

resources available under critical water conditions. However, rates are set assuming BPA recovers nonfirm sales revenues equal to the expected value of revenues under 50 years of streamflows in the historical record. Since no generation costs are allocated to NF service, forecasted NF revenues are credited against costs allocated to firm loads. Similarly, revenues from nonfirm wheeling under the Energy Transmission (ET) rate schedule are credited to firm transmission loads.

**2. Nonfirm Energy Use Adjustment.** The Nonfirm Energy Use adjustment is a new adjustment that accounts for the costs and benefits derived from the use of nonfirm power to displace planned power purchases. The adjustment, in effect, results in loads served by balancing purchases (i.e., purchases necessary to balance loads and resources) "buying" the nonfirm energy used to displace some of those purchases, and loads served by the Federal Base System resources receiving a credit for this use of the nonfirm energy produced by those resources. The cost of purchase power is increased to reflect the average revenues received from other sales of nonfirm energy in the same months when power purchases are displaced. Loads served by Federal Base System resources then are credited by the same amount for this use of nonfirm energy.

**3. Surplus Firm Power Excess Revenue Adjustment.** BPA has sold and expects to continue to sell surplus power under long term contracts. Expected revenues from the sale of such power are compared to allocated costs. BPA expects revenues to exceed costs of this power, resulting in a credit to other customers.

**4. 7(c)(2) Adjustment.** The rates applicable to the DSIs are set at a level that is equitable in relation to BPA preference customers' industrial rates. The costs allocated to the DSIs are higher than revenues from the "equitable" rate. The difference is a revenue deficiency called the "7(c)(2) delta," which is allocated to other customers.

The foregoing list of adjustments identifies some of the major cost adjustments and is not intended to be all-inclusive. All of the above adjustments are functionalized and segmented where appropriate. As a final step in rate design, BPA will develop seasonal and diurnally differentiated delivered energy charges based on the results of the MCA. At this final stage in the rate development process, annual energy costs have been allocated in COSA, and a series of rate design adjustments have reallocated and

adjusted the costs by class of service. An average annual energy rate for each class of service then is developed by dividing the adjusted allocated costs by the billing determinants for the class of service. A set of seasonal and diurnally differentiated energy rates which recover an equivalent amount of adjusted costs then is developed.

#### 5. Unbundled Products

For service under the 1981 and 1995 power sales contracts, BPA is unbundling the PF, NR, IP, and VI rates into Tier 1, Tier 2, load shaping and load regulation. Load shaping allows BPA to meet customer load variations from forecast. Load regulation, sometimes called load following, follows variations in the customers' loads on an instantaneous basis. BPA also will be adding unbundled charges for changes from preschedules and for reactive power deliveries. Outside of the PF, NR, and IP rates, BPA has developed the Firm Power Products and Services (FPS) rate schedule, which is the primary vehicle for BPA's marketing of unbundled products described in the Draft Marketing Plan and Draft Strategic Business Plan. The FPS rate schedule will allow BPA to sell firm energy, capacity, or power using a variety of sources of supply, and will specify charges or specifically authorize negotiated charges for control area services and other resource support services. The Control Area Services part of the FPS rate schedule also will specify a charge for the generation control services provided pursuant to section 13(d) of the 1981 utility power sales contracts. Firm power products and services to be marketed by BPA under the FPS rate schedule are intended to be flexible so that BPA can respond to market conditions. Power products and services also are available for ancillary services for transmission of non-Federal resources.

#### 6. Other Rate Design Changes

BPA is proposing other rate design changes. These include, among others, changes to demand charges, the development of a Long-Term Firm Requirements Service option for some customers, elimination of the Irrigation Discount, and development of a charge for reactive power. BPA also is proposing to modify the contract rate in the NF rate schedule.

**a. Demand Charges.** Only transmission costs are allocated to demand. Demand charges are proposed to be billed based on each customer's coincident peak, rather than on peaks at individual Points of Delivery. Demand charges are seasonally differentiated

into two seasons, with charges higher in the months of December through February. The proposed demand billing factors have been designed to be take-or-pay, relieved to a certain extent by the purchase of the Load Shaping product. The Demand Ratchet included in previous rates has been eliminated.

**b. Long-Term Firm Requirements Service.** Long-Term Firm Requirements Service is a package of services available to purchasers who sign new ("1995") power sales contracts and make a 6-year commitment to purchase from BPA. It includes an adjustment to the customer's power bill to reflect the value to BPA of a long-term commitment and for customers whose loads are 25 aMW or less, a composite rate.

**c. Low Density Discount.** The calculation of the proposed Low Density Discount is revised from previous rate proposals. The calculation uses a sliding scale of percentage discounts based on the utility's number of customers per pole mile and the utility's ratio of total electric energy requirements to investment. The two discounts from the two ratios are added to result in the utility's total discount, which is capped at 7 percent.

**d. Irrigation Discount.** The irrigation discount has been eliminated in the 1995 rate proposal.

**e. Reactive Power.** Instead of charging a power factor penalty for customers who take excessive quantities of reactive power, BPA proposes to bill the customer directly for measured quantities of reactive demand and reactive energy.

**f. Unauthorized Increase.** The proposed unauthorized increase charge reflects a penalty rate without seasonal differentiation, and includes a demand component to reflect transmission system usage. In addition, there is an unauthorized deviation charge for partial requirements purchases purchasing under the new ("1995") power sales contract.

#### 7. 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 four years, are no higher than the costs of power to those customers 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