Transmission Cost of Service Analysis Workshop

November 16, 2011

Agenda

- Review settlement language
- Focus group recap
- Principles
- Timeline
- Rate Development Process
- FERC Transmission Rate Making (separate handout)
- Idaho Power Cost of Service Rate Development (separate handout)

BP-12 Settlement Agreement

Before the start of the 2014 rate case, BPA will:

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.

BP-12 Settlement Summary

- Conduct a public process to discuss the future of the Montana Intertie, Eastern Intertie and Townsend Garrison Transmission rates (2b)
- Conduct workshops on Dynamic Transfer Capability (5a)
- Discussion regarding generator operation relative to effect on hydro system (5b)

COSA Focus Groups

Focus Group Recap

BPA met with NT, PTP and IOU customers to discuss the parameters of the cost of service study workshops.

What we heard:

- Process
  - At this time, customers were not ready to state if a consultant was needed. If any consultant is needed, the purpose would be to get a better understanding of FERC's NT and PTP rate setting methodology.

Focus Group Recap (Cont.)

- Process (Cont.)
  - Some customers suggested that BPA ask PAC or Idaho Power to explain its approach to transmission rate development in a workshop.
- What ratemaking steps are to be included?
  - Customers were interested in reviewing the entire BPA transmission ratemaking process, although not necessarily focusing on all aspects of it.
- Should the Montana Intertie be part of the COSA process?
  - Customers preferred to keep it separate.

Focus Group Recap (Cont.)

- Data for illustrative purposes – historical or future?
  - Heard preferences for both approaches.
  - BPA is still evaluating which data to use.

- Issues and methodologies to focus on?
  - Customers said that it is too soon to know.

Principles for COSA

COSA Principles

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

Proposed Timeline

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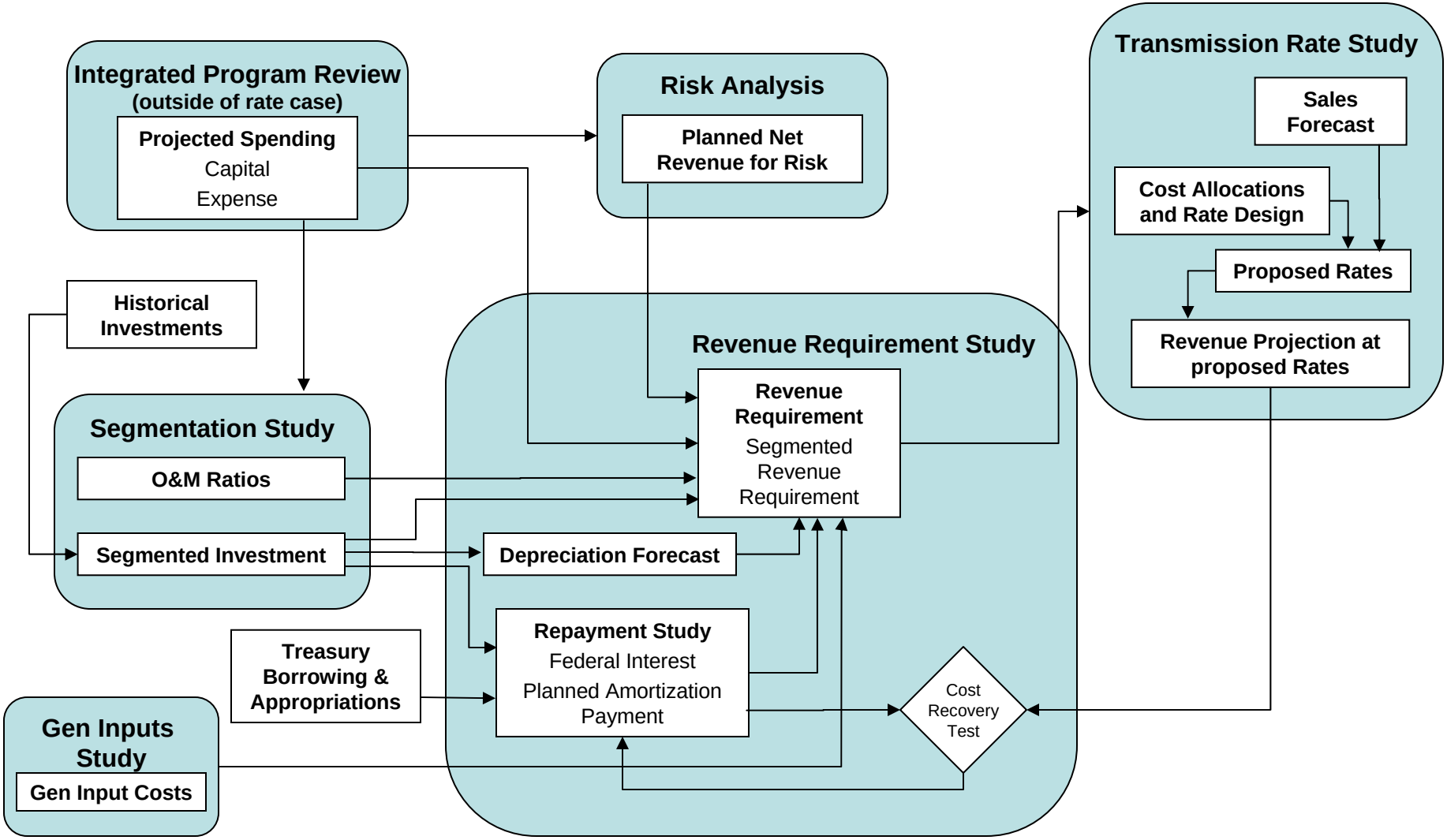
- December 5 – Workshop
  - **COSA** – Review Revenue Requirement, segmentation and TRS (including 1 CP vs. 12 CP Network cost allocation) using BP-12 data
  - **Montana Intertie** – Review settlement and ROD language; possible presentation from others; discuss and agree on workplan
- January 11 & 19 – Workshops
  - Develop COSA alternatives
  - Collaborate on an approach to go forward

Proposed Timeline (Cont.)

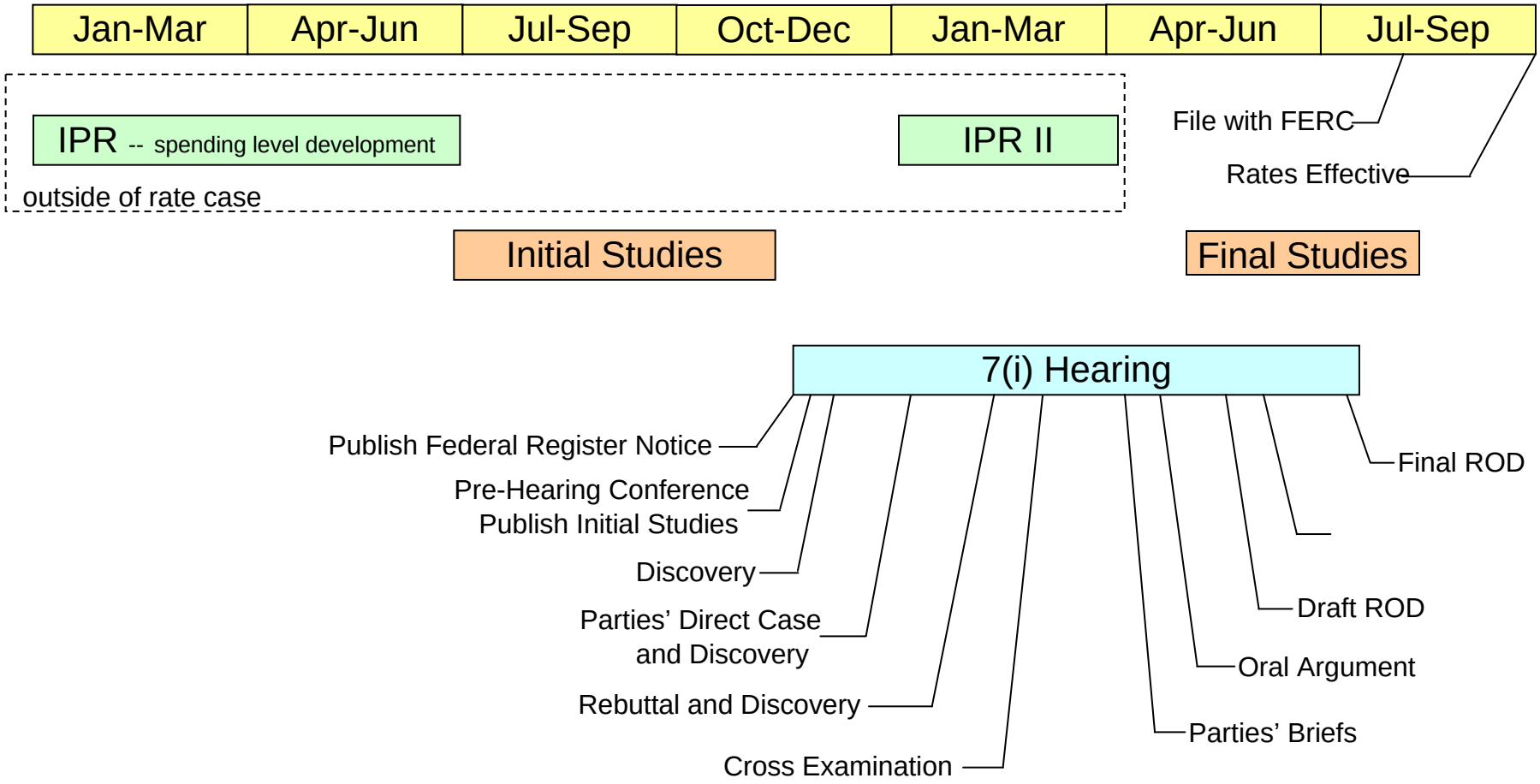
- The next step is to examine alternative COSA methodologies and decide on the appropriate methodology in an "illustrative Cost of Service Study." The illustrative Cost of Service Analysis could be completed:
  - In the Feb. – Mar. time frame using:
    a) BP-12 data, or
    b) 2010 IPR FY2014-15 data (not available until January)
  - *Or,* wait until summer workshops when initial IPR data for FY2014-15 is available.

Rate Development Process

Transmission Rate Case Process Chart



Typical Rate Case Timeline



Integrated Program Review (IPR)

- IPR provides a public forum for reviewing program levels for expenses and capital expenditures.
- The Administrator's closeout letter defines the program expenses and capital expenditures that will be incorporated in the Revenue Requirement Study.
- Decisions on the expense and capital forecasts are made outside of the rate case and, as a result, are not subject to dispute in the rate case.

Transmission Revenue Requirement Study

- The revenue requirement study identifies the transmission costs to be recovered over the rate period on both an accrual and a cash basis.
  - Program spending level forecasts are developed in the IPR.
  - The repayment study is used to determine a schedule of Federal principal payments that satisfies the statutory requirement to set rates to assure timely repayment of the Federal investment.
  - Certain costs, such as generation inputs, are modeled in the rate case based on inputs from various studies.
- The Study demonstrates cost recovery over the rate period on both an accrual and a cash basis.
  - Current Revenue Test – are revenues at current rates sufficient to recover the costs that must be recovered?
  - Revised Revenue Test – are revenues at proposed rates sufficient to recover the costs that must be recovered?
- The Study also demonstrates that revenues are sufficient to recover the Federal investment within the required repayment period per the Power Act and DOE Order RA 6120.2.

Additional Steps for Transmission Revenue Requirement

- Segmentation Study
  - The study provides the information used to segment the revenue requirement.
  - It identifies the plant investment in lines and substations for each of the transmission segments and the investment associated with the required ancillary services from the latest year of actual data.
  - It provides historical O&M (average of last 3 years) for lines and substations in each segment.
  - From the capital expenditures approved in the IPR, the study identifies the resulting schedule of plant-in-service for lines and substations for each of the transmission segments and the categories of investment associated with the required ancillary services through the rate period.
- Transmission Risk Analysis

Transmission Rate Study

- Segmented revenue requirement adjustments
  - Revenue Credits
  - Eastern Intertie costs
  - DSI Delivery costs
- Transmission Sales
  - Network Integration (Load Forecast)
  - Long-term Sales (Reserved Capacity)
  - Short-term Sales (Market Price Forecasts)
- Establish Rate Design
  - FPT rates (simplified model vs full study)
  - Network Cost allocation (1CP vs 12CP; SDD)
  - Utility Delivery (limited rate increase; cost recovery)
  - Ancillary Services (SCD; GSR)
  - Generation Inputs
- Determine proposed rates, and calculate revenues from current rates and from proposed rates

Transmission Rates

- Network
  - *PTP* *Point-to-Point*
  - *NT* *Network Transmission*
  - *FPT* *Formula Power Transmission (legacy)*
  - *IR* *Integration of Resources (legacy)*
- Intertie
  - *IS* *Southern Intertie (PTP Service)*
  - *IM* *Eastern Intertie (PTP Service)*
  - *TGT/IE* *Eastern Intertie (legacy)*
- Utility and DSI Delivery
- Ancillary Services

FY12-13 Transmission Rates Summary

	PTP	IS	IM	SCD
Point-to-Point Service				
Long-term Firm ($/kW-mo)	1.298	1.293	0.598	0.203
Short-term Block 1 ($/kW-day)	0.060	0.060	0.028	0.010
Short-term Block 2 ($/kW-day)	0.046	0.045	0.020	0.006
Hourly F/NF (mills/kWh)	3.74	3.72	1.72	0.59

Note: All short-term firm and non-firm rates are downwardly flexible.

Network Integration Transmission Service

NT Base Charge ($/kW-mo)	1.298
NT Load Shaping Charge ($/kW-mo)	0.367

Note: “SCD” is the required ancillary service Scheduling, System Control, and Dispatch. The required ancillary service of Reactive Supply and Voltage Control from Generation Sources is currently $0.

Next Steps

Appendix: Handout from the October 2012 focus group discussions

BPA Transmission COSA Development Focus Group

Process

- Do you have any suggestions concerning the process BPA and the customers use to develop the COSA?
  - Should BPA hire a consultant or facilitator?
  - Should we use the TRS model as a starting place or start from scratch?
  - Are you aware of other large transmission providers who have performed COSAs? Should we research how other transmission providers with significant amount of NT and PTP customers allocate costs?

Ratemaking Steps

- What ratemaking steps should be included in the COSA process? How much time should be spent exploring each topic?
  - Division of costs between Transmission and Generation?
  - Revenue Requirement?
  - Segmentation methodology and analysis?
  - Allocation of costs within Network segment?
  - Rate design?
  - Other?

Montana Intertie

- In the 2012 Settlement, BPA agreed to reexamine the Montana Intertie rate. Should that be included as part of the COSA process or separately?

Historical Versus Future Data

- What data should be used—historical or future test period?

Issues and Methodologies

- Do you have any suggestions concerning what issues we should focus on, or methodologies we should consider?

Other Topics

- Are there any other topics you would like to discuss?
- What do you expect to get out of the COSA discussion? An analysis? An understanding of how we do it currently?
- What should our objective be?
- What are some principles to approach this?
- What would it take to for you to say that this was a successful process?