

COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP ON THE INCREMENTAL RATES PROPOSAL

The utilities that comprise the Western Public Agencies Group (WPAG) are pleased to offer these comments on whether the Bonneville Power Administration (BPA) should develop a formula incremental rate in the BP-14 rate case, or wait until a specific project is identified for moving forward at an incremental rate before developing such an incremental rate.

Given the delays in restarting BPA's Network Open Season (NOS) process and the shortage of transmission build projects identified in previous NOS that were selected for and moving forward at incremental rates, it appears unlikely that BPA will have a direct need to apply an incremental rate in the BP-14 rate period. However, the development of a formula incremental rate now would be useful for BPA and its transmission customers to fully understand the benefits and costs of several key issues that BPA will be addressing in BP-14.

For instance, BPA will be considering in the BP-14 rate proceeding whether to roll-in the Montana Intertie into the Network Segment. One of the chief concerns of the WPAG utilities is that the roll-in of the Montana Intertie will lead to a costly expansion of Network and Montana Intertie facilities and that these costs will increase the transmission rates of all of BPA's Network customers. BPA has uniformly responded to these concerns by stating that any future transmission builds would have to go through NOS, and that other customers would likely be protected from increased costs arising from such builds through the use of incremental rates.

However, at this time, because BPA has not yet developed a formula incremental rate it is unknown whether an incremental rate would in fact protect BPA's other Network customers from Network expansions that arise from the roll-in from the Montana Intertie. There are concerns, for example, that BPA's use of an incremental rate would not protect BPA's other transmission customers from the costs associated with how BPA and/or customers finance transmission builds arising from the roll-in of the Montana Intertie. In the Access to Capital and NOS Reform forums BPA identified three main methods of financing transmission builds: (1) lease financing, (2) borrowing authority, and (3) customer financing/prepayment. Lease financing is not available in Montana¹ and BPA is running out of borrowing authority. This leaves customer financing or prepayment to fund transmission builds in Montana.

The problem with having transmission customers fund transmission builds in advance is that under current practices they would receive a transmission credit on their future transmission bills until the amount of their prepayment (plus interest) is paid back. As shown by BPA's recent experiences with transmission credits arising from Large Generator Interconnection Agreements, such credits increase the Minimum Required Net Revenue (MRNR) that BPA must achieve when setting rates, thereby increasing the rates of all of BPA's transmission customers. It is unclear how the use of an incremental rate would protect other transmission customers from increases to MRNR due to the use of transmission credits arising from customer financing of

¹ Access to Capital Workshop Powerpoint Presentation, http://www.bpa.gov/corporate/Finance/Debt_Management/presentations/docs/2012/Access-to-Capital-IPR%20Presentation.pdf, page 25 (July 26, 2012).

transmission builds. This is an issue that BPA and its customers must have a full understanding of when considering the merits and detriments of rolling in the Montana Intertie.

In conclusion, if use of an incremental rate in the future will serve as a basis (either in whole or in part) for BPA to make certain determinations in the BP-14 rate case (e.g., whether to roll in the Montana Intertie) then BPA and its customers must fully understand the rate impacts to BPA's other transmission customers that can and cannot be avoided through the use of an incremental rate. If the only way to achieve such understanding is to develop a formula incremental rate in the BP-14 rate proceeding, then it is worth the effort of doing so. To do otherwise and then make decisions based on the assumption that an incremental rate will insulate other ratepayers from higher rates arising from NOS builds without fully analyzing whether that is actually the case could be a costly folly for BPA and its ratepayers.