

# **CUSTOMER COMMENTS ON TRANSMISSION COST OF SERVICE ANALYSIS PRINCIPLES**

**Date: November 30, 2011**



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## **COMMENTS OF CLARK PUBLIC UTILITIES CONCERNING TRANSMISSION COST OF SERVICE ANALYSIS (COSA) PRINCIPLES**

Clark Public Utilities (Clark) appreciates the opportunity to provide feedback on the Transmission Cost of Service Analysis (COSA) principles presented by the Bonneville Power Administration (BPA) at the COSA workshop on November 16, 2011.

In the Partial Transmission Settlement Agreement for the 2012 rate case BPA agreed to work with interested parties to define the parameters of a transmission COSA that includes consideration of alternative methodologies for allocating demand-related costs and that determines the costs of BPA's major transmission services. BPA agreed to complete an illustrative cost of service study and to share that model with customer to ensure clear and transparent cost of service determinations.

In addition to the comments submitted by the Western Public Agency Group (WPAG), of which is a member, Clark submits the following for your review.

BPA has articulated the following principles to guide the transmission COSA process and its use in developing a transmission rate proposal for the BP-14 rate proceeding, including:

- Consistency with BPA statutes
- Cost causation – allocating costs to customers based on proportionate use;
- Simplicity, understandability, public acceptance and feasibility of application;
- Avoidance of rate shock and rate stability from rate period to rate period; and
- Rate stability from rate period to rate period (magnitude of rates and rate design).

Three additional principles were identified by BPA's customers which include:

- Adherence to industry standards;
- Approach must be administrable, understandable, durable and repeatable; and
- Demonstrable need for change

Generally Clark agrees with the principles that have been articulated but would like to clarify the following principle: "Cost causation – allocating costs to customers based on proportionate use".

Proportionate use can have many interpretations, some of which are inconsistent with industry accepted rate making. BPA has historically allocated cost based on proportionate use of the segment similar to the methodology employed by the Federal Energy Regulatory Commission. Clark has approved of BPA's historical methodology as it closely comports with industry standard for wholesale transmission rate setting. As BPA undertakes an examination of its ratemaking methodology and proposals for alternatives we expect that the concept of proportionate use will continue to be applied consistent with industry accepted wholesale ratemaking principles.

With this point of clarification Clark does not object to the principles. Thank you for the opportunity to comment.

**EUGENE WATER & ELECTRIC BOARD'S (EWEB) COMMENTS ON  
BPA'S TRANSMISSION COST OF SERVICE ANALYSIS (COSA) PRINCIPLES**

November 30, 2011

EWEB appreciates the opportunity to provide feedback on the Transmission Cost of Service Analysis (COSA) principles presented by the Bonneville Power Administration (BPA) at the COSA workshop on November 16, 2011.

In the Partial Transmission Settlement Agreement for the 2012 rate case BPA agreed to work with interested parties to define the parameters of a transmission COSA that includes consideration of alternative methodologies for allocating demand-related costs and that determines the costs of BPA's major transmission services. BPA agreed to complete an illustrative cost of service study and to share that model with customer to ensure clear and transparent cost of service determinations.

BPA has proposed the following principles be used in implementing the transmission settlement. EWEB strongly supports both BPA's traditional rate making principles and the additional principles proposed by customers.

- Consistency with BPA statutes
- Cost causation – allocating costs to customers based on proportionate use;
- Simplicity, understandability, public acceptance and feasibility of application;
- Avoidance of rate shock and rate stability from rate period to rate period; and
- Rate stability from rate period to rate period (magnitude of rates and rate design).

Three additional principles were identified by BPA's customers which include:

- Adherence to industry standards;
- Approach must be administrable, understandable, durable and repeatable; and
- Demonstrable need for change

BPA has gone to great lengths through the BOATT process to work with transmission customers to be as close as possible to the FERC pro-forma tariff. The product and general rate structure of Point to Point (PTP) and Network Integration (NT) transmission service go hand in hand. Significant departures from FERC and industry standards in rate making for PTP and NT rates would break the fundamental integrity of these products.

As a point of clarification, when the 'cost causation' principle refers to the concept of 'proportionate use', we assume BPA will continue to be consistent with industry accepted wholesale ratemaking principles.

Thank you for the opportunity to comment.

Tech Forum  
Bonneville Power Administration

Submitted electronically via: [techforum@bpa.gov](mailto:techforum@bpa.gov)

In the BP-12 Transmission Settlement Agreement, BPA agreed to work with interested transmission customers, to define the parameters of a Transmission Cost of Service Analysis (COSA) that includes consideration of alternative methodologies for allocating demand-related costs and that determines the costs of BPA's major transmission services. BPA also agreed to complete an illustrative cost of service study using forecasted data from a recent fiscal year and share the cost of service model with its customers. BPA is in the process of holding a series of workshops to define such parameters and requests comments on the ratemaking principles for the COSA. It is important to establish these principles at the outset because the upcoming transmission rate proceeding will need to begin with this fundamental understanding as a starting point for the BPA's transmission rate setting process. Northwest Requirements Utilities (NRU) provides the following comments on the proposed set of ratemaking principles.

Generally, NRU agrees with principles that have been articulated but suggests that BPA make a few changes. As originally stated the proposed principles are listed below:

### **Traditional BPA transmission rate making principles**

- Consistency with BPA statutes
- Cost causation allocate costs to customers based on proportionate use
- Simplicity, understandability, public acceptance, and feasibility of application
- Avoidance of rate shock
- Rate stability from rate period to rate period (magnitude of rates and rate design)

### **Additional principles proposed by some Customers**

- Adherence to industry standards
- New study must be administrable, understandable, durable and repeatable
- Advocates for change should demonstrate need for change and propose an alternative methodology

### **NRU's Specific Comment on Some of the Principles**

First, there may be different interpretations of the following principle and it is important to clarify what this principle is referring to: "Cost causation allocate costs to customers based on proportionate use." There are many ways of establishing proportionate use that are at odds with generally accepted rate making principles. Examples could include attempts to implement "value of service" pricing or applying retail ratemaking to a wholesale transmission provider such as BPA. However, we interpret this principle to mean that the allocation of costs should be done in accordance with industry accepted wholesale ratemaking principles.

Second, we find the following principle unclear: "Rate stability from rate period to rate period (magnitude of rates and rate design)." We propose the following revision: "Rate stability from rate period to rate period (both with regard to the level of the rates and the rate design to be implemented)."

Third, we also find this principle to be unclear: "New study must be administrable, understandable, durable and repeatable." We suggest the following wording: "Any new approach to cost of service proposed for adoption must be administrable, understandable, durable and repeatable."

With these changes NRU finds the proposed set of transmission ratemaking principles acceptable.



## **PNGC Comments on November 16, 2011 Cost of Service Workshop**

PNGC submits the following comments in response to BPA’s November 16, 2011 Cost of Service workshop.

As part of the transmission settlement in BP-12, BPA agreed to

- “a) work with interested transmission customers in an open and collaborative forum to define the parameters of a cost of service study that includes consideration of alternative methodologies for allocating demand-related costs and that determines the costs of BPA’s major transmission services,
- b) complete an illustrative cost of service study using forecasted data from a recent fiscal year, and
- c) share the cost of service model with customers to ensure clear and transparent cost of service determinations. BPA will use the methodology from the study in the initial proposal for the 2014 rate case to prepare rate designs and allocate costs among rate classes.”

PNGC supports an examination of BPA’s use of a different demand allocator from the current 1 CP modified. In particular, we look forward to information which BPA will be distributing at the December 5, 2011 workshop regarding impacts of the 12 CP demand allocator.

BPA has proposed the following principles be used in implementing the transmission settlement. PNGC strongly supports both BPA’s traditional rate making principles and the additional principles proposed by customers.

### Traditional BPA transmission rate making principles

- Consistency with BPA statutes
- Cost causation—allocate costs to customers based on proportionate use
- Simplicity, understandability, public acceptance, and feasibility of application
- Avoidance of rate shock
- Rate stability from rate period to rate period (magnitude of rates and rate design)

### Additional principles proposed by some customers

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- Adherence to industry standards
- New study must be administrable, understandable, durable and repeatable
- Advocates for change should demonstrate need for change and
- propose an alternative methodology

BPA has gone to great lengths through the BOATT process to work with transmission customers to be as close as possible to the FERC pro-forma tariff. The product and general rate structure of Point to Point (PTP) and Network Integration (NT) transmission service go hand in hand. Significant departures from FERC and industry standards in rate making for PTP and NT rates would break the fundamental integrity of these products.

At the time of the settlement discussion it was unclear what exactly the parties asking for a COSA were expecting given that a cost of service study does not address issues like frequency of curtailments, quality or value of service, or other issues which seemed to be at the heart of the complaint by these parties. The presentation regarding FERC and Idaho Power wholesale transmission rate making, it is clear that wholesale transmission rate making is quite straightforward. It was clear that retail cost of service methodologies are inappropriate for wholesale transmission rate making. It is unclear what changes in methodology the parties requesting a cost of service study for wholesale transmission rate are asking for. It is therefore incumbent on the parties requesting change to make a proposal that adheres to the principles.

We look forward to a completing this part of the settlement agreement as expeditiously as possible.

November 30, 2011



11/30/2011

Transmission Services  
Bonneville Power Administration  
Email: Tech Forum

Seattle City Light appreciates the opportunity to comment on BPA's transmission cost of service analysis and scoping the study.

Financial reserves. BPA should examine the causes of growth in the unencumbered financial reserves for the transmission business line. The reserve has grown above levels required for financial policies. This growth is an indicator of a mis-estimation of revenues and/or cost of service. BPA should examine and identify the causes of the growth in reserves, remedy those causes, and if possible return the excess reserves to the users of the services that created the reserves.

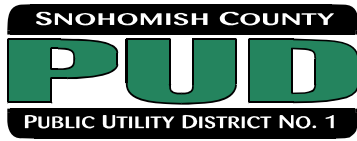
Operational/service level. BPA should re-examine the comparability of NT and PTP service. This review should go beyond FERC accounts, and should examine the services, both as specified in Business Practices and as actually implemented.

Curtailments. Regional curtailments, such as PSANI events, affects NT and PTP customers differently. BPA's study should include incidences of curtailments, effects of those curtailments on customer service, and the financial consequences to customers.

I look forward to continued involvement in this process.

Thanks

Eric Espenhorst  
Seattle City Light  
Power Contracts



*Providing quality water, power and service at a competitive price that our customers value*

November 30, 2011

Bonneville Power Administration  
P.O. Box 3621  
Portland, OR 97208

RE: Comments on BPA Transmission Cost of Service Principles

Dear Ms. Rebecca Fredrickson:

Snohomish has reviewed the Cost of Service Analysis (COSA) Principles presented at the November 16<sup>th</sup> COSA workshop, and finds them to be appropriate. As the workshops move forward, Snohomish would likely have specific questions about COSA methodologies and applications.

Snohomish would support BPA if it chooses to hire an outside consultant to help the COSA studies and workshops.

Sincerely,

Felicienne Ng

**COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP  
CONCERNING TRANSMISSION COST OF SERVICE ANALYSIS (COSA)  
PRINCIPLES**

**I. INTRODUCTION**

The utilities that comprise the Western Public Agencies Group (WPAG) appreciate the opportunity to provide feedback on the Transmission Cost of Service Analysis (COSA) principles presented by the Bonneville Power Administration (BPA) at the COSA workshop on November 16, 2011.

In the Partial Transmission Settlement Agreement for the 2012 rate case (Partial Settlement), BPA agreed to work with interested parties to define the parameters of a transmission COSA and then complete an illustrative COSA using forecasted data from a recent fiscal year.<sup>1</sup> This concession was made by BPA at the behest of a few customers who refused to execute the Partial Settlement unless BPA agreed to perform a transmission COSA. However, at the time of Partial Settlement, it was not clear what exactly parties seeking the “transmission COSA” wanted BPA to do.

Over the past several months BPA has, in accordance with its obligations under the Partial Settlement, conducted a number of workshops with interested transmission customers aimed at defining the parameters of the transmission COSA. Despite BPA’s best efforts to elicit proposals, it is still unclear what those parties who originally demanded that BPA perform a transmission COSA are seeking from the process. At best, they may be seeking to have BPA perform the equivalent of a retail rate cost of service study but for wholesale transmission costs. At worst, they may be seeking merely to shift costs from the point to point transmission service (PTP) rate to the network transmission service (NT) rate based on some type of relative value or other non-cost based methodology.<sup>2</sup> In any case, the proponents of such a fundamental change

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<sup>1</sup> Partial Settlement, § 6.

<sup>2</sup> Proponents of change seem dissatisfied with the fundamental differences between the PTP and NT services – such as curtailment vs. redispatch, and seek to alter the nature of the two services through a pricing regime that considers their relative value to each other. See, NT and PTP Transmission Comparison Power Point, Snohomish County PUD, September 15, 2010, [http://www.bpa.gov/corporate/ratecase/2012/docs/Comparison\\_of\\_NT\\_vs\\_PTP\\_09-15-10.pdf](http://www.bpa.gov/corporate/ratecase/2012/docs/Comparison_of_NT_vs_PTP_09-15-10.pdf). However, to a large extent the relative values between the PTP and NT services have already been weighed, considered and allocated by the Federal Energy Regulatory Commission in its development of the terms and conditions of the services as well as the associated rate methodologies identified in its Pro Forma Open Access Transmission Tariff (Pro Forma OATT), and by implication by BPA in its own OATT. See, Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities and Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888-A, 62 FR 12274-01, 12323 (March 14, 1997) (“The bottom line is that all potential transmission customers... must choose between network integration transmission service or point-to-point transmission service. Each of these services has its own advantages and risks...In choosing between network and point-to-point transmission service, the potential customer must assess the degree of risk that it is willing to accept associated with the availability of firm transmission capacity.”). Furthermore, at least with respect to hydroelectric power, the type of value based or similar non-cost based methodology advocated for by the proponents of change does not appear to be consistent with BPA’s current “at cost” statutorily mandated methodology. See, for instance, Energy and Water Development Appropriations Act, 1993, Pub. Law No. 102-377, Sec. 505.

have the obligation to come forward with the methodology they want BPA to adopt, a demonstration that adopting their methodology is necessary, and a showing that it complies with the principles enunciated by BPA. As discussed below, those advocating change have failed to make any of these demonstrations.

## **II. DISCUSSION OF TRANSMISSION RATE MAKING PRINCIPLES**

BPA has articulated certain principles to guide the transmission COSA process and its use in developing a transmission rate proposal for the BP-14 rate proceeding, including:

- Cost causation – allocating costs to customers based on proportionate use;<sup>3</sup>
- Simplicity, understandability, public acceptance and feasibility of application;
- Avoidance of rate shock and rate stability from rate period to rate period; and
- Consistency with BPA statutes.

BPA's customers have identified three additional principles they view as relevant to this process, including:

- Adherence to industry standards;
- Approach must be administrable, understandable, durable and repeatable; and
- Demonstrable need for change.

Based on the WPAG utilities understanding of the BPA principles, and taken together with the additional principles articulated by the BPA customers, these are the correct principles for evaluating proposals to change the method BPA uses in transmission rate setting. They encompass both the traditional legal requirements and ratemaking principles that are a part of every BPA ratemaking proceeding. In addition, they recognize that BPA is in the process of bringing the terms and conditions of its wholesale transmission services closer to industry standards as part of its BPA Open Access Transmission Tariff (BOATT) reform process, and that it is a logical part of that process to consider bringing its wholesale transmission rate methodology into conformity with industry standards, so long as that is permitted by its governing statutes.

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<sup>3</sup> The WPAG utilities understand that this principle requires BPA to allocate the total revenue requirement for the network segment between NT and PTP rates based on both classes respective proportional use of the segment similar to how FERC requires jurisdictional utilities to allocate costs between their NT and PTP customers. So for example, for NT customers, their "use" would be determined by their total collective load at the time of the annual system peak under a one coincidental peak (1 CP) methodology or, under a twelve coincidental peak (12 CP) methodology, by the average of their total collective monthly load during BPA's twelve monthly peaks. Whether BPA would use a 1 CP methodology or a 12 CP methodology or some other coincidental peak methodology (e.g., 3 CP) would depend on the operational realities of BPA's transmission system as determined by standard industry practice. For PTP customers their "use" would be determined by the amount of their contracted capacity. To the extent that PTP customers' "use" of the network is more than the "use" by NT customers, they will proportionally have a higher share of the total revenue requirement and vice versa.

It is difficult to determine whether the proposal of the proponents of change complies with BPA's principles when, in fact, they have not yet articulated an alternative to BPA's current approach. It is possible, however, to state that BPA's current approach comports with the principles articulated by BPA. First, BPA's approach is based on cost causation which is the bedrock principle BPA uses in its setting of rates. Second, while the current BPA approach is more complicated and detailed than required by the Federal Energy Regulatory Commission (FERC) of jurisdictional utilities, it is well understood and well accepted by BPA's customers. Third, to date, BPA has administered its current approach in a manner that has avoided rate shock and provided reasonable rate stability from rate period to rate period.

Fourth and finally, BPA obviously believes that its current approach is consistent with its statutory obligations. It properly segregates power and transmission costs as required by BPA's organic statutes.<sup>4</sup> Under the current approach, BPA endeavors to recover all transmission related costs in a manner that is consistent with sound business principles.<sup>5</sup> Furthermore, as required by section 7(a)(2) of the Northwest Power Act, transmission rates set using BPA's current methodology have been determined by FERC in the past to (i) be sufficient to assure repayment of the Federal investment in the transmission system, (ii) be based upon the total cost of the transmission system, and (iii) equitably allocate the costs of the transmission system between Federal and non-Federal power utilizing such system.<sup>6</sup>

It is simply impossible, based on the absence of any concrete proposal, to say that what the proponents of change seek would similarly comply with any of BPA's articulated principles. More troubling is the manner in which the change sought by some customers would conflict with the principles advanced by the BPA's customers. As related above, these include adherence to industry standards; approach must be administrable, understandable, durable and repeatable; and reflect a demonstrable need for change.

Assuming that the proponents of change really seek to have BPA apply a retail rate COSA to BPA's wholesale transmission rates, such a change would completely conflict with the BPA customers principles. Right now the industry standard for setting wholesale transmission rates is established by the FERC through its pro forma Open Access Transmission Tariff (Pro Forma OATT). As demonstrated in the most recent workshop, BPA's current transmission rate setting method fairly comports with methodologies determined by FERC to be consistent with Pro Forma OATT.

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<sup>4</sup> See Transmission System Act, §§ 9-10; Northwest Power Act, § 7(a).

<sup>5</sup> See Bonneville Project Act, § 7; Flood Control Act of 1944, § 5, Transmission System Act, §§ 9 and 10, Northwest Power Act, § 7(a)(1)-(2).

<sup>6</sup> *United States Department of Energy – Bonneville Power Administration*, Order Confirming and Approving Rates on a Final Basis, 132 FERC ¶ 62,098 (August 6, 2010); *United States Department of Energy – Bonneville Power Administration*, Order Confirming and Approving Rates on a Final Basis, 122 FERC ¶ 61,143 (Feb. 21, 2008); *United States Department of Energy – Bonneville Power Administration*, 39 FERC ¶ 61,078, at 61,209 (1987).

On the other hand, what the proponents of change are advocating for is a transmission rate setting method based not on the FERC approach for wholesale transmission rates but on a retail approach. This is the exact opposite direction BPA is going in the BOATT reform process, and with its decision to file a reciprocity tariff, to establish the terms and conditions of its wholesale transmission products. It makes no sense for BPA to adopt the terms and conditions identified in the Pro Forma OATT for its PTP and NT services, and then adopt a rate setting method that is based on a retail model that has nothing to do with the Pro Forma OATT or industry standards for allocating wholesale transmission costs.

The one area where BPA's current transmission rate methodology is clearly out of step with the industry standard approach is its use of the one coincident peak approach. Since the proponents of change have failed to come forward with a concrete alternative to BPA's current method, BPA and its customers should use the process agreed to in the Partial Settlement to evaluate whether it should modify its current one coincidental peak (1 CP) methodology for allocating transmission costs to a methodology this is more compliant with the Pro Forma OATT given the operational realities of BPA's transmission system. This includes performing FERC's On and Off Peak Test, Low-to-Annual Peak Test, and Average to Annual Peak Test identified in the November 16, 2011 presentation on FERC Transmission Ratemaking made by Michael McHugh. It also means considering the planning factors that FERC reviews when evaluating a utility's selection of allocation methodology which includes "[t]he full range of a company's operating realities including, in addition to system demand, scheduled maintenance, unscheduled outages, diversity, reserve requirements, and off-system sales commitments."<sup>7</sup>

Based on and following consideration of all of the above factors, it may be the case that given the operating realities of BPA's transmission system, its current 1 CP methodology for allocating wholesale transmission costs is not consistent with the Pro Forma OATT, but instead some other coincidental peak divisor is appropriate (e.g., 3 CP or 12 CP). Under such circumstances, a change in BPA's methodology is probably justified under the three principles articulated by the customers (i.e., adherence to industry standards; approach must be administrable, understandable, durable and repeatable; and demonstrable need for change). Conversely, such an evaluation may demonstrate that BPA's current 1 CP methodology is consistent with FERC guidance for transmission systems like BPA's. Under those conditions, no change would be warranted. Either outcome would be perfectly acceptable if it is supported by the facts.

Given the push for BPA to become more compliant with the Pro Forma OATT, at a minimum BPA should perform and share all of the analysis that would be required by FERC of a jurisdictional utility under the Pro Forma OATT in determining the methodology it uses to allocate transmission costs. To do so would adhere to current industry standards (standards that are proven to be understandable, durable and repeatable as well as consistent with cost causation principles). It would also give BPA and its customers a demonstrable need for change, or not, based on the outcome of the analysis.

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<sup>7</sup> *Golden Spread Electric Cooperative, Inc.*, 123 FERC ¶ 61,047, 61,249 (2008).

In contrast, the inability of the proponents of a retail-like methodology to fully articulate the proposal they wish BPA to adopt for wholesale transmission rates, and the inability of other customers to understand it, demonstrates that their supposed alternative is not understandable, durable or repeatable. In addition, a mere desire to change is not, in and of itself, a substantial reason for making such a material change to BPA's transmission rate setting method. More is required, beyond the fact that it is being sought by a number of large utilities, to justify such a change, particularly where the change would impact so many customers. Without such justification, BPA should reject calls to move away from accepted practices for allocating wholesale transmission costs towards the retail-like method ambiguously advanced by some parties.