



# Fact Sheet

September 2020

## Tiered Rate Methodology

The Tiered Rate Methodology (TRM) establishes a two-tiered rate design for sales of firm power at the Priority Firm (PF) rate under the Regional Dialogue (RD) power sales contracts. The TRM is a 20-year rate design that is used in every biennial rate case to determine Bonneville's PF Tier 1 and Tier 2 rates. The TRM operates in conjunction with the RD contracts, also called Contract High Water Mark (CHWM) contracts. Pursuant to the RD contract and TRM, Bonneville calculates a customer's Rate Period High Water Mark (RHWM), which establishes the amount of firm power a customer can purchase at the Tier 1 PF rate each rate period. Rates are set consistent with the TRM every two years through formal rate proceedings as required under Section 7(i) of the Pacific Northwest Electric Power Planning and Conservation Act of 1980.

Tiered rates preserve the cost benefits of the existing system for established customers. At the same time, customers experiencing load growth beyond their Tier 1 PF rate purchases from Bonneville can choose to serve that growth by using nonfederal power, by relying on Bonneville or by using a combination of the two.

In its simplest form, this means that utilities lock in a set amount of power from the existing federal system at a cost-based rate, the Tier 1 rate. Beyond that, Tier 2 rates are for any energy a utility obtains from BPA in addition to its contractual right to power at Tier 1 rates. Each rate period, the amount of power BPA offers at Tier 1 rates is based on what the existing federal system can produce. Tier 2 rates are based on the actual or forecast price paid to acquire the additional power requested by the customers.

### PROVIDER OF CHOICE

— POST - 2028 —

### High water marks

The central feature of the TRM is the CHWM. Each customer has a CHWM that determines its initial eligibility to purchase power at Tier 1 PF rates. The TRM directs how Bonneville will calculate a customer's CHWM. The CHWMs were largely based on customer loads in FY 2010 with adjustments for weather-normalization and conservation, and adjustments to account for the economic downturn experienced throughout the region in FY 2010. Those CHWMs are fixed for the term of the Regional Dialogue contracts through 2028, with only minor exceptions such as annexations between customers, new utility formation and limited growth of tribal utilities.

CHWMs are administered through Rate Period High Water Marks (RHWM). A customer's RHWM determines the average megawatt amount of energy customers can purchase at Tier 1 PF rates for a given rate period. Customers' RHWMs are calculated every two years and largely depend on the amount of Tier 1 system capability forecast for the two-year rate period. If a customer's net requirements load is greater than its RHWM, this is called Above-RHWM load and the customer must elect to serve it in one of three ways:



- Purchasing nonfederal resources.
- Purchasing an amount of firm power at Tier 2 rates from BPA.
- A combination of the two previous options.

## Rate design

Among all Bonneville's RD customers and among purchasers of each product – Load Following, Block or Slice/Block – the TRM introduced various features to its rates. Most notably, the Tier 1 PF rate design consists of three elements: Customer Charges, Load Shaping Charges and Demand Charges.

### ■ Customer Charges

The majority of Bonneville's costs are recovered through Customer Charges. Costs are allocated to customers using the Tier One Cost Allocator (TOCA). A customer's TOCA is calculated during the rate case and is based on the lesser of its RHWM or its forecast net requirement (a customer's hourly electricity needs, minus any non-BPA resources the customer uses to serve its own loads), and then divided by the sum of all customers' RHWMs. A customer's TOCA may be updated within a rate period due to changes to its forecast net requirement. In addition to general charges administered through TOCAs, individual Customer Charges will be adjusted by costs and credits assigned to the specific BPA products they choose, such as Slice or non-Slice charges.

### ■ Load Shaping Charges

Load Shaping Charges adjust for the difference between a customer's actual use of power from the Tier 1 system and that customer's base amount of power received for paying their TOCA share of the Tier 1 system costs. These base amounts are provided in the same shape as the projected Tier 1 system for a given rate period. Load Shaping rates are based on forecast market prices. Load Shaping Charges can be a charge or a credit on a customer's monthly bill depending on whether their actual power use is greater or less than their base amounts of power.

### ■ Demand Charge

The Demand charge is designed to send a price signal to a limited portion of a customer's overall demand on Bonneville and is applicable to customers purchasing Load Following and Block with shaping capacity products. This signal can encourage activities such as demand response initiatives to help the utility manage its Demand Charges.

## Rate setting process

Although the rate design in the TRM is for the full term of the Regional Dialogue contracts, the actual applicable rates and charges, including those described above, are established every two years through formal rate proceedings as required under Section 7(i) of the Northwest Power Act of 1980. Statutorily, Bonneville's rates can be set for one to five years. The TRM and Regional Dialogue contracts provide for a two-year rate cycle, as parties determined that two-year rate periods strike a balance between the rapidly changing operating landscape and need for rate stability, while also accommodating for factors such as the two-year refueling cycle for the Columbia Generating Station.

The [2012 Wholesale Power and Transmission Rate Adjustment Proceeding](#) through which TRM was established can be found on [bpa.gov](http://bpa.gov).

Example of Load Shaping Charge for a Typical Utility in Two Different Months

