



Ted D. Williams, PE
Head of Transmission
Office: (406) 797-8810 Cell: (406) 560-5976
Fax: (406) 797-8809 Email: twilliams@gaelectric.ie

21 3rd Street North, Suite 500
Great Falls, MT 59401

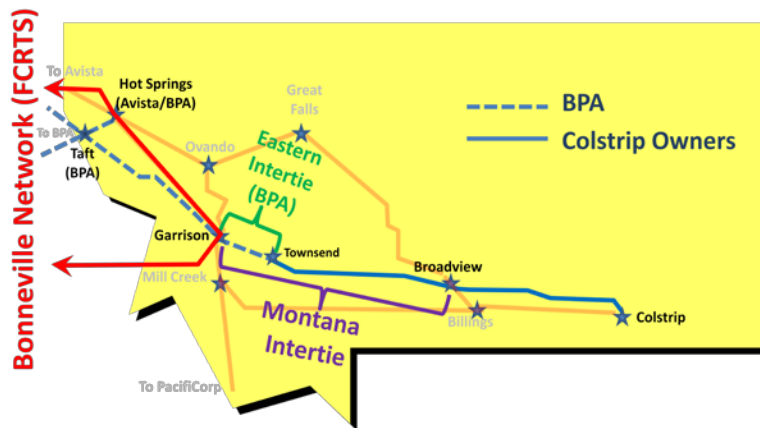
Web: www.gaelectric.ie

Gaelectric's Comments on Bonneville's Eastern Intertie Rate Pancake

June 27, 2012

BACKGROUND

The Colstrip Transmission Project (CTP) was built in the early-mid 1980s. The Colstrip Owners¹ built double circuit 500 kV lines from Colstrip to Townsend including major substations at Colstrip and Broadview. Bonneville built double circuit 500 kV lines from Townsend to Taft and a single circuit line from Taft to Spokane (Bell substation) including new major substations at Garrison and Taft in Montana. It should be noted there is no substation at Townsend. It is merely the point where the Colstrip transmission facilities change ownership. Bonneville also looped its existing 500 kV line from Hot Springs, Montana to Dworshak substation near Orofino, Idaho into the new Taft substation.



Bonneville included all of its investments in the CTP in its network rates except for the segment between Garrison and Townsend. The costs associated with this segment, which came to be known as the “Eastern Intertie”, were initially planned to be charged exclusively to the Colstrip Owners.

During the planning stages, all of the Colstrip Owners had excess transmission capacity along the entire length of their portion of the Colstrip 500kV line as a result of a 6th party pulling out of the Colstrip 3&4 generating projects before construction began. The Western Area Power Administration felt it could use that excess capacity from Broadview to Garrison and approached Bonneville and the Colstrip owners to work out a deal for it. In 1981, the Colstrip Owners entered into an agreement with Bonneville, known as the Montana Intertie

¹ Montana Power (now NorthWestern Energy), Puget Sound Power & Light (now Puget Sound Energy), Portland General Electric, Washington Water Power (now Avista), and Pacific Power & Light (now PacifiCorp). While Montana Power sold its interests in Colstrip Units 1, 2 & 3 in 1999, it retained possession of its interest in the CTP.



Agreement, under which BPA would provide service to the Colstrip Owners from Townsend to Garrison. In the Montana Intertie Agreement, the Colstrip Owners (except for PacifiCorp) also agreed to make the excess capacity they had on their lines between Broadview and Townsend available to BPA in exchange for a reduced rate on the Townsend to Garrison segment. This arrangement was known as the “exchange provision”. Under it, BPA had the unilateral right at any time to terminate the provision, relinquish its rights to the Colstrip Owners’ lines between Townsend and Broadview and charge the exchanging parties the full contract rate for service between Townsend and Garrison. In the Montana Intertie Agreement, the segment between Broadview and Garrison was defined as the “Montana Intertie”.

For a brief period (2-3 years) BPA used the Montana Intertie as part of a transaction to move 185 MW from the Antelope Valley Station (AVS) in North Dakota to Western Area Power Administration’s irrigation loads in the vicinity of Sacramento (the Central Valley Project (CVP)).² Subsequent to the CVP transaction ending, BPA never used the Montana Intertie again until it sold 16 MW to PacifiCorp in 2008. Neither, however, did BPA terminate the exchange provision during this period.

The terms “Eastern Intertie” and “Montana Intertie” are frequently used interchangeably. As described above, however, there is a distinction between the two. Nonetheless, the issues rise above the terminology, and use of either is generally suitable to the debate.

THE RATE “PANCAKE” IS THE ISSUE

When the exchange provision was active, as it was in 2010, the cost to move power across the Montana Intertie (180 circuit miles) was approximately the same as the rate to move across the entire BPA FCRTS network (~11,000 circuit miles) – \$1.312/kW-month and \$1.298/kW-mo, respectively. Anyone moving across both the Montana Intertie and the BPA network had to pay both rates and accept line losses on both.

In 2010-11, Renewable Northwest Project (RNP), with the strong support of the State of Montana and the expertise of Gaelectric, actively engaged BPA in its rate case process to eliminate this unfair rate pancake. We noted that while the original purpose of the Eastern Intertie may have been to integrate the Colstrip power specifically, there are now opportunities to use those facilities to integrate wind energy from Montana, which is both superior to and complements Columbia Gorge wind production. For that reason, we argued the intertie designation should be eliminated enabling the capacity that has been stranded for over 20 years to be made available to customers at just and reasonable rates. During that effort, we demonstrated 1) that BPA’s network customers

² WAPA moved the power from AVS westward across the DC Intertie at Miles City to Montana Power at its interconnection with WAPA at Crossover substation near Hardin. Montana Power moved the power from Crossover to Broadview for delivery to BPA. BPA moved the power across the Montana Intertie and across its FCRTS network for redelivery to WAPA at the California-Oregon border. WAPA then moved the power to its Central Valley Project (CVP) near Sacramento.



have been paying the cost of the Montana Intertie since the end of the CVP deal, 2) the rate pancake is responsible for effectively stranding 184 MW of BPA capacity in the Eastern Intertie, and 3) the impact on network rates from eliminating the rate pancake would range from slightly negative to slightly positive.³ We noted the potential for new transmission lines to be integrated at Townsend, and the opportunity for substantial new business to be transacted on the BPA system.

Opponents, led primarily by Washington public power agencies (and those politically predisposed to support them) made the following substantive arguments:

- Eliminating the pancake could lead to new power lines in the future, which they feared would increase their costs.
- Eliminating the pancake is inconsistent with BPA policies and organic statutes.
- Eliminating the pancake could set a precedent for eliminating the Southern Intertie pancake.
- The Eastern Intertie is an extra-regional facility that was built to integrate extra-regional supply resources.

While the Administrator elected in his Record of Decision not to eliminate the pancake, as a result of the proceedings, BPA did terminate the exchange provision in the Montana Intertie Agreement with the Colstrip Owners. This increased Bonneville's revenues at the expense of the Colstrip Owners. Termination of the exchange provision also eliminated BPA's rights to capacity east of Townsend and rendered the term "Montana Intertie" meaningless. While the amount of the pancake has been reduced from \$1.312/kW-mo to 0.589/kW-mo, the unused 184 MW between Townsend and Garrison remains stranded.

Although the Administrator did not eliminate the rate pancake, he indicated that he had been inclined to do so but was concerned about the potential for a precedent that could lead to a future debate over the Southern Intertie. He indicated that this issue should be revisited in the next rate case (this current proceeding), and that the opposing parties should come together to address the precedence issue.

THE CURRENT PROCESS

As mentioned above, the argument made by opponents that seemed to resonate with the Administrator in the last rate case was that eliminating the Eastern Intertie could be precedent setting and could lead to an assault on the Southern Intertie in future rate cases. In response to the Administrator's suggestion that the parties address this matter of precedence, RNP has attempted to engage opponents on this issue multiple times in the last several months, even bringing BPA attorneys into the effort. In every meeting, however, the opponents have argued that the issue of precedence related to the Southern Intertie is no longer a primary concern. Instead they have insisted that BPA

³ Slide 16, BPA Rate Case Workshop presentation, August 18, 2010.



needs to perform continued analysis of the matter. All of the substantive queries for additional analysis are the same arguments raised and analyzed in the last rate case. In addition, the opponents raised a host of less substantive issues.

BPA once again conducted analysis and addressed all of the questions asked in this matter. In its rate case workshop meeting held on June 13, 2012, Bonneville staff presented the results of its efforts. In summary, Bonneville said the following:

- Eliminating the Eastern Intertie pancake will not be discriminatory as long as the Colstrip parties receive credit for sales.
- Eliminating the Eastern Intertie pancake is consistent with BPA's segmentation policy.
- Eliminating the Eastern Intertie pancake does not send artificially low transmission price signals to Montana generators.
- Eliminating the Eastern Intertie pancake will result in greater usage of the currently stranded capacity.
- Eliminating the Eastern Intertie pancake will result in greater revenue from use of the network.
- BPA is authorized to support the development of Montana generation through elimination of the Eastern Intertie pancake.
- Rate impacts from eliminating the Eastern Intertie pancake may be either positive or negative but are insignificant in either case.
- New transmission will need to be vetted through the BPA NOS process, and elimination of the Eastern Intertie pancake does not change that. It is unlikely that a large new transmission facility would be built out of Townsend at embedded rates.
- The Southern Intertie and the Eastern Intertie were each originally created for different purposes and remain distinct in both size and scope of service; therefore, there is no precedent set by eliminating the Eastern Intertie pancake.
- Balancing Authority impacts can be both positive and negative if the BA boundary is actually changed.⁴

With regard to opponents' arguments that the Eastern Intertie is an extra-regional facility that was built to integrate extra-regional supply resources, that is simply not accurate, and certainly not the way Bonneville characterized the facility in its final environment impact statement (FEIS). In its 1982 FEIS, Bonneville noted that the Townsend-Garrison segment lies wholly within the BPA "service area", the area within which it is authorized to have a "network footprint" per its organic statutes. There is no suggestion anywhere in the documented record that the Townsend-Garrison segment is extra-regional compared to the other portions of the route or its existing grid.

⁴ The proposal to eliminate the Eastern Intertie pancake never contemplated any change in the BA boundary or operation, and it can be accomplished without a BA change.



As to a characterization of Colstrip as an extra-regional resource, the Northwest Power Planning Council characterized the Colstrip projects as regional resources in its then current power plan (circa 1982). What's more is that there was a sense of urgency in completing the Colstrip Transmission Project and bringing Colstrip Units 3 & 4 on line to meet the region's supply needs in the face of the economic failure of the WPPSS venture, which promised to leave the region deficient of resources.

There are various alternatives for eliminating the Eastern Intertie rate pancake, each of which affect the Colstrip owners' differently. Gaelectric has no preference of one method over another as long as 1) the rate pancake is eliminated, 2) the 184 MW of previously stranded capacity is un-stranded, and 3) the implementation doesn't lead to further constraints on commercial use of the path.

Finally, in public discussion of this matter, we frequently hear from opponents, "What's in it for us not to oppose this change?" Bonneville's own staff analysis (twice now) paints a clear picture that the implication on network transmission customers of eliminating the Eastern Intertie pancake is benign. This change will free up 184 MW of capacity that has been stranded for over 20 years. At a time when available transmission capacity is scarce and new construction is the order of the day, this should be a good news story for all. The notion that it is not sufficient to be held neutral but that a party must derive benefit in order to withhold its opposition to this proposal is troubling to the point of being offensive.

CONCLUSION

An incredible irony in this whole matter is that BPA's network transmission customers were paying the entire cost of 200 MW of stranded capacity for over 20 years, and the impact was so trivial they didn't even know it; however, once an effort was undertaken to make that capacity available permanently at just and reasonable rates, opponents have conjured up all manner of peril that will beset the region if that happens.

Bonneville's staff has responded by debunking the perceived peril in an even handed way. This is an example of a benefit without discernible cost. With all the current economic woes, and the uncertainties we all seem to face at every bend in the road, it's time for this straightforward proposal to be implemented and removed from the table.

Respectfully submitted,

Ted Williams