

C. Revenue Forecast Study

The revenue forecast determines BPA's expected level of sales and revenue for the rate period, fiscal year 1996. Revenues are forecasted primarily by applying rates to a load forecast. In addition, because the load forecast assumes critical water, and streamflows usually are greater-than-critical, the revenue forecast reflects the effect of greater-than-critical streamflows (the product of which is secondary energy) on BPA's revenues. Secondary energy affects the revenue forecast by increasing or decreasing estimated revenues from the generating public utilities, direct-service industries, open market sales, and incidental wheeling. The revenue forecast is based on the average of 50 historical water years.

BPA prepares two types of revenue forecasts: (1) Revenues forecasted under current rates; and (2) revenues forecasted under proposed rates. The rates in effect since October 1993 are used in the calculation of forecasted revenues at current rates for the rate test period, fiscal year 1996. BPA also develops price forecasts for certain prices that are not set by the rate schedules to determine revenues under the Variable Industrial Power (VI) rate, for contractual sales of surplus firm power, for sales at the Nonfirm Energy rate, and for rates applicable to the WNP-1 and WNP-3 Exchange Agreements.

Included in the Revenue Forecast Study are the proposed wholesale power and transmission rate schedules, which are summarized below.

D. Section 7(b)(2) Rate Test Study

Section 7(b)(2) of the Northwest Power Act directs BPA to assure that the wholesale power rates effective after July 1, 1985, to be charged its public body, cooperative, and Federal agency customers (the 7(b)(2) customers) for their general requirements for the rate test period, plus the ensuing 4 years, are no higher than the costs of power to those customers would be for the same time period if specified assumptions are made. The effect of the rate test is to protect the 7(b)(2) customers' wholesale firm power rates from certain costs resulting from provisions of the Northwest Power Act. The rate test can result in a reallocation of costs from the 7(b)(2) customers to other rate classes. The section 7(b)(2) Rate Test Study describes the application and results of the section 7(b)(2) rate test implementation methodology.

The rate projections and the actual rate test itself are performed using BPA's Supply Pricing Model (SPM). The

SPM simulates BPA's rate development process, using load, resource, and cost data consistent with that used in this rate proposal. The SPM calculates two sets of wholesale power rates for BPA's preference customers: (1) A set of rates for the test period and the ensuing 4 years, assuming that section 7(b)(2) is not in effect (program case rates); and (2) a set for the same period considering the five assumptions listed in section 7(b)(2) (7(b)(2) case rates). Certain costs specified in section 7(g) of the Northwest Power Act (7(g) costs) are subtracted from the program case rates.

The SPM then discounts each year's rates to the test year of the relevant rate case, averages each set of discounted rates, and compares the two resulting averages rounded to the nearest tenth of a mill. If the average of the discounted program case rates, less the 7(g) costs, is larger than the average discounted 7(b)(2) case rates, the rate test triggers. If the rate test triggers, the amount of dollars to be reallocated in the test period (7(b)(2) amount) is calculated by multiplying the difference between the discounted program case and 7(b)(2) case rates by the general requirements loads of the preference customers. The 7(b)(2) amount, if any, is used as an adjustment to the allocated costs in the rate case test period.

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A. Introduction

The proposed wholesale power rate schedules are published as part of the Revenue Forecast Study. BPA agreed in

the Settlement Agreement that its 1995 initial rate proposal would propose to apply a 4 percent surcharge to each component of its current adjustable rates, including the Variable Industrial Power (VI) rate which BPA would propose to extend through September 30, 1995. The current VI-91 rate expires June 30, 1996. BPA also agreed to propose that the surcharged rates would be effective for the period October 1, 1995, through September 30, 1996.

Consistent with the Settlement Agreement, BPA proposes to retain its current rate design, including most of the rate adjustments contained in the 1993 Wholesale Power Rate Schedules. BPA proposes to adjust each rate component contained in the Priority Firm Power (PF) rate, Industrial Firm Power (IP) rate, Variable Industrial Power (VI) rate, and New Resources (NR) rate such that the overall effective rate increase for sales under these rate schedules is 4 percent. BPA proposes to increase the demand and energy charges in these rates by 4 percent and also to increase by 4 percent the Irrigation Discount and First Quartile Discount. BPA proposes to increase the Energy Return Surcharge based on the changes in the PF demand charge.

BPA is proposing to retain the current percentages for the Low Density Discount and Availability Charge without further adjustments. Any change to these rate adjustments could result in an overall rate increase to customers different from 4 percent. In addition, BPA is proposing to maintain the Unauthorized Increase Charge at its current level. The Unauthorized Increase Charge is designed to deter customers from taking more power than they are entitled to take. The level of current Unauthorized Increase Charge achieves that purpose and as such a further increase is unnecessary.

BPA has some long-term contract rates that are tied to changes in BPA's PF rate. BPA is proposing to increase these rates by 4 percent. In addition, BPA has rates that depend on changes in BPA's Average System Cost (BASC). BPA also is proposing to increase BASC by 4 percent and consequently any rates that are based on changes in BASC also will be increased by 4 percent.

BPA also proposes to adjust the rate components contained in its Emergency Capacity (CE) rate and Nonfirm Energy rate schedules. Since the price BPA can obtain from these rates is based on market conditions, these rate schedules do not contain fixed rates but rather contain caps or ceilings. BPA proposes to increase the CE rate cap and the Intertie Charge by 4 percent. In the NF rate, BPA is proposing to increase the