

INDEX

TESTIMONY of

TODD E. MILLER and DANIEL R. YOKOTA

Witnesses for Bonneville Power Administration

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4
5 **SUBJECT: TRANSFER SERVICE**

6 **Section 1: Introduction and Purpose of Testimony**

7 *Q Please state your names and qualifications.*

8 *A.* My name is Todd E. Miller, and my qualifications are in BP-14-Q-BPA-48.

9 *A.* My name is Daniel R. Yokota, and my qualifications are in BP-14-Q-BPA-67.

10 *Q.* What is the purpose of this testimony?

11 *A.* This testimony describes the General Transfer Agreement (GTA) Delivery Charge, how
12 it was developed, and the proposed methodology for establishing the rate for the rate
13 period, fiscal years (FY) 2014–2015.

14 We also describe the Supplemental Guidelines for Direct Assignment and how
15 they will apply during FY 2014–2015.

16 Then we describe the Transfer Service Operating Reserve Charge, including how
17 it was developed and the proposed methodology for establishing the rate for FY 2014–
18 2015.

19 This testimony also sponsors sections 3.6 and 3.6.1 of the Power Rates Study,
20 BP-14-E-BPA-01, and the General Transfer Agreement Service rate (GTA-14) in the
21 Power Rate Schedules, BP-14-E-BPA-09.

1 **Section 2: GTA Delivery Charge**

2 **Section 2.1: Description of the GTA Delivery Charge**

3 *Q. What is the GTA Delivery Charge?*

4 A. The GTA Delivery Charge is a charge for deliveries of Federal power made over a third-
5 party transmission system at voltages below 34.5 kilovolts (kV). The GTA-14 rate is a
6 Power Services charge.

7 *Q. Who pays the GTA Delivery Charge?*

8 A. The GTA Delivery Charge applies to customers BPA serves over third-party transmission
9 facilities when that service is at voltage below 34.5 kV. This third-party transmission
10 service is commonly referred to as “transfer service” and includes grandfathered
11 contracts, Open Access Transmission Tariff service, and other transmission
12 arrangements. The customer pays the GTA Delivery Charge only if it receives Federal
13 power at voltages below 34.5 kV and is not paying BPA’s Utility Delivery Charge
14 (UDC) for that particular point of delivery. (The UDC is a Transmission Services charge.
15 BP-14-E-BPA-10, Section II.A.) In addition, some transfer service customers have low-
16 voltage points of delivery at which directly assigned low-voltage costs are passed through
17 to the transfer service customer. In these situations the transfer service customer does not
18 pay the GTA Delivery Charge.

19 *Q. How has the GTA Delivery Charge rate previously been set?*

20 A. In the WP-07, WP-10, and BP-12 rates, the GTA Delivery Charge rate was set at a level
21 equal to Transmission Services’ UDC rate.

22 *Q. Are you proposing to change the way the GTA Delivery Charge rate is calculated for the*
23 *BP-14 rate period?*

24 A. Yes. We are proposing to decouple the GTA Delivery Charge rate from the UDC rate.
25 The proposed rate is based on what Power Services pays to transmission providers for
26 low-voltage delivery (whether directly through a separate charge or indirectly through a

1 bundled network transmission rate), with the billing determinant based on the transfer
2 customer's heavy load hour system peak. Power Rates Study section 3.6.1.

3 Q. *What has changed that would lead you to make this proposal now?*

4 A. The GTA Delivery Charge rate has been set at the same rate as the UDC rate in the past
5 three power rate cases. In each of these cases, the UDC rate either did not change or was
6 adjusted by a modest amount. Transmission Services settled each of its rate cases,
7 including the UDC rate. For the BP-14 rate proceeding, a settlement was not reached on
8 Transmission rates prior to the initial proposal. The UDC rate is proposed to go up
9 substantially because it will be based on the delivery facilities included in Transmission
10 Services' delivery segment.

11 Q. *Why are you proposing to change the approach for the GTA Delivery Charge for the*
12 *BP-14 rate period?*

13 A. Power Services now has the ability to more accurately determine costs related to low-
14 voltage delivery and therefore is able to derive a standalone GTA Delivery Charge rate.
15 Having a standalone GTA Delivery Charge rate can more accurately reflect the costs
16 incurred by Power Services for transfer low-voltage delivery. This is preferable to
17 applying a rate that mirrors the UDC rate, which will likely increase in the BP-14 rate
18 case to a level that will exceed what Power Services needs to recover from transfer
19 service customers for acquiring low-voltage delivery. Additionally, it is our
20 understanding that Transmission Services is moving toward a Use-of-Facilities charge for
21 delivery facilities, which is a different policy direction than Power Services is choosing to
22 take.

1 Q. *Why are you proposing to separately charge for low-voltage delivery service through the*
2 *GTA Delivery Charge instead of rolling the costs of these services into the Tier 1 costs as*
3 *is done for other transfer service costs?*

4 A. By recovering costs for service at voltages below 34.5 kV through the GTA Delivery
5 Charge, transfer service more closely resembles (from a cost perspective) service to
6 customers directly connected to the Federal Columbia River Transmission System
7 (FCRTS). Customers directly connected to the FCRTS are subject to (among other
8 charges) two potential forms of transmission charges: (1) a network charge for deliveries
9 over the network portion of the FCRTS; and (2) the UDC for deliveries over any FCRTS
10 facilities below 34.5kV. Transfer customers, however, pay Transmission Services for
11 only network transmission service; they do not pay the UDC for any low-voltage points
12 of delivery they may have on third-party systems. Instead, Power Services acquires the
13 low-voltage services from the third-party transmission provider. If Power Services rolled
14 the costs of these low-voltage acquisition charges into Tier 1, directly connected
15 consumer-owned utilities (COUs) would not only be paying the UDC for their own low-
16 voltage service on Transmission Services' system, but also a portion of low-voltage
17 service for similarly situated transfer customers on third-party systems through the
18 PF rates.

19 A number of customers have requested in various forums that BPA provide the
20 same rate treatment for customers served by third-party transmission systems as for
21 customers not served by transfer. Although it is not possible to create absolute
22 comparability between transfer service customers and non-transfer service customers, we
23 generally concur that, where reasonable, it is an appropriate policy objective to create
24 parity between these groups of customers. Even though we are not proposing to continue
25 to mimic the UDC rate, the proposed GTA Delivery Charge is one example of BPA's
26 implementation of that policy. By recovering Power Services' actual costs for service at

1 voltages below 34.5 kV using the GTA Delivery Charge, we are creating a measure of
2 comparability between transfer service customers and non-transfer service customers that
3 have to pay for deliveries of power over federally owned low-voltage facilities.

4 Q. *Why are you proposing to set a GTA Delivery Charge rate rather than directly assigning*
5 *the low-voltage costs to the specific transfer customer on whose behalf BPA has incurred*
6 *the cost?*

7 A. BPA provides transfer service to customers across more than a dozen third-party
8 transmission systems in the Northwest. BPA has different contractual arrangements with
9 each of these transmission providers, with a wide variety of treatment of the costs for
10 low-voltage deliveries. In addition, there is a wide disparity in the cost of low-voltage
11 delivery from one transfer customer to the next. If BPA were to directly assign the
12 applicable low-voltage costs to the individual transfer customer, there would be winners
13 and losers, with a few transfer customers bearing significant costs. A GTA Delivery
14 Charge that spreads BPA's low-voltage transfer costs evenly across the transfer
15 customers that need the service is a more equitable rate treatment than directly assigning
16 the costs.

17 Q. *Please explain briefly how you propose to calculate the GTA Delivery Charge.*

18 A. As explained in Power Rates Study section 3.6, we propose to calculate the GTA
19 Delivery Charge rate by reviewing the actual low-voltage costs Power Services incurred
20 in FY 2011, and then dividing these costs by the amount of transfer service peak load
21 served by third-party low-voltage facilities.

22 Q. *Please explain how you determined the actual transfer service low-voltage costs used as*
23 *the numerator in the calculation of the GTA Delivery Charge rate.*

24 A. We collected cost data for low-voltage distribution and delivery charges from FY 2011
25 transmission provider invoices and contract exhibits. This data was available for all
26 third-party transmission providers except NorthWestern Energy. As a proxy for the cost

1 of low-voltage service on the NorthWestern system, we used the average cost of low-
2 voltage service on all other third-party transmission provider systems and then multiplied
3 this average by the amount of low-voltage transfer service for GTA customers on the
4 NorthWestern system.

5 Q. *Why is it necessary to estimate the cost for NorthWestern transfer customers?*

6 A. NorthWestern does not have a separate charge for low-voltage delivery; rather,
7 NorthWestern's rate structure rolls all the cost of low-voltage service into the
8 NorthWestern transmission rate that BPA pays for transfer service.

9 Q. *Did you escalate the FY 2011 low-voltage costs?*

10 A. Yes. The total cost for FY 2011 was adjusted by applying an annual 0.97 percent
11 escalation through FY 2014 and FY 2015. The 0.97 percent escalation factor is tied to
12 the escalation factor for loads for the same time period. We use this escalation factor
13 because low-voltage costs are volumetric: costs increase as loads increase. The average
14 forecast cost for acquiring low-voltage service for FY 2014–2015 serves as the numerator
15 in the calculation of the GTA Delivery Charge rate.

16 Q. *Please explain how you determined the denominator for the GTA Delivery Charge rate.*

17 A. For the load portion of the calculation, we used customer system peak data at low-voltage
18 delivery points as described in FY 2011 customer bills. Customer System Peak is the
19 customer's maximum Actual Hourly Tier 1 Load (measured in kilowatts) during the
20 Heavy Load Hours of each month.

21 Q. *Why are you changing the billing determinant from the BPA transmission system peak
22 used for the BP-12 GTA Delivery Charge to the customer system peak?*

23 A. Transmission Services is proposing to change the UDC billing determinant to customer
24 system peak and, if adopted in the final rate proposal, would no longer be calculating and
25 providing the transmission system peak. In addition, the GTA Delivery Charge rate is a
26 power rate, and other power rates use the customer system peak. Therefore, we are

1 proposing to use the customer system peak as the billing determinant for the BP-14 GTA
2 Delivery Charge rate. Also, we understand that the customer system peak definition used
3 for power rates differs from the definition proposed by Transmission Services. We are
4 proposing that the GTA Delivery Charge use the power rate definition for customer
5 system peak.

6 Q. *Did you escalate the customer peak data at low-voltage delivery points?*

7 A. Yes. The total annual kilowatt demand (which is the sum of the monthly demands in this
8 case) for low-voltage transfer service points of delivery at the customers' system peaks
9 for FY 2011 was adjusted by applying an annual 0.97 percent escalation (for load
10 growth) through FY 2014 and FY 2015. The 0.97 growth in loads is calculated from the
11 forecasts for the transfer customers using the methods described for the load following
12 customers with Power Sales Contract obligations in section 2.2.1 of the Loads and
13 Resources Study using the Agency Load Forecasting system (ALF). See Loads and
14 Resources Study, BP-14-E-BPA-03, section 2.2.1. The two-year average of the total
15 demands for FY 2014–2015 serves as the denominator in the calculation of the GTA
16 Delivery Charge rate.

17 Q. *What effect will the changes in the rate and billing determinant have on the total costs*
18 *that low-voltage transfer customers experience?*

19 A. The majority of low-voltage transfer customers will see a reduction in their GTA
20 Delivery Charges. Some customers, though, will see an increase in their overall low-
21 voltage costs.

22 Q. *Why are some transfer customers' GTA Delivery Charge costs increasing under the*
23 *proposed methodology?*

24 A. The change from transmission system peak to customer system peak as the billing
25 determinant will increase the overall costs to some transfer customers because some

transfer service customers' loads peak at times that have never or rarely coincided with the BPA transmission system peak.

Q. Do you plan to update or refine your studies for the Final Proposal?

A. Yes, if circumstances warrant. Arrangements for low-voltage transfer service change from time to time. If any of these changes occurs between the Initial Proposal and the time of the development of the final studies, we will reflect these changes in the Final Proposal. We do not expect to change the costs and loads absent a change due to these service arrangements.

Section 2.2: Revenue Forecast for GTA Delivery Charge

Q. What is the revenue forecast for the GTA Delivery Charge?

A. The forecast revenue associated with the GTA Delivery Charge is \$2.1 million in FY 2014 and \$2.1 million in FY 2015. Power Rates Study section 3.6.1. This forecast was determined by observing historical revenues from the current GTA Delivery Charge and escalating for anticipated growth in the GTA Delivery Charge billing determinant of Monthly Customer System Peak Load. Even though the rate and billing determinants are proposed to change, we do not expect this to change revenues to any significant degree.

Section 3: Supplemental Direct Assignment Guidelines

Section 3.1: Description of the Supplemental Direct Assignment Guidelines

Q. What are the Supplemental Direct Assignment Guidelines?

A. The Supplemental Direct Assignment Guidelines are a section in the 2014 Wholesale Power Rate Schedules and General Rate Schedule Provisions (GRSPs), I.E. The Supplemental Direct Assignment Guidelines were created by Power Services for use in combination with Transmission Services' Guidelines for Direct Assignment Facilities to

1 determine whether to recover the costs of Direct Assignment Facilities from transfer
2 service customers. The purpose of the Supplemental Direct Assignment Guidelines is to
3 provide guidance in specific cases that Power Services anticipates may occur but may not
4 be sufficiently addressed in the Transmission Services Guidelines. Some of the
5 Supplemental Direct Assignment Guidelines were developed as a result of past
6 circumstances where the Transmission Services Guidelines did not adequately address
7 the costs of Direct Assignment of Facilities incurred when providing transfer service.

8 Q. *Are you proposing any changes from the BP-12 Supplemental Direct Assignment*
9 *Guidelines?*

10 A. No. Our proposal regarding the Supplemental Direct Assignment Guidelines is to
11 continue the Supplemental Direct Assignment Guidelines unchanged.

12
13 **Section 3.2: Revenue Forecast for Supplemental Direct Assignment Guidelines**

14 Q. *Is there any forecast revenue associated with the Supplemental Direct Assignment*
15 *Guidelines?*

16 A. No. At this time there is no anticipated revenue from the Supplemental Direct
17 Assignment Guidelines. Should the Supplemental Direct Assignment Guidelines allow
18 recovery of costs from transfer customers, that revenue would be used to offset costs, so
19 that net revenue would equal zero.

Section 4: Transfer Service Operating Reserve Charge

Section 4.1: Description of the Transfer Service Operating Reserve Charge

Q. What is the Transfer Service Operating Reserve Charge?

A. The Transfer Service Operating Reserve Charge is a charge designed to compensate BPA for the cost of Operating Reserves assessed by third-party transmission providers and non-BPA balancing authorities for service to load.

Q. Who will pay the Transfer Service Operating Reserve Charge?

A. The Transfer Service Operating Reserve Charge applies to customers that meet the following criteria: (1) the power customer must be a Power Services transfer service customer; (2) the power customer must not be paying Transmission Services for Operating Reserves based on the 3 and 3 reliability standard (proposed in the operational change BAL-002-WECC-1) of the customer's load; and (3) Power Services must be assessed Operating Reserve charges from a third-party transmission provider to transmit Federal power to the power customer's load. If these criteria are met, the customer will be assessed a Transfer Service Operating Reserve Charge.

Q. Why is the Transfer Service Operating Reserve Charge being proposed?

A. The Transfer Service Operating Reserve Charge is being proposed in anticipation of a change in the way Operating Reserves are assigned between balancing authorities. Presently, BPA does not acquire Operating Reserves from third-party transmission providers for the transmission of Federal power to transfer service customers. Instead, transfer service customers meet their Operating Reserves obligation by acquiring these services from Transmission Services. The North American Reliability Council (NERC) and the Federal Energy Regulatory Commission (Commission) are considering a proposal to change the Operating Reserves requirement. If the Commission adopts the proposed change, BPA may be required to acquire (*i.e.*, pay for) Operating Reserves to serve transfer service customers. This will increase BPA's cost of providing transfer

1 service. At the same time, transfer service customers will experience a reduction in costs
2 paid to Transmission Services as a portion of the Operating Reserves obligations shifts to
3 Power Services to acquire Operating Reserves from third-party transmission providers.
4 The Transfer Service Operating Reserve Charge is designed to allow BPA to recover
5 these potential new costs.
6

7 **Section 4.2: Proposed Methodology for the Transfer Service Operating Reserve Charge**

8 *Q. What is the proposal for the Transfer Service Operating Reserve Charge for the BP-14*
9 *rate period?*

10 *A.* We propose that the Transfer Service Operating Reserve Charge mirror the proposed
11 ACS-14 Operating Reserve rates. We also propose that for the BP-14 rate period the
12 Transfer Service Operating Reserve Charge consist of two rates: one that mirrors the
13 Operating Reserve – Spinning Reserve Service rate; and one that mirrors the Operating
14 Reserve – Supplemental Reserve Service rate. See BP-14-E-BPA-05, section 4. The
15 Transfer Service Operating Reserve Charge would be applied to customers in the same
16 manner as the ACS-14 Operating Reserve rates, except that BPA would charge for only
17 the portion of reserve obligation that is based on the customer’s load and not the portion
18 based on generation.

19 *Q. Why do you propose that the Transfer Service Operating Reserve Charge mirror the*
20 *proposed ACS-14 rates for Operating Reserve – Spinning Reserve Service and Operating*
21 *Reserve – Supplemental Reserve Service?*

22 *A.* We propose this for two reasons. First, as noted before in the context of the GTA
23 Delivery Charge, it has been BPA’s general policy objective, where reasonable, to treat
24 transfer service customers in the same manner as non-transfer service customers. The
25 proposed Transfer Service Operating Reserve Charge implements this policy by charging

1 eligible transfer service customers the same rates for Operating Reserves as are charged
2 to non-transfer service customers.

3 Second, because of the many implications of a potential change to the way the
4 Western Interconnection accounts for Operating Reserve obligation (*i.e.*, from charging
5 utilities based on only the Balancing Authority Area where the generation is located to
6 charging utilities based on both the Balancing Authority Area where the generation is
7 located and where the load is located), we anticipate that third-party providers will be
8 changing the rates they charge for Operating Reserves. With so much uncertainty in the
9 industry about the way the new Operating Reserves requirement will be implemented, we
10 could not compile data to accurately forecast the potential Operating Reserves costs BPA
11 could experience from third-party transmission providers. Instead, we reviewed the
12 Operating Reserve rates and considered them a reasonable approximation of other
13 transferors' Operating Reserves rates. We also expect that the Operating Reserves rates
14 will continue to be a reasonable approximation of the costs BPA is likely to experience if
15 the Commission were to adopt the proposed Operating Reserve change.

16 Q. *When would BPA begin charging the Transfer Service Operating Reserve Charge?*

17 A. We expect that BPA would begin charging the Transfer Service Operating Reserve
18 Charge following implementation of the change to the Operating Reserves requirement.

19
20 **Section 4.3: Revenue Forecast for Transfer Service Operating Reserve Charge**

21 Q. *Is there an expectation for revenue from the Transfer Service Operating Reserve Charge?*

22 A. No. We are currently forecasting no revenue from the Transfer Service Operating
23 Reserve Charge because we do not know when the proposed change to Operating
24 Reserves would become effective.

25 It is possible that the Commission may act before the end of this rate proceeding.
26 In that event, if there is sufficient data, a revenue forecast may be created.

1 Q. *Does this conclude your testimony?*

2 A. Yes.

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