UNITED STATES OF AMERICA

U.S. DEPARTMENT OF ENERGY

BEFORE THE

BONNEVILLE POWER ADMINISTRATION

Fiscal Years 2022 – 2023 Proposed Power And Transmission Rate Adjustments	))	BPA Docket No. BP-22

REBUTTAL TESTIMONY

OF THE

WESTERN PUBLIC AGENCIES GROUP

WITNESSES:

STEVE ANDERSEN
KIMBERLY GENTLE
RUSS SCHNEIDER

Exhibit No. BP-22-E-WG-02

SUBJECTS OF TESTIMONY:

EIM Credit for ACS Rates
Level of Balancing Reserves
Grid Modernization Cost Allocation
Loss Returns

Submitted: March 16, 2021

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In the Matter of:	)	
	)	
	)	BPA Docket No. BP-22
POWER AND TRANSMISSION RATE ADJUSTMENTS	)	REBUTTAL TESTIMONY
	)	
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REBUTTAL TESTIMONY OF WESTERN PUBLIC AGENCIES GROUP

I. INTRODUCTION.

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

A. My name is Steve Andersen, and I am employed by Clark Public Utilities. My current position is Power Manager. My qualifications and responsibilities are presented in the exhibit entitled Qualifications, BP-22-Q-WG-01 as amended by BP-22-Q-WG-01-E01.

A. My name is Kimberly Gentle, and I am employed by EES Consulting, a GDS Associates Company. My current position is Senior Project Manager. My qualifications and responsibilities are presented in the exhibit entitled Qualifications, BP-22-Q-WG-02.

A. My name is Russ Schneider, and I am an employee of EES Consulting, a GDS Associates Company. My current position is Senior Analyst. Qualifications Exhibit BP-22-Q-WG-03 presents my qualifications and responsibilities.

Q. On whose behalf are you testifying?

A. We are submitting testimony on behalf of the WPAG utilities and have previously submitted direct testimony in this proceeding filed as BP-22-E-WG-01.

Q. What topics will your rebuttal testimony address?

A. This testimony rebuts the following testimony:

- Section II.A rebuts Joint Party 1's ("JP-1") proposal that BPA give transmission customers a credit against their Ancillary and Control Area Service ("ACS") rates based on the revenue the Bonneville Power Administration ("BPA") receives from sales of secondary energy into the Western Energy Imbalance Market ("EIM").[1]
- Section II.B addresses JP-1's proposal that BPA hold 78% less balancing reserves during the BP-22 rate period than what is required under the applicable BPA business practice and BPA's Open Access Transmission Tariff ("OATT" and "Tariff").[2]
- Section II.C recommends that BPA reject the flawed proposals of JP-1 and M-S-R Public Power Agency ("M-S-R") to functionalize all Grid Modernization costs to Power Services.[3]
- Section II.D recommends that BPA reject the arguments of JP-1, Joint Party 3 ("JP-3"), and M-S-R that BPA ignore cost causation principles by forgoing the recovery of the capacity costs associated with its loss return services.[4]

[1] *See* Tilghman, *et al*., BP-22-E-JP01-01 at 16:3-11.
[2] *See* BP-22-E-JP01-01 at 25:8 – 45:21.
[3] *See* BP-22-E-JP01-01 at 46:1 - 50:16; *See* Arthur, BP-22-E-MS-01 at 51:9-19.
[4] *See* BP-22-E-JP01-01 at 56:13 – 62:9; *See* Kester, *et al.*, BP-22-E-JP03-01 at 20-27; *See* BP-22-E-MS-01 at 52:1 - 56:16.

II. DISCUSSION.

A. JP-1's proposal to allocate the secondary sales revenue that BPA receives from the EIM to transmission customers must be rejected.

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

A. We address JP-1's recommendation that, for each hour, BPA provide transmission customers a credit up to the value of the capacity costs included in the ACS rates they pay based on the revenue BPA receives during that same hour from sales of secondary energy into the EIM.[5]

Q. Why does JP-1 believe that its proposal would be appropriate?

A. We understand JP-1's testimony to argue that, because capacity paid for by transmission customers through BPA's ACS rates will be (i) used to pass the resource sufficiency screens for participation in the EIM, (ii) made available to CAISO to be deployed in the EIM, and (iii) potentially generate significant revenues when so deployed, BPA should first share EIM revenue with the transmission customers who pay for the balancing reserve capacity that will enable BPA's participation in the EIM.[6] According to JP-1, this would be consistent with the draft "Cost Assignment Principles Applicable for Acquisitions and Services That Benefit Both Power and Transmission Customers" considered by BPA and its customers in 2012 (but never adopted) because it would assign the additional revenue benefit to BPA from joining the EIM to the transmission customers who enable that benefit through the ACS rates.[7] In contrast, and again according to JP-1, BPA's proposal to instead allocate the revenue it receives from secondary energy sales into the EIM only to power rates is an inequitable allocation of

[5] BP-22-E-JP01-01 at 16:3-11.
[6] BP-22-E-JP01-01 at 13:18 – 16:2.
[7] *Id.*

costs and benefits that is inconsistent with comparability principles as well as the never adopted draft principles from 2012.[8]

Q. What specific ACS rates would receive credits under JP-1's proposal?

A. JP-1 states under its proposal that "all transmission customers would receive a credit [based on BPA's EIM revenues] up to the value of the capacity costs in their ACS rates."[9] As a preliminary matter, this is much too broad even under JP-1's logic. The Ancillary and Control Area Services that require the use of capacity are the Regulation and Frequency Response Service; Variable Energy Resource Balancing Service ("VERBS") and Dispatchable Energy Resource Balancing Service ("DERBS") (collectively, "Balancing Services"); and Operating Reserves (Spinning and Supplemental).[10]

Operating Reserves will not be made available to EIM. Accordingly, even under JP-1's logic, there is no basis for transmission customers who pay BPA's Operating Reserve rates to receive a credit against those rates based on EIM revenue received by BPA.

The Regulation and Frequency Response Service and the Balancing Services are themselves further categorized as either Regulation Reserves or Non-regulation Reserves consisting of both *inc* capacity and *dec* capacity.[11] Between Regulation Reserves and Non-regulation Reserves, only Non-regulation Reserves would be bid by BPA into the EIM. So, like Operating Reserves, there is no basis even under JP-1's reasoning for providing an EIM based credit against those portions of the rates for the Regulation and

[8] *Id.*
[9] *Id.* at 16:6-7.
[10] Meyers, *et al.*, BP-22-E-BPA-06 at 31:9-11.
[11] *Id.* at 31:11-14.

Frequency Response Service and the Balancing Services that recover the cost of Regulation Reserves.

After boiling all that down, we understand JP-1's proposal to only apply to the Non-regulation Reserves component of the Regulation and Frequency Response Service and the Balancing Services because any other interpretation would run afoul of JP-1's own reasoning that transmission customers who pay for capacity in BPA's ACS rates should receive a credit due to the underlying capacity being made available to the EIM. As demonstrated above, this simply is not the case for a significant portion of BPA's capacity-based Ancillary and Control Area Services.

Q. Do you agree with JP-1's characterization of the nature and purpose of Balancing Reserves as they relate to the EIM?

A. No. JP-1 is incorrect as to the nature and purpose of Balancing Reserves as they relate to the EIM. As noted by BPA in its testimony, "the EIM is an energy market, not a capacity or ancillary services market" and the "EIM does not assume any reliability burden from the participating balancing authorities, leaving each participating balancing authority to ensure its own compliance with NERC standards, such as BAL-001-2 and BAL-005-1."[12] For this reason, the capacity associated with Balancing Reserves is set aside by BPA to meet its reliability obligations irrespective of whether BPA is a participant in the EIM. While such reserves will help the BPA Balancing Authority Area ("BAA"), not BPA Power Services, pass the EIM's resource sufficiency screen, that is not their purpose. Instead, it is a byproduct of BPA meeting its own planning standard under its Balancing Reserve Capacity Business Practice. In addition, where the Balancing Reserves, plus all

[12] Puyleart, BP-22-E-BPA-24 at 3:8-15.

other federal and non-federal capacity scheduled for the BPA BAA, help the BPA BAA pass the EIM's resource sufficiency screens for a given interval, the resulting beneficiaries will be much broader than JP-1 suggests. For instance, loads and resources in the BPA BAA will benefit by the EIM dispatching energy in the most economical way possible to meet their respective imbalances, which dispatches may be less expensive than the FCRPS by itself. Further, both federal and non-federal participating resources will benefit by becoming eligible to participate in the EIM, creating a possible new revenue stream for generators like JP-1's members. For these reasons, and the other reasons discussed herein, the general theme of JP-1's testimony that BPA's participation in the EIM would only benefit Power Services misses its mark, as does its characterization of the nature and purpose of Balancing Reserves with respect to the EIM.

Q. Do you have any other concerns with JP-1's proposal?

A. We do. JP-1's proposal seems to suggest that by paying capacity-based ACS rates, like the VERBS and DERBS rates, transmission customers are also entitled to the revenue BPA Power Services from sales of *energy* it makes into the EIM. This is a puzzling argument. VERBS and DERBS are capacity products. More specifically, they are capacity products with no energy attributed to them. Under BPA's OATT and ACS rate schedules, the energy-based Ancillary and Control Areas Services (i.e., its Generator Imbalance Service and the Energy Imbalance Service) and their associated rates are separate and distinct from the capacity-based Ancillary and Control Area Services. BPA's potential participation in the EIM will not change this well-established dichotomy. To the extent JP-1's members buy or sell energy into the EIM, either through BPA's Generator Imbalance Service and/or as a Participating Resource, they will either make or

receive payments for such energy separate from the capacity-based ACS rates they pay to BPA. The right to be paid for their own energy delivered and the obligation to pay for what they take under BPA's Generator Imbalance Service is all they are entitled when it comes to energy under BPA's Ancillary and Control Area construct. From a cost causation standpoint, this will and should remain true regardless of whether BPA joins the EIM. However, JP-1's proposal would upend it all by requiring that, at least when it comes to revenue derived from energy sales into the EIM, JP-1's members would receive the revenue from sales of energy from both their own generation and from the FCRPS. Not only is this not supported by the purely capacity-based product they are purchasing from BPA under the Balancing Reserve rates, but it also fails at least two cost allocation principles that apply to sales of BPA's secondary energy.

Q. What cost allocation principles relating BPA's secondary energy does JP-1's proposal transgress?

A. If BPA joins the EIM, the market will provide it with another option for making sales from its inventory of secondary energy. Accordingly, any revenue that BPA receives from dispatches into the EIM will be revenue from secondary energy sales. While the EIM will be new to BPA, the same old rules on how BPA must allocate secondary energy sales revenue, including such revenue received from the EIM, will still apply. Our counsel identified two rules that apply to BPA's revenue from secondary energy sales upon which JP-1's proposal would infringe. The first is §7(g) of the Northwest Power Act, which requires that revenue from secondary sales be equitably allocated to *power rates*. The ACS rates that JP-1 would earmark to receive credits from secondary energy

sales into the EIM are not power rates but *transmission rates*.[13] Therefore, JP-1's proposal must be rejected because it would not comply with the allocation required under §7(g).

Q. What other rule regarding the allocation of secondary energy sales revenue does JP-1's proposal violate?

A. BPA's Tiered Rate Methodology ("TRM") Cost Allocation Principle 8 ("TRM Principle 8").

Q. What is TRM Principle 8?

A. TRM Principle 8 provides:

> As a consequence of the customers' contractual take-or-pay obligation to pay for power at rates established by BPA pursuant to Northwest Power Act section 7 to recover, in accordance with sound business principles, BPA's costs of acquiring, conserving, and transmitting electric power, including amortization of the Federal investment in the Federal Columbia River Power System over a reasonable number of years, and all other costs and expenses incurred by the Administrator pursuant to law, and for so long as customers continue to fulfill their contractual take-or-pay obligations, then: (1) all revenues forecast by BPA from its sale of secondary energy produced by Federal Base System and other resources acquired by the Administrator will continue to be credited by BPA in the ratemaking process pursuant to Northwest Power Act section 7(g) against costs that are properly allocated to rates for recovery from sales of power for use within the region; and (2) costs and benefits of the sale of or inability to sell excess electric power allocated under section 7(g) of the Northwest Power Act will be allocated to the Cost Pools to which the costs of the resources that generate such excess electric power are allocated.[14]

Q. How is TRM Principle 8 implicated by JP-1's proposal?

A. Unlike the unadopted 2012 draft principles cited and relied upon by JP-1 in its testimony, our understanding from counsel is that TRM Principle 8 was formally adopted by BPA in

[13] *See* BPA-10 ROD, WP-10-A-01/TR-10-A-01 at 308 (July 2009) ("Wind Balancing Service is not a power rate").

a Record of Decision and that BPA has a contractual obligation to apply TRM Principle 8, along with the remaining balance of the TRM, in setting power rates until the Regional Dialogue Power Sales Agreements between BPA and its preference customers expire on September 30, 2028.[15] For these reasons, our understanding is that TRM Principle 8 adds policy and contractual layers to BPA's statutory obligation under §7(g) to allocate (i) all revenues forecast from the sale of secondary energy and (ii) all costs and benefits from the actual sale of excess power to power rates. Just like it did under §7(g), JP-1's proposal would violate this principle by allocating the revenue from the sale of secondary energy into the EIM to transmission rather than power rates and it must be rejected for this additional reason.

B. JP-1's proposal to reduce balancing reserve capacity for the rate period by 78% is outside of scope and would cause BPA to violate its Tariff and applicable business practice.

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

A. We address JP-1's proposal that BPA hold 78% less balancing reserves for the rate period than the amount used by BPA to calculate the rates for such reserves under its initial proposal.[16]

Q. What are your concerns with JP-1's proposal to hold 78% less balancing reserves?

A. Our initial concern is that this rate proceeding is the wrong process for making changes to how BPA forecasts the capacity needed to provide balancing reserves for the rate period. According to Schedule 10 of BPA's OATT, BPA must "establish a long-term planning

[14] TRM, BP-12-A-03 at 4:1-18.
[15] *See* TRM ROD, TRM-12A-01 at 52-54 (Nov. 2008); Slice/Block Power Sales Agreement at §6; Load Following Powe Sales Agreement at §6.
[16] BP-22-E-JP01-01 at 25:8 – 45:21.

process in its Balancing Reserve Capacity Business Practice and utilize that planning process to forecast the capacity needed to provide . . . [balancing] service[s]." BPA's Balancing Reserve Capacity Business Practice was adopted on October 1, 2019. It establishes and obligates BPA to meet a 99.7% planning standard for balancing reserve capacity.[17] BPA used the output of the planning standard under its business practice to calculate the proposed balancing reserve rates under its initial proposal.[18] JP-1 effectively proposes that BPA (i) modify or ignore its Balancing Reserve Capacity Business Practice to include a planning standard that is less than 99.7% and/or (ii) modify or ignore its Tariff by not following its Balancing Reserve Capacity Business Practice when establishing the balancing reserve amount for the BP-22 rate period. Neither of these alternatives is appropriate. Indeed, on the advice of counsel, both alternatives appear to be expressly prohibited from consideration in this rate case under the Federal Register Notice.[19]

In any event, the Balancing Reserve Capacity Business Practice, including the 99.7% planning standard, was adopted in the TC-20 Settlement Agreement and became effective by that agreement a mere 18 months ago on October 1, 2019. BPA and customers considered using lower planning standards during the TC-20 settlement discussions, but ultimately agreed to the current business practice with the 99.7% standard. Given the above, we recommend BPA reject JP-1's proposal on the basis that it is out of scope, would cause BPA to violate the terms of its Tariff and the applicable business practice,

[17] Balancing Reserve Capacity Business Practice at 2 (Oct. 2019).
[18] Generation Inputs Study, BP-22-E-BPA-06 at 3-24.
[19] 85 Fed. Reg. 77189 at 77192 (directing the Hearing Officer to exclude all testimony "that seeks in any way to address issues regarding terms and conditions of transmission service, including interconnection service, and ancillary and control area services").

and does not reflect the recent consensus of BPA and its transmission customers on this issue.

Q. Do you have any final thoughts on this issue?

A. Yes. Changing BPA's planning standard for balancing reserve capacity would implicate numerous reliability standards and this proceeding is not the appropriate place for this refinement. For instance, as a member of the Northwest Power Pool's ("NWPP") Reserve Sharing Group, BPA is required to comply with (i) BAL-001, (ii) BAL-002, and (iii) any other standards that are or may be adopted by the Reserve Sharing Group. JP-1's testimony narrowly focuses on BAL-001-2 without a mention of these other standards or obligations. In addition, if BPA were to adopt JP-1's proposal, it would impact a much broader pool of stakeholders who rely on BPA's reliable operation of its transmission system than just those who are participating in this rate proceeding. It would be reckless for BPA to reduce the amount of balancing reserves it holds by a stunning 78%, based on JP-1's testimony alone, without first notifying and then engaging those other stakeholders in a separate technical and reliability focused process.

C. <u>JP-1's and M-S-R's flawed proposals for allocating Grid Modernization costs should not be adopted</u>.

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

A. We rebut the arguments of JP-1 and M-S-R that BPA forgo its initial proposal to allocate 65% of the costs of its Grid Modernization Costs to Transmission Services and 35% to Power Services and to instead allocate most, if not all, such costs to Power Services.[20]

[20] BP-22-E-JP01-01 at 46:1 – 50:16; BP-22-E-MS-01 at 51:9-19.

Q. What exactly are JP-1 and M-S-R proposing?

A. JP-1 proposes that BPA allocate 100% of its Grid Modernization costs for the rate period to Power Services.[21] The primary basis for its proposal is the draft "Cost Assignment Principles Applicable for Acquisitions and Services That Benefit Both Power and Transmission Functions" discussed above that BPA and customers considered in or around 2012 but were never adopted.[22] According to JP-1, these draft principles would require BPA to assign the Grid Modernization costs to Power Services because BPA has yet to identify any quantitative benefits to Transmission Services from Grid Modernization or joining the EIM.[23] While JP-1 admits that BPA's Grid Modernization Program will provide qualitative benefits to Transmission Services and transmission customers,[24] it contends that such qualitative benefits, in and of themselves, are not sufficient under the draft principles from 2012 to assign any Grid Modernization costs to Transmission Services.[25]

M-S-R also proposes that BPA allocate Grid Modernization, including EIM costs, based on expected quantitative EIM benefits, presumably to Power Services, rather than impose such costs on transmission customers.[26] While M-S-R does not provide an alternative allocation between the two business lines, we understand its proposal to result in something close to the 100% allocation to Power Services proposed by JP-1.

[21] BP-22-E-JP01-01 at 49:3 - 50:2.
[22] *Id.* at 46:11 – 49:2.
[23] *Id.*
[24] *Id.* at 47:14-16.
[25] *Id.* at 46:11 – 49:2.
[26] BP-22-E-MS-01 at 51:9-19.

Q. How do you respond to JP-1's and M-S-R's proposals to allocate 100% of BPA's Grid Modernization Costs to Power Services?

A. In our opinion, the fact that the draft principles that JP-1 is relying on were considered almost a decade ago but were never adopted by BPA informs the weight those draft principles should be given in this instance. The tangled boneyard of draft principles once considered by BPA and its customers but never adopted by the Administrator likely runs deep. Draft principles that never clear the hurdle of formal adoption and/or do not have a documented history of acceptance and application by BPA and its customers are not really principles at all. They are mere suggestions, without any precedential value that requires BPA and its customers to stand-up and pay attention. The most that can be hoped for is that they be found persuasive. However, JP-1's and M-S-R's proposals fail to meet even the persuasive test.

Q. What about JP-1's and M-S-R's suggestion that BPA should only allocate costs to Transmission Services or transmission customers where it can demonstrate quantifiable benefits is unpersuasive?

A. Even absent the Grid Modernization Program, BPA spends millions of dollars every year to maintain the reliability of the transmission system. This includes, for example, incurring costs to run and update remedial actions schemes, test meters, ensure NERC and WECC compliance, maintain transmission right of ways, prevent or mitigate damage from wildfires, etc. Such investments often provide no readily quantifiable benefit to Transmission Services or BPA's transmission customers. On the other hand, that they provide qualitative benefits in the form of a more reliable transmission system cannot be reasonably disputed. Accordingly, despite the absence of quantifiable benefits, BPA

allocates reliability related costs to its general transmission rates for recovery from all of its transmission customers on the basis that all of its transmission customers benefit qualitatively from a more reliable transmission system. In the same vein, BPA's proposal to allocate Grid Modernization costs to Transmission Services is consistent with both cost causation and BPA's past allocation practice (both within the rate case and in Integrated Program Review budgeting) because, as BPA has demonstrated, such costs will provide reliability and other qualitative benefits to the transmission system and customers.[27] BPA should, therefore, reject JP-1's and M-S-R's proposals to allocate 100% of the Grid Modernization costs to Power Services.

Q. Does JP-1 offer an alternative to its proposal that BPA allocate 100% of Grid Modernization costs to Power Services?

A. Yes, in the alternative, JP-1 contends that BPA should allocate 55% of such costs to Power Services and 45% to Transmission Services.[28] JP-1 reached this allocation by assigning all EIM related Grid Modernization costs to Power Services with 65% of the remaining balance of the Grid Modernization costs to Transmission Services and 35% to Power Services.[29]

Q. What is your opinion as to this alternative?

A. We note that BPA rejected a similar alternative in its own testimony on the basis that it does not account for the significant qualitative benefits that would accrue to Transmission Services and transmission customers from EIM participation, including "improved control, state awareness, modelling and coordination" and more efficient dispatches to

[27] *See* Energy Imbalance Market Policy ROD at 101-107 (Sept. 2019); BP-22-E-BPA-31 at 2:1-26, at 4:21 - 5:17, at 13:17 – 14:26.
[28] BP-22-E-JP01-01 at 50:3-16.
[29] *Id.*

meet the imbalances of BPA's transmission customers.[30] Similarly, we reject JP-1's premise that qualitative benefits, in and of themselves, are insufficient to allocate a portion of EIM costs to Transmission Services. As discussed above with respect to all Grid Modernization costs, this position conflicts with cost causation principles and BPA's historic practice of allocating costs to transmission customers based on qualitative benefits.

Q. Given the above, how do you recommend that BPA allocate Grid Modernization costs for the BP-22 rate period?

A. We recommend that BPA adopt its initial proposal to allocate 35% of such costs to Power Services and 65% to Transmission Services.[31]

D. BPA should stay the course on its proposal to recover the capacity costs associated with its loss return services.

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

A. We respond to the objections of JP-1, Joint Party 3 ("JP-3"), and M-S-R to BPA's proposal to assess (i) a new charge to recover the capacity costs associated with Delayed Loss Return Services and (ii) a revised rate that recovers the capacity costs associated with its Financial Settlement Loss Return Services.

Q. Why is BPA proposing to recover capacity costs relating to its loss return services?

A. BPA states that it "must always stand ready to provide the power for losses as customers schedule across the transmission system" and that this requires BPA, as a Balancing Authority Area ("BAA"), to "hold capacity to cover the ongoing consumption of power

[30] Mace, *et al.*, BP-22-E-BPA-31 at 13-14.
[31] *See, generally,* BP-22-E-BPA-31.

associated with real power losses" as part of its planning process.[32] Further, BPA explains that the cost of the capacity it holds out to provide its in-kind loss return service is currently not recovered from transmission customers.[33]

Q. What objections do JP-1, JP-3, and M-S-R raise regarding BPA's proposal to recover the cost of capacity it holds to provide its loss return services?

A. The collective objections of JP-1, JP-3, and M-S-R to can be broken into three general categories:

- That BPA's proposal to recover the costs of capacity it holds to provide its loss return services is out of step with other regional transmission providers and regional practice.[34]
- That because BPA is working to implement concurrent loss returns in the future, which would eliminate the need for a capacity-based charge, it is an inefficient use of resources to now implement a capacity charge for delayed in-kind loss returns.[35]
- That BPA's proposal with respect to financial settlement of losses raises concerns regarding potential over-recovery for capacity.[36]

Q. Do you have any general comments before responding to the arguments of JP-1, JP-3, and M-S-R?

A. Yes. We agree with the testimony of BPA and Northwest Requirements Utilities ("NRU") that (i) BPA is providing incremental (*inc*) and decremental (*dec*) capacity to support the Delayed Loss Returns Service; (ii) BPA is not currently being compensated

[32] BP-22-E-BPA-22 at 5:1-8.
[33] Fisher, *et al*., BP-22-E-BPA-26 at, 5:1-7.
[34] BP-22-E-JP-01 at 61:18 – 62:3; BP-22-E-JP03-01 at 23:8-17.

for that capacity; and (iii) compared to the status quo, BPA's proposal to now recover the costs of the capacity it holds to provide its loss returns services is better aligned with cost causation principles and the principle that when BPA provides a service to transmission customers from the FCRPS it must be compensated for it.[37] Accordingly, we recommend that BPA adopt and implement its proposal for so long as in-kind returns are delayed.

That being said, we also agree and join with the broad collection of customers who recommend that BPA implement concurrent loss returns as soon as practicable.

Q. In what way do JP-1 and JP-3 contend that BPA's proposal to recover the costs of capacity it holds to provide its loss return services is out of step with other regional transmission providers and regional practice?

A. JP-1 and JP-3 look to the transmission tariffs of other regional transmission providers, specifically PacifiCorp, Portland General Electric Company ("Portland General"), and Puget Sound Energy, Inc. ("PSE"), and note that they do not include a capacity charge for their respective loss return services but instead only use Load Aggregation Point ("LAP") pricing for financial settlement of losses.[38]

Q. Do you find this argument persuasive?

A. No. BPA has demonstrated that the delayed in-kind return paradigm requires it to hold out generating capacity so it can stand ready to meet the difference between the actual losses incurred by a transmission customer during a given hour and the losses it supplied 168 hours earlier.[39] It further demonstrated that because the FCRPS is providing the

[35] BP-22-E-JP-01 at 61:3-17; BP-22-E-JP03 at 24:1 – 26:5, BP-22-E-MS-01 at 55:7-19.
[36] BP-22-E-JP03 at 26:6-27:15; BP-22-E-MS-01 at 55:20-56:16.
[37] BP-22-E-BPA-22 at 5:16 – 6:2; BP-22-E-BPA-26 at 3:1 - 5:7, Stratman, BP-22-E-NR-01 at 22:9 – 23:5.
[38] BP-22-E-JP-01 at 61:18-62:3; BP-22-E-JP03-01 at 23:8-17.
[39] BP-22-E-BPA-26 at 3-4.

capacity for BPA loss return services, it is the customers responsible for the embedded cost of the FCRPS that are currently paying for this capacity cost, i.e., Federal power customers.[40] BPA's proposal is to instead recover the cost of such capacity from the transmission customers who benefit from it. This is the correct result under cost causation principles. The fact that other transmission providers, and BPA until recently, have historically neglected cost causation when it comes to holding capacity for loss returns is a poor basis for BPA to do so now. Indeed, BPA has a distinguished history of leading on rate issues that are later adopted by the industry. For example, BPA was the first to develop a three-tiered deviation band for its generation and energy imbalance services, and this development subsequently served as the basis for the Federal Energy Regulatory Commission ("FERC") to include a three-tiered deviation band in Schedule 4 and Schedule 9 of its *pro forma* OATT.[41] In that case, BPA did not wait for the region's other transmission providers to catch-up before first adopting what was to become the industry standard, and there is no reason to do so now in this instance when to do otherwise would contravene the rate principles of equity and cost causation.

Q. Why do JP-1, JP-3, and M-S-R believe it would be an inefficient use of resources to now adopt a capacity-based charge for the loss return services?

A. They note that BPA has agreed to begin working towards a concurrent loss return framework, which would eliminate the need for a capacity-based charge for in-kind loss returns. Rather than divert resources to develop a temporary capacity charge for what

[40] Adams, *et al.*, BP-22-E-BPA-16 at 7:1-6; BP-22-E-BPA-26 at 5:1-7.
[41] *See* FERC Order No. 890 at ¶¶72, 636, 663, 665.

they hope will be a transitory period, these parties argue that BPA should focus its efforts on developing and implementing the desired concurrent framework.[42]

Q. Do you agree?

A. No. It appears to us that most of the work to develop capacity-based charges for BPA's loss return services has already been done. BPA and its customers devoted many hours discussing this topic in pre-rate case workshops over the last year or so, multiple rounds of written comments followed by clarification have already occurred, and the associated rate schedules and the testimony in support and in opposition thereto are largely drafted and submitted. There really is not that much more to do beyond submitting briefs, awaiting the Administrator's draft and final records of decision in this proceeding, and then implementing the new capacity-based charges, assuming the Administrator adopts staff's proposal. We have faith that BPA staff can walk and chew gum at the same time when it comes to implementing its rate proposal during the BP-22 period while simultaneously developing a concurrent loss return framework to be used in the future. The proposed rates are straightforward (based on mills per kWh) and no more difficult, if not simpler, than the many multitude of other rates BPA charges every month to its various customers.

Q. According to JP-3 and M-S-R, in what way does BPA's proposal to include a capacity-based component for the financial settlement of losses raise concerns regarding potential over-recovery for capacity?

A. According to JP-3 and M-S-R, BPA's proposal would over-collect for capacity in one of two ways. First, because the Powerdex Mid-C Index or the LAP pricing that BPA

[42] BP-22-E-JP-01 at 61:3-17; BP-22-E-JP03 at 24:1 - 26:5; BP-22-E-MS-01 at 55:7-19.

proposes to use to settle the energy component of financial loss returns are firm energy prices that already include the cost of capacity and, accordingly, a separate capacity charge by BPA would be duplicative.[43] Second, because BPA's marginal cost of production is nearly zero and, therefore, any index or LAP price at a given hour would produce revenue above BPA's marginal cost of production that can instead be put towards the fixed costs of the FCRPS.[44]

Q. Do you agree?

A. No. The capacity-based charge for the Financial Settlement Loss Return Services is a capacity rate that recovers the embedded cost of that portion of the FCRPS that is set aside to stand-ready to provide loss returns to transmission customers. The energy charge under the Financial Settlement Loss Return Services seeks to recover the lost opportunity cost of energy from the FCRPS when it is deployed to provide loss returns under the Financial Settlement Loss Return Services. These two charges are not duplicative and there is no overlap between them. Both are necessary for BPA to recover the costs of providing the Financial Settlement Loss Return Service, and they are similar, for example, to the well-established split between the capacity-based Balancing Reserve rates and the energy-based Generator and Energy Imbalance Service rates. If BPA joins the EIM, BPA's capacity costs would not be recovered in the LAP/LMP prices established by the market. The EIM only addresses energy imbalance and does not recover the cost of capacity. In our opinion, it would be poor ratemaking for BPA to assume that the embedded costs of that portion of the FCRPS used to provide loss returns would be recovered by energy revenues based on an index or LAP pricing, as JP-1, JP-3,

[43] BP-22-E-JP03-01 at 26:15 -27:2; BP-22-E-MS-01 at 55:20 -56:16.
[44] BP-22-E-JP03-01 at 27:3-15.

and M-S-R suggest, because the associated uncertainties relating to volume, price, and resulting revenue would create an undue risk that BPA would not be able to recover the full cost of the service being provided.

Q. Does this conclude your testimony?

A. Yes.