UNITED STATES OF AMERICA

U.S. DEPARTMENT OF ENERGY

BEFORE THE

BONNEVILLE POWER ADMINISTRATION

Fiscal Years 2016 - 2017 Proposed Power And Transmission Rate Adjustments	))	BPA Docket No. BP-16

SURREBUTTAL TESTIMONY
OF THE
WESTERN PUBLIC AGENCIES GROUP

WITNESSES:

GARY SALEBA
ANNE FALCON
STEVE ANDERSEN

Exhibit No. BP-16-E-WG-03

SUBJECTS OF TESTIMONY:

Utility Delivery Charge
Montana Intertie

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

In the Matter of:	)	
	)	
	)	BPA Docket No. BP-16
FISCAL YEAR (FY) 2016-2017 PROPOSED	)	
POWER AND TRANSMISSION RATE	)	SURREBUTTAL TESTIMONY
ADJUSTMENTS	)	
	)	
	)	
_____	)	

SURREBUTTAL TESTIMONY OF WESTERN PUBLIC AGENCIES GROUP ("WPAG")

I. INTRODUCTION

Q. Would you state your names, employers and positions?

A. My name is Gary Saleba, and I am employed by EES Consulting. My current position is President. My qualifications and responsibilities are presented in the exhibit entitled Qualifications, BP-16-Q-WG-01.

A. My name is Anne Falcon, and I am employed by EES Consulting. My current position is Senior Associate. My qualifications and responsibilities are presented in the exhibit entitled Qualifications, BP-16-Q-WG-02.

A. My name is Steve Andersen, and I am employed by EES Consulting. My current position is Manager of Project Evaluations. My qualifications and responsibilities are presented in the exhibit entitled Qualifications, BP-16-Q-WG-03.

Q. On whose behalf are you testifying?

A. We are presenting testimony on behalf of the WPAG utilities, and have previously submitted direct testimony in this proceeding filed as BP-16-E-WG-01 and BP-16-E-WG-02.

Q. What topics will your surebuttal testimony address?

A. This testimony rebuts the following testimony:

- Section II.A provides support to BPA staff's proposed modification to the Utility Delivery Segment. BP-16-E-BPA-27, pp. 5-12.
- Section II.B addresses BPA staff's rebuttal testimony regarding elimination of the Montana Intertie rate. BP-16-E-BPA-32.

II. DISCUSSION

A. BPA's proposed functional test for the Utility Delivery segment balances cost causation with the widest possible diversified use requirement.

Q. What issue do you address in this section of your testimony?

A. We address the modifications to the definition of the Utility Delivery segment proposed by BPA staff in their rebuttal testimony. BP-16-E-BPA-27, pp. 5-12.

Q. What specific modifications to the definition of the Utility Delivery segment did BPA staff propose?

A. BPA staff proposed in the initial proposal that the Utility Delivery segment include equipment on both the low and high sides of the delivery transformer. In their rebuttal testimony, BPA staff proposed that the Utility Delivery segment only include the "step-down transformers and low-voltage equipment, such as breakers and switches on the low side of the transformer, that connects the customer to BPA's transmission system at the customer's prevailing distribution voltage." BP-16-E-BPA-27, p. 5. Everything else at

a delivery substation not captured in the new definition of the segment would be assigned to the Network segment under BPA's new proposal. *Id.*

Q. What is the basis for BPA's proposal to move high-side equipment to the Network segment?

A. BPA staff stated that the basis for their proposed modification to the definition of the Delivery Segment is that the high-side equipment in a delivery substation serves a Network function. *Id*. at p. 7. This, according to BPA, is because the high-side equipment is necessary to ensure system reliability, and allows BPA "to separate BPA's Network from customer's systems for operational, maintenance, and reliability purposes." *Id.* at p. 8. BPA staff also noted that the high-side equipment in a delivery substation and the high-side equipment in a non-delivery substation are both used to perform the function of delivering power transmitted over BPA's network to the customer. *Id*. at 8-9. This is in contrast to the low-voltage equipment in delivery and non-delivery substations, which serve different functions insofar as the low-voltage equipment in a delivery substation transforms power down to the customer's prevailing distribution voltage whereas the low-voltage equipment in a non-delivery substation does not.

Q. How does BPA propose to assign station general associated with delivery substations?

A. For the same reasons identified above with respect to high-side equipment, BPA proposes to allocate all station general associated with delivery substations to the Network segment. *Id.* at 8-9.

Q. What is your opinion as to BPA's proposed modification to the definition of the Utility Delivery segment?

A. On the whole, and with the notable exception of the Utility Delivery segment, BPA's initial proposal for segmenting its transmission system was much more functionally based than in prior rate cases. BPA's proposed modifications to the definition of the Utility Delivery segment based on functional criteria are much more synchronized with BPA's increased reliance on functional tests in segmentation generally than BPA's initial proposal. This is because it treats high-end equipment that serve the same Network function the same for rate purposes irrespective of whether said equipment is in a delivery or non-delivery substation. We believe the more consistent treatment of similarly used equipment under BPA's modified proposal, regardless of the delivery or non-delivery designation afforded to the subject substation, to be a substantial advantage over the disparate treatment of such equipment under the initial proposal.

Q. Does BPA's modified proposal for the Utility Delivery segment have any other advantages over the initial proposal?

A. Yes, it does. As discussed at length in our initial testimony on the Utility Delivery segment, BPA's initial proposal for the segment would cause severe economic harm to customers who take service over the segment and is contrary to the widest possible diversified use rate directive. This is because the Utility Delivery rate would be nearly the same as the rate for NT service in the BP-16 rate period, which means that Utility Delivery customers would pay twice as much for transmission service as other customers under BPA's initial proposal. BPA's modified proposal addresses this problem because it results in a Utility Delivery rate that is approximately 9% lower than the BP-14 Utility

Delivery rate. BP-16-E-BPA-27, p. 15. Such a reduction would alleviate some of our concerns regarding the economic hardship the Utility Delivery rate imposes on customers by establishing a more sustainable Utility Delivery rate. It would also bring the Utility Delivery rate more in line with the much lower GTA Delivery Charge of $0.94/kW-Mo than the Utility Delivery rate under BPA's initial proposal. In our opinion, such a result is much more consistent with the widest possible diversified use rate directive than the result under BPA's initial proposal.

Q. Do you have any final thoughts on BPA's modified proposal?

A. BPA's new functional test creates a much better balance between the principles of cost-causation and the widest possible diversified use rate directive than BPA's initial proposal. Therefore, and for the reasons stated above, we believe it to be a marked improvement over the initial proposal.

B. <u>The Montana Intertie rate should not be eliminated.</u>

Q. What issue do you address in section of your testimony?

A. We address BPA's rebuttal testimony on the Montana Intertie. BP-16-E-BPA-32.

Q. What does BPA staff propose in its rebuttal testimony with respect to the Montana Intertie?

A. BPA staff does not make a firm recommendation of their own, but instead suggests that Renewable Northwest's proposal to eliminate the Montana Intertie ("IM") rate has merit and should be strongly considered. *Id.* at p. 6.

Q. Does BPA staff analyze the rate impact that elimination of the IM rate would have on Network rates?

A. BPA staff reviewed a number of scenarios under which the IM rate was eliminated. From those scenarios staff concluded that elimination of the IM rate would at most increase BP-16 Network rates by 0.2%. BP-16-E-BPA-32, p. 3.

Q. Do you agree that elimination of the IM rate would have an insignificant impact on BPA's existing Network customers?

A. On its face the 0.2% rate increase arising from the elimination of the IM rate is not significant. However, in testimony BPA staff explained that the chief purpose of eliminating the IM rate would be to increase the competitiveness of wind generation located in eastern Montana. This increase in competiveness would supposedly facilitate the development of up to 9,000 MW of new wind generation in Montana. BP-16-E-BPA-32, pp. 7-11. Our concern is that the development of 9,000 MW of wind generation in Montana will significantly increase the rates paid by BPA's existing Network customers due to (i) Network upgrades needed to transmit the new wind generation located in eastern Montana westward, (ii) the potential increase of oversupply events arising from 9,000 MW of additional wind generation either wheeling through or sinking in BPA's balancing authority area that does not respond to negative price signals, and (iii) the potential precedential value that elimination of the IM rate would have with respect to the Southern Intertie.

Q. Does BPA believe that the Network upgrades needed to transmit 9,000 MW of new wind generation westward from Montana will have significant rate impacts on BPA's existing Network customers?

A. BPA staff identified two reasons in their testimony as to why they believe the cost of any new transmission built to transmit wind from Montana are unlikely to have significant

rate impacts to BPA's existing Network customers. First, that under BPA's Network Open Season ("NOS") process the Administrator would review the costs of the projects needed to transmit Montana wind energy and determine whether the costs of the facilities should be directly assigned to the customer or included in Network rates. BP-16-E-BPA-32, p. 6. Second, if it is determined to include the costs in Network rates, BPA would still have to determine whether to charge an embedded cost rate or an incremental cost rate under BPA's transmission tariff and the NOS process. *Id.*

Q. Do you agree that an incremental cost rate would protect existing Network customers from significant rate impacts?

A. BPA has not yet proposed, designed or implemented an incremental cost rate for purposes of recovering the costs of transmission projects where the Administrator decides that the project will not proceed under rolled-in rates, so it is difficult for us to agree or disagree that such a rate would protect BPA's existing customers.

Q. Are there that factors that could impact the ability of an incremental cost rate to protect existing Network customers from significant rate impacts?

A. One significant factor is how the Network upgrades made to facilitate wind development in Montana are financed. There are three main methods available for financing transmission builds: (1) lease financing, (2) Treasury borrowing authority, and (3) customer financing/prepayment.[1] Since BPA has not yet developed an incremental cost rate or an incremental cost rate methodology, it is impossible for use to project how an incremental cost rate would interact with any of these three main methods for financing

[1] Network Open Season Powerpoint Presentation: Customer Financial Commitments at Construction, pp. 4-6 (August 16, 2012) available at http://transmission.bpa.gov/customer_forums/nos_gi_reform/nos_financial_commitment.pdf.

transmission builds. Take, for example, the use of customer financing/prepayment. This option could result in more transmission construction credits being used to pay transmission bills. Similar credits are currently provided under BPA's Large Generator Interconnection Agreement ("LGIA") and create upward rate pressure because they increase the Minimum Required Net Revenue ("MRNR") that BPA must include when setting rates, thereby increasing the rates of all of BPA's transmission customers. BP-16-E-BPA-08, pp. 22-23. It is reasonable to project that a similar upward rate pressure could occur if BPA requires Montana wind generators to fund all or part of BPA transmission builds and then provides them with billing credits in return even if BPA imposes an incremental cost rate.

Q. Are you saying that BPA will require Montana wind generators to fund all or part of transmission builds and then provide them with billing credits?

A. Not necessarily. What we are saying is that the interplay between the various financing options, including customer financing with billing credits, and an incremental rate can matter, and must be better understood before BPA can say definitively that an incremental rate would protect existing Network customers.

Q. **Do you have any concerns regarding the impact that the addition of up to 9,000 MW of new wind generation in Montana would have on oversupply events and related costs?**

A. We are concerned that the addition of up to 9,000 MW of wind generation in Montana would increase the frequency and severity of oversupply events, and increase oversupply costs borne by BPA's other customers. This is because wind generation from Montana would likely have the same perverse incentives, caused by Renewable Energy Credits

("RECs") and/or Production Tax Credits ("PTCs"), to continue generating even when confronted with negative market prices. The additional supply of generation that is unresponsive to negative price signals will likely drive market prices during oversupply events to at or below zero sooner, more frequently and for longer periods of time than is currently the case. This will likely cause BPA to curtail generators under its oversupply management protocol sooner, more frequently and for longer periods; thereby increasing the amount of oversupply costs BPA would pay to wind generators under its oversupply protocol.

Q. Would this problem exist if Montana wind generation is located outside BPA's balancing authority area?

A. The 9,000 MW of new wind generation will likely have negative impacts during oversupply events regardless of whether the generation is located inside or outside of BPA's balancing authority area. If the new generation is located inside BPA's balancing authority area, then BPA would pay these new generators the costs of their lost RECs and PTCs when they are curtailed under the oversupply protocol. If they are located outside BPA's balancing authority area, then BPA will be unable to curtail them under the current oversupply protocol and their continued generation in the face of negative market prices will exacerbate the oversupply problem within BPA's balancing authority area. This will likely mean more frequent and longer deployments of the oversupply protocol as to generators located within BPA's balancing authority area with the corresponding increases in oversupply payments to those generators.

Q. What do you recommend with respect to Montana wind generations' impact on oversupply events?

A. BPA needs to work with its customers to better understand the impacts 9,000 MW of Montana wind generation will have on oversupply events before making any determination to eliminate the IM rate for purposes of encouraging more wind development in Montana. To a large extent BPA's oversupply problem is an unforeseen consequence of the rapid development of wind generation inside BPA's balancing authority area. BPA and the region are better informed now about the consequences of having large amounts of generation that does not respond to negative market price signals integrated onto the transmission system. Before BPA takes steps to facilitate wind generation in Montana it needs to use its hard won experience with respect to this type of resource to determine whether such facilitation will make the oversupply problem within its balancing authority area even more difficult and/or costly to manage.

Q. Would elimination of the IM rate potentially create a risky precedent for roll-in of the Southern Intertie?

A. Yes, BPA's rebuttal testimony is clear that the main reason to eliminate the IM rate would be to encourage wind development in Montana. BP-16-E-BPA-32, pp. 6-11. According to BPA staff doing so would potentially (i) assist Montana and other states tocomply with the Environmental Protection Agency's proposed Clean Power Plan, (ii) help utilities in Oregon and Washington comply with renewable portfolio standards, and (iii) advance BPA's statutory imposed objective of encouraging renewable resources. *Id.* However, all of these arguments would easily lend itself to an argument that they are precedent for roll-in of the Southern Intertie. For example, an argument could be made that, just like for the IM rate, roll-in of the Southern Intertie could help California and/or other Southwestern states meet their own Clean Power Plan obligations. Roll-in of the

Southern Intertie might also better allow solar power and other renewables based in California to help Northwest utilities to meet RPS standards. Accordingly, the very reasons that BPA espouses for eliminating the IM rate would serve as the basis to support roll-in of the Southern Intertie.

Q. Does this conclude your testimony?

A. Yes, it does.