Generation Inputs Embedded Cost Issues

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Principles:

- Cost allocation based on consideration of:
  - Quality of service
  - Availability/priority of service
- Billing determinants based on:
  - Physical capability of units
  - Type of service provided
  - Duration of service provided
- Adopt cost-effective operational and market solutions.
- Consistent/equitable treatment for related services.

Application:

- Lower priority service allocated lower costs
- Lower quality of service allocated lower costs
- Unbundled capacity service allocated less cost than bundled energy-capacity service.
- Within-hour billing determinants used for within-hour services

Status quo (VERBS perspective):

- 120-hour peaking capability used as billing determinant for within-hour balancing service.
- Gen Input embedded costs for load and VERBS equal, but:
  - Availability for VERBS is uncertain
  - Quality of service for VERBS is diminished by DSO 216
- Embedded costs of Big 10 allocated to load and VERBS similarly, however
  - Load receives a bundled energy and capacity product, while
  - VERBS receives only a capacity product

Embedded Cost (cont.)

Revenue Requirement for Big 10 split between capacity and energy products.

- Embedded cost allocated to load subtracts out a credit for secondary energy sales.
- Also subtracts out a credit for the gen inputs revenue requirement.
- Embedded cost allocated to VERBS does not subtract out any portion of the value of the energy (surplus sales) from the VERBS revenue requirement.

Rate Adjustments
(BPA 3/31/2014)

<u>Gen Inputs embedded cost allocation scenarios:</u>

Status quo = $6.71 KW-mo

- Big 10:
  - 1-hour, average water = $5.95 KW-mo
  - 120 hour, critical water, secondary sales = $5.23 KW-mo
  - 1-hour, critical water, secondary sales = $4.31/KW-mo
- FCRPS:
  - 120 hour, critical water, secondary sales = $5.60/KW-mo
  - 1 hour, critical water, secondary sales = $4.67/KW-mo

Next Steps:

- BPA Straw Proposal
- Discuss options for consistent calculation of rates and consistent treatment of all customer classes
- Continue developing third-party market
- Continue developing new tools