

manner. That would suggest consideration of not just rate alternatives, but other alternatives as well, such as alternatives that might moderate sales loss in an amount that would not be significant to the degree of resulting in a BPA cost underrecovery.

BPA does not have a specific proposal concerning this issue to make at this time for purposes of the 1996 wholesale power and transmission rates proceedings. This issue is of such critical importance to BPA's cost recovery, its various statutory missions, its business relationship with its customers, and its relationship with non-customers such as fish and wildlife interests, that BPA believes it would be intolerable if, without the benefit of advance regional discussion, it were to make a formal rate case proposal and then limit dialogue on the issue by taking comment only through the formal process of the rate case. If the appropriate solution to the problem turns out to be a rates solution, prudent business judgment dictates that BPA first should have engaged its customers and interested third parties in a consensus-seeking dialogue on the issue. The dialogue should be sufficiently long to consider and evaluate parties' opinions with a view to forging consensus, and short enough to integrate the results of the discussions in the Administrator's final establishment of rates at the conclusion of this rate case, if that is necessary.

Consequently, BPA hereby advises interested parties that it is discussing this cost recovery issue with its customers and interested third parties throughout the region. Initial discussions already have occurred in the context of negotiations over new power sales contracts. Parties wishing to be advised of future public discussions should contact BPA Corporate Communications at the address listed in Section I of this notice. BPA anticipates that discussions on rate options will conclude by the end of July or early August 1995. In the event the discussions result in a rate proposal by BPA, concluding discussions by the beginning of August should enable BPA to prepare and publish its rate proposal by October of 1995. The ensuing section 7(i) process would be timed to conclude so that the outcome could be integrated into the rates finally established at the conclusion of BPA's 1996 wholesale power and transmission rate proceedings. Consequently, pending resolution of this cost recovery issue, all transmission and wholesale power rates proposed at this time should be considered subject to a possible cost recovery adjustment.

Apart from the possibility of some sort of a negotiated phased load loss or other contractual solution that avoids the cost recovery problem, BPA currently is considering two rate options to deal with the cost recovery issue. Each option is described below. The descriptions are provided not as a BPA proposal, but rather to enhance understanding of the issues and the expected discussion of them.

In the first rate option, BPA would designate a portion of its proposed power rates as a charge to mitigate the revenue exposure BPA faces from potential loss of sales to alternative suppliers. All customers would pay that amount whether they continued to purchase power from BPA or not. The charge would be collected from utility customers that leave BPA in whole or in part, by terminating or by reducing their load on BPA through Section 12 of the utility power sales contract, and from Direct Service Industry (DSI) customers that reduce or eliminate load on BPA for any reason under the DSI contracts. For example, the amount could be 2 mills of a proposed 24 mill power rate—the assumption being that, if the customer purchasing at 24 mills departs, BPA may only recover 22 mills, leaving 2 mills “stranded.” This stranded cost component would be applied to the rates of all power customers, similar to a customer charge. If the customer decides to depart, then the customer may avoid the 22 mill power rate but would continue to pay the 2 mill customer charge on the transmission component of the departing customer's power rates (if the customer continues to purchase some part of its requirements from BPA) and wheeling rates. BPA's DSI customers may be anticipated to argue that this option runs counter to their contractual rights to take load off BPA on 1 year's notice if they pay BPA “unrecoverable costs” as defined through their contractual relationship with BPA.

The second rate option (the cost recovery surcharge option) takes a different approach. This option does not target recovery only from customers that terminate their contracts or reduce their load, but rather would directly or conditionally impose a “cost recovery” surcharge on the transmission or wheeling rates of all existing and former power customers regardless of their then-current purchasing status. This approach is premised on the fact that BPA is obligated to recover all costs, not just those that are “stranded” by departing customers. The basis for the transmission surcharge in this option is that it is designed to recover costs that otherwise cannot be recovered through

power rates, from all customers that have benefited from the power system, consistent with BPA's statutory obligation.

The cost recovery surcharge would recover the amount of costs that, while otherwise properly allocable to power rates, cannot be recovered in a timely fashion through power rates. The surcharge would be developed in a manner that is equitable in relation to past power usage by BPA's requirements power customers in the Pacific Northwest, including residential exchange power customers. Such equitability could be, but would not necessarily be, achieved as follows: A first step would be to determine the average annual amount of Federal power purchased by each requirements power customer of BPA during the period 1980 to 1994 or some other relevant period. All customers' annual average purchases then would be summed, and each customer's percentage share of the total would be determined. Each individual customer's percentage then would be multiplied by the total amount of the cost recovery surcharge amount (an amount that would vary with BPA load loss) to determine the customer's surcharge recovery responsibility. The adder to transmission rates could be designed to assure that each customer directly or indirectly pays the amount of its surcharge responsibility.

Under both options, the payment could be indirect where the customer is served only by another power supplier that uses the FCRTS for any purpose. In that case, the power supplier would be assessed the surcharge or customer charge by BPA, with the expectation that the power supplier would recover the cost from the former BPA power customer. Power suppliers falling into that category are hereby put on notice of the possibility that BPA may levy such a charge. This notice is provided in the event they wish to structure pricing arrangement with the customer that fully recovers, or pass through, BPA's transmission charge.

III. Public Participation

The procedural history of this rate proceeding is described in Section I, above. Petitions to intervene as parties have been received and acted upon by the Hearing Officers.

BPA continues to conduct workshops on subjects relevant to its ratemaking. The purpose of the workshops is to identify, simplify, and reduce the number of issues that might become part of the 1996 rate case, and to reduce the amount of discovery normally required during the formal rate proceedings.