

**U.S. DEPARTMENT OF ENERGY  
BEFORE THE  
BONNEVILLE POWER ADMINISTRATION**

**2010 BPA Transmission Rate  
Adjustment Proceeding**

**BPA Docket No. TR-10**

---

**DIRECT TESTIMONY OF  
AVISTA CORPORATION, PACIFICORP,  
PORTLAND GENERAL ELECTRIC COMPANY, AND  
PUGET SOUND ENERGY, INC.**

---

**WITNESSES:**

Edward F. Groce, Phil A. Obenchain, Ty C. Bettis,  
Robert J. Cahail, and Dennis E. Metcalf

**DIRECT TESTIMONY OF  
AVISTA CORPORATION, PACIFICORP,  
PORTLAND GENERAL ELECTRIC COMPANY, AND  
PUGET SOUND ENERGY, INC.**

**TR-10-E-JP5-01**

**CONTENTS**

I.	INTRODUCTION AND SUMMARY OF TESTIMONY .....	1
II.	BPA SHOULD NOT ADOPT THE INCREMENTAL COST RATE PROPOSAL IN TR-10 BUT SHOULD RATHER WITHDRAW IT, FURTHER DEVELOP AND REFINE SUCH PROPOSAL, AND ADOPT IT PURSUANT TO AN EXPEDITED SECTION 7(i) PROCEEDING .....	3
III.	CONCLUSION .....	8

1                   **TESTIMONY OF EDWARD F. GROCE, PHIL A. OBENCHAIN,**  
2                   **TY C. BETTIS, ROBERT J. CAHAIL, AND DENNIS E. METCALF**

3                   **Witnesses for Avista Corporation, PacifiCorp,**  
4                   **Portland General Electric Company, and Puget Sound Energy, Inc.**

5                   **I. INTRODUCTION AND SUMMARY OF TESTIMONY**

6                   **Q. Please state your name and qualifications.**

7                   A. My name is Edward F. Groce. I am appearing on behalf of Avista Corporation  
8                   (“Avista”). My qualifications are as stated in Exhibit TR-10-Q-JP5-01.

9                   A. My name is Phil A. Obenchain. I am appearing on behalf of PacifiCorp. My  
10                  qualifications are as stated in Exhibit TR-10-Q-JP5-02.

11                  A. My name is Ty C. Bettis. I am appearing on behalf of Portland General Electric  
12                  Company (“Portland General”). My qualifications are as stated in Exhibit TR-10-  
13                  Q-JP5-03.

14                  A. My name is Robert J. Cahail. I am appearing on behalf of Puget Sound Energy,  
15                  Inc. (“PSE”). My qualifications are as stated in Exhibit TR-10-Q-JP5-04.

16                  A. My name is Dennis E. Metcalf. I am appearing on behalf of Avista, PacifiCorp,  
17                  Portland General, and PSE. My qualifications are as stated in Exhibit TR-10-Q-  
18                  JP5-05.

1 **Q. What companies are sponsoring this testimony?**

2 A. Avista, PacifiCorp, Portland General, and PSE are sponsoring this testimony.

3 **Q. Please summarize your testimony.**

4 A. This testimony concludes the following with respect to the Initial Proposal of the  
5 Bonneville Power Administration Transmission Services 2010 Initial Proposal  
6 (the “Initial Proposal”) in the 2010 BPA Transmission Rate Adjustment  
7 Proceeding (“TR-10”):

8 The Initial Proposal’s Incremental Cost Rates (INC-10)<sup>1</sup> proposal has not been  
9 subject to adequate analysis and scrutiny and is not adequately developed for  
10 inclusion and adoption by BPA in this TR-10 proceeding. BPA should withdraw  
11 the Incremental Cost Rate proposal from TR-10 and assign the Incremental Cost  
12 Rate proposal to a BPA Customer Working Group beginning June 2009 that will  
13 develop an acceptable Incremental Cost Rate proposal to be adopted in an  
14 expedited section 7(i) proceeding in the second half of calendar year 2009.

---

<sup>1</sup> See 2010 Transmission, Ancillary Service and Control Area Service Rate Schedules, BPA-TR-10-E-BPA-02 at page 29–32; *see also* Jackson, *et al.*, TR-10-E-BPA-08.

1 **II. BPA SHOULD NOT ADOPT THE INCREMENTAL COST RATE**  
2 **PROPOSAL IN TR-10 BUT SHOULD RATHER WITHDRAW IT,**  
3 **FURTHER DEVELOP AND REFINES SUCH PROPOSAL, AND**  
4 **ADOPT IT PURSUANT TO AN EXPEDITED SECTION 7(i)**  
5 **PROCEEDING**

6 **Q. How does BPA generally describe the Incremental Cost Rate proposal in the**  
7 **Initial Proposal?**

8 A. BPA describes the proposed Incremental Cost Rate in the Initial Proposal as  
9 follows:

10 The proposed Incremental Cost Rate is a formula rate that would  
11 allow BPA to allocate the costs of new transmission facilities  
12 needed to provide new PTP service or service for new Network  
13 Resources or new Network Loads, when the Incremental Cost Rate  
14 is higher than the embedded cost rate for such service, including  
15 the costs of the new facilities.<sup>2</sup>

16 **Q. Are you opposed to BPA adopting some form of Incremental Cost Rate to**  
17 **recover costs of building new transmission facilities that are not**  
18 **appropriately rolled into BPA's embedded cost rates?**

19 A. No. We are not opposed to BPA adopting some form of Incremental Cost Rate to  
20 recover costs of building new transmission facilities that are not appropriately  
21 rolled into BPA's embedded cost rates, provided that the scope and terms of such  
22 a rate are clearly defined and well-developed.

---

<sup>2</sup> Jackson, *et al.*, TR-10-E-BPA-08, at page 1, lines 22–26.

1 **Q. Has BPA acknowledged that it might be appropriate to adopt an Incremental**  
2 **Cost Rate in a proceeding separate from this TR-10 proceeding?**

3 A. Yes. BPA has previously acknowledged that it might be appropriate to adopt an  
4 Incremental Cost Rate in a proceeding separate from this TR-10 proceeding:

5 if we are unable to include the incremental rate proposal in the  
6 current rate case, then we would propose to include the  
7 incremental rate proposal in a later rate case.<sup>3</sup>

8 As discussed below, the Initial Proposal's Incremental Cost Rate proposal has not  
9 been subject to adequate analysis and scrutiny and is not adequately developed for  
10 inclusion and adoption by BPA in this TR-10 proceeding.

11 **Q. Should BPA adopt an Incremental Cost Rate in a proceeding separate from**  
12 **this TR-10 proceeding?**

13 A. BPA should not rush the development of its Incremental Cost Rate and should  
14 instead adopt an Incremental Cost Rate in a proceeding separate from this TR-10  
15 proceeding. The Initial Proposal's Incremental Cost Rate proposal has not been  
16 subject to adequate analysis and scrutiny and is not adequately developed for  
17 inclusion and adoption by BPA in this TR-10 proceeding. For example, a key  
18 concept of the Incremental Cost Rate proposal is the "Cost Allocation Assessment

---

<sup>3</sup> Bonneville Power Admin., *2008 Network Open Season Recommendation: Recommendation for Consideration and Comment*, at page 20 (Jan. 15, 2009), available at [http://www.transmission.bpa.gov/customer\\_forums/open\\_season/docs/2008\\_Network\\_Open\\_Season\\_Recommendation.pdf](http://www.transmission.bpa.gov/customer_forums/open_season/docs/2008_Network_Open_Season_Recommendation.pdf) (last visited on March 20, 2009).

---

1 for each Incremental Rate Path.”<sup>4</sup> However, the Incremental Cost Rate proposal  
2 does not describe in adequate detail how the “Cost Allocation Assessment” is to  
3 be performed.

4 Further examples of deficiencies of BPA’s Incremental Cost Rate proposal are  
5 described in the Comments of Puget Sound Energy, Inc., Avista Corporation, and  
6 Portland General Electric Co. submitted to BPA on January 20, 2008 regarding  
7 BPA’s 2010–11 Formula Incremental Rate Proposal (“Incremental Rate  
8 Comments”).<sup>5</sup> A copy of the Incremental Rate Comments is provided as  
9 Exhibit TR-10-E-JP5-02. Such Incremental Rate Comments also describe the  
10 premature nature of the Incremental Cost Rate proposal.<sup>6</sup>

11 **Q. Has BPA provided examples of how the Incremental Cost Rate would be**  
12 **calculated under its proposal?**

13 A. No. BPA has not provided examples of how the Incremental Cost Rate would be  
14 calculated under its proposal. In a data request, BPA was asked to provide  
15 sample calculations of Incremental Cost Rates. BPA responded as follows:

16 We have not provided sample calculations of Incremental Costs  
17 Rates in workshops or in testimony. If we hold future workshops

---

<sup>4</sup> 2010 Transmission, Ancillary Service and Control Area Service Rate Schedules, TR-10-BPA-E-02 at page 29.

<sup>5</sup> The Incremental Cost Rate in the Initial Proposal reflects several modifications that may be in response to some of the Incremental Rate Comments. However, there has not been an opportunity to discuss these modifications with BPA.

<sup>6</sup> See Exhibit TR-10-E-JP5-02 at pages 1–2.

1 on the Incremental Cost Rate, either in this rate case or later, we  
2 will provide sample calculations at that time.<sup>7</sup>

3 Inasmuch as a number of provisions of BPA's proposed Incremental Cost Rate  
4 are conceptual and do not provide actual formulae, it is particularly important that  
5 BPA develop sample calculations of the proposed Incremental Cost Rate and  
6 submit such sample calculations for public review prior to the adoption of any  
7 Incremental Cost Rate by BPA.

8 **Q. Are there further examples of specific concerns regarding the effects of the**  
9 **Incremental Cost Rate proposal?**

10 A. Yes. Further examples of specific concerns regarding the effects of the  
11 Incremental Cost Rate proposal are described in the Comments of Portland  
12 General Electric Company and Puget Sound Energy, Inc. submitted to BPA on  
13 February 6, 2009.<sup>8</sup> A copy of those comments is provided as Exhibit TR-10-E-  
14 JP5-04.

15 BPA's proposed Incremental Cost Rate may introduce undesirable volatility and  
16 uncertainty regarding short-term BPA transmission pricing that may well affect  
17 the liquidity of the energy market in the Pacific Northwest.

---

<sup>7</sup> BPA Response to Data Request PG-BPA-7, a copy of which is provided as Exhibit TR-10-E-JP5-03.

<sup>8</sup> Again, the Incremental Cost Rate in the Initial Proposal reflects several modifications that may be in response to some of these comments. However, there has not been an opportunity to discuss these modifications with BPA.



1 BPA must address and clarify how the proposed Incremental Cost Rate will affect  
2 Redirect Service. BPA's proposed Rate Schedule PTP-10 states as follows with  
3 respect to Redirect Service:

4 Redirecting Long-Term Firm PTP to Short-Term PTP service will  
5 not result in an additional charge if the capacity reservation does  
6 not exceed the amount reserved in the existing service agreement.<sup>9</sup>

7 It is unclear whether the Incremental Cost Rate proposal will force BPA to begin  
8 charging the proposed Incremental Cost Rate whenever a redirect impacts  
9 Network Upgrades. In addition, it is unclear whether BPA will charge a  
10 Transmission Customer the proposed Incremental Cost Rate if such Transmission  
11 Customer's new short-term firm or non-firm PTP reservation utilizes the Network  
12 Upgrades<sup>10</sup>—perhaps by considerably less than 100%. If so, many short-term  
13 firm PTP reservations on BPA's transmission system may be subjected to  
14 Incremental Cost Rate pricing. BPA should review and clarify the effect of the  
15 proposed Incremental Cost Rate on short-term service and Redirect Service on  
16 BPA's transmission system.

---

<sup>9</sup> 2010 Transmission, Ancillary Service and Control Area Service Rate Schedules, BPA-TR-10-02 at page 16.

<sup>10</sup> The Incremental Rate Proposal states as follows: "The firm service reservation(s) giving rise to the Incremental Cost Rate and any subsequent firm service utilizing the same Network Upgrades shall be charged an adjusted Incremental Cost Rate . . . , until such adjustments result in a reduction of the Incremental Cost Rate to the level of embedded cost rates." 2010 Transmission, Ancillary Service and Control Area Service Rate Schedules, BPA-TR-10-02 at page 28.

1 **Q. Please explain how BPA should develop an Incremental Cost Rate.**

2 A. Consistent with the Incremental Rate Comments,<sup>11</sup> BPA should withdraw the  
3 Incremental Cost Rate proposal from TR-10 and assign the Incremental Cost Rate  
4 proposal to a BPA customer working group beginning June 2009 that will  
5 develop an incremental cost rate to be adopted in an expedited section 7(i)  
6 proceeding in the second half of calendar year 2009. Such a process will allow  
7 the development of a clarified and improved BPA incremental cost rate, improve  
8 customer support for any such rate, and simplify and streamline issues regarding  
9 such a rate prior to the expedited section 7(i) proceeding in which BPA considers  
10 its adoption.<sup>12</sup>

11 Under our recommended approach, a BPA Incremental Cost Rate could be  
12 adopted and in effect within a few months of when the proposed rates in this TR-  
13 10 proceeding would be in effect. BPA has not explained why the adoption of an  
14 Incremental Cost Rate in this TR-10 proceeding rather than in an expedited  
15 section 7(i) proceeding would be necessary.

16 **III. CONCLUSION**

17 **Q. Does this conclude your testimony?**

18 A. Yes.

---

<sup>11</sup> See Exhibit TR-10-E-JP5-02 at pages 1–2.

<sup>12</sup> See Exhibit TR-10-E-JP5-03 at page 2.