



## FORMULA INCREMENTAL RATE PROPOSAL DISCUSSION

### BACKGROUND

Under our current (FY08-09) Rate Schedules, incremental cost rates must be established in a Northwest Power Act section 7(i) rate case. As part of the FY10-11 rate case, we are proposing to adopt an incremental cost rate formula in a section 7(i) process that BPA would implement using a public process resulting in incremental rate charges for applicable transmission contracts. We are asking for customer input on this issue. Please respond with comments, suggestions and preferences. BPA has adopted other formula rates in the past that also provided for less process in filling in the formula.

We see benefits of moving to a formula incremental rate, especially if multiple customers have requested service that is subject to incremental rates and one or more customers decline to take service at the incremental rate. If, instead of using the public process BPA is proposing, we use section 7(i) processes to develop charges for each contract, we may need to re-run the 7(i) process if the number of customers requiring the facilities decreases and therefore the incremental rate goes up for the remaining requestors.

We are proposing to put this proposal in place for FY10-11 because some of the facilities in the Network Open Season (NOS) plan-of-service may not move forward at embedded cost rates, so we will need to have a path forward for customers for NEPA study agreements, determination of final facility costs, allocation of facility costs between embedded costs and incremental costs, allocating incremental facility costs among customers that would use the facility, and offering service at the incremental rate.

The formula for the rate itself is straight-forward. However, those who would have to pay the incremental rate, and those that may see embedded cost rate increases as a result of the application of the formula, would want to ensure the accuracy of the inputs to the formula.

The proposed sequence leading up to filling in the formula is briefly described below and fleshed out in the draft public process description

**(a) Customer Request for Transmission Service:** This request can be either a customer signing a precedent transmission service agreement as part of open season, or an individual request for transmission service.

**(b) System Impact Studies and System Facilities Studies:** These studies are performed by BPA-TS planning. The customers and BPA-TS will have estimated cost and schedule for energization of the new facilities as a result of these studies.



**(c) Financial Evaluation Under Commercial Infrastructure Expansion and Financing Policy (CIP):** In a NOS process, we would evaluate the costs, revenues, and benefits to determine if service may be offered at embedded costs rates with BPA financing the infrastructure expansion. If BPA determines after a CIP evaluation that it will not offer service over the facilities at embedded cost rates, the project may be subject to a “Higher of” test and incremental rate treatment, which terminates any Precedent Transmission Service Agreement.

**(d) NEPA:** Customer would pay NEPA study costs if the project is subject to incremental rate treatment.

**(e) Final Plan-of-Service:** Developed by Planning and formalized at conclusion of NEPA when the final ROD is signed.

**(f) Facility Costs:** Also estimated as part of final plan-of-service in the ROD.

**(g) Filling out the Formula and Offer of Service at Incremental Rate:** We envisage the public process as described below. On the other hand, a section 7(i) process to fill in the formula would have all the current elements of a rate case, which could include the following: (i) preparation and publication of a Federal Register Notice (at least a month); (ii) a hearing process with written testimony, the opportunity for discovery, cross-examination, draft and final Records of Decision (if conducted under the expedited rule, 51 Fed. Reg. 7611, section 1010.10, this must occur within 90 days unless extended); (iii) preparation of the record and transmittal to FERC (a month); (iv) FERC review (at least 60 days). As a rough guess, using an expedited section 7(i) process to fill in the formula would likely add at least 5 months to the process BPA is proposing, with attendant participation costs. If, after FERC approval of the rates, not all customers participating in the NEPA study decided to sign contracts, the process may need to start again with the remaining participants, which could end up in a do-loop of reduced participation after each 7(i) process.

## **DRAFT PUBLIC PROCESS FOR INCREMENTAL COST RATE OFFERS**

This proposed process would be used to apply the formula that would be in the incremental rate methodology in BPA’s rates. The process for applying the formula would be described in the General Rate Schedule Provisions.

### **1. NEPA Cluster Study (covered by OATT).**

After CIP, BPA determines which improvements would be subject to incremental rate service, and BPA would require cluster study agreements to conduct NEPA studies. There would be a separate cluster study agreement for each path needing improvements that would be subject to an incremental cost rate. Any TSR affecting more than one incremental cost rate path must sign a cluster study agreement for each such path or be removed from the queue.



The CIP analysis would need to have best available cost estimate at the time of analysis for improvements for each path. It would also need an analyses of how flows from each TSR that is subject to incremental rate service affects each path and what reliability benefits, if any, should be recovered from embedded cost network rates for each project. This information should be applied to the formula in the rate schedule for a cost of service estimate for each customer so that customers can decide whether to sign the NEPA cluster study agreement.

Because customers would not be obligated to take service when offered, the NEPA study for each path needing improvements should consider reasonable alternate plans of service for that path, if appropriate, in the event fewer TSRs affecting that path accept service. This “front-end” approach to considering alternatives under NEPA will minimize the potential for having to restart the NEPA process if TSRs end up dropping out and an alternate plan of service ultimately is the most appropriate for selection by BPA.

## **2. Proposed Incremental Rates.**

Upon completion of the NEPA study for each path needing improvements, BPA will prepare proposed incremental rates for each TSR affecting that path. The proposal will include the following documentation: (a) spreadsheet showing cost items for the upgrades for each path; (b) a study showing how network benefits were determined, and the resulting cost allocation to the network; (c) a study showing how incremental costs were allocated among TSRs and the resulting incremental cost rate for each TSR; and (d) a timeline for completing offers of incremental rate service for such TSRs. The documentation will explain any changes from the cost and flow analyses used for the CIP.

This process does not include documentation supporting the plan of service, since BPA would have received comment on the plan during the NEPA process or earlier.

If any incremental rate TSRs affect more than one path for which new facilities are needed, the proposed incremental rates for those TSRs may have to await completion of the NEPA studies for all incremental rate paths affected by such TSRs. If any of the incremental rate paths have only TSRs affecting that incremental rate path, then the proposed rates for those TSRs do not have to await completion of other NEPA studies.

## **3. Present Proposed Incremental Rates.**

For TSRs whose NEPA studies are complete and proposed incremental rates developed, BPA will hold a public meeting to present the proposed incremental rates for such TSRs. BPA will post the proposed incremental rates and supporting materials at least a week before the meeting and make copies available at the meeting. At the meeting, BPA will explain the basis for the proposed rates and open the meeting for questions and comments. If there are remaining questions after the meeting, customers may put the questions in writing and BPA will respond in writing and post both the questions and the responses. Parties may submit written comments on the proposed incremental



rates after BPA responds to any written questions. If there is sufficient interest in settlement, BPA will hold subsequent settlement meetings, which will be noticed on BPA's website. BPA may extend the timeline for completing offers of incremental rate service to complete settlement negotiations.

#### **4. Present Final Incremental Rates.**

After considering any comments or completing settlement negotiations, BPA will post its final incremental rates, including revised documentation described in 2., above, and make offers of incremental rate service to affected TSRs.

#### **Proposal to adopt a Formula Incremental Rate**

We are still internally discussing the form of the proposed incremental rate. We offer the following for consideration.

Incremental Project Costs are determined by the Total Project Costs for the new facilities (including operation and maintenance), minus deferred or displaced reliability project costs allocated to embedded costs rates, plus the costs associated with accelerating facilities that would otherwise be constructed within 10 years by BPA-TS for reliability purposes.

a. For the purpose of determining the cost responsibility for Network Upgrades needed to provide Transmission Service for Transmission Service reservations included in a Facility Study or NOS Cluster Study, the Transmission Provider shall conduct a Cost Allocation Assessment for each Path needing Network Upgrades. The cost of Network Upgrades for each Path will be allocated to each customer in the assessment on a pro-rata impact basis as provided in paragraph b. With regard to the cost allocation, the Transmission Provider shall review the reservations in the assessment to determine the earliest date that the upgrade for each Path is required to be in-service in order to provide the requested transmission service. This date is the Date Upgrade Needed. The cost of a facility upgrade shall be allocated to all customers in the aggregate group whose reservation period begins after the Date Upgrade Needed or extends past the Date Upgrade Needed. If the Date Upgrade Needed for the upgrade is after completion of service, no cost will be allocated to the customer for the upgrade under consideration.

All requests that have a positive impact on the Path upgrade and for which the service has not been completed prior to the Date Upgrade Needed for such upgrade, shall be allocated costs for the upgrade; and the Transmission Provider shall review these requests in order to determine the amortization period for the Path upgrade. For this determination, the start date of the amortization period shall be the expected in-service date of the facility. The end date for the amortization period



shall be the end of the term of the request that ends at the latest point in time as may be adjusted for deferral of any requests.

b. An allocation of the cost of each Path upgrade to each request using the upgrade shall be determined on a pro-rata basis for the positive incremental power flow impacts of the requested service on such upgrade in proportion to the total of all incremental impacts on such upgrade. For each upgrade identified, the average incremental power flow impact of each request in the Cost Allocation Assessment shall be determined using each peak season model available for the amortization period. Each impact amount shall be determined by first establishing a set of initial seasonal base cases that excludes flows associated with all requests included in the System Facilities Study or NOS Cluster Study, as applicable. Then each request will be added to the models and the change in flow across such upgraded Path shall be determined for each request included in the System Facilities Study or NOS Cluster Study. The cost of a Path upgrade allocated to each request shall be proportional to the average positive incremental impact of each request on such upgrade divided by the total average positive incremental impact of all requests included in the System Facilities Study or NOS Cluster Study on such upgrade. The cost of each Path upgrade shall be allocated to requests independently. Incremental flows having a negative impact on an upgraded Path shall be ignored.

The monthly charge per kilowatt of billing demand shall be one-twelfth of the sum of the annual cost of the FCRTS facilities used divided by the sum of Transmission Demands/capacity reservations.

After concluding the above cost allocations to each reservation in the Cost Allocation Assessment for the Path upgrade, the Transmission Provider shall determine the charges for each request by using the levelized monthly revenue requirement associated with the transmission service requested by each customer in such assessment. This levelized monthly revenue requirement is determined by calculating the present worth of the revenue requirements associated with the Path upgrade as allocated to each customer in the assessment and then calculating an appropriate monthly amount for each customer for each respective reservation in the assessment for the Path upgrade.

Insert the following concept in the PTP rate schedule: Where a Facilities Study or a NOS Cluster Study indicates the need to construct Network Upgrades to accommodate a request for Transmission Service, the Transmission Customer shall be charged the higher of (1) the rate for Long-Term Firm PTP Transmission Service or (2) the Incremental Rate. The Transmission Customer shall also be charged any other applicable charges under the Tariff. If the Transmission Customer is charged the Incremental Rate, upon completion of construction of such Network Upgrades, the Transmission Provider shall reconcile the incremental Network Upgrade costs against the actual construction costs. Based on the reconciliation, the Transmission Customer's cost responsibility shall be adjusted as appropriate.

Insert the following concept in the NT rate schedule: Where a Facilities Study or NOS Cluster Study indicates the need to construct Network Upgrades to accommodate a request for Transmission Service, the Transmission Customer shall be charged the Incremental Rate in addition to the charges



specified in this rate schedule and any other applicable charges under this Tariff. If the Transmission Customer is charged the Incremental Rate, upon completion of construction of such Network Upgrades, the Transmission Provider shall reconcile the incremental Network Upgrade costs against the actual construction costs. Based on the reconciliation, the Transmission Customer's cost responsibility shall be adjusted as appropriate.

The annual cost per kilowatt of Transmission Demand/capacity reservation for a facility constructed or otherwise acquired by BPA-TS shall be determined in accordance with the following formula:

$A / (D / \text{sum of } D \text{ for all customers requiring the incremental upgrade})$

*where*

**A** = The annual cost of such facility based on the Incremental Project Costs determined in accordance with A above, amortized over the term of the transmission service request..

**D** = The reserved Firm PTP transmission service X term length for each customer

1. For facilities used solely by one customer, BPA-TS may charge a monthly amount equal to the annual cost of such sole-use facilities, determined in accordance with section A, divided by 12.
2. For facilities used by more than one customer, BPA-TS may charge a monthly amount equal to the annual cost of such facilities prorated based on relative use of the facilities, divided by 12.

### **Revenue Crediting**

The credit amount shall be recovered, with interest calculated in accordance with \_\_\_\_\_, from new transmission service using the facility as defined below until the credit due is zero.

1. **New Point-To-Point Transmission Service:** Revenues from new Point-to-Point Transmission Service that could not be provided but for the new Network Upgrade will be included for crediting purposes. For each new point-to-point reservation that could not be provided but for the new Network Upgrade, made after the request(s) causing the need for such new Network Upgrade (Original Request(s)), with service commencing after or extending beyond the date the facility upgrade is completed, the Transmission Customer(s) submitting the Original Request(s) shall receive a portion of the transmission service charge equal to the positive response factor of such new reservation on the new Network Upgrade times the portion of the new reservation capacity that could not be provided but for the new Network Upgrade times the rate applicable to such new reservation.





For crediting purposes, the Transmission Provider shall perform a one-time calculation of the response factor of such new reservation on the new Network Upgrade. This allocation from new service shall continue until the Transmission Customer(s) submitting the Original Request(s) has been fully compensated for all charges paid in excess of the normally applicable transmission charges pursuant to the PTP or NT rate schedules.

2. **New Network Integration Transmission Service:** Credits will be provided for new Network Integration Transmission Service, that could not be provided but for the new Network Upgrade, to accommodate designation of new Network Loads or new Network Resources or increases in existing Network Resources above previously designated levels. Credits shall be determined based upon the subsequent incremental use of the Network Upgrade for such new or increased Network Load or Network Resource.

The annual credit amount to be billed and paid monthly by a Network Customer for each such new or increased use shall be the product of the annual revenue requirement associated with the Network Upgrade and the ratio of the incremental impact placed on the Network Upgrade by each such new or increased use to the total of the incremental impacts placed on the Network Upgrade by all currently and previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses of the Network Upgrade. The cost of such credit amount shall be paid by the Network Customer making such new or increased use of the Network Upgrade in addition to all other applicable charges under the NT rate schedule and the Tariff.

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a. Such credits shall be given to the original Transmission Customer(s) paying the Incremental Rate for the Network Upgrade for the Path and to all previously identified incremental Network Integration Transmission Service and Long-Term Firm Point-To-Point Transmission Service uses, including prior incremental Network Integration Transmission Service uses that resulted in the obligation to pay credits. The grant of such credits shall be in proportion to the fraction of the annual revenue requirement associated with the Network Upgrade for which they are responsible, net of any credits previously applied.