

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

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2010 WHOLESALE POWER) **BPA Docket BPA-10**
AND TRANSMISSION RATE) **WP-10**
ADJUSTMENT PROCEEDING) **TR-10**
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**OPTIONAL DIRECT TESTIMONY ON LIMITED ISSUES
OF
NORTHWEST REQUIREMENTS UTILITIES**

WITNESSES:

GEOFFREY H. CARR

MEGAN E. STRATMAN

SUBJECT:

BPA'S 2010 RATE CASE

May 1, 2009

1 Q. *Please identify yourselves.*

2 A. We are Geoff Carr and Megan Stratman. We represent Northwest Requirements Utilities
3 (“NRU”) and its members in this case. Our qualifications appear in Exhibits WP-10-Q-
4 NR-1, TR-10-Q-NR-1 and WP-10-Q-NR-2, TR-10-Q-NR-2 respectively.

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

6 A. The purpose of this Optional Direct Testimony on Limited Issues, as allowed in WP-10-
7 HOO-18 and HOO-26, is to respond to BPA’s Direct Testimony entitled “Managing the
8 Rate Increase” (WP-10-E-BPA-33) and BPA’s Rebuttal Testimony entitled “Rates and
9 Assumptions for Direct Service Industries” (WP-10-E-BPA-45).

10 Q. *Please describe NRU’s interests in filing this optional direct testimony.*

11 A. NRU’s membership consists of 51 load following utility customers of BPA. NRU
12 members pay BPA for power purchased under the Priority Firm rate. These rates are
13 subject to adjustment as a result of the resolution of issues in this case. Therefore, NRU’s
14 members are directly affected by the decisions made in the proceeding.

15 **Managing the Size of the Rate Increase**

16 Q. *Has NRU reviewed the BPA direct testimony entitled Managing the Rate Increase?*

17 A. Yes, we have.

18 Q. *What are your general observations about the approach proposed in the testimony?*

19 A. The approach described in Managing the Rate Increase (WP-10-E-BPA-33) appears to be
20 a balanced approach to reducing the size of the power rate increase for FY 2010 and FY
21 2011. The testimony recognizes the severe economic downturn that the country,
22 including the Pacific Northwest, is now facing. The testimony addresses the shortfall in
23 modified net revenues from FY 2009 going into FY 2010. It then describes actions that

1 can be taken to reduce the size of the FY 2010 and 2011 rate increase. These actions
2 include cost reductions and development of liquidity tools. BPA also considers a stepped
3 rate proposal and reliance on Transmission reserves and the potential for reducing the
4 probability of Treasury Payment.

5 *Q. What do you believe should be BPA's first actions to reduce the size of the rate increase?*

6 A. Cost reductions should be the first response to reduce or eliminate any proposed rate
7 increase in the midst of the current severe economic downturn.

8 *Q. Do you believe that sufficient steps have been taken to reduce costs, and thus reduce the
9 rate increase?*

10 A. So far BPA and the entities that are funded through BPA's power rates have identified
11 \$107.4 million in reductions to forecast costs that were in the Initial Proposal Revenue
12 Requirement Study for FY 2010 and FY 2011 for an average of \$53 million per year.
13 (Integrated Program Review 2, Draft Decisions Report, April 24, 2008, page 5) On a base
14 average spending level of \$1.848 billion, these cost reductions represent a little less than
15 a 3% overall reduction. While more robust cost reductions would be preferable, the
16 amount of cost reductions identified may be sufficient provided that any rate increases
17 can be minimized through the use of other financial tools. If the rate increase cannot be
18 minimized or eliminated, BPA may need to achieve more cost reductions.

19 *Q. Which of the available liquidity tools does BPA find the most favorable?*

20 A. BPA finds that expansion of the Treasury liquidity facility is the most favorable liquidity
21 tool. As we understand the situation, discussions have concluded with the U.S. Treasury
22 and \$450 million of additional short term borrowing is now available.

23 *Q. Do you agree with this approach?*

1 A. Yes. NRU finds that the expansion of the Treasury liquidity facility is the tool with the
2 most favorable aspects because it can be accessed quickly; it has a low cost relative to
3 other options; and it is an appropriate recognition that BPA has no shareholders to rely on
4 if revenues fall short of costs.

5 *Q. What is your view of the other liquidity tools that may be available to BPA?*

6
7 A. If the Treasury short term borrowing is insufficient to cover BPA's liquidity needs, then
8 NRU thinks that the flexible PF program should be pursued with BPA's customers as
9 described in BPA's testimony. If sufficient funds are not available from this program, or
10 if it is found to be too costly, then BPA should look to the use of transmission reserves.

11 *Q. BPA also discusses the potential for stepped rates. What is your view of the stepped rates*
12 *concept?*

13 A. Stepped rates may have merit if the potential BPA rate increase is in the high single digits
14 or above. At rate increases in the low to medium single digit range, however, stepped
15 rates may produce only minimal net benefits to the region.

16 *Q. Why might stepped rates produce only minimal benefits to the region if the rate increase*
17 *is in the low single digit range?*

18 A. A stepped rate proposal that includes a process to determine the size of the second step
19 could lead to substantial increase in workload at the same time that customers are
20 involved in the first rate proceeding to develop tiered rates. Also, NRU's members tend
21 to prefer rate stability over time if rates are kept in a reasonable range. Every time BPA
22 increases its rates, NRU's members must review their own rates to ensure cost recovery.
23 Finally, there is merit to the cost control effect of knowing that one must live under an
24 established rate for a two year rate period. If, however, the potential rate increase is

1 greater than 5% for FY 2010 and 2011 compared to FY 2009, then the concept of a
2 stepped rate would warrant further discussion.

3 *Q. What is your interpretation of the table provided in WP-10-E-BPA-33?*

4 A. The testimony of BPA staff provides a wide array of possible rate impacts given a set of
5 29 different scenarios (WP-10-E-BPA-33, pages 27 and 28). The modeled rate changes
6 from these scenarios range from a high of a 17% rate increase to a low of a 2% rate
7 decrease after taking into consideration the rate effect of cost recover adjustment charges
8 (“CRACs”) and dividend distribution clauses (“DDCs”).

9 *Q. BPA appears to want to leave open the actual size of the rate increase for FY 2010 and*
10 *2011 until the last possible minute before publishing and filing the rates with the Federal*
11 *Energy Regulatory Commission. What are your concerns regarding this approach?*

12 A. NRU’s expectation is that the rate increase that BPA develops in the final rates will be
13 nearer the low point of the possible range of rate impacts described above. For example,
14 we now know that BPA will achieve more than \$50 million in cost reductions. Also,
15 additional liquidity tools of \$450 million or more will be available for the rate period.
16 BPA’s second quarter review will be published within the next two weeks. This should
17 give us a much better forecast of 2009 net revenues. We expect that the result of this
18 review will be closer to \$250 million in reduced net revenues as opposed to \$350 million
19 in reduced net revenues. While natural gas prices are far more difficult to forecast, the
20 price of natural gas likely will be more in the middle of the range described by BPA staff.

21 Given these assumptions, over the next two weeks BPA should be able to
22 construct a most likely scenario that results in about a 5 percent rate increase or less for
23 FY 2010 and 2011. For planning purposes it would be useful to customers to see a

1 narrowing of the number of alternatives to the most likely scenarios as opposed to the
2 very wide range they are now seeing.

3 **Service to the DSIs**

4 *Q. Have you reviewed BPA's Rebuttal Testimony entitled Rates and Assumptions for Direct*
5 *Service Industries (WP-10-E-BPA-45)?*

6 A. Yes.

7 *Q. What is your view of the approach discussed in this testimony?*

8 A. NRU was clear in its direct testimony: "NRU does not believe that any service benefits
9 for the DSIs are warranted in FY 2010-11." WP-E-10-NR-01, p. 12. BPA continues to
10 attempt to find ways to provide service benefits to the DSIs even though a meritorious
11 business case has not been presented for such service. BPA is currently at load-resource
12 balance, and BPA will likely have to buy power at a higher cost to serve the DSIs than
13 they recover from the DSIs in its IP rate. BPA's other customers would have to pay for
14 these purchases through higher rates, and therefore (given that service to the DSIs is
15 optional) BPA's service benefit proposal for the DSIs will be to have public power
16 customers pay for the cost and take the risk of DSI service. This is being done at a time
17 when the industries served by public power are suffering with the exact economic distress
18 as are the DSIs. It makes little sense to NRU for BPA to subsidize the DSI customers at
19 the expense of industries served by the agency's preference customers. We continue to
20 object to paying for this service in our rates either through the base rate or through the
21 Industrial Cost Adjustment clause proposed by BPA.

22 *Q. Does this conclude your testimony?*

23 A. Yes, it does.