



How BPA's costs get into its rates: The Power Function Review and the FY 2007 Power Rate Case

The Bonneville Power Administration's rates are, by law, based on the costs of providing its products and services. The purpose of every BPA rate case, then, is to establish a set of wholesale rates that will recover relevant costs. Because BPA takes seriously its goal of contributing to the Northwest economy, it works to balance its need to be commercially successful with the need to set rates that are as low as sound business practices permit.

BPA also is committed to environmental sustainability. For this reason, the agency's power costs include the costs of the many public benefits as well as the costs of power products and services the agency provides. For example, as directed by the Northwest Power Act, power rates include the costs of BPA's energy efficiency programs and its fish and wildlife program.

This fact sheet describes the process for establishing program costs and setting power rates for the next rate period, which begins in FY 2007. First, the level of Power Business Line costs and the associated public benefits will be addressed in a process called the Power Function Review (PFR) because they will not be addressed in the rate case. Next, the power rate case will focus on how the agency will raise the revenue to cover these costs. The characteristics of the Power Function Review and the upcoming power rate case are explained below.

Step 1: Determine Program Costs through the Power Function Review

Because BPA's customers pay for products and services through rates, BPA's costs have been under intense scrutiny for the last few years. While BPA wants to set its rates as low as sound business principles permit, it also realizes there is significant public interest in providing adequate program levels for public benefits such as fish and wildlife.

In late January 2005, BPA's Power Business Line (PBL) is launching the Power Function Review to provide information on power program costs. It will provide interested parties with an opportunity to examine, understand and provide input on the PBL's cost projections. It will also allow parties to understand the underlying purposes of BPA's programs, mission and challenges prior to setting rates in the FY 2007 rate case. BPA's program costs will **not** be reviewed in the following rate case.

The PFR will address nine major program areas that affect BPA's power rates.

1. Federal and nonfederal debt service and debt management, including net interest.
2. Columbia Generating Station operation and maintenance costs and capital investments, including funding alternatives

3. U.S. Army Corps of Engineers and Bureau of Reclamation operation and maintenance costs and capital investments
4. Transmission acquisition costs
5. Fish & wildlife program costs, both expense and capital
6. Internal operations costs charged to power rates
7. Conservation program costs
8. Renewables program costs
9. Risk mitigation packages and tools

In addition, the work of the ad hoc fish and wildlife funding agreement work group will be included in the PFR decisions.

The cost levels that are informed by the PFR, with the exception of risk, will be used in the rate case process to set power rates. While BPA is very committed to managing to the cost levels that it establishes in power rates, these levels may not be the same as those that are in the budgets BPA has submitted to the president and Congress or the same as the agency's actual expenditures. Actual expenditures may vary from the rate case forecasts depending on many factors, including direction from the executive office and Congress, BPA's overall financial conditions and program area needs.

How to get involved in the Power Function Review

There are three ways to actively participate in the review — technical workshops, management discussions and regional public meetings. BPA will also accept written and oral comments throughout the PFR, from Jan. 25, 2005, through April 29, 2005. In addition to these forums, BPA staff will be available for discussions with individuals and groups on request.

Individuals are invited to attend and participate in any or all of the various meetings

but may choose one meeting over another based on personal interests.

The technical workshops will present very detailed information so participants can have a thorough understanding of the proposed program funding levels or costs and the reasons for those proposed levels. Participants will have the opportunity to ask questions, clarify facts and provide feedback to BPA on proposed program funding levels for the next rate period. These are structured similarly to the technical rate case workshops but are intended to be more collaborative.

BPA has invited a cross-section of senior customer utility managers, tribal and constituent leaders to participate in a series of management-level discussions to discuss the full range of program costs. In order to provide a forum of consistent participants, BPA seeks commitment from these participants to invest the necessary time over a three-month period to understand and provide input on all the various program costs. BPA will provide public notice of the management-level meetings, and the meetings will be open to other interested parties.

Five regional public meetings will be held at various locations throughout the Northwest. BPA intends to use these meetings to educate the public and gather feedback about BPA's finances and the power programs that are the basis of the next power rate case.

All meetings will be noticed on the Power Business Line external Web site at www.bpa.gov/power/review.

Step 2: The Rate Case Process

Program costs from the PFR become part of the revenue requirements for the initial power rate proposal. The initial rate proposal is the starting point for the rate case, which determines the rates various customers will pay for power products and services. Ultimately, BPA's power

rates must generate sufficient revenue to cover its power program costs as well as the costs of various business risks.

A rate case is a quasi-judicial proceeding required by section 7(i) of the Northwest Power Act and is conducted according to rules established pursuant to that section. It formally begins when BPA publishes a notice in the Federal Register announcing that it intends to revise rates and ends when the administrator makes his final rates decision and the agency issues a record of decision.

A rate case includes a formal hearing during which parties to the hearing file testimony and supporting documents, take part in discovery, file rebuttal testimony and engage in cross-examination. A hearing officer oversees the process and ensures that the rules are followed.

Rate hearings tend to be highly technical as parties raise questions, for example, about how

net secondary revenues are forecast or about how much revenue can be expected from a particular rate for a particular product or service.

The testimony and cross-examination is necessary to build the administrative record. Once the administrator makes his final decision about the level and design of the rates, BPA's rates and the administrative record are sent to the Federal Energy Regulatory Commission to review the record and determine if the rates are sufficient to cover BPA's costs.

Because it is a quasi-judicial proceeding, full participation in the process is demanding. In order to be a **party** to the rate case, the most involved level of participation, one must demonstrate a specific interest in the outcome of the hearing. The hearing officer rules on party status at a prehearing conference. A party participates in all phases of the formal proceedings, including preparing testimony and exhibits,

Power Function Review Schedule

Topics	Technical Workshop	Management Discussion Groups	Regional Public Meetings
Opening workshop along with presentation on how this fits into the rate setting process – Open to all levels	January 25, 2005	January 25, 2005	January 25, 2005
Transmission acquisition costs	February 1, 2005	February 15, 2005	All
Conservation program costs and capital	February 8, 2005	February 15, 2005	All
Renewables program costs and capital	February 8, 2005	February 15, 2005	All
Internal operation costs charged to power rates	March 1, 2005	March 17, 2005	All
Federal and non-federal debt service and debt management	March 1, 2005	March 17, 2005	All
Columbia Generating Station maintenance costs and capital investments	March 15, 2005	March 16, 2005	All
Corps of Engineers and Bureau of Reclamation operation and maintenance costs and capital investments	March 15, 2005	March 16, 2005	All
Fish & wildlife program costs, both expense and capital	April 5, 2005	April 12, 2005	All
Risk mitigation packages and tools	April 6, 2005	April 12, 2005	All
Summary of what we have heard so far, outstanding issues, and discussion with administrator	N/A	April 27, 2005	N/A

discovery and making witnesses available for cross-examination. Because this level of participation is so time consuming and expensive, usually only customers, customer groups and larger public interest groups choose this route.

Others who want to be involved in a rate case do so as **participants**. A participant has fewer responsibilities than a party and does not take part in the formal hearings. A participant may, however, provide views, information, questions or arguments by letter or in person at separate public field hearings at which a written record is kept. A participant may also receive updates from BPA about the issues and progress of the hearing. Letters sent to BPA and comments made at public field hearings become part of the official record that the administrator takes into account in setting the final rates.

All the rate case meetings are publicly announced and open to anyone.

Technical workshops

All technical workshops will be held in the Rates Hearing Room, located at 911 N.E. 11th Ave. in Portland. To participate by telephone, call Cynthia Jones at (503) 230-5459 or Cain Bloomer at (503) 230-7443.

Management-level discussions

These discussions will also be held at BPA headquarters, 905 N.E. 11th Ave. To participate by telephone, call Cynthia Jones at (503) 230-5459 or Cain Bloomer at (503) 230-7443.

Regional meetings

Portland – April 13
BPA Rates Hearing Room, 911 N.E. 11th Ave.
Registration: 4:30 p.m.
Meeting: 5-9 p.m.

Seattle – April 14
Mountaineers Headquarters, 300 Third Ave. W.
Registration: 4:30 p.m.
Meeting: 5-9 p.m.

Idaho Falls – April 19
Red Lion, 475 River Parkway
Registration: 4:30 p.m.
Meeting: 5-9 p.m.

Missoula – April 21
WinGate Inn, 5252 Airway Blvd.
Registration: 4:30 p.m.
Meeting: 5-9 p.m.

Spokane – April 26
Airport Ramada Inn, 8909 Airport Rd.
Registration: 4:30 p.m.
Meeting: 5-9 p.m.

People who want to attend the meetings at BPA headquarters should plan on arriving early to pass through security. Valid picture identification will be required. Persons who are not U.S. citizens must provide a valid passport.

Times and locations of the above meetings, including any changes, will be posted on BPA's Power Function Review Web site at **www.bpa.gov/power/review**.