III. Major Studies

The studies that have been prepared to support the 1995 initial proposal will be served on all parties of record and available for examination on May 1, 1995, at BPA's Public Information Center, BPA Headquarters Building, 1st Floor; 905 NE. 11th, Portland, OR. The studies and documents are:

- A. Loads and Resources Study and Documentation
- B. Revenue Requirement Study and Documentation
- C. Revenue Forecast Study and Documentation
- D. Section 7(b)(2) Rate Test Study and Documentation

To request any of the above documents by telephone, call BPA's document request line: (503) 230–3478 or call toll-free 1–800–622–4520. Please request the document by its above-listed title. Also state whether you require the accompanying documentation (these can be quite lengthy); otherwise, the study alone will be provided. (For example, ask for the "Revenue Requirement Study and Documentation.")

A. Loads and Resources Study

BPA's forecasts of regional loads by customer group are the basis from which public utility and direct service industry (DSI) customer purchases from BPA (Federal system firm loads) are projected. BPA also projects Federal transmission losses, obligations to regional investor-owned utilities (IOUs) under their power sales contracts, and other inter- and intraregional contractual obligations.

BPA develops forecasts of regional non- and small generating public utility (NSGPU) and generating public utility (GPU) loads using standard econometric techniques. Regional NSGPU and GPU loads are forecasted as a function of average retail electricity prices, weatherrelated variables, and nonagricultural employment. The regional load forecasts then are adjusted to account for factors such as effects from conservation programs and utility purchases from alternative (non-BPA) power suppliers to derive a projection of NSGPU and GPU purchases from BPA. The IOU load forecast was produced by updating the economic assumptions from the 1991 joint BPA/Northwest Power Planning Council (NPPC) forecast.

Forecasts of aluminum DSI purchases from BPA are prepared by analyzing smelter production costs relative to aluminum prices, and by considering other factors affecting smelter loads, including DSI purchases from alternative (non-BPA) power suppliers.

Forecasted non-aluminum DSI purchases from BPA are prepared by analyzing historical and technical plant information, forecasted market conditions, and potential purchases from alternative power suppliers.

BPA's resource acquisition plans are based on work by BPA and the NPPC staff and reflect extensive input and review by the general public and the region's utilities. The specific resource acquisitions and associated costs included in this proposal are based on BPA's 1994 Draft Strategic Business Plan. Besides emphasizing a diverse resource portfolio, including both conservation and generating resources, BPA is committed to moving toward a blend of acquisition methods, including BPA-designed, utility-designed, and developer-initiated programs. This combination of resource diversity and acquisition approaches allows BPA to better deal with varying circumstances and uncertainties.

The ratemaking load/resource balance represents BPA's projected service to firm loads during the test years under 1930 water conditions. The ratemaking load/resource balance is used in the calculation of the supply of surplus firm power in the region and on the Federal system during the test period. A related hydro regulation study incorporates the operation of thermal plants, exports and imports of power, projected resource acquisitions, and system constraints such as the Columbia River flow augmentation project and "spill." For this proposal, a 50-year hydro study was completed, which includes assumptions regarding the Columbia River flow augmentation. The hydro study starts in August 1995. The 50-year study determines expected nonfirm energy availability for the region.

B. Revenue Requirement Study

The Bonneville Project Act, the Flood Control Act of 1944, the Transmission System Act, and the Northwest Power Act require BPA to set rates that are projected to collect revenues sufficient to recover the cost of acquiring, conserving, and transmitting the electric power that BPA markets, including amortization of the Federal investment in the FCRPS over a reasonable period, and to recover BPA's other costs and expenses. The Revenue Requirement Study includes a demonstration of whether current rates will produce enough revenues to recover all BPA costs and expenses, including BPA's repayment requirements to the U.S. Treasury. Revenue requirements are a major factor in determining the overall level of BPA's proposed power and transmission rates.

The Transmission System Act and the Northwest Power Act require that transmission rates be based on an equitable allocation of the costs of the Federal transmission system between Federal and non-Federal power using the system. In compliance with a FERC order dated January 27, 1984, 26 FERC ¶ 61,096, the Revenue Requirement Study incorporates the results of separate repayment studies for the generation and transmission components of the FCRPS. The repayment studies for generation and transmission demonstrate the adequacy of the projected revenues at proposed rates to recover the Federal investment in the FCRPS over the allowable repayment period. Separate generation and transmission revenue requirements are developed in the Revenue Requirement Study. The adequacy of projected revenues to recover test period revenue requirements and to meet repayment period recovery of the Federal investment is tested and demonstrated separately for the generation and transmission functions.

The Revenue Requirement Study for the 1995 initial rate proposal is based on cost and revenue estimates for FY 1996. The cost estimates include an undistributed reduction of \$80 million. This reflects BPA's decision to reduce revenue requirements by this amount to enable it to set rates at a level which recover its costs but also meet current market conditions, although specific program and/or organizational spending cuts have not been finalized. This study also includes planned net revenues to mitigate financial risk, to ensure that cash flows are adequate to demonstrate timely repayment of the Federal investment including irrigation assistance, and finance a portion of BPA's capital investments. BPA's Revenue Requirement Study reflects actual amortization and interest payments paid through September 30, 1994. In addition, it reflects all FCRPS obligations incurred pursuant to the Northwest Power Act, including residential exchange program costs.

Also part of the Revenue Requirement Study is a risk analysis that evaluates the impact that various economic and generation resource capability conditions could have on BPA's ability to make annual U.S. Treasury payments during the rate test period. It measures the financial risks surrounding the revenue and expense forecasts used to set rates. Results of the risk analysis are used to determine the amount of planned net revenue required for risk mitigation.