BONNEVILLE POWER ADMINISTRATION

IN THE MATTER OF	**)**	**BPA Docket No. BP-14**
	)	
FY 2014-2015	**)**	
PROPOSED RATE	**)**	
ADJUSTMENTS	**)**	
	)	

INITIAL BRIEF OF JOINT PARTY 03
Consisting of:

Northwest Requirements Utilities and
Pacific Northwest Generating Cooperative and Members

May 1, 2013

Subjects of Brief:

Segmentation of Bonneville's Transmission System
Utility Delivery Charge
Scheduling, System Control, and Dispatch Service Billing Factor
Proposed Power Rates Increase
Miscellaneous Power Rate Proposals
General Transfer Agreement Delivery Charge
Contracted For/Committed To Loads
Process to Evaluate Risk

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INTRODUCTION

In accordance with § 1010.13(c) of the Bonneville Power Administration's ("Bonneville's") Procedures Governing Rates Hearings,[1] Northwest Requirements Utilities ("NRU") and Pacific Northwest Generating Cooperative ("PNGC") and Members,[2] (collectively, "JP03") submit this Initial Brief to set forth their positions on certain legal, factual, and policy arguments on issues that the Administrator must decide in this proceeding.

This brief discusses several Bonneville transmission and power rate issues: (1) how Bonneville segments its transmission system for ratemaking purposes, (2) staff's proposal to increase the Utility Delivery Charge ("UDC") by 25% and initial recommendation to change the UDC billing factor, (3) the Scheduling, System Control, and Dispatch Service ("SCD") billing factor, (4) the proposed power rate increases, (5) miscellaneous power rate proposals, (6) the General Transfer Agreement ("GTA") Delivery Charge, (7) Contracted For/Committed To ("CF/CT") loads, and (8) Bonneville's current financial position. In addition to this brief, the parties comprising JP03 have filed briefs with other parties on other issues in the BP-14 proceeding.

In this brief, JP03 (1) supports Bonneville's current segmentation of its transmission system and urges the Administrator to reject proposals to redefine the Integrated Network segment ("Network segment") as suggested by other parties to this proceeding, (2) opposes the

[1] 51 Fed. Reg. 7,611 (March 5, 1986).
[2] Pacific Northwest Generating Cooperative's Members include: Blachly-Lane County Cooperative Electric Association; Central Electric Cooperative, Inc.; Clearwater Power Company; Consumers Power, Inc., Coos-Curry Electric Cooperative, Inc.; Douglas Electric Cooperative, Inc.; Fall River Rural Electric Cooperative, Inc.; Lane Electric Cooperative, Inc.; Lincoln Electric Cooperative, Inc.; Northern Lights, Inc.; Okanogan County Electric Cooperative, Inc.; Raft River Rural Electric Cooperative, Inc.; Umatilla Electric Cooperative Association; and West Oregon Electric Cooperative, Inc.

staff proposals to increase the UDC and to change the UDC billing factor and instead offers an alternative UDC policy proposal, (3) opposes any changes to the SCD billing factor, (4) expresses concern about the proposed power rates increase, (5) supports several of Bonneville staff's power rates proposals, (6) opposes the Industrial Customers of Northwest Utilities ("ICNU") recitation of arguments regarding treatment of CF/CT loads that the Administrator has already rejected (7) addresses treatment of the GTA Delivery Charge in this case, and (8) supports Bonneville convening a meeting to discuss rate levels and risk.

ARGUMENT

I. Segmentation of Bonneville's Transmission System

For the reasons set forth below, the Administrator should retain Bonneville's current transmission segmentation policy and reject the proposals put forth by Joint Party 12 ("JP12"), Joint Party 6, ("JP06"), Powerex, and MSR.

A. Bonneville's Integrated Network Segment Includes Facilities that Serve a Transmission Function and Provides Benefits to Nearly All of Bonneville's Customers. JP12, JP06, Powerex, and MSR Propose to Redefine the Network Segment in a Manner Contrary to Bonneville's Mission and Statutory Obligations.

In Bonneville's Initial Proposal, Bonneville staff proposed to continue to segment the Bonneville transmission system into seven segments: Generation Integration, Integrated Network, Southern Intertie, Eastern Intertie, Utility Delivery, Direct Service Industry Delivery and Ancillary Services.[3] Bonneville has segmented its system into these segments since 1996 with the exception of the Ancillary Services segment, which Bonneville established in 2002.[4] The Network segment "is the core of [Bonneville's] transmission system."[5] This segment

[3] BP-14-E-BPA-06 at 3.
[4] *Id.*
[5] *Id.* at 4.

transmits power directly to wholesale customers, the Delivery and Intertie segments, and other interconnections with adjacent balancing authority areas.[6] The Network segment includes facilities that "do not serve distinct functions like the Generation Integration or Southern Intertie segments do," and "provide services and benefits to nearly all of [Bonneville's] customers, including users of both Federal and non-Federal power."[7] As a result, Bonneville treats these facilities as integrated for purposes of cost allocation and recovery.[8]

Several parties, including JP12, JP06, Powerex, and MSR, submitted testimony advocating that Bonneville should change its approach to how it segments its transmission system.[9] These parties claim that certain lower voltage facilities should not be included in Bonneville's Network segment, because only a subset of Bonneville's transmission customers benefit from them.[10] They urge Bonneville to redefine the Network segment in a way that would remove these lower voltage facilities from the Network and would directly assign the costs of those facilities to the customers or that class of customers who allegedly benefit from them.[11]

The JP12, JP06, Powerex, and MSR proposals are simply unacceptable. They argue these facilities provide a distribution, not a transmission, function.[12] They argue that Bonneville should use their misguided application of the Federal Energy Regulatory Commission ("FERC") seven factor test to segment the system and that the NERC ("North American Electric Reliability Corporation") Bulk Electric System ("BES") definition is applicable in a Bonneville ratemaking

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[6] *Id.*
[7] *Id.*
[8] *Id.*
[9] *See* BP-14-E-JP12-01; BP-14-E-JP06-01; BP-14-E-PX-E01; BP-14-E-MS-01.
[10] *Id.*
[11] BP-14-E-JP12-01 at 6-7, 13, 20.
[12] BP-14-E-JP12-01 at 19; BP-14-E-JP06-01 at 7; BP-14-E-PX-E01 at 17; BP-14-E-MS-01 at 27.

context.[13] They also argue that Bonneville's segmentation is inconsistent with equitable cost allocation.[14]

As described in detail below, each of these assertions is false and does not provide any justification for Bonneville to change the way it segments its system. FERC's seven-factor test and the NERC BES definition have absolutely no application in Bonneville ratemaking. Additionally, the parties' assertions about the equitable allocation between federal and nonfederal uses of the transmission system are no longer relevant in light of Bonneville's implementation of the Regional Dialogue Policy and Regional Dialogue contracts, nor have they been relevant since 1996.[15] Finally, it is important to make clear that the facilities that these parties propose to remove from the Network Segment are transmission, not distribution, facilities.

Moreover, these parties' ideas are completely contrary to Bonneville's statutory obligation to encourage the widest possible diversified use of electrical power. Indeed, from its very inception, Bonneville's core mission has been to provide low cost electricity throughout the Northwest, particularly to rural areas. The proposals put forth by JP12, JP06, Powerex, and MSR would do exactly the opposite. In fact, to directly allocate the costs of these facilities to Bonneville's most rural customers would penalize those Bonneville customers who have the fewest customers to whom to spread the costs of transmission. Their concepts, which they fail to fully articulate or quantify, would have Bonneville provide transmission service to remote rural areas at a much higher cost than Bonneville serves its more urban and populated areas.

B. Bonneville's Historical Mission Is an Essential Part of Bonneville's Segmentation Policy and Definition of the Network Segment.

[13] BP-14-E-JP12-01 at 25, 30.
[14] BP-14-E-JP12-01 at 20, 21; BP-14-E-JP06 at 17; BP-14-E-PX-01-E01 at 14.
[15] BP-14-E-JP03-03 at 19-20.

Knowledge of Bonneville's history and purpose is fundamental to comprehending why the proposals put forth by JP12, JP06, Powerex, and MSR are unacceptable. Their ideas are contrary to Bonneville's statutory obligations and would upend over 75 years of policies to assure widespread distribution of low cost power from the federal hydroelectric projects of the Federal Columbia River Power System ("FCRPS") to the entire Northwest region, especially the rural communities and farms of the Northwest.

During the early part of the 20th Century, investor owned utilities ("IOUs") controlled both production and transmission of power.[16] The construction of the federal dams on the Columbia River System broke the monopoly that the IOUs had on power, but the IOUs retained a monopoly on transmission.[17] This effectively prevented rural areas from being electrified, because IOUs did not see it as profitable to build transmission to serve the sparsely populated areas of the Northwest.[18]

The issue of rural electrification was front and center of the presidential elections in 1932 and 1936.[19] During Franklin D. Roosevelt's 1932 campaign, he visited Portland and gave an address on public utilities and the development of hydroelectric power. Roosevelt's speech centered on why too few Americans had yet to reap the benefits of electricity:

> The reason is frankly and definitely that many selfish interests in control of light and power industries have not been sufficiently far-sighted **to establish rates low**

[16] BP-14-E-JP03-03 at 24 (citing Gene Tollefson, *BPA and the Struggle for Power at Cost*, 50th Anniversary Edition (1987) at 47-86).
[17] BP-14-JP03-03 at 24; *Columbia River Power for the People: A History of Policies of the Bonneville Power Administration* at 47-54 (included as Attachments to Western Public Agencies Group ("WPAG") Rebuttal Testimony Regarding Segmentation, BP-14-E-WG-03, *See* BP-14-E-WG03-AT02, BP-14-E-WG03-AT03, and BP-14-E-WG03-AT04).
[18] BP-14-JP03-03, page 24, lines 7-10; *Columbia River Power for the People*, pages 47-86.
[19] The issue of rural electrification was not confined to the Pacific Northwest. Roosevelt created the Rural Electrification Administration ("REA") by executed order in 1935 in order to address the issue through the United States. Congress gave the REA statutory basis the next year. *Columbia River Power for the People* at 48.

> **enough to encourage widespread public use. I wish that every community in the United States could have rates as low as you have them here in Portland.** . .. It is the duty of our representative bodies to see that **this power is transferred into usable electrical energy and distributed at the lowest possible cost.** . . . This vast water power can be of incalculable value **to this whole section of the country**.. . .,[T]he Columbia River in the Northwest. . . will be forever a national yardstick to prevent extortion against the public **and to encourage the wider use of that servant of the people--electric power**.[20]

After Roosevelt was elected, rural electrification became a primary goal of his New Deal policies. He returned to Oregon four years later, this time as President, to give an address at the newly constructed Bonneville Dam and further elaborate on his vision for how the benefits of the federal dams on the Columbia River System should be distributed:

> I understand fully the desire of some who live close to some of the great sources of power in this watershed to seek the advantages which come from geographical proximity . . . when I became Governor of the State of New York, we developed plans for the harnessing of the St. Lawrence River and the production of a vast amount of cheap power. The good people who lived within a few miles of the proposed dam were enthused by the prospect of building up a huge manufacturing center close to the source of the power, another Pittsburgh, a vast city of whirling machinery. It was a natural dream, but wiser counsels prevailed and the government of the State laid down **a policy based on the distribution of the proposed power to as wide an area as the science of the transmission would permit.** We felt that the Governor and the Legislature of the State owed it **to the people in the smaller communities for hundreds of miles around to give them the benefit of cheap electricity in their homes and their farms and their shops**. . . I have no doubt . . . of the application of **the policy of the widest possible use when the electric current starts to flow.** That is why in developing electricity from this Bonneville Dam, from the Grand Coulee Dam and from other dams to be built on the Columbia and its tributaries, **the policy of the widest use ought to prevail**. . . we will do everything in our power to encourage the building up of the smaller communities of the United States. . .Truly, in the construction of this dam we have had our eyes on the future of the Nation. Its cost will be returned to the people of the United States many times over in the improvement of navigation and transportation, the cheapening of electric power, and **the**

[20] BP-14-JP03-03 at 25 (citing Franklin D. Roosevelt, A Campaign Address on Public Utilities and Development of Hydroelectric Power, Portland, OR, September 21, 1932, http://newdeal.feri.org/speeches/1932a.htm (emphasis added)).

distribution of this power to hundreds of small communities within a great radius.[21]

During the construction and completion of the Bonneville and Grand Coulee Dams, there was much debate throughout the Northwest and in Washington, D.C. about how the benefits of these dams should be distributed. Questions of whether the Federal Government should construct and operate transmission systems and how the costs of that power, including the costs of the transmission of that power, should be recovered were key issues in the policy debate.

Not everyone agreed with Roosevelt's vision, namely the urban dwellers who wanted to see the city of Portland reap the benefits of the publicly owned Bonneville Dam. In the 1934 *Report of the Bonneville Commission* to the Oregon State Legislature, the majority of the Commission's members "viewed the Bonneville Dam as a local project with a trunk line to the Portland-Vancouver area to connect with existing lines of local companies and new lines of prospective large industries."[22] However, a minority of the Commission recognized that the expansion of transmission lines through the Northwest would result in the Columbia River dams being developed faster. [23]

In the meantime in Washington, D.C., Congress and the Federal agencies with an interest in the Columbia River dams debated the makeup of the agency that would market the power from the federal dams. A key document to arise from the debates, which would ultimately lay much of the groundwork for the Bonneville Project Act, was the 1935 Pacific Northwest Regional Planning Commission report on the *Columbia Basin Study*.[24] Notably, the report

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[21] BP-14-JP03-03 at 26 - 27 (citing Franklin D. Roosevelt, Address at Bonneville Dam, September 28, 1937, http://newdeal.feri.org/speeches/1937c.htm (emphasis added)).
[22] *Columbia River Power for the People* at 53.
[23] *Id*.
[24] *Id*. at 79. The Columbia Basin Study was formally known as the *Regional Planning Part I – Pacific Northwest*.

addressed how the rate construct would either advance or hinder the goal of encouraging the widest possible diversified use of the electric energy generated at the Columbia River dams.

> We have stated before that the principle to be kept in mind in thinking of the operating problem for the Federal hydroelectric developments of the Columbia system is that the distribution of this electric energy is to be done in the manner which will achieve the maximum regional and national benefit **by making available this energy to the greatest number of people at the lowest rates** consistent with the solvency of these works. It is the conviction of both the Pacific Northwest Regional Planning Commission and the National Resources Committee that this principle **requires the adoption of a rate policy which will make wholesale energy available at similar prices over large areas. Such a policy will tend to contribute to the decentralization of new industries, the stabilization of existing communities, and should lessen the folly of competition between cities which will inevitably arise if the rates are designed in accordance with a series of distance zones with the cheapest rate at or near the generating sites**.[25]

Congress passed The Bonneville Project Act, creating the Bonneville Power Administration, in 1937.[26] The major policies of the Act include:

> (1) **encourage the widest possible use of electric energy**; (2) operate for the benefit of the general public, and **particularly domestic and rural consumers**; (3) preserve the preference and priority for public bodies and cooperatives; (4) **provide for uniform rates or rates uniform throughout prescribed transmission areas**; and (5) set wholesale rates on the basis of actual costs, as determined by specific guidelines.[27]

As demonstrated here and as Bonneville staff notes in its testimony, "from its very beginning, [Bonneville's] mission was different from that of investor-owned utilities."[28] The Agency's mission included, "social considerations as to how the power was distributed."[29] As

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[25] BP-14-E-JP03 at 25 (citing Pacific Northwest Regional Planning Commission report on the *Columbia Basin Study*, December 1935, http://www02.us.archive.org/stream/regionalplanning00unit/regionalplanning00unit_djvu.txt (emphasis added)).
[26] 16 U.S.C. § 832; *Columbia River Power for the People* at 62.
[27] *Columbia River Power for the People* at 64 (emphasis added).
[28] BP-14-E-BPA-42 at 6.
[29] *Id*.

the first Bonneville Administrator, J.D. Ross was charged with developing a rate construct that followed the ratemaking guidance contained in the Bonneville Project Act.[30] J.D. Ross had been the superintendent of Seattle City Lights and "was a vocal proponent of uniform rates throughout the region."[31] He sought input from the entire Northwest region on this issue, holding public hearings in Salem, Olympia, Boise, Walla Walla, Pendleton, Spokane, Yakima, and Portland.[32] At the conclusion of those hearings, about 80 percent of the 440 pages of testimony supported the postage stamp rate construct.[33] In 1938, Administrator Ross adopted a uniform $17.50 per kilowatt-year rate for power anywhere along the transmission system, and a discounted $14.50 per kilowatt-year rate within fifteen miles of the dam if the customer was willing to provide the transmission.[34] This rate remained in place for 27 years.[35]

Over time Bonneville has had to adapt its transmission and power rates, including segmenting its transmission system, to accommodate changes in the electric industry, but the policy of postage stamp rates has remained a fundamental tenant of Bonneville's ratemaking for transmission service.[36] For Network service Bonneville has always used the postage stamp rate concept[37] to meet its primary purpose to encourage the widest possible diversified use of electric power in the Northwest at the lowest possible rates to all consumers regardless of where those consumers are located.[38] And, indeed, the Bonneville Project and Bonneville's subsequent organic statutes require it, as described in the next section.

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[30] *Columbia River Power for the People* at 66.
[31] BP-14-E-BPA-42 at 11.
[32] *Columbia River Power for the People* at 85.
[33] *Id*.
[34] *Id*. at 85-86.
[35] *Id*. at 86.
[36] *See* BP-14-E-BPA-42 at 13-14.
[37] *Columbia River Power for the People* at 47-86.
[38] 16 U.S.C. 832(b); *Columbia River Power for the People* at 47-86.

C. Bonneville's Organic Statutes Necessitate a Uniform Transmission Rate.

As laid out in the previous section, the historical context of Bonneville's creation demonstrates why a uniform transmission rate is necessary. Bonneville's current definition of the Network segment comports with Bonneville's obligation to set rates that encourage the widest possible diversified use of electric power in the Northwest. Conversely, the proposals put forth by JP12, JP06, Powerex, and MSR would do exactly the opposite and would have Bonneville serving its most remote and rural customers at a much higher rate than it serves its other customers. An examination of Bonneville's organic statutes and their legislative histories does not support the notion that deviating from a postage rate construct is consistent with Congress's intent when it passed the Bonneville Project Act and Bonneville's subsequent organic statutes.

In the 1930s, Congress was very concerned with bringing electricity to the rural communities throughout the country. For example, in 1936 Congress passed the Rural Electrification Act and authorized the Rural Electrification Administration.[39] To achieve this Congressional objective in the Northwest, the Bonneville Project Act provided Bonneville with the authority to build the necessary transmission facilities to electrify the rural communities and farm areas of the region.[40]

The Bonneville Project Act obligates Bonneville "to encourage the widest possible use of all electric energy"[41] and to ensure that the federally owned hydroelectric facilities on the Columbia River and its tributaries are, "operated for the benefit of the general public, and

[39] 7 U.S.C. § 901 (1936).
[40] 16 U.S.C. 832.
[41] 16 U.S.C. 832a(b).

particularly of domestic and rural consumers."[42] Section 6 of the Bonneville Project Act directs Bonneville to set rates "with a view to encouraging the widest possible diversified use of electric energy."[43] The rate schedules "may provide for uniform rates or rates uniform throughout prescribed transmission areas in order to extend the benefits of an integrated transmission system and encourage the equitable distribution of the electric energy developed at the Bonneville project."[44]

The legislative history of the Bonneville Project Act further illuminates Congress's intent. Congresswoman Nan Wood Honeyman of Oregon spoke to the issue of rural electrification:

> I cannot too strongly stress what this means to the people of that entire area. We know what the agricultural and rural elements mean to this country. We cannot ask or expect these people to remain in rural areas to carry on the farming industry without the benefits and conveniences of modern improvements, without the modern comforts that come through the use of electrical appliances and are enjoyed by those in metropolitan districts. But they cannot use electrical appliances unless they can get cheap electric power that is to be developed at Bonneville . . . For this reason I favor the distribution of power over the widest possible area to the ultimate consumer at lowest cost possible.[45]

Senator Charles L. McNary of Oregon spoke of the benefits of widely distributing the power generated at the dams:

> This bill also provides, probably something unique, that the power shall be distributed as widely as possible . . . It is sought by this provision to make certain that any benefits which may accrue shall not be provincial in their application, but shall be distributed as far as is practicable . . . But we have placed no limitations on the area of distribution. The language encourages a wide and equitable distribution of the benefits of the rates which may be enjoyed by the people who live in the great Northwest section of the country.[46]

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[42] 16 U.S.C § 832c(a).
[43] 16 U.S.C. § 832e.
[44] *Id*.
[45] Vol. 81 Congressional Record 7532 (July 23, 1937).
[46] Vol. 81 Congressional Record 8523 (August 9, 1937).

And, Senator James P. Pope of Idaho discussed advantages of low and uniform rates:

> [T]his is one of the purposes of starting a project at Bonneville. Many parts of the great Northwest section are not now being reached and supplied with electric energy. Therefore, it is important that they should be reached, if possible, by fixing of rates as low as possible and by such other means as may be used to the best advantage to attain that much desired objective. Therefore the term " uniform rates" appeals to me very much. In that manner I believe we will be enabled to extend the use of electric energy to a great many people who might not otherwise be able to have it.[47]

Throughout Bonneville's existence, Congress maintained the notion of establishing rates to encourage the "widest possible diversified use" by including it *in every subsequent Bonneville organic statute*. The Flood Control Act directs the Secretary of Energy to "transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles."[48] The Transmission System Act requires the Administrator to fix and establish rates "with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles."[49] The rates and charges for transmission "may provide, among other things, for uniform rates or rates uniform throughout prescribed transmission areas."[50] Finally, the Northwest Electric Power Planning and Conservation Act provides that rates must be established in accordance with the requirements set forth in the Transmission System Act.[51]

The segmentation ideas put forth by JP12, JP06, Powerex, and MSR conflict with this statutory obligation to encourage the widest possible diversified use of electric power in the Northwest. Bonneville spreads the costs of its transmission facilities across a large customer

[47] Vol. 81 Congressional Record 8527 (August 9, 1937).
[48] 16 U.S.C. 825s.
[49] 16 U.S.C. 838g.
[50] 16 U.S.C. 838h.
[51] 16 U.S.C. 839e(a)(1).

base to ensure that Bonneville is encouraging the widest possible diversified use at the lowest possible rates of electric power in the Northwest. By allocating the costs across a large customer base, Bonneville helps to provide a more level playing field between the urban and rural communities of the Northwest. JP12's, JP06's, Powerex's, and MSR's ideas would have the affect of significantly increasing the rates paid by the Northwest's most rural communities and very slightly decreasing the rates paid by the Northwest's more urban communities.

D. Bonneville's Segmentation Policy Does not Raise a Question about the Equitable Allocation of the Costs of the Bonneville's Transmission System.

JP12, JP06, and Powerex argue that Bonneville's current definition of the Network Segment does not result in equitable cost allocation or causation.[52] JP12 cites Section 10 of the Transmission Act and Section 7(a)(2)(C) of the Northwest Power Act, which require Bonneville to equitably allocate the cost of the Federal and non-Federal power utilizing the system.[53] However, the distinction between Federal and non-Federal is no longer relevant as Bonneville no longer distinguishes between Federal and non-Federal power when setting transmission rates.

As a result of open access policies, which Bonneville first adopted in 1996, Bonneville separated its power and transmission business lines and removed transmission costs from power rates.[54] These changes included changing the focus of segmentation "from identifying the Network segment based on facilities that were used by both Federal and non-Federal power to a Network segment based on the facilities necessary to provide transmission service to all customers."[55] Today, Bonneville transmission customers pay the same rates for the same

[52] BP-14-E-JP12-01 at 21, lines 1-11; BP-14-E-JP06-01 at 17; BP-14-E-PX-01 at 14.
[53] BP-14-E-JP12-01 at 21.
[54] BP-14-E-BPA-42 at 39.
[55] *Id*.

transmission service over the Network Segment, regardless of whether the power being delivered is Federal or non-Federal.[56]

Furthermore, beginning in 1996, many preference customers that traditionally served 100 percent of their loads with federal power purchased from Bonneville began diversifying their power supply and serving their load with non-federal power from a variety of non-federal suppliers. NRU and PNGC members have been, and are developing, non-federal renewable resources and obtaining market purchases to serve load and supply a portion of their load from non-federal parties. A key objective of the Regional Dialogue contracts is to develop non-federal resources.[57] The Regional Dialogue Policy expressly encourages preference customers to bring non-federal power to serve load.[58] Many NRU and PNGC members are bringing non-federal power to load over the Integrated Network including the wholesale points of delivery at 34.5 kV and above.[59] Therefore, the question of how Bonneville segments its transmission system has nothing to do with "equitable cost allocation" requirements between Federal and non-Federal power. The current method of segmentation does not favor or disadvantage any particular sources of power, whether federal or non-federal.

E. Neither FERC's Seven-Factor Test nor the BES Definition Have Any Application in Bonneville Ratemaking.

JP12 attempts to stretch the application of FERC's seven-factor test and NERC's BES definition to include Bonneville ratemaking, but their application to Bonneville ratemaking is improper and should be rejected.

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[56] *Id*.
[57] *See* Bonneville Power Administration Long-Term Regional Dialogue Final Policy at 2-3, 8 (July 2007).
[58] *Id*.
[59] BP-14-E-JP03-03 at 19-20.

1. FERC's Seven-Factor Test Is Not Applicable to Bonneville, Because Bonneville Provides Only Wholesale Transmission Service.

JP12 suggests that Bonneville should use FERC's seven-factor test to redefine the Network segment.[60] However, FERC's seven-factor test has no application in ratemaking for wholesale transmission service, and Bonneville provides only wholesale transmission service except for its Direct Service Industry customers ("DSIs"), to whom direct service is statutorily-mandated.

As JP12 states, in Order No. 888,[61] FERC declared that the seven-factor test would be used to determine whether a facility is distribution or transmission for unbundled retail wheeling, and therefore, subject to FERC jurisdiction.[62] However, JP12 ignores the fact that the seven-factor is not a standalone test. Order No. 888 provides that, in order to establish whether FERC has jurisdiction over a jurisdictional utility's transmission facility, it first must answer the question of whether the transmission facility is used for unbundled *wholesale* wheeling or whether the facility is used for unbundled *retail* wheeling.[63] If the facility is being used for wholesale purposes, FERC determines it has jurisdiction over that facility and the analysis ends there. *Only if* the facility is being used for retail purposes does FERC even apply the seven-factor test. Therefore, if the FERC jurisdictional test were applied to Bonneville, the analysis would end at the first stage; Bonneville facilities are used for unbundled *wholesale* wheeling and

[60] BP-14-E-JP12-01 at 22-23, 32.
[61] *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036, 61 Fed. Reg. 21540 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048, *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), ("Order No. 888").
[62] BP-14-E-JP12-01 at 22 (citing Order No. 888).
[63] Order No. 888 at pp. 21619-21620; 21626-21627.

Bonneville does not provide retail service. Clearly, JP12 is advocating that Bonneville apply a jurisdictional test for a purpose it was never intended to perform.

2. The BES Definition Has No Application in Bonneville Ratemaking.

JP12 proposes that Bonneville use the BES definition as a starting point for determining which facilities should be part of the Network segment.[64] JP12 claims that if a facility is in the BES, it should be included in the Network segment and if it is not considered part of the BES, it should be excluded from the Network segment.[65] However, JP12 fails to justify why the BES definition should be applied in a Bonneville, or any other, ratemaking context. The BES has no role in wholesale transmission ratemaking in general, and in Bonneville wholesale transmission ratemaking in particular.

Section 215 of the Federal Power Act requires a FERC-certified Electric Reliability Organization ("ERO") to develop mandatory and enforceable Reliability Standards, subject to Commission review and approval.[66] FERC certified the North American Electric Reliability Corporation ("NERC") as the ERO, which then developed the definition of the BES.[67] FERC approved the initial BES definition in Order No. 693 and the recently revised BES definition in Order No. 773.[68] The BES definition addresses the applicability of the Mandatory Reliability Standards to certain utilities or facilities and does not address any aspect of utility ratemaking.

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[64] BP-14-E-JP12-01 at 24.
[65] *Id*.
[66] 16 U.S.C. 824o (2006).
[67] North American Reliability Corp., 116 FERC ¶ 61,062 (2006), *order on reh'g and compliance*, 117 FERC ¶ 61,126 (2006) (certifying NERC as the ERO responsible for the development and enforcement of mandatory Reliability Standards), *aff'd sub nom*. Alcoa Inc. v. FERC, 564 F.3d 1342 (D.C. Cir. 2009).
[68] *See Mandatory Reliability Standards for the Bulk-Power System*, Order No. 693, FERC Stats. & Regs. ¶ 31,242, *order on reh'g*, Order No. 693-A, 120 FERC ¶ 61,053 (2007); *Revisions to Electric Reliability Organization Definition of Bulk Electric System and Rules of Procedure*, 141 FERC ¶ 61236 (2012).

Nothing in section 215 of the Federal Power Act, FERC Order No. 693 or FERC Order No. 773 provides any support that the BES definition should be applied in a ratemaking context.[69] In fact, FERC's authority under section 215 of the Federal Power Act is separate and discrete from its authority under sections 201, 205, and 206.[70] These sections provide FERC's authority over jurisdictional utilities' ratemaking while section 215 addresses only reliability and gives FERC jurisdiction in a very different context and over a different set of utilities.[71] The Administrator should reject JP12's and Powerex's contention that Bonneville should consider the BES definition as part of its segmentation methodology.

F. The Facilities that JP12, JP06, Powerex, and MSR Propose to Remove From the Network Segment Serve a Transmission Function.

JP12, JP06, and Powerex claim that the above-34.5 kV threshold for which facilities should be included in the Network Segment is only a result of the 1996 Settlement Agreement.[72] They argue that the facilities they propose to remove from the Network segment do not provide a transmission function.[73] However, the facilities they propose to remove from the Network do provide a transmission function and to allocate the costs of those transmission facilities to individual utilities or to a smaller customer class would unfairly penalize many of Bonneville's transmission customers.

The facilities Bonneville proposes to include in the Network segment benefit the majority of Bonneville's transmission customers. These benefits "include displacement (local generation serving load instead of remote generation scheduled to serve that load), bulk power transfers,

[69] When asked directly whether JP12 knew of any transmission provider that applied the BES definition in a ratemaking context, JP12 could not provide any examples. *See* the response to Data Requests BPA-JP12-16 and JP03-JP12-1.
[70] 16 U.S.C. 824d; 16 U.S.C. 824e.
[71] 16 U.S.C. 824o.
[72] BP-14-E-JP12-01 at 7. BP-14-E-PX01-E01 at 8; BP-14-E-JP06-01 at 8.
[73] *Id*.

voltage regulation, and increased overall reliability resulting from alternative resource and transmission pathways."[74] Bonneville plans its system and operates the facilities included in the Network segment "on an integrated basis to achieve maximum efficiency on a system-wide basis."[75] Bonneville includes facilities that do not provide a transmission function in the Delivery segment to ensure that facilities that are used to step down power from transmission voltages to distribution voltages are paid for by the class of customers who benefit from those facilities.[76]

As JP03 described in detail in testimony, JP03's witnesses spoke with staff and examined the one-line diagrams of several of JP03's member utilities.[77] These utilities' staffs and one line diagrams confirmed that these utilities that have a 34.5 kV transmission system used to transmit power from substation to substation and generally do not have service drops to retail customers.[78]

Moreover, the current configuration of Bonneville's integrated transmission system is the result of 75 years of transmission policy and planning. If Bonneville were to significantly change the way it segments it system in the manner as JP12, JP06, Powerex, and MSR suggest, it would unfairly penalize Bonneville's most remote customers as they have built their electrical systems based on reliance of a stable and long held segmentation policy and as a product of Bonneville's one-utility planning construct in place for decades. Many Bonneville customers built their systems in accordance with Bureau of Reclamation directives and have configured ownership of their systems over decades around Bonneville's 34.5 kV bright line for the

[74] BP-14-E-BPA-06 at 4.
[75] *Id*.
[76] *Id*. at 6.
[77] BP-14-E-JP03 at 12.
[78] *Id*.

definition of the Network segment.[79] In order to avoid penalizing these utilities for adhering to and planning their systems around Bonneville's decades-long policy, the Administrator should retain the current definition of the Network segment.

G. Western Area Power Administration ("WAPA") and the Tennessee Valley Authority ("TVA") do not Differentiate Transmission Pricing by Voltage Level.

As part of their testimony in this proceeding, the JP03 witnesses surveyed other entities in a similar position to Bonneville.[80] Both WAPA and TVA serve a transmission role very similar to Bonneville. Both provide transmission services to their wholesale customers who then transmit and distribute that power to their end-use customers.[81] Neither TVA nor WAPA make any voltage level distinction in pricing over all of the voltage levels that they serve.[82] For TVA's and WAPA's customers, transmission service at lower voltage levels is priced the same as transmission service at higher voltage levels.[83]

H. Bonneville Should Retain Its Current Transmission Segmentation Policy.

In sum, Bonneville's current definition of the Network segment appropriately identifies facilities that serve a transmission function and should be part of the Network segment. It also complies with Bonneville's statutory obligations to encourage the widest possible diversified use of electrical energy. Conversely, the segmentation ideas put forth by JP12, JP06, Powerex, and MSR would disproportionally allocate the costs of Bonneville's transmission system to Bonneville's most rural customers. JP03 urges the Administrator to reject their proposals and firmly reestablish that the current definition of the Network segment best complies with Bonneville's mission and statutory obligations.

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[79] BP-14-E-JP03-03 at 20-21; Response to data request JP12-JP03-5.
[80] BP-14-E-JPO3-03 at 22.
[81] *Id*.
[82] *Id*.
[83] *Id*.

II. Utility Delivery Charge

The UDC is a specific charge for transmission service from Bonneville to customers receiving service at below 34.5 kV. Bonneville has been attempting to sell such facilities to its customers since 1996, and today it has succeeded in selling about 80 percent of them.[84]

In the Bonneville BP-14 Initial Proposal, staff proposed to increase the UDC 6.9 percent and to change the UDC billing factor from "the customer's total load at the points of delivery specified as Utility Delivery facilities on the hour of the [Bonneville] transmission system's monthly peak" [85] to the "customer's hourly load at the points of delivery specified as Utility Delivery facilities on the hour of the customer's highest Network Load."[86] Together, staff stated, these proposed changes would mean an average 25 percent increase in the UDC for the "average Utility Delivery Customer."[87] Staff stated that a 25 percent rate increase would give customers "additional incentives"[88] to purchase the Utility Delivery facilities that are serving them. Staff also noted that the agency would consider another 25 percent rate increase in the next rate case.[89]

JP03 submitted direct testimony expressing serious concerns about staff's proposals. JP03 stated that a 25 percent increase in the UDC would violate the principle of rate shock and would "unfairly penalize the remaining Delivery Segment customers for the past rate case settlements and for [Bonneville's] success in selling off the lower cost, easier to sell Delivery

[84] BP-14-E-JP03-02 at 26.
[85] BP-14-E-BPA-30 at 9.
[86] *Id.*
[87] *Id.* at 10.
[88] *Id.* at 11.
[89] *Id.*

Facilities."[90] JP03 also pointed out that the proposed change in the UDC billing factor would result in widely disparate cost impacts for member utilities.[91]

JP03 argued that Bonneville should retain the current UDC billing factor and offered an alternative proposal for addressing UDC issues. JP03's proposal would place a renewed emphasis on Bonneville's flexibility in dealing with its Delivery customers' needs in order to effectuate the sale of Delivery Segment facilities over a six-year period, considering sales on a case-by-case basis and taking into account individual circumstances. During these six years, the UDC would increase at the overall rate of increase of rates for service over the Network segment.[92]

In rebuttal testimony, JP03 addressed assertions made by Iberdrola Renewables, LLC and Powerex in direct testimony about the UDC and maintained its support for its alternative UDC proposal.[93]

Bonneville staff provided rebuttal testimony maintaining support for the punitive 25 percent UDC rate increase and addressed the proposed change in UDC billing factor by stating:

> We recognize that our proposed billing factor has varying impacts on NRU and PNGC members. One way to eliminate these varying impacts is to *retain the current FY 2012-2013 Utility Delivery billing factor* and increase the Utility Delivery rate by 25 percent…*retaining the current billing factor is probably the most equitable alternative to mitigate disparate impacts among customers.*[94]

The JP03 parties continue to oppose the proposed 25 percent increase in the UDC and to support instead their proposal to address the UDC over the next six years while increasing the UDC at the overall rate of increase of rates for service over the Network segment. This approach

[90] BP-14-E-JP03-02 at 27.
[91] *Id.*
[92] *Id.* at 27-28.
[93] BP-14-E-JP03-03 at 2-7 (addressing BP-14-E-IR-01 at 7-10 and BP-14-E-PX-01 at 25).
[94] BP-14-E-BPA-43 at 16 (emphasis added).

would be a fair one that would give both Bonneville and its customers a reasonable means of addressing Utility Segment facilities without unfairly subjecting Utility Delivery Segment customers to rate shock.

Further, JP03 thanks Bonneville staff for recognizing the disparate impact that the proposed change in the UDC billing factor would have on our members. JP03 urges the Administrator to consider these concerns and retain the current UDC billing factor in this proceeding regardless of whatever other changes he decides to make to the UDC.

III. Scheduling, System Control, and Dispatch Service Billing Factor

Similar to the proposed change in billing factor for the UDC, Bonneville staff's Initial Proposal would change the SCD billing factor from the customer's total SCD load on the hour of the Bonneville transmission system's monthly peak to the customer's total SCD load on the hour of the customer's highest Network Load.[95] JP03's analysis presented in testimony showed that such a change in the SCD billing factor would be part of the unacceptably disparate rate impacts on utilities that changes in other billing factors would cause.[96]

As with other billing factors for other rates, JP03 opposes changes to the SCD billing factor and urges the Administrator to retain the current SCD billing factor in this proceeding. Doing so will avoid the contribution of the SCD charge to the unfairly disparate rate impacts on NRU's and PNGC's member utilities. Also, having different billing factors for the SCD charge and the NT rate would lead to unnecessary complexity.

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[95] *See* BP-14-E-JP03-02 at 25 (noting that staff's NT billing factor proposal would apply to other demand based charges, including the SCD charge). The JP03 parties are addressing the disparate impacts of a potential change to the NT rate billing factor in a separate brief with other parties: BP-14-B-JP23-01. The JP03 parties oppose a change in the NT rate billing factor for the same reasons they oppose a change to the UDC billing factor and SCD billing factor.

[96] BP-14-E-JP03-02 at 20-21.

IV. Proposed Power Rate Increases

Possibly the biggest impact on local utilities of this proceeding will be the proposed power rates increase for preference customers. Bonneville staff's Initial Proposal proposes to increase the agency's power rates for Tier 1 service to preference customers by an average of 9.6 percent.[97] As the Administrator is well aware, this is a significant rate increase.

Staff explains that the proposed rate increase is primarily a result of a $115 million reduction in forecast secondary sales revenue compared to the current rate period, offset slightly by reduced fuel costs for the Columbia Generating Station.[98]

In response to this proposed rate increase, JP03 submitted testimony expressing serious concern about the potential effect on local utilities. JP03 pointed out that rate increases are "always a challenge and difficult for local utilities to absorb."[99] JP03 noted that local utilities must pass on rate increases to retail customers, and that rate increases generally take money out of the local economy.

The JP03 parties encourage the Administrator to take a careful look at all Bonneville expenses prior to issuing a final Record of Decision in this proceeding and to do what he can to reduce the overall power rates increase on preference customers for the fiscal year 2014 – 2015 rate period.

V. Miscellaneous Power Rate Proposals

The proposed power rate increase being a major exception, JP03 supports the general approach that Bonneville is taking to setting power rates in this proceeding. Specifically, JP03 supports the following proposals from staff for setting Bonneville's power rates:

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[97] BP-14 Initial Proposal Summary at 3.
[98] *See* BP-14-E-JP03-01 at 2.
[99] *Id.*

1. The New Resource ("NR") Energy Shaping Service and True Up adjustment for New Large Single Loads taking the NR Energy Shaping Service.[100]

2. The case-by-case broadening of those cases where Unanticipated Load Service ("ULS") may be provided.[101]

3. Proposed language additions to the General Rate Schedule Provisions ("GRSPs") to clarify the intended ULS rate treatment for loads less than 1 MW.[102]

4. The specification of the Load Shaping True Up payment options in the GRSPs.[103]

5. The language changes for the Low Density Discount and the Irrigation Rate Discount.[104]

6. The demand charge adjustment for extreme load shifts.[105]

7. The demand charge adjustments of recovery peaks.[106]

8. The adjustment to power bills if a customer does not retain some or all of its Provisional Contract High Water Mark.[107]

9. The Tier 2 remarketing proposal.[108]

10. The Resource Remarketing Service for Bonneville customers' non-federal resources.[109]

11. The proposal for the Load Growth Rate billing adjustment.[110]

12. Application of a Cost Recovery Adjustment Clause to Ancillary and Control Area Services rates.[111]

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[100] BP-14-E-BPA-19 at 2-6.
[101] *Id.* at 6.
[102] BP-14-E-BPA-40 at 14; *see also* BP-14-E-JP03-01 at 8-9 (JP03 testimony expressing concerns about ULS GRSP language in the Initial Proposal).
[103] BP-14-E-BPA-19 at 8.
[104] *Id.* at 10-11.
[105] *Id.* at 12-13.
[106] *Id.* at 13-14.
[107] *Id.* at 14-15.
[108] BP-14-E-BPA-17 at 11-13.
[109] *Id.* at 17-19.
[110] *Id.* at 7-11.
[111] BP-14-E-BPA-15 at 32-33.

13. Bonneville's current approach to the Demand Rate.[112] JP03 opposes the Industrial Customers of Northwest Utilities ("ICNU") proposed changes to the Demand Rate.[113]

JP03 thanks Bonneville staff for including these proposals in testimony and urge the Administrator to adopt them.

VI. Contracted For and Committed To Loads

ICNU submitted testimony advocating that Bonneville serve CF/CT loads "at a Tier 1 rate or at a minimum a melded rate that includes all cost and resources used by [Bonneville] to serve the general requirement of Priority Firm customers."[114] JP03 strongly disagrees with ICNU's proposed treatment of CF/CT loads and submitted testimony explaining the fundamental problem that would arise if Bonneville were to serve CF/CT loads at a Tier 1 or melded rate.[115] If Bonneville adopted ICNU's concept, CF/CT loads would be treated as a special class that deserves special rate protection and treatment, and the Northwest Power Act does not provide for such special rate protection and treatment.[116] The term CF/CT comes from the definition of the term New Large Single Load ("NLSL") in Section 3(13)(A) of the Northwest Power Act. The Act defines NLSL as:

> any load associated with a new facility, an existing facility, or an expansion of an existing facility –
> **(A)**.which is not contracted for, or committed to, as determined by the Administrator, by a public body, cooperative, investor-owned utility, or Federal agency customer prior to September 1, 1979, and
> **(B)**.which will result in an increase in power requirements of such customer of ten average megawatts or more in any consecutive twelve-month period.[117]

[112] BP-14-E-BPA-01 at 68.
[113] *See* BP-14-E-IN-01 at 14 (providing the proposal); BP-14-E-JP03-04 at 1-3 (opposing the proposal).
[114] BP-14-E-IN-01 at 15.
[115] BP-14-E-JP03-04 at 5.
[116] *Id*.
[117] 16 U.S.C. 839a(13).

This definition merely recognizes that loads contracted for, or committed to, prior to September 1, 1979, are not given NLSL status. This simply means that CF/CT loads are excluded from service at the New Resources ("NR") rate. As Bonneville notes in its testimony,

> ICNU overstates the meaning and importance of the clause "contracted for, or committed to" within the definition of NLSL. The language in the statute did not, as ICNU contends, create a special class of load. Rather, the benefit of a CF/CT load designation is to include it with the other load that makes up the utility customer's general requirements load that the utility may purchase from [Bonneville] at [Priority Firm] rates.[118]

ICNU made similar arguments in both the TRM-12 and the BP-12 rate proceedings, and for similar reasons stated here, the Administrator rejected ICNU's arguments and upheld the treatment of CF/CT loads under the Tiered Rate Methodology.[119] JP03 urges the Administrator to once again reject ICNU's approach to treatment of CF/CT loads, which would afford a customer class special rate treatment that the Northwest Power Act does not provide.

VII. GTA Delivery Charge

In Bonneville rebuttal testimony on the GTA Delivery Charge, Bonneville staff states

> [Bonneville] Staff proposed to roll in the costs of delivering Federal power over facilities at or above 34.5kV and assess the GTA Delivery Charge for delivery over facilities below 34.5kV. If the segmentation of the Federal transmission system were to change, the Administrator would have to consider whether to continue this treatment.[120]

Staff requested briefing on this topic.[121] As JP03 addressed above, the suggestions to redefine the Network segment have no merit. The Agreement Regarding Transfer Service that Bonneville cites in its GTA rebuttal testimony also lends support to the notion that those facilities that are

[118] BP-14-E-BPA-37 at 14-15.
[119] Tiered Rate Methodology Rate Case, Administrator's Final Record of Decision, TRM-12-A-01 at 11-13 (November 2008); 2012 Wholesale Power and Transmission Rate Adjustment Proceeding (BP-12, Administrators Final Record of Decision, BP-12-A-02 at 40-50 (July 2011).
[120] BP-14-E-BPA-41 at 10.
[121] *Id.*

34.5 kV and above are facilities used to provide transmission service to Bonneville's customers and that rolled in treatment should continue.

VIII. Process to Evaluate Risk

As noted above, JP03 has serious concerns about the impacts the power rate increase will have on NRU's and PNGC's member utilities. A related issue is how Bonneville handles the risk associated with secondary revenues. As JP03 notes in testimony,

> [o]verestimates of secondary revenues lead to declining net revenues and increased [Cost Recovery Adjustment Clause] pressures. Underestimates lead to higher initial rates and increased net revenues. The issue of more or less secondary revenues presents a delicate balance between risk and rates for Non-Slice customers.[122]

JP03 suggests that Bonneville convene a meeting of the interested customers to discuss this balance when Bonneville and its customers have better forecasts regarding secondary revenues but early enough that the input can be factored into the Administrator's final determinations in this proceeding.[123] This would provide customers with the opportunity to provide more meaningful input with more information and for Bonneville and its customers to approach this issue of risk in a more collaborative fashion.

CONCLUSION

As discussed above, JP03 supports Bonneville staff's Initial Proposal and modifications thereto.

[122] BP-14-E-JP03-01 at 3.
[123] *Id*. at 3-4.

Respectfully submitted this 1st day of May, 2013.

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EXHIBITS LIST

Exhibit	Subject	Status
BP-14-Q-NR-01	Qualification Statement of Geoffrey H. Carr	Admitted
BP-14-Q-NR-02	Qualification Statement of John Saven	Admitted
BP-14-Q-PN-01	Qualification Statement of Aleka Scott	Admitted
BP-14-Q-PN-02	Qualification Statement of Douglas R. Brawley	Admitted
BP-14-Q-PN-03	Qualification Statement of John P. Prescott	Admitted
BP-14-E-JP03-01	FY 2014 to FY 2015 Power Rates and General Rate Schedule Provisions	Admitted
BP-14-E-JP03-02	Fiscal Years 2014 and 2015 Transmission Rates	Admitted
BP-14-E-JP03-03	Rebuttal Testimony Regarding Parties' Responses to the BPA Transmission Rate Proposal	Admitted
BP-14-E-JP03-02-E01	Errata to Direct Testimony of JP03	Admitted
BP-14-E-JP03-03-E01	Errata to JP03 Rebuttal Testimony	Admitted
BP-14-E-JP03-04	Rebuttal of Industrial Customers of Northwest Utilities on Demand Rate and Contracted for and Committed to Loads	Admitted
BP-14-E-JP14-01	Network Segment Cost Allocation and Transmission Rate Billing Factor	Admitted