

1
2
3

4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

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

)
)
) **BPA Docket WP-07S**
)
)
)

**2007 SUPPLEMENTAL
WHOLESALE POWER RATE
ADJUSTMENT PROCEEDING**

DIRECT TESTIMONY

OF

NORTHWEST REQUIREMENTS UTILITIES

WITNESSES:

JOHN D. SAVEN

GEOFFREY H. CARR

SUBJECT:

BPA'S 2007 SUPPLEMENTAL WHOLESALE POWER RATE CASE

March 31, 2008

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

2 *Q. Please state your names and qualifications.*

3

4 A. My name is John Saven. My qualifications were previously filed and are
5 contained in WP-07-Q-NR-01.

6 A. My name is Geoffrey H. Carr. My qualifications were previously filed and are
7 contained in WP-07-Q-NR-02.

8

9 *Q. What is the purpose of your testimony?*

10

11 A. The purpose of our testimony is to provide advice to the Bonneville Power
12 Administration (“BPA” or “Agency”) with regard to the assumptions it makes or
13 intends to make regarding Fish and Wildlife program expenses and Columbia
14 Generating Station (CGS) expenses in this supplemental power business line rate
15 proposal for 2009.

16

17 *Q. How is your testimony organized?*

18

19 A. The testimony is organized into three sections: Section 1 is this introduction;
20 Section 2 addresses the BPA’s proposal for addressing changes to fish and wildlife
21 costs; Section 3 addresses the BPA’s approach to changes in Columbia Generating
22 Station costs.

23

24 **Section 2: Fish and Wildlife Costs**

25

26 *Q. What is BPA proposing with regard to Fish and Wildlife cost assumptions for the*
27 *direct program for FY 2009?*

28

29 A. BPA has retained for the Initial Proposal the same direct program funding level
30 for FY 2009 as it had adopted them for 2009 in the 2007 rate case. This funding level

1 was developed after an extensive public process as described in the BPA testimony.
2 WP-07-E-BPA-63, pages 8 and 9.

3

4 *Q. What is the level of these costs in the Supplemental Proposal?*

5

6 A. In the Initial Proposal these costs are \$143 million for 2009.

7

8 *Q. Are you challenging BPA's Fish and Wildlife program expense levels or urging*
9 *BPA to adopt other expense levels for these programs?*

10

11 A. No. Regarding BPA's Fish and Wildlife program expense levels, BPA has stated
12 that it plans to revise these expense levels in its final studies in this case, but there is
13 unlikely to be sufficient new information to justify revising these program expense
14 levels when compared to the Initial Program expense levels of \$143 million.

15

16 *Q. How does BPA plan to revise these estimates during the rate case?*

17

18 A. BPA stated that it will hold a process in May 2008 to determine what costs it
19 should have in the rates for 2009. After this process any changes to costs will be
20 included in BPA's Final Proposal to FERC in August 2008. As BPA states in its
21 testimony: "BPA will identify other potential program level and capital investment
22 changes as appropriate and, if there is a likelihood of additional costs in FY 2009, BPA
23 will provide the best forecast of these costs in the public process external to this rate
24 case, allow discussion and input in the process, and incorporate the results of that
25 public process in the final Supplemental Proposal." WP-07-E-BPA-63, page 12, lines
26 14 to 18.

27

28 *Q. What events could influence these costs?*

29

30 A. As BPA notes in its testimony: "These events include the issuance by NMFS of a
31 final FCRPS BiOp regarding the impacts of the FCRPS on salmon and steelhead listed

1 under the Endangered Species Act (ESA) (expected to be issued in May 2008) as well
2 as possible long-term agreements involving BPA and other regional sovereigns
3 regarding related implementation actions to address ESA-listed species and other fish
4 and wildlife species. BPA expects to include the estimated costs of implementing the
5 final FCRPS BiOp, and the costs of any associated long-term agreements, in the final
6 Supplemental Proposal.” WP-07-E-BPA-63, page 10 and 11, lines 22 to 4. BPA also
7 cites ongoing litigation regarding ESA and the Willamette Valley Projects and the
8 Libby Project. WP-07-E-BPA-63, page 12, lines 13 and 14. BPA does not feel that the
9 Northwest Power and Conservation Council amendment process will lead to changes in
10 direct program funding levels until FY 2010.

11

12 *Q. What is the timing of these events?*

13

14 A. The FCRPS BiOp is due to be published May 5, 2008. This BiOp will then be
15 subject to further public and judicial review. The Memorandum of Agreement (MOA)
16 discussions are ongoing and have been ongoing for 15 months with no mandatory date
17 for their completion. The Council’s Fish and Wildlife Program amendment will not
18 produce any results until 2009.

19

20 *Q. Do you believe that as a result of the Integrated Program Review we will have*
21 *better information than we have now for 2009?*

22

23 A. No. Given the timing of the above events, the region will not likely have, by the
24 time that these rates go to FERC at the end of August, any better or conclusive
25 information than the information we have right now. The program level information
26 and data BPA used to develop its 2007 to 2009 rate case was thoroughly reviewed in a
27 previous Power Function Review (PFR) and therefore it is the best available
28 information at this time.

29

30 *Q. What do you recommend that BPA assume for direct program costs in this case*
31 *for 2009?*

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

A. We see no need to change BPA’s current estimates, as BPA is unlikely to have new conclusive information in time for the Final Supplemental Proposal. Therefore, BPA should keep these costs at \$143 million for FY 2009. Any changes in costs can and should be dealt with in the 2010-2011 rate case.

Q. What are the implications of BPA’s costs exceeding the \$143 million level in 2009?

A. The financial implications of BPA’s costs exceeding assumptions in rates are small because of the fact that this case involves a one-year rate period only. Ample opportunity will exist to re-visit these costs for the 2010 to 2011 rate period. Also, Fish and Wildlife expenses have a higher priority of payment than BPA’s amortization and interest expenses. Since BPA has forecast an extremely high probability of meeting its amortization and interest payments, its fish and wildlife obligations will be covered by the mere fact of their higher priority. BPA also has the following devices in place to recover new Fish and Wildlife costs.

- National Marine Fisheries Service Federal Columbia River Power System Biological Opinion Adjustment (NFB)
- Emergency NFB

These cost adjustment mechanisms are specifically intended to be used to address unexpected increases in Fish and Wildlife costs. They will be in place in the 2009 rates and are available if needed.

Q. What are your procedural concerns about BPA’s proposal for including these costs in the Final proposal?

A. The fact that BPA proposes to include these new costs in the Final Proposal highlights a shortcoming in the rate case process. The customers do not have the opportunity in the context of rate development to address the costs until long after the time for discovery, responsive testimony or cross examination is over.

1 **Section 3: Columbia Generating Station Costs**

2
3 *Q. What is BPA's proposal with regard to the operating costs of the Columbia*
4 *Generating Station?*

5
6 A. BPA proposes to increase its revenue requirement by \$31.5 million in 2009 for
7 increased operating costs of CGS. On table 3B, page 49 of WP-07-FS-BPA-02A these
8 costs for 2009 were established at \$242,902,000. On table 3B, page 41, line 4, of WP-
9 07-FS-BPA-02A these costs for 2009 are proposed at \$274,342,000. This represents a
10 13% increase in costs when forecast 2009 CGS costs from the 2007 rate case are
11 compared to 2009 costs for the supplemental case.

12
13 *Q. What reason does BPA give for these higher costs?*

14
15 A. In WP-07-E-BPA-65, page 2, line 19 to 20, BPA states that "the operations and
16 maintenance expense forecast for the Columbia Generating Station (CGS) was revised
17 upward by \$31.5 million to reflect more recent estimates of future requirements." Also,
18 in response to NRU's data request WP-07-NR-BPA-21, BPA stated that the increase is
19 "due to: Energy Northwest's continued focus on equipment reliability and the long term
20 viability of CGS in EN FY 2009." See Exhibit A attached.

21
22 *Q. Did BPA provide any other justification for this increase in costs?*

23
24 A. No. In data request WP-07-NR-BPA-26, NRU asked, "Please describe in detail
25 and by budget line item what these additional expenses are and how these increased
26 operating expenses will contribute to equipment reliability and the long term viability
27 of CGS in 2009." BPA's response was "BPA does not have additional information to
28 supplement the data response to WP-07-NR-BPA-21. This subject will be featured in
29 the upcoming Integrated Program Review. A workshop will be held in May to brief
30 stakeholders on CGS operations and maintenance forecasts for FYs 2009-2011." See
31 Exhibit B attached. In other words, customers have no way through this rate process to

1 know what caused these increased costs or for what purpose the funds will be used.
2 Based on a review of the rate case documentation we also have no way of knowing
3 whether these costs are necessary.
4

5 *Q. Do you challenge the CGS cost assumptions BPA has made in its Initial*
6 *Proposal?*
7

8 A. No. There is no basis to either accept or reject the BPA assumed numbers, to
9 understand them, or even to recommend different cost levels. The numbers that are
10 assumed are simply unsupported by any evidence at all. BPA and Energy Northwest
11 (EN) need to provide full justification in this rate case for this increase in costs.
12

13 *Q. Do you have any recommendations regarding the budgetary relationship between*
14 *BPA and Energy Northwest?*
15

16 A. Yes. BPA and EN need to develop a closer working relationship when it comes
17 to the inclusion of EN costs in the BPA budgeting and rate making processes. EN
18 needs to be more aware of its importance in the BPA cost structure and the importance
19 of providing both a comprehensive overview of key financial issues and the necessary
20 supporting data to BPA ahead of the BPA rate setting process. This is not the first time
21 that we have seen a dramatic increase in EN costs in the middle of a BPA rate period.
22 During the FY 2002 to FY 2006 rate period CGS costs significantly over-ran rate case
23 forecasts. This was one of the reasons for the Financial Based and Safety Net CRACs
24 triggering in that rate period. Absent better and more reliable information it is
25 impossible for rate case participants to come to informed decisions regarding specific
26 budget line items and how they fit into the overall plan for this key resource.

27 In addition, EN needs to be more aware of the importance of its Long Range Plan
28 (LRP) for BPA ratemaking. BPA's rate periods extend beyond the current budget
29 period of EN. Therefore, the LRP becomes very important as BPA uses this data for its
30 rate setting purposes. It would be most effective if the results of the LRP could set a
31 cap on spending in the years beyond the current budget year. Also, it would be very

1 helpful if the timing of the LRP and the BPA Integrated Program Review (IPR) could
2 be better synchronized so that BPA could have reliable information as BPA and the
3 customers go into the IPR process.

4 For additional guidance, BPA and EN should look to the new relationship
5 between the Army Corps of Engineers, the Bureau of Reclamation and BPA that has
6 developed since direct funding has been put into place.

7

8 *Q. Does this conclude your testimony?*

9 *A. Yes, it does.*

Exhibits

Exhibit: A

BPA FY 2009

Rate Case	July 2007 Estimate	Variance
242.9	274.4	31.5

The increase is due to:

- Energy Northwest's continued focus on equipment reliability and the long term viability of CGS in EN FY 2009
- Assumes that there are no revenues due to loans of nuclear fuel

Exhibit:B

Data Request No: NR-BPA-26

Date Received: Tuesday, March 04, 2008

Referencing: Supplemental Revenue Requirement Study Documentation, Volume 1 of 2
WP-07-E-BPA-46A

PAGE(S): 41

LINE(S): 4

DATA REQUEST:

In response to NRU data request NR-BPA-21, BPA provided documentation to support the increase in CGS costs when the final study for the 2007 to 2009 rates is compared to the supplemental case. This documentation justified the increase in costs as due to “continued focus on equipment reliability and the long term viability of CGS in FY 2009”. Please describe in detail and by budget line item what these additional expenses are and how these increased operating expenses will contribute to equipment reliability and the long term viability of CGS in 2009.

RESPONSE:

BPA does not have additional information to supplement the data response to NR-BPA-21. This subject will be featured in the upcoming Integrated Program Review. A workshop will be held in May to brief stakeholders on CGS operations and maintenance forecasts for FYs 2009-2011.