

Comments of the Public Utility District No.1 of Snohomish County, Washington

Snohomish appreciates BPA staff's consideration of its approach for identifying facilities that make up BPA's Integrated Network Segment ("Network Segment"). The presentations delivered by Snohomish on behalf of a PTP Coalition in June and August¹ leave no doubt that BPA must change the way it defines the Network Segment. A by-product of transmission settlements first entered into in 1996, the current definition includes facilities that do not benefit the network. Adopting this definition going forward would (i) lead to cost allocations that are contrary to cost causation, (ii) fail to equitably allocate costs between Federal and non-Federal customers, (iii) be inconsistent with FERC's test for determining integrated network facilities, and (iv) discriminate against BPA's network customers that do not rely on BPA for distribution service.

For the reasons stated in PTP Coalition presentations and comments² and below, Snohomish urges BPA to change its method for identifying facilities that are appropriate to include in its Network Segment.

I. BPA Should Revise the Network Segment Definition.

A. The Evidence Presented During the Workshops Demonstrates that the Current Network Segment Includes Non-Network Facilities.

On August 22nd, Snohomish presented an analysis of BPA's Dispatching Jurisdiction Diagram that demonstrates the current Network Segment includes non-network facilities, i.e.,

¹ See *Bulk Electric System and Seven-Factor Test Presentation* (June 13, 2012); *Integrated Network Segmentation Analysis* (August 22, 2012).

² See PTP Coalition Comments of July 2, and September 22, 2012.

facilities that do not benefit network customers.³ The analysis relied on FERC’s seven-factor test and the new definition of bulk electric system (“BES”) to distinguish between network (transmission) facilities and non-network (distribution) facilities. The analysis excluded from the Network Segment (i) all radial and open loop lines serving loads; and (ii) all Local Networks and Load Serving Networks serving loads based on powerflow review. It allocated a percentage of jointly used facilities to the distribution function based on breaker positions or voltage class.

The analysis showed that approximately \$714 million of the \$4.3 billion of facilities currently in the Network Segment are unrelated to BPA’s transmission network and do not impact BPA’s ability to provide transmission service. Because Snohomish did not have a complete set of data, the analysis did not take into account all of the facilities BPA leases from utilities and whose costs are currently included in the Network Segment. Snohomish estimates that the costs of non-network facilities in the Network Segment would be significantly higher if all of the leased facilities were accounted for.

B. The 34.5 kV or Above Bright Line Inappropriately Includes Non-Network Facilities in the Network Segment.

Snohomish understands that in 1996 BPA may have adopted the 34.5 kV or above bright line in the Network Segment definition for administrative ease and uniform application of comparability. When FERC was considering how to distinguish distribution facilities from transmission facilities in 1996, it also noted that a bright line, perhaps based on voltage, was preferable. However, FERC concluded that a bright line “would not be a workable approach in

³ For purposes of these comments, “network” or “transmission” facilities” include facilities integrated with BPA’s transmission system. “Non-network” or “distribution” facilities include facilities not integrated with BPA’s transmission system (e.g., radial and open loop lines serving loads, and Local Networks and Load Serving Networks serving loads).

all cases because of the variety of circumstances that may arise.”⁴ As a result, FERC adopted the functional seven-factor test.

Similarly, FERC recently proposed to approve NERC’s new definition of the BES.⁵ Although the definition retains a voltage bright line in the core definition, the new definition includes nuanced exclusions and inclusions and an exception process to properly distinguish between BES and local distribution (non-BES) facilities. The revised definition is particularly supported by utilities in the west (including Snohomish, BPA and many, if not all, public power and cooperative network customers) because there are many local distribution facilities in the west that would fall under the BES definition if a singular bright line were applied. The exclusions and inclusions and the exception process allow for a more workable approach so that functionally-appropriate facilities are included in the BES definition.

BPA should recognize that its past use of the 34.5 kV or above bright line has caused many non-network facilities to be classified as network facilities. Snohomish recommends BPA remove the 34.5 kV or above bright line criterion and adopt an approach similar to either the seven-factor test or the new BES definition.⁶

⁴ *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036 at 31,981 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048, *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), *aff'd in relevant part sub nom. Transmission Access Policy Study Group v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002).

⁵ *Revisions to Electric Reliability Organization Definition of Bulk Electric System and Rules of Procedure*, 139 FERC ¶ 61,247 (2012).

⁶ Snohomish notes that the Requirements Customer Coalition (“RCC”) argued during the 1996 rate case that the then proposed bright line voltage level was inappropriate and urged BPA to use a functional test to distinguish between transmission and distribution facilities. RCC argued that some of the facilities that BPA proposed to put in the Delivery segment as a result of the bright line were actually transmission and not delivery. *See 1996 Final Record of Decision* (WP-96-A-02) at 413.

Snohomish is confident that the adoption of either test will not be administratively burdensome. Snohomish performed its analysis on behalf of the PTP Coalition in less than two months using less than 100 hours of staff members' time, and a summer intern who devoted most of his time to the project. Given BPA's resources and the analysis Snohomish has already performed, BPA should be able to complete the analysis with ease. In addition, Snohomish is confident that BPA can apply either the seven-factor test or the BES definition in a uniform and consistent manner. Unlike in 1996 when the seven-factor test was adopted, there is ample precedent BPA can look to from both FERC and state public utility commissions to assist in applying the test in a uniform and consistent manner. As to the new BES definition, there is enough granularity that it would be difficult for BPA not to apply the definition in a uniform and consistent manner.⁷

C. Including Non-Network Facilities in the Network Segment Is Contrary to Cost Causation.

Network customers should not bear the burden of paying for non-network facilities that serve only certain customers and provide no system-wide benefit. Cost causation requires that the customers who use and benefit from particular facilities pay for those facilities. BPA has expressed in all rate cases that BPA follows cost causation in determining rates. WPAG has stated that "cost causation . . . is the bedrock principle BPA uses in its setting of rates."⁸ Cost causation, however, is absent when allocating the costs of non-network facilities to network customers.

⁷ PNGC and NRU are members of the Western Public Power Coalition ("WPPC"), which submitted comments to FERC's Notice of Proposed Rulemaking regarding the new BES definition. Snohomish filed separate comments in support of the WPPC's comments. In particular, the WPPC comments state that "Each aspect of the definition discussed above is connected by a hierarchal structure that allows the BES Definition to be *applied uniformly*." WPPC Comments, Docket Nos. RM12-6-000 and RM12-7-000, at 29 (September 4, 2012).

⁸ Comments of the Western Public Agencies Group Concerning Transmission Cost of Service Analysis (COSA) Principles at 3 (November, 2011).

As it stands now, the Network Segment includes radial and local network facilities regardless of whether these facilities provide bulk power transmission service or reliability to the BES. BPA must redefine the Network Segment to include only network facilities so that the allocation of those facilities' costs to network customers is consistent with cost causation.

D. Including Non-Network Facilities in the Network Segment Is Contrary to Equitable Cost Allocation.

Section 10 of the Transmission System Act requires BPA to equitably allocate the cost of the Federal transmission system between Federal and non-Federal power utilizing the system.⁹ The current cost allocation of the Network Segment does not meet this requirement. Snohomish agrees that the costs of *network* facilities should be shared by all network customers and that this results in an equitable allocation of costs. Snohomish stands by this point even if the facilities were originally installed to meet a particular customer's request for service, but now provide benefits to the network. Snohomish does not agree, however, to subsidizing the costs of non-network facilities, such as radial lines, that do not serve a system-wide function. For more than 15 years certain utilities have been subsidized by all the network customers through the Network Segment. This inequity is contrary to Section 10 and must be corrected.

All in all, the evidence from the August 22nd presentation is uncontroverted, so to adopt a definition in plain contradiction to the evidence appears arbitrary and capricious, and to the extent the definition results in allocating the costs of non-network facilities to network customers, discriminatory.¹⁰

⁹ 16 U.S.C. § 838h.

¹⁰ Snohomish notes that the current definition of the Network Segment was initially agreed to more than 15 years ago under settlement terms and conditions. This and other subsequent settlements did not establish precedent and should not be considered as such. All the parties to those settlements agreed to the "non-precedential" provisions. With the expiration of the most current settlement, BPA is now required to submit a new proposal under the procedures established in 16 U.S.C. § 839e(i).

II. BPA Should Adopt a Transmission/Distribution Test to Determine Network Facilities.

Throughout the pre-rate workshops, Snohomish has joined the PTP Coalition in asking BPA to adopt either the seven-factor test or the BES definition to distinguish network versus non-network facilities. Both of these tests are industry standards to determine whether facilities are used in local distribution or in transmission, albeit in slightly different ways. The seven-factor test determines whether a facility is providing a transmission function. The BES definition determines whether a facility is necessary to provide for reliable operation of the bulk-power system.

The “distribution” classification for a facility is important for purposes of the Network Segment because a distribution facility is not part of an integrated transmission network.¹¹ A distribution facility does not provide either a transmission function or a reliability benefit to an integrated transmission network. BPA has recognized this by establishing different segments for delivery and network facilities. In the 1996 Final Record of Decision, BPA stated that the purpose of the Utility Delivery Segment was to include “facilities that provide service analogous to distribution, while the Network segment would consist of facilities providing a transmission function.”¹² Therefore, it is appropriate to apply a transmission/distribution test to identify those facilities that benefit the network system and not merely provide delivery service.

Adopting a transmission/distribution test for the Network Segment is also consistent with how FERC determines what facilities are part of an integrated network system. FERC has stated

¹¹ See *Tex-La Electric Cooperative of Texas, Inc.*, 69 FERC ¶ 61,269 (1994) (rejecting inclusion of distribution facilities in system average rate because such facilities were not operated in an integrated manner); *Borough of Zelienople, Pennsylvania*, 70 FERC ¶ 61,073 (1995) (finding that the appropriate basis for developing a distribution facilities rate is direct assignment because these facilities were not integrated with the rest of the system).

¹² See *1996 Final Record of Decision* at 414. See also BPA Transmission Pre-Rate Case Presentation at 5 (June 13, 2012).

that any degree of integration in the transmission network is sufficient to establish that a facility is a network facility.¹³ However, when facilities are *distribution* facilities that are not part of an integrated transmission network, the “any degree of integration’ principle is irrelevant.”¹⁴

Distribution facilities are simply not part of the network.

With regard to cost allocation, FERC’s policy is to roll into transmission rates costs of integrated network facilities¹⁵ guided by “the fundamental principle of cost causation ‘that costs should be recovered in the rates of those customers who use the facilities and thus cause the cost to be incurred.’”¹⁶ FERC has found that “the transmission network is a single interconnected system serving and benefiting all transmission customers and it is this interconnected nature that makes for a *reliable system* consistently providing for the delivery of electric energy to all customers.”¹⁷ However, when distribution facilities are not integrated and thus do not provide system-wide benefits, direct assignment is used to allocate costs to those customers who use the facilities.¹⁸ In fact, FERC has found not only that rolling in distribution facilities’ costs into transmission network rates would be inconsistent with cost causation, but it would also be “*inequitable*.”¹⁹

¹³ *City of Anaheim*, Opinion No. 483, 113 FERC ¶ 61,091 at P 34 (2005), *reh’g denied*, 114 FERC ¶ 61,311 (2006).

¹⁴ *Pinnacle West Capital Corp.*, 133 FERC ¶ 61,034 at P 18 (2010) (“*Pinnacle West II*”).

¹⁵ *Pinnacle West Capital Corp.*, 131 FERC ¶ 61,143 at 42 (2010) (“*Pinnacle West I*”).

¹⁶ *Pinnacle West II*, 133 FERC ¶ 61,034 at P 17, quoting *Pinnacle West I*, 131 FERC ¶ 61,143 at P 48 (quoting *Northern States Power Co.*, 64 FERC ¶ 61,324, at 63,379 (1993), *reh’g denied*, 74 FERC ¶ 61,106 (1996)).

¹⁷ Opinion No. 483, *citing, e.g., Pacific Gas and Electric Co.*, Opinion No. 466-A, 106 FERC ¶ 61,144 at P 22 (2004) (emphasis added).

¹⁸ *Pinnacle West I*, 131 FERC 61,143 at P 42.

¹⁹ *Id.* at P 48.

Finally, adopting the transmission/distribution test is consistent with industry standards. During the COSA workshops NRU, PNGC, and WPAG argued that a 12 coincidental peak (“CP”) cost allocation was appropriate because the 12 CP approach was the industry standard for allocating costs for transmission systems like BPA’s. NRU captured this argument in its May 11, 2012 COSA comments:

As the NT customers have pointed out many times throughout this process, a 12 CP methodology is the industry standard for allocating costs for transmission systems like BPA’s. BPA staff has presented ample evidence that demonstrates if BPA follows the industry standard and the Federal Energy Regulatory Commission’s (“FERC”) preferred approach, a 12 CP approach is warranted. If BPA does not move to a 12 CP methodology, *NT customers will continue to subsidize the PTP segment of the transmission system, and BPA will continue to deviate from standard industry practice.* (emphasis added) (footnotes omitted)

Snohomish disagrees with the 12 CP conclusion because it is inconsistent with how BPA plans its transmission system and the FERC tests used to indicate a 12 CP cost allocation were not intended to be applied to a system like BPA’s which has many more PTP, Integration of Resources, and Formula Power Transmission customers than network transmission customers. Here, however, there is no evidence that BPA should not apply industry standards.

There is no evidence that the seven-factor test or the new BES definition do not properly distinguish between transmission and distribution facilities. To the contrary, BPA, NRU, and PNGC have recently stated that at least in regard to the BES definition, it properly makes that distinction.²⁰ There is also no evidence that BPA should not follow FERC and be guided by cost causation. Cost causation is a bedrock principle of BPA ratemaking. There is only ample evidence demonstrating that the Network Segment includes non-network facilities and that redefining the Network segment is warranted consistent with industry standards. If BPA

²⁰ WPPC Comments at 23 (“The Coalition supports the submitted BES definition in large measure because it properly excludes ... local distribution systems from the BES in an objective, consistent, and transparent manner.”); BPA Comments, Docket Nos. RM12-6-000 and RM12-7-000, at 3 (September 4, 2012).

continues to deviate from “standard industry practice” and not redefine the Network Segment, all network customers will continue to subsidize a subset of customers that use facilities that do not benefit the network.

III. Response to Assertions from WPAG, NRU, and PNGC.

A. BPA Is Not Required to Postage-Stamp Costs of Non-Network Facilities to Network Customers.

WPAG, NRU, and PNGC have incorrectly suggested that Section 10 of the Transmission System Act requires BPA to have uniform rates and thus apply postage-stamp rates to all BPA facilities costs. First, Section 10 has no such requirement. Section 10 states that BPA “*may* provide, among other things, for uniform rates or rates uniform throughout prescribed transmission areas.”²¹ Second, having the discretion to provide uniform rates does not result in automatic postage-stamp rates. There is nothing in the statute that prohibits different uniform rates for different classes of customers. Third, if WPAG, NRU, and PNGC’s interpretation were correct, then segmentation would be illegal. Under segmentation, BPA divides the Federal Transmission System into defined segments according to the different types of transmission service provided on such segment and determines the historical investment base for each segment. The goal of the segmentation methodology is to equitably allocate the costs of the Federal Transmission System between Federal and non-Federal power using the transmission system. Unlike uniform rates, BPA does not have discretion in this regard. Section 10 specifies that “[t]he recovery of the cost of the Federal transmission system *shall* be equitably allocated between Federal and non-Federal power utilizing such system.”²²

²¹ 16 U.S.C. § 838h.

²² *Id.*

B. Snohomish Questions Whether Other PMAs Require Network Customers to Pay for the Costs of Non-Network Facilities.

WPAG, NRU, and PNGC have asserted that other PMAs maintain a postage-stamp rate for all transmission facilities regardless of voltage. Snohomish does not question that all transmission facility costs should be rolled into transmission rates. The issue is whether those “transmission facilities” are actually transmission facilities. Snohomish has not found evidence, based on our preliminary research, that other PMAs require network customers to pay for non-network facilities. To the contrary, the Western Area Power Administration (“Western”), for instance, carefully segregates distribution from transmission in establishing its network rates. According to a document prepared by Western’s Sierra Nevada Region:²³

Western uses FERC guidelines and Orders to determine if a Western facility is a Direct Assigned Facility (DAF) or a Network facility that provides support to all transmission users.

FERC has an established bright line test to functionally identify DAFs. Generally, DAFs interconnect load and generation to the integrated transmission network (Network). Network facilities serve all transmission users.

FERC has also promulgated a seven factor test for the purpose of distinguishing distribution facilities from Network facilities. The seven factor test is used to separate distribution from transmission facilities.

Another document prepared by the owners of the Integrated System (“IS”), which includes Western,²⁴ addresses what facilities qualify as network and what is included in the IS.²⁵

The document basically explains that potential “network” facilities should meet all network

²³<http://www.wapa.gov/sn/marketing/rates/ratesProcess/formalProcess/CIL2011/Summary%20Tx%20Function%20Delineation%206-2-10.pdf>. See Attachment A.

²⁴ The other IS owners include Basin Electric Power Cooperative and Heartland Consumers Power District.

²⁵ <http://www.wapa.gov/ugp/oasis/Integrated-System-Facility-Additions.pdf>. See Attachment B.

customer needs. Facilities are evaluated to determine if they provide an enhancement to the availability and reliability of the transmission service provided by the IS. Only if the line increases available transmission capacity of the IS or enhances the reliability of service is the line included in the IS. Otherwise, the cost of the facilities is the responsibility of the transmission customer. If the facilities are located in IS facilities, the appropriate IS owner maintains the direct assigned facilities at the transmission customers expense.

C. Rate Concerns Are Appropriate, But Should Not Deter BPA From Redefining the Network Segment.

Snohomish recognizes that WPAG, NRU and PNGC are concerned that redefining the Network Segment may have rate impacts to their members. Snohomish understands this concern and is open to considering a phased approach to implementation, if the rate impacts turn out to be large. We note, however, that for most utilities, transmission costs generally account for ten to fifteen percent of a utility's total cost of power. As such, we expect the increased costs allocated to WPAG, NRU and PNGC customers as a result of redefining the Network Segment will be moderate when compared to their total combined BPA power and transmission bills.

IV. Conclusion

Snohomish urges BPA to redefine the network segment to include only network facilities for the 2014-15 rate case. Snohomish is willing to continue discussions with BPA staff and other customers on how best to implement this change.

June 2010

Delineating Western Direct Assigned Facilities and Network Facilities

Western uses FERC guidelines and Orders to determine if a Western facility is a Direct Assigned Facility (DAF) or a Network facility that provides support to all transmission users.

FERC has an established bright line test to functionally identify DAFs. Generally, DAFs interconnect load and generation to the integrated transmission network (Network). Network facilities serve all transmission users. Other FERC orders set forth the criteria for separating the DAF from the Network. FERC Order 2003 states that DAFs are those facilities behind the point of interconnection of the Network transmission system. Network upgrades are those additions or modifications required at or beyond the point of interconnection on the Network. This is the bright line test that separates the DAFs from the Network upgrade beyond the point of interconnection.

Most of the Western CVP generation tie-lines that interconnect the CVP power plants to the CVP Network are DAF or non-transmission facilities. The exception to this will be the transmission circuits from the Shasta Substation once the double breaker-double bus project is completed. Radial transmission lines serving load are also generally considered to be a DAF or non-transmission facility.

FERC has also promulgated a seven factor test for the purpose of distinguishing distribution facilities from Network facilities. The seven factor test is used to separate distribution from transmission facilities.

FERC Seven Factor Test is comprised of the following:

1. Local distribution facilities are normally in close proximity to retail customers.
2. Local distribution facilities are primarily radial in character.
3. Power flows into local distribution systems; it rarely, if ever, flows out.
4. When power enters a local distribution system, it is not reconsigned or transported on to some other market.

5. Power entering a local distribution system is consumed in a comparatively restricted geographical area.
6. Meters are based at the transmission/local distribution interface to measure flows into the local distribution system.
7. Local distribution systems will be of reduced voltage.

Integrated System (IS) Facility Additions

What facilities qualify as Network? What is included in the IS?

This document is intended to describe the basic philosophy of the IS owners for determining IS facilities and amount of IS participation for new facilities. It is not intended to provide information on the transmission request or queue process nor get into all the details of making this determination, but provides a high level picture of the process. Western, as the IS administrator, evaluates each unique circumstance according to the basic philosophy outlined herein. This document also does not outline the background and philosophy regarding the present boundaries of the IS, and future expansion of the IS footprint.

1) Transmission Bus

A transmission bus is a bus in a facility, included in the IS rate, that has at least one transmission lines, included in the IS rate, attached to it.

2) New Facilities Needed for Point to Point Service

If the point to point service requires new interconnections to the IS, the interconnection facilities will be handled as described below in the appropriate Interconnection Section.

Upgrades or additions to IS facilities needed to provide the requested IS transmission services are the responsibility of the IS, pursuant to the terms of Western's Open Access Transmission Tariff (OATT), and will be considered new IS facilities. However, only upgrades or additional transformers, in IS facilities, that are needed to connect two transmission busses, or other eligible transmission additions such as shunt reactive equipment required to support the bulk transmission system, will be considered as IS facilities.

Costs associated with upgrades or additions to third party systems needed to provide the point to point service are the responsibility of the transmission customer. The cost of any assistance the IS provides to the transmission customer in obtaining approvals from the third party will also be the responsibility of the transmission customer.

The cost of IS facilities are to be recovered by the IS rates, therefore the IS is responsible for the cost of building IS facilities. The IS follows FERC's "or pricing" policy. This means the IS will look at the total costs, not just construction cost, of new IS facilities and compare it to the amount of revenue the new service will provide. If the total cost of the new facilities are less than the estimated revenue, the facilities will be

embedded into the IS and the transmission customer will pay the IS rate for the term of the service agreement. If the total cost of the new facilities exceed the estimated revenue, an incremental rate will be established, that covers the total cost of the new facilities. The transmission customer will be charged this incremental rate for the term of the original service agreement. Any new similar service requested beyond the original term, which can be accommodated without further IS additions, will be charged at the IS rate.

3) Facilities needed for Network Load Growth

Network upgrades or additions needed to meet network load requirements, that are not new generation or load interconnections are considered IS facilities and will be embedded in the IS rate. This includes any mitigation that may need to be provided to third party transmission systems. New interconnection facilities will be handled as described below in the appropriate Interconnection Section. Also see Planning of Facilities Needed for Network Service.

4) Interconnections

a) New Load Interconnections to the IS to Serve Network Load

For facilities at the point of interconnection to the IS, the determinant will be whether the point of interconnection is to a transmission bus. If the bus is a transmission bus all the network bay equipment needed to connect to the IS bus will be IS facilities. This provides a consistent treatment to OATT network service related interconnections, since this is the treatment FERC policy requires for generator interconnections. This also allows the IS to determine and not negotiate, the appropriate type of bus configuration to ensure reliable system operations.

Lines connecting to the IS need to be evaluated to determine if they provide an enhancement to the availability and reliability of the transmission service provided by the IS. The fact that a line may connect two or more IS busses does not automatically qualify it for inclusion in the IS. If the line does increase the ATC of the IS or enhances the reliability of service the line will be included in the IS.

The cost of the IS facilities will be imbedded in the IS rate, since the facilities are needed to provide IS network service. Also see Planning of Facilities Needed for Network Service.

b) New Generation Interconnections

For facilities at the point of interconnection to the IS, the determinant will be whether the point of interconnection is to a transmission bus, or to an IS transmission line. If the new or existing bus is a transmission bus all the network bay equipment needed to connect to the IS bus will be IS facilities.

Lines connecting to the IS need to be evaluated to determine if they provide an enhancement to the availability and reliability of the transmission service provided by the IS. The fact that the line may connect two or more IS busses does not automatically qualify it for inclusion in the IS. If the line does increase the ATC of the IS or enhances the reliability of service and the IS owners determine that the line is needed to accommodate the generation interconnection, or the increased ATC is needed by the IS, the line will be included in the IS. Unless a transformer connects two or more transmission busses it will not be included in the IS.

According to FERC guidance, network additions and network enhancements needed for the interconnection are considered network facilities and as such would be included in the IS.

In accordance with Western's LGIP or SGIP, the generation interconnection requestor will be asked to advance fund the construction cost of all IS facilities needed for the generation interconnection. The advanced funds will be repaid by applying credits to any transmission service taken by the interconnection requestor in accordance with Western's LGIP or SGIP. According to FERC guidance, the minimum credit that will be applied to the transmission bill is the smaller of the amount of the advance, with interest, left to be repaid, or if for point to point transmission service the amount being billed for the point to point service from the generator interconnection, or if for network service an amount equivalent to the capacity of the generator(s) being connected with the interconnection request.

c) Other Interconnections

If an interconnection is requested outside of Western's LGIP or SGIP, or is not needed to serve network load, the terms and conditions of the interconnection will be negotiated, based on the parties' need for the interconnection. The IS will evaluate the benefits to the IS and participate in the interconnection cost based on the results of this evaluation. The IS desires to own any new facilities within its existing facilities. The party that will pay for the construction and maintenance of the new facilities will be determined during negotiations and this determination may be different than ownership.

5) Planning of Facilities Needed for Network Service

Facilities used to meet the needs of IS network transmission customers need to be planned in a coordinated manner that looks at the most effective and efficient way to develop the IS transmission system to meet all network customer needs. Improvements that are requested, but can't be justified as needed or are not the most effective and efficient way to meet the request may not have its cost included in the IS rate. If the requestor still desires the new facilities to be built, the IS will determine what would have been the most effective and efficient way, preferred facilities, to provide the service. The IS will be willing to include in the IS facilities equal to the amount that would have been spent on installing the preferred facilities. The IS will periodically conduct reviews

to determine if the IS network customer needs have changed, such that the facilities installed at the customer's cost should become part of the IS (i.e. load growth is such that the new delivery is needed or that load in a geographic area has developed such that having a new substation to serve the area is the most effective and efficient method).

6) Funding Issues – Other than Generator Interconnections

Due to the budgeting process and financial limitations of Western, it is likely that Western will not have funds available to cover the construction cost of the new IS facilities installed in Western's substations or interconnected to Western's transmission lines. If the result of the FERC "or pricing" determination is to embed the cost in the IS rate, Western will determine if it has funds available to cover the construction costs. If Western does not have the funds and another IS owner is not providing the funding, Western will seek funding from Western States Power Corporation, Inc. If the IS facilities are installed in other IS owners' substations or interconnected to other IS owner's transmission lines, the respective IS owner will address the funding issues.

7) Direct Assignment Facilities

Any facilities not identified, above, as an IS facility, will be considered direct assignment facilities and cost of these facilities will be the responsibility of the transmission customer. If these facilities are located in IS facilities, the appropriate IS owner will maintain the direct assigned facilities at the transmission customers expense.