

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 assumptions and rate development processes such as load/resource balancing, cost allocation, and rate design also are consistent with 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 four 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 is used as an adjustment to the allocated costs in the rate case test period. For the preliminary proposal, the 7(b)(2) rate test will not be performed.

## V. Tiered Rates Methodology

In this rate period, BPA is proposing to tier its rates for sales to public bodies, cooperatives, and Federal agencies under the Priority Firm Power (PF-95) rate schedule and for sales to its Direct Service Industrial (DSI) customers under the Industrial Firm Power (IP-95) rate schedule. For utilities participating in the residential exchange, BPA is also proposing to tier the PF rate applicable to such exchanges.

Under the proposed tiered rate design, firm power purchases will be divided into two blocks of power. Separate rates will be developed for each block of power for each customer class. The size of the first block of power (Tier 1 power)

is set so that most forecasted purchases will be at the Tier 1 rate. BPA is proposing a somewhat higher rate that would apply to Tier 2 power. The forecasted sales of Tier 2 power will be based on the forecasted load above the Tier 1 amount. The proposed Tier 1 and Tier 2 rates will be determined as part of BPA's Wholesale Power Rates Development Study.

BPA is proposing to establish the amounts of Tier 1 power each customer will be able to purchase, based in large part on information submitted by the customers during the course of these rate proceedings. BPA is proposing a nomination process where customers indicate the amount of power they will purchase at the Tier 1 rate for each month during the rate period within boundaries set in this rate proceeding. Customer input will establish the billing factors for the Tier 1 rate, by month, for that purchaser. The boundaries on the customers' nominations also will be established based on information submitted by the customers. The deadlines for customer submittals will be established in BPA's initial proposal and after consultation with parties and customers. BPA encourages all customers to devote the necessary resources to provide the information needed to establish the amounts of power they will be able to purchase at a Tier 1 rate. If a customer is unable to provide the necessary information, BPA is proposing to establish that customer's Tier 1 power amounts using the same approach proposed in this preliminary proposal.

1. **Utility Customers' Tier 1 Power:** BPA proposes the following process to determine each utility customers share of Tier 1 power. BPA will establish an aggregate annual amount of Tier 1 power for all preference customers based on a percentage share of the Pacific Northwest Loads and Resources Study FY 1996-97 loads forecast. BPA will base each preference customer's annual share of the total FY 1996-97 load forecast on historical sales during the period FY 1986 through FY 1993. Each customer may choose a 12-month historical period for purposes of distributing the forecasted FY 1996-97 load between it and the other customers. This chosen subperiod also will be used to shape the given customer's annual load into monthly amounts. Since customers will submit their choice of historical period during the course of this proceeding, for the preliminary proposal, BPA has selected a historical period for each customer for the historical 12-month period for which BPA sales to that customer were the highest. BPA will shape the load based

on sales during the selected historical period. BPA proposes that each utility's Tier 1 amount will be 90% of their shaped monthly Tier 1 energy amounts in August through March, and 100% of their shaped monthly Tier 1 energy amounts in April through July.

Because BPA proposes to establish separate rates for Heavy Load Hours (HLH) and Light Load Hours (LLH), BPA also will establish a separate Tier 1 amount of power for HLH and LLH. Customers will be able to choose how to shape their monthly Tier 1 amount of power into the HLH and LLH. However, for the preliminary proposal, BPA split each customer's monthly amount of Tier 1 power into HLH and LLH based on relative percentage of HLH sales and LLH sales during the selected historical period.

2. **DSI's Tier 1 Power:** BPA proposes to establish an amount of Tier 1 power for each individual DSI. For the DSI's, however, the aggregate amount of Tier 1 power for the DSI class will be set at 2,450 aMW, in each month. Like utilities, each DSI will select a contiguous 12-month period of sales over the FY1986-93 historical period. An individual DSI's monthly share of the 2,450 aMW will be based on its percentage of historical load compared to the total DSI's historical load. For the preliminary proposal, BPA selected a historical period for each DSI based on the same criteria used to select each utility's historical period. Similarly, BPA will split each DSI's monthly amount of Tier 1 power between HLH and LLH. Although BPA is proposing that a DSI may elect to shape its monthly amounts of Tier 1 power so that its the same in each hour of the month, for the preliminary proposal BPA calculated the monthly amount of Tier 1 power in HLH and LLH based on relative percentage of HLH sales and LLH sales during the selected historical period.

3. **Residential Exchange Customers' Tier 1 power:** BPA is proposing to establish an amount of Tier 1 power for residential exchange utilities using an approach similar to the approach for establishing utility customers' Tier 1 power. For exchanging utilities, however, BPA will set an exchanging utility's amount of Tier 1 power proportional to the amount of DSI and utility customers' Tier 1 power. The percentage of DSI and preference customer Tier 1 load relative to their total load will be applied to the forecasted exchange load for all utilities in the residential exchange, both active and inactive, to determine the exchange load amount of Tier 1 power.