

resources to meet load in conjunction with the costs associated with purchasing and/or selling power in the West Coast bulk power market.

The MCA provides estimates of BPA's marginal costs of supplying energy at different times. These estimates provide the basis for classifying BPA's costs. All of BPA's generation costs were classified to hourly energy; no generation costs were classified to demand. The estimates also provide the basis for the seasonal and hourly time-differentiation of rates, including the identification of time-periods in which different rates may apply and appropriate levels for rates in each time period relative to the others. These time periods consist of hours of the week when the marginal cost of power is high and those when it is relatively low, as well as seasons of the year when different marginal costs prevail. The results of the analysis suggested more seasonality in BPA rates, three annual periods instead of the two previous seasons. The results also suggested that BPA energy rates be diurnally differentiated, which was not a feature of previous rate designs. This analysis does not include any quantitative estimate of marginal costs incurred on the transmission system.

#### 5. Wholesale Power Rate Development Study (WPRDS)

BPA is proposing substantial changes in the method used to develop its wholesale power rates. BPA's wholesale power rate develop is a two step process. First, BPA performs a Cost of Service Analysis (COSA) and then adjusts these results to reflect various rate design objectives and statutory requirements.

##### A. Cost of Service Analysis

The Cost of Service Analysis (COSA) apportions BPA's test year revenue requirement to customer classes based on the use of specific types of service by each customer class and in accord with the rate directives of the Northwest Power Act. BPA's revenue requirement is functionalized to transmission and generation in the Revenue Requirement Study. Transmission costs are identified with segments of the transmission system in BPA's Segmentation Study. The results of these studies are used in the COSA to determine the costs of providing generation and transmission services to BPA's customers.

The COSA further identifies costs of specific types of service by performing the following steps:

1. *Classification.* BPA classified transmission costs entirely to capacity, and the transmission costs allocated to

the power uses of the transmission system form the basis for the power rates demand charge. As described above in the Section concerning the Marginal Cost Analysis, in this rate proposal BPA proposes to classify generation costs to two components of electric power, delivered energy and rights to energy.

2. *Allocation.* The final major step in the COSA is to allocate the functionalized, segmented, and classified costs to customer classes. BPA's proposed tiered rate design necessitates a change in cost allocation approach. BPA is proposing to allocate costs to reflect the difference in costs associated with existing loads and future loads. Costs are allocated to classes of service on the basis of the relative use of services, and on the basis of priorities of service by resource pools provided in the Northwest Power Act. The COSA also determines and allocates the net costs incurred under the Residential Exchange Program prescribed in Section 5(c) of the Northwest Power Act. Costs that cannot be attributed to a particular resource pool or customer are allocated on a uniform basis to all customers.

a. *Resource pools:* For cost allocation purposes, BPA is proposing to separate resources into two categories: FBS resources and new resources. FBS resources are defined as (1) the Federal Columbia River Power System hydroelectric projects; (2) resources acquired by the Administrator under long-term contracts in force on the effective date of the Pacific Northwest Power Act; and (3) the resources acquired by the Administrator in an amount necessary to replace reductions in capabilities of resources in (1) and (2). Since enactment of the Northwest power Act in 1980, a number of events have occurred that have reduced FBS resources capability. BPA has initiated a consultation process with its customers in which BPA is considering replacing a portion of this lost capability with approximately 450 average megawatts from ten generating resources that BPA has acquired or contracted for since 1980. For the preliminary proposal, these FBS replacement resources are included in the FBS resource pool. Remaining resources are included in the new resource pool.

For the test period, BPA is proposing to allocate the payments BPA makes under the residential exchange program. Under the residential exchange program, BPA purchases power offered by an exchanging utility at its "average system cost." BPA then sells an equivalent amount of power back to the exchanging utility at the applicable PF

rate. The residential exchange transaction, however, is only a "paper transaction" and does not result in actual power deliveries. The program provides for BPA to pay exchanging utilities the difference between the cost of power "purchased" by BPA and the cost of power "sold" by BPA. These cash payments by BPA are referred to as the net cost of the exchange. For the test period, BPA is proposing to allocate the net cost of the exchange to all firm loads except preference customer general requirement loads.

b. *Tier 1 and Tier 2 Loads:* Within each customer class, BPA is proposing to allocate resource costs separately to Tier 1 and Tier 2 loads, instead of allocating costs to the total customer class load. To accomplish this, the resources within the FBS resource pool are separated further into Tier 1 resources and Tier 2 resources. BPA is proposing to identify a set of FBS resources whose costs then will be allocated to Tier 1 loads. All other resource costs, including future FBS replacements or new resources, will be allocated to Tier 2 loads. For the test period, BPA is proposing to include all FBS resources, both existing and replacements, in the specified set of FBS resource costs allocated to Tier 1 loads.

BPA is proposing to allocate the majority of its short-term purchase power costs associated with meeting operational deficits to Tier 2 loads. In the months in which short-term operational purchases are required, these costs are allocated first to Tier 2 loads, new resources loads, and long term surplus firm power contract loads. Any remaining short-term purchase power costs then are allocated to Tier 1 loads.

##### B. Adjustments to Allocated Costs

The remaining steps in the rate design process use the allocated costs developed in the COSA and modify them to: (1) reflect BPA's rate design objectives; (2) conform with contractual requirements; (3) reflect the results of other BPA studies and commitments made in other public involvement processes under section 7(i) of the Northwest Power Act; and (4) conform with requirements of applicable legislation. BPA's rate design objectives include recovery of BPA's revenue requirement, rate and revenue stability, practicality, fairness, and efficiency.

Major rate design adjustments to the allocated COSA costs include the following:

1. *Excess Revenue Adjustment.* In the initial cost allocation, BPA allocates its entire test period revenue requirement to firm power loads on the basis of