INDEX

REBUTTAL TESTIMONY OF

MARGARET E. PEDERSEN AND PATRICK G. McRAE

Witnesses for Bonneville Power Administration

SUBJECT: Rebuttal Testimony for Transmission Expense Forecast

REBUTTAL TESTIMONY OF

MARGARET E. PEDERSEN AND PATRICK G. McRAE

Witnesses for Bonneville Power Administration

SUBJECT: REBUTTAL TESTIMONY FOR TRANSMISSION EXPENSE FORECAST

Section 1. Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Margaret E. Pedersen. My qualifications are contained in WP-02-Q-BPA-56.

A. My name is Patrick G. McRae. My qualifications are contained in WP-02-Q-BPA-47.

Q. Please state the purpose of your testimony.

A. Our testimony has two purposes. First, to respond to direct testimony filed by witnesses Donald W. Schoenbeck and Raymond D. Bliven (WP-02-E-DS/AL/VN-03) relating to transmission expenses. Second, to respond to the request by the Pacific Northwest Generating Cooperative (PNGC) for Power Business Line (PBL) to retain $6 million of Delivery segment costs in power rates and meld across all power rates.

Q. How is your testimony organized?

A. This testimony is presented in three sections, including this introductory section. The second section responds to the modifications to the transmission expense forecast proposed in the testimony of Donald W. Schoenbeck and Raymond D. Bliven. The third section discusses the request made by the PNGC regarding the Delivery Charge.

Section 2. Transmission Expense Forecast

Q. Have you reviewed the parties' direct testimony pertaining to Bonneville Power Administration's (BPA) forecast of transmission expenses?

A. Yes. The testimony of Donald W. Schoenbeck and Raymond D. Bliven (Schoenbeck and Bliven, WP-02-E-DS/AL/VN-03 at 12) proposes several modifications and corrections to the forecast of transmission expense. In this testimony, the parties

argue that the transmission expense forecast is too high. The parties make several arguments to support a reduction in the transmission expense forecast. These are: (1) The PBL should utilize its prepurchased intertie rights for the Pacific Southwest "grandfathered" contract deliveries; (2) maximize the "sheltering" of short-term power sales, storage and Pacific Northwest Coordination Agreement (PNCA) transactions under long-term contractual entitlements; and (3) that the upward rate pressure associated with the shift from 1 non-coincidental demand (NCD) to 12 coincidental peak demand (CP) cost recovery should be removed from the hourly nonfirm (HNF) rate increase calculation.

Q. The testimony of Schoenbeck and Bliven asserts the PBL has prepurchased capacity on the intertie above expected need. Do you agree?

A. No. The transmission expense forecast in the initial proposal is based on the average monthly megawatt (MW) sales over 50 historical water years. In consideration of the Schoenbeck and Bliven testimony, PBL compared the surplus in each of the 50 water years, by month, to the level of prepurchased intertie transmission. The results are illustrated in the attached charts. During the months of runoff (May, June, and July), there is a 60 percent probability that surplus sales will exceed prepurchased transmission capacity.

The volume of PBL surplus varies widely from year-to-year and is seasonally shaped, reaching its annual maximums during the runoff period. The southern intertie is a constrained path with rapidly increasing competition for available transmission capability, particularly with respect to short-term point-to-point (PTP). PBL prepurchases long-term Intertie PTP to provide certainty of transmission capability and supplements that amount with short-term purchases. Absent competition for intertie transmission, PBL could simply purchase long-term to cover the flat annual portion of the forecasted surplus sales, and purchase short-term PTP in amounts that closely match the

shaped portion. However, because of competition for limited transmission capability on the Intertie, there is high-level risk associated with the ability to make short-term purchases. Short-term PTP is available on a first-come, first-served basis, and can only be purchased within a window that begins at midnight, 60 days before the day the service begins. Some competitors have developed the capability to submit their electronic requests within nanoseconds of when the window opens, thus increasing the intensity of competition and reducing the probability that any entity, including PBL will be able to get the short-term PTP it requires.

PBL surplus sales to the Southwest markets over the southern intertie are critical to BPA's mission; sufficient transmission access to Southwest markets during May, June, and July is a prerequisite to making those sales. Failure to obtain transmission into the Southwest market for the runoff period poses significant risks, including lower value for the energy in a saturated Northwest market, increased spill levels, and lower treasury payment probabilities. Consequently, in choosing the appropriate level of prepurchased long-term transmission, PBL considered the value of additional transmission certainty during the critical period of May, June, and July.

Q. *The testimony of Schoenbeck and Bliven claims that BPA should assume the unused prepurchased intertie capacity can be used to serve grandfathered contracts. Do you agree?*

A. No. For grandfathered contracts, which are usually "delivered" contracts, PBL believes it must have a secure path during the term of the contract. During the spring months, PBL does not forecast any available surplus PTP transmission. While it may appear that PBL has enough forecasted surplus under prepurchased PTP in the month of October 2001 to serve the amount of grandfathered contracts listed for October 2001, this conclusion is incorrect because most of that surplus is California-Oregon Border (COB) intertie, and the majority of grandfathered agreements are delivered over Nevada-Oregon Border

(NOB) intertie. In addition, PBL does not expect to have a firm path in all months of the year under the surplus PTP inventory at NOB.

The majority of the grandfathered contracts that are under the category grandfathered transmission are for delivery at NOB. Specifically, all grandfathered contracts for the period October 2001 through June 2002 are to be delivered at NOB, all but 14 MW are to be delivered at NOB for the period July 2002 through June 2003, and all but 50 MW are to be delivered at NOB for the period July 2003 through September 2006.

Currently, PBL has only 50 MW of surplus PTP on the NOB intertie in the months of June through October for the period Fiscal Year (FY) 2003 through FY 2006, the remainder of the PBL surplus being on COB. This 50 MW is not sufficient surplus to cover the grandfathered contracts.

Q. The testimony of Schoenbeck and Bliven claims PBL has not maximized the "Sheltering" of short-term power sales, storage and PNCA transactions, under long-term contractual entitlements in the transmission expense forecast. Do you agree?

A. No. In the initial proposal, PBL forecasted firm transmission on the Network based on heavy load hour (HLH) demand; then light load hour (LLH) sales were sheltered under the capacity purchased for HLH. There are more LLH sales expected than HLH sales; therefore in every month the firm transmission purchased is fully maximized. For all incremental LLH sales above HLH sales, PBL assumed the HNF transmission product was purchased since it is the most economical product for the shape of LLH sales. The HNF transmission product was purchased for storage and PNCA because the shape of these power sales are unknown and can vary across hours. Given that hourly megawatthour values may vary across hours, the most economical transmission product to purchase on a forecast basis is the HNF product.

Q. The testimony of Schoenbeck and Bliven argues that the PBL's assumption that it will have to procure transmission for 85 percent of HLH and 75 percent of LLHs sales levels is grossly overstated. Do you agree?

A. No. The 85 percent and 75 percent figures are based on internal discussions with power traders and forecasters. In consideration of the testimony by Schoenbeck and Bliven, PBL compiled the best available data on FY 1999 sales made in the short-term and within-month markets. The data indicated that presently nearly 100 percent of the HLH sales, and 96 percent of LLH sales, are made with a delivery clause.

We do agree with Schoenbeck and Bliven's testimony that transmission customers are becoming more sophisticated in the procurement and utilization of transmission capacity and therefore we expect to see some reduction in delivered sales. PBL believes the assumption of delivered sales of 85 percent of HLH sale and 75 percent of LLH is a reasonable expectation for the post-2002 period.

Q. After considering the testimony of Schoenbeck and Bliven, does PBL propose any modifications to the forecast level of prepurchased intertie transmission capacity?

A. PBL is modifying the level of prepurchased intertie transmission capacity included in the transmission expense forecast to account for the most current data on the level of prepurchased intertie capacity available. When the initial proposal was developed, PBL had pending transmission requests totaling 600 MW that were counted as prepurchased intertie transmission. The requests totaling 600 MW were not fulfilled, so PBL proposes that they be removed from the transmission expense forecast. In conjunction with the transmission requests that were not fulfilled, PBL found discrepancies in the post-2001 period in the data base that tracks the prepurchased transmission inventory to what was actually acquired for the same time period.

Q. How will this affect the final proposal?

A. In the final proposal, PBL will use the following amounts of prepurchased intertie transmission: October, 2001 to March 2002: 1,605 MW; April 2002 to August 2002: 2,005 MW; September 2003 to December 2003: 1,350 MW; and from January 2004 through September 2006: 1,150 MW.

Q. Does PBL agree with the proposal to recalculate the HNF rate increase?

A. PBL agrees with the party's testimony on the methodology for the calculation of the HNF rate increase. The HNF rate should not include costs associated with the shift from 1 NCD to 12 CP cost recovery because the HNF load is not affected by the shift from 1 NCD to 12 CP. Thus, PBL proposes to recalculate the HNF rate increase without any upward rate pressure associated with the shift from 1 NCD to 12 CP cost recovery.

Section 3. Delivery Charge

Q. Have you reviewed the parties' direct testimony pertaining to the delivery charge?

A. Yes. The testimony of the PNGC (WP-02-E-PN-05) proposes BPA PBL retain $6 million of Delivery segment costs in power rates and meld that cost across all power rates. The PNGC argues that, without BPA continuing this practice, the expected cost of the delivery segment would be "simply unacceptable" to smaller customers and would have significant impact on these utilities' revenue requirements.

Q. Do you agree that PBL should retain $6 million of Delivery segment costs in power rates and meld that cost across all power rates?

A. No. BPA has made efforts to comply with the regulatory paradigms established by Federal Energy Regulatory Commission in restructuring the wholesale electric industry, including functionally unbundling power and transmission rates. Thus, the merchant function (PBL) is responsible for establishing power rates that recover power costs and the transmission function (Transmission Business Line) is responsible for establishing transmission rates that recover transmission costs. For the 2002-2006 rate period, all

issues concerning the Delivery segment, including which facilities are in the segment and how the Delivery charge is designed, will be determined in the transmission rate case. *See* Cherry and Metcalf, WP-02-E-BPA-10, at 1-2, 7.

The PNGC proposal to retain $6 million of Delivery costs in the power revenue requirement is not consistent with cost/price linking or functional unbundling. The Delivery segment currently consists primarily of substation facilities required to step-down transmission voltages to voltages below 34.5 kilovolts for deliveries to customers. These facilities are generally located at the points of delivery. They typically serve one or two customers at the delivery point.

BPA recognizes that the transition to unbundled electric rates may impact some customers more significantly than others. As a result, and in an attempt to spread the benefits of the Federal Columbia River Power System fairly, the initial power rate case proposal provides some rate impact mitigation. For example, BPA has proposed to cap the Demand Charge and the Load Variance Charge, to continue the Low Density Discount, and to provide $4 million for relief for customers with high irrigation loads. *See* Burns and Elizalde, WP-02-E-BPA-08, at 17. While the PBL is sympathetic to the customer's concerns, the transmission rate case is the proper forum for customers to address the handling of the Delivery charge.

Q. Does this conclude your testimony?

A. Yes.