,714	1,714	1,714
19	HEDGING/MITIGATION (omit except for those assoc. with inventory solution)				
20	OTHER POWER PURCHASES (short term - omit)				
21	Sub-Total		1,714	1,714	1,714
22	Augmentation Power Purchases				
23	AUGMENTATION POWER PURCHASES (omit - calculated below)				
24	CONSERVATION AUGMENTATION (omit)				
25	Residential Exchange/IOU Settlement Benefits		301,000	301,000	301,000
26	Renewable Generation		31,098	37,027	59,200
27	Generation Conservation				
28	LOW INCOME WEATHERIZATION & TRIBAL		5,000	5,000	5,000
29	ENERGY EFFICIENCY DEVELOPMENT		12,885	12,908	12,933
30	ENERGY WEB		1,000	1,000	1,000
31	LEGACY (Until 11/1/03 this was included with line 72)		3,728	2,638	2,114
32	MARKET TRANSFORMATION		10,000	10,000	10,000
33	TECHNOLOGY LEADERSHIP		1,300	1,300	1,300
34	INFRASTRUCTURE SUPPORT AND EVALUATION		1,000	1,000	1,000
35	BI-LATERAL CONTRACT ACTIVITY		1,000	1,000	1,000
36	Sub-Total		35,913	34,846	34,347
37	CONSERVATION RATE CREDIT		36,000	36,000	36,000
38	Power System Generation Sub-Total		946,182	905,049	964,688
39	PBL Transmission Acquisition and Ancillary Services				
40	PBL Transmission Acquisition and Ancillary Services				
41	PBL - TRANSMISSION & ANCILLARY SERVICES				
42	Canadian Entitlement Agreement Transmission Expenses		24,806	25,550	26,991
42a	PNCA & NTS Transmission and System Obligation Expenses		1,775	1,825	1,875
43	3RD PARTY GTA WHEELING		47,000	47,000	48,000
44	PBL - 3RD PARTY TRANS & ANCILLARY SVCS				
45	RESERVE & OTHER SERVICES		8,462	8,462	8,462
46	TELEMETERING/EQUIP REPLACEMENT		200	200	200
47	PBL Trans Acquisition and Ancillary Services Sub-Total		82,243	83,037	85,528
48	Power Non-Generation Operations				
49	PBL System Operations				
50	EFFICIENCIES PROGRAM (omit TMS expenses)		1,553	1,584	1,616
51	INFORMATION TECHNOLOGY		-	-	-
52	GENERATION PROJECT COORDINATION		6,049	6,165	6,286
53	SLICE IMPLEMENTATION (omit - calculated separately)				
54	Sub-Total		7,602	7,749	7,903
55	PBL Scheduling				
56	OPERATIONS SCHEDULING		8,758	9,051	9,353
57	OPERATIONS PLANNING		5,357	5,519	5,687
58	Sub-Total		14,115	14,570	15,040
59	PBL Marketing and Business Support				
60	SALES & SUPPORT		15,909	16,304	16,772
61	Contractual exclusion		(5,360)	(5,360)	(5,360)
61a	PUBLIC COMMUNICATION & TRIBAL LIAISON		1,207	1,236	1,266
62	STRATEGY, FINANCE & RISK MGMT		7,854	8,084	8,321
63	EXECUTIVE AND ADMINISTRATIVE SERVICES		2,450	2,512	2,583
64	CONSERVATION SUPPORT (EE staff costs)		6,460	6,712	6,973
65	Sub-Total		28,521	29,487	30,555
66	Power Non-Generation Operations Sub-Total		50,238	51,806	53,498
67	Fish and Wildlife/USF&W/Planning Council				
68	BPA Fish and Wildlife (includes F&W Shared Services)				
69	FISH & WILDLIFE		143,000	143,000	143,000
70	F&W HIGH PRIORITY ACTION PROJECTS				
71	Sub-Total		143,000	143,000	143,000
72	PBL-USF&W Lower Snake Hatcheries				
73	USF&W LOWER SNAKE HATCHERIES		18,600	19,500	20,400
74	PBL - Planning Council				
75	PLANNING COUNCIL		9,085	9,276	9,467
76	PBL - Environmental Requirements				
77	ENVIRONMENTAL REQUIREMENTS		500	500	500
78	Fish and Wildlife/USF&W/Planning Council Sub-Total		171,185	172,276	173,367
79					
80					
81					

Table 1, continued, Slice Product Costing and True-Up Table

82	General and Administrative/Shared Services			
83	CSRS			
84	CIVIL SERVICE RETIREMENT SYSTEM	10,550	9,000	15,375
85	Corporate Support - G&A (excludes direct project support)			
86	CORPORATE G&A	43,400	44,700	44,500
87	Corporate Support - Shared Services (excluded direct project support)			
88	SHARED SERVICES	6,847	7,053	7,264
89	Sub-Total Corporate Support Services	50,247	51,753	51,764
90	TBL Supply Chain - Shared Services	368	374	380
91	General and Administrative/Shared Services Sub-Total	61,165	61,127	67,519
92				
93	Bad Debt Expense			
94	Other Income, Expenses, Adjustments	59,000	59,000	59,000
95	Non-Federal Debt Service			
96	Energy Northwest Debt Service			
97	COLUMBIA GENERATING STATION DEBT SVC	254,455	237,858	259,072
98	WNP-1 DEBT SVC	160,673	168,644	166,011
99	WNP-3 DEBT SVC	160,848	161,088	153,997
100	EN RETIRED DEBT			
101	EN LIBOR INTEREST RATE SWAP			
102	Sub-Total	575,976	567,590	579,080
103	Non-Energy Northwest Debt Service			
104	TROJAN DEBT SVC	8,605	7,888	-
105	CONSERVATION DEBT SVC	5,203	5,198	5,196
106	COWLITZ FALLS DEBT SVC	11,619	11,583	11,571
107	WASCO DEBT SVC	-	1,664	2,168
108	Sub-Total	25,427	26,333	18,935
109	Non-Federal Debt Service Sub-Total	601,403	593,923	598,015
110				
111	Total Operating Expenses	1,971,416	1,926,218	2,001,616
112				
113	Other Expenses			
114	Depreciation (excl. TMS)	111,269	112,762	114,773
115	Amortization (excludes ConAug amortization)	55,262	59,936	64,866
116	Net Interest Expense	179,504	186,406	196,646
117	LDD	18,000	18,000	18,000
118	Irrigation Rate Mitigation Costs	12,000	12,000	12,000
119	Sub-Total	376,035	391,104	406,285
120				
121	Total Expenses	2,347,451	2,317,322	2,407,901
122				
123	Revenue Credits			
124	Ancillary and Reserve Service Revs. Total	49,453	48,803	48,948
125	Downstream Benefits and Pumping Power	0,921	0,921	0,921
126	4(h)(10)(c)	79,117	75,844	72,457
127	Colville and Spokane Settlements	4,600	4,600	4,600
128	FCCF			
129	Energy Efficiency Revenues	12,800	12,800	12,800
130	Miscellaneous	3,420	3,420	3,420
131	Total Revenue Credits	158,311	154,388	151,146
132				
133	Augmentation Costs			
134	IOU Reduction of Risk Discount (includes interest)	23,000	23,000	23,000
135	**Costs in this box are not subject to True-Up**			
136	Forecasted Gross Augmentation Costs	49,063	18,626	43,721
137	(Gross power purchase cost)			
138	Minus revenues	49,063	10,348	24,984
139	Net Cost of Augmentation	23,000	31,278	41,737
140				
141	Minimum Required Net Revenue calculation			
142	Principal Payment of Fed Debt for Power	170,273	182,261	169,857
143	Irrigation assistance	-	2,950	6,590
144	Depreciation	111,269	112,762	114,773
145	Amortization	75,402	80,076	85,006
146	Capitalization Adjustment	(45,937)	(45,937)	(45,937)
147	Bond Premium Amortization	613	613	185
148	Principal Payment of Fed Debt exceeds non cash expenses	28,926	37,897	22,420
149	Minimum Required Net Revenues	28,926	37,897	22,420
150				
151				
152	SLICE TRUE-UP ADJUSTMENT CALCULATION			
153	Annual Slice Revenue Requirement (Amounts for each FY)	2,241,066	2,231,909	2,320,912
154	TRUE UP AMOUNT (Diff. between actuals and forecast)			\$ 6,793,888
155	AMOUNT BILLED (22,6278 percent)			
156	Slice Implementation Expenses (not incl. in base rate)	2,300	2,300	2,300
157	TRUE UP ADJUSTMENT			
158				
159				
160	SLICE RATE CALCULATION (\$)			
161	Monthly Slice Revenue Requirement (3-Year total divided by 36 months)			\$ 108,719,098
162	One Percent of Monthly Requirement (Slice Rate per percent Slice - Monthly Slice Revenue Requirement divided by 100)			\$ 1,087,191
163				
164	ANNUAL BASE SLICE REVENUES			\$ 512,435,761
165	Annual Slice Implementation Expenses			\$ 2,300,000
166	TOTAL ANNUAL SLICE REVENUES			\$ 514,735,761
167				