

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

**2010 BPA Transmission Rate
Adjustment Proceeding**

BPA Docket No. TR-10

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

Comments of Puget Sound Energy, Inc., Avista Corporation,
and Portland General Electric Company
submitted to BPA on January 20, 2008 regarding
BPA's 2010–11 Formula Incremental Rate Proposal

BPA 2010-11 Formula Incremental Rate Proposal
Comments of Puget Sound Energy, Inc., Avista Corporation, and Portland General
Electric Company
January 20, 2008

By e-mail dated January 14, 2009 from techforum@bpa.gov, Bonneville Power Administration (“BPA”)

- (i) requested customer input¹ regarding BPA’s Formula Incremental Rate Proposal (the “Proposal”) to adopt an incremental cost rate formula in a section 7(i) process that BPA would implement using a public process resulting in incremental rate charges for applicable transmission contracts, and
- (ii) indicated that BPA must determine whether to include an incremental cost rate formula in its TR-10 initial proposal by the end of this month.

BPA requests customer input regarding the Proposal and, in particular:

- (i) the process,
- (ii) customer proposals for incremental rate design,
- (iii) customer preference for formula approach to incremental rate design, and
- (iv) whether BPA should include an incremental cost rate formula in its TR-10 initial proposal by the end of this month.

Set forth below are comments on the Proposal of Puget Sound Energy, Inc., Avista Corporation, and Portland General Electric Company (collectively, the “Pacific Northwest Investor-Owned Utilities”) submitted in response to BPA’s invitations for customer comments.

A. General Comments

- 1. BPA should not include an incremental cost rate formula in its TR-10 initial proposal by the end of this month, but rather should develop a revised Proposal, provide additional information, and take additional comments.**

The Pacific Northwest Investor-Owned Utilities appreciate this opportunity to provide comments regarding BPA’s proposal to adopt an incremental cost rate formula. BPA should not include an incremental cost rate formula in its TR-10 proposal, but should instead revise its Proposal and provide additional information following BPA’s consideration of these and other comments. Following such revision and provision of

¹ By sending comments to techforum@bpa.gov with “2010 BPA Rate Case” in the subject line by January 20, 2009.

additional information, BPA should seek additional comments before commencing a section 7(i) review of any incremental cost rate formula proposal. Such an approach to the process by which an incremental cost rate formula proposal is considered will allow development of a clarified and improved BPA incremental rate approach, improve customer support for any such approach, and should simplify and streamline issues regarding such an approach in a section 7(i) proceeding in which BPA considers its adoption.

As discussed below, BPA should further develop a proposed incremental rate formula (including a formula for revenue crediting for PTP and NT service). Prior to such further development, it is premature to attempt to address the basic question of whether BPA should adopt an incremental rate formula or whether BPA should instead adopt a standardized procedure for developing incremental rates without reducing such procedure to formula. As the next step in developing and refining the Proposal, BPA should develop and distribute for comment—along with a revised Proposal—examples and sample calculations illustrating the implementation of the formula incremental rate BPA introduced in the “Formula Incremental Rate Proposal Discussion” document dated January 9, 2009. Such examples and sample calculations applied to hypothetical sample situations are necessary to help ensure that the formula incremental rate concept is workable and that it is developed and presented with sufficient clarity. Such examples and sample calculations should include the following:

- A. Development of the incremental rate for various customers participating in an upgrade to which the formula incremental rate is to be applied—for both PTP and NT service—including, e.g.,
 - (i) annual cost per kilowatt of Transmission Demand/capacity reservation for a facility constructed or otherwise acquired by BPA-TS, and
 - (ii) allocation of incremental costs among TSRs and the resulting incremental cost rate for each TSR.
- B. Revenue crediting for PTP and NT service

After providing customers with such examples and sample calculations and after providing sufficient time for customers to review such examples and calculations, BPA should hold an additional workshop or workshops for further discussion. The Pacific Northwest Investor-Owned Utilities do not believe that it would be beneficial to either BPA or its transmission customers to rush the public process on formula incremental cost rate design in order to include it in the TR-10 initial proposal.

2. It is premature to decide whether to adopt an incremental rate formula (including a formula for revenue crediting for PTP and NT service).

As demonstrated by the questions, comments, and additional information sought in these comments, the BPA Proposal needs to be clarified and revised. Prior to such clarification and revision, it is premature to decide whether to adopt an incremental rate

formula. It may be that BPA should have a standardized process, rather than a “formula”, to be followed in the development of incremental rates for any particular upgrade. The Pacific Northwest Investor-Owned Utilities cannot take a position on BPA’s Proposal until BPA has addressed the requested clarifications and revisions in these comments.

- 3. If an incremental rate formula proposal or a standardized incremental rate development process proposal is adopted, such adoption should be made in a section 7(i) process.**

Under the Northwest Power Act, BPA is required to use the procedures specified in section 7(i) of the Northwest Power Act in establishing power and transmission rates under section 7. Similarly, rates established under section 7 shall, pursuant to Northwest Power Act section 7(a)(2), become effective “upon confirmation and approval by the Federal Energy Regulatory Commission [“FERC”]” Accordingly, if an incremental rate formula proposal or a standardized incremental rate process proposal is adopted, such adoption should be made in a section 7(i) process.

- 4. If an incremental rate formula proposal or a standardized incremental rate development process proposal is adopted, BPA should implement such formula rate or standardized process in developing an incremental rate for any particular upgrade in an expedited section 7(i) process.**

Consistent with the above-referenced statutory requirements in section 7 of the Northwest Power Act, BPA should develop the incremental rate for any particular upgrade subject to the incremental rate in a section 7(i) process that implements any formula transmission rate or standardized process that BPA adopts. In that regard, it should be noted that section 7(i) processes promote transparency and customer involvement in BPA’s development of rates. Presumably, such section 7(i) process for implementation could be an expedited rate proceeding under section 1010.10 of the BPA Rules of Procedure Governing Rate Hearings.

In any event, any basic formula incremental rate or standardized process must be developed through a section 7(i) ratemaking process.

- 5. BPA should ensure that both the development of any formula incremental rate or standardized process *and* the implementation of such formula or process in the development of incremental rates for a particular upgrade provide transparency and full customer involvement.**

It is true that the development of a formula incremental rate followed by implementation in public, less formal processes would have the potential to expedite transmission requests and establish service more quickly than if such formula incremental rate were applied in a section 7(i) process. However, the solution is not to abandon the statutorily mandated section 7(i) process. Rather, the importance of ensuring that the public process leading to the implementation of a formula incremental rate provides transparency and customer involvement dictates that BPA instead implement such

formula incremental rate in a section 7(i) process, which as indicated above presumably could be an expedited rate proceeding under section 1010.10 of the BPA Rules of Procedure Governing Rate Hearings.

The current proposal does not provide adequate time for customers to meaningfully review BPA's proposals and provide substantive comments. For example, the Proposal states at page 3 that "BPA will hold a public meeting to present the proposed incremental rates" for TSRs whose NEPA studies are complete and proposed incremental rate developed and that "BPA will post the proposed incremental rates and supporting materials at least a week before the meeting and make copies available at the meeting." In light of the complex issues to be addressed in developing an incremental rate for a particular upgrade, a one-week timeframe for commenting provides insufficient time and process under the circumstances. For example, the time allowed to review proposed incremental rates for specific TSRs must be consistent with the time period provided in an expedited 7(i) process in order to promote transparency and public involvement.

6. Any formula incremental rate process should include procedures for appropriately defining Incremental Project Costs to be recovered by the formula incremental rate.

BPA's formula incremental rate should be applied only to recovery of those costs (Incremental Project Costs) that are not to be recovered under other applicable cost recovery frameworks. Accordingly, the Proposal should be revised to expressly exclude from Incremental Project Costs the costs of direct assignment facilities and costs otherwise appropriately rolled into embedded-cost rates under the basic FERC "or" test.² Further, BPA should expressly address the relationship between network upgrades covered by BPA's LGIP or LGIA and network upgrades covered by the Proposal.

Incremental Project Costs should not in any event include any costs for new facilities that are not necessary to provide requested service. In that regard, the Proposal for example states as follows in section a on page 4:

The cost of a facility upgrade shall be allocated to all customers in the aggregate group whose reservation period begins after the Date Upgrade Needed or extends past the Date Upgrade Needed. If the Date Upgrade Needed for the upgrade is after completion of service, no cost will be allocated to the customer for the upgrade under consideration.

This language should be clarified to expressly state that BPA will not assign any Incremental Project Costs to a transmission customer whose service under its transmission agreement is not, under such agreement, subject to such upgrade being

² "Or" pricing, also known as "higher of" pricing, is FERC's traditional pricing policy for recovery by non-independent transmission providers of transmission costs that are not directly assigned. *See Inquiry Concerning the Commission's Pricing Policy for Transmission Services Provided by Public Utilities Under the Federal Act, Policy Statement*, 59 Fed. Reg. 55031 (1994). Under this policy, a utility may charge the higher of incremental expansion costs or a rolled-in embedded cost rate—but not both. *Id.*

completed. The term “completion of service” must be clarified (and cannot mean expiration of the term for which transmission service is provided under an agreement).

B. Specific Comments

1. The Proposal states at page 3 that the Commercial Infrastructure Expansion and Financing Policy analysis will need “analyses of how flows from each TSR that is subject to incremental rate service affects each path and what reliability benefits, if any, should be recovered from embedded cost network rates for each project.” This statement should be clarified (including clarification of the term “reliability benefits” and why such “benefits” would need to be “recovered” in rates).

2. The Proposal states at page 3 that upon completion of the NEPA study for each path needing improvements, BPA will prepare proposed incremental rates for each TSR affecting that path, which proposal will include documentation including, *inter alia*, “a study showing how incremental costs were allocated among TSRs and the resulting incremental cost rate for each TSR.” Even if a formula for a BPA incremental rate is developed that is itself straightforward, the determination of appropriate inputs to and the application of the formula are critical in the determination of the incremental rate for any particular upgrade. If an incremental rate formula or standardized process is adopted, BPA must provide a process that allows customers to understand, challenge and resolve disputes, to assure that incremental costs are appropriately determined.

3. BPA should clearly identify the timeline for completing offers of incremental rate service and should specify milestone day/week allowances. Such timeline should include the timeline for the various elements of the process. Any BPA incremental rate should address the possibility that one or more TSRs may drop out of an upgrade or become unable to or fail to pay its incremental rate for an upgrade. In other words, for example, a BPA incremental rate should not assume or provide that the remaining TSRs for an upgrade will automatically pick up the costs of a TSR that fails to pay its incremental rate for that upgrade.³

4. The calculations and determinations for Incremental Project Costs must be transparent and made publicly available for review. Transparency is necessary, for example, with respect to the development of estimates, the incurrence of actual costs, and calculations related to allocation of the costs. Customers should be able to see and have the information necessary to replicate the calculations and determinations in the cost allocation analyses. Visibility and transparency are necessary, for example, in the calculation of “costs associated with accelerating facilities” referenced on page 4 of the Proposal. BPA should also commit to providing, after an incremental rate is developed for any particular upgrade, cost and progress reports regarding such upgrade.

5. The Proposal states as follows at page 5:

The cost of a Path upgrade allocated to each request shall be proportional to the average positive incremental impact of each

³ BPA must also address related contract issues regarding (i) the right of a TSR to opt out in the event that one or more other TSRs drop out, and (ii) ensuring that participating TSRs are credit worthy.

request on such upgrade divided by the total average positive incremental impact of all requests included in the System Facilities Study or NOS Cluster Study on such upgrade. The cost of each Path upgrade shall be allocated to requests independently. Incremental flows of a TSR having a negative impact on an upgraded Path shall be ignored.

BPA should clarify the meaning of the phrase “allocated to requests independently”, particularly with respect to ensuring transparency and non-discriminatory treatment.

6. The Proposal states at pages 5 and 6 as follows:

If the Transmission Customer is charged the Incremental Rate, upon completion of construction of such Network Upgrades, the Transmission Provider shall reconcile the incremental Network Upgrade costs against the actual construction costs. Based on the reconciliation, the Transmission Customer’s cost responsibility shall be adjusted as appropriate.

BPA should clarify how, and by what process, a customer’s cost responsibility will be “adjusted as appropriate” in such circumstances. Again, as indicated above, BPA should commit to providing, cost and progress reports regarding any upgrade for which an incremental rate is developed.

7. The paragraph on page 6 of the Proposal that begins “The annual cost per kilowatt of Transmission Demand/capacity reservation for a facility constructed or otherwise acquired by BPA-TS shall be determined in accordance with the following formula:” should be merged and made consistent with the third paragraph of section b on page 5 of the Proposal.

8. BPA should clarify the term “positive response factor” on page 6 of the Proposal and should explain how this relates to the calculations of revenue credits.