

RESPONSE OF THE NT CUSTOMERS TO SNOHOMISH PUD'S SEGMENTATION PROPOSAL

Submitted: September 12, 2012

"The key to rural electrification in the Northwest has been 'Bonneville power' and the postage-stamp rate, a rate that is the same wherever power is delivered, regardless of the distance from the source."

-Marquis Childs

I. INTRODUCTION

This response is submitted on behalf of Clark Public Utilities, Cowlitz Public Utility District No. 1, Eugene Water and Electric Board, Northwest Requirements Utilities, PNGC Power and the Western Public Agencies Group (collectively, NT Customers) to the proposal made by Snohomish Public Utility District No. 1 (Snohomish) on August 22, 2012 regarding the removal of certain transmission facilities from the Bonneville Power Administration's (BPA) Network Segment.

Snohomish proposes to redefine the Network Segment to remove facilities that it has determined serve a distribution, rather than a transmission, function using a combination of the Federal Energy Regulatory Commission's (FERC) 7-Factor test and the Bulk Electric System (BES) definition. The facilities that Snohomish would remove from the Network Segment include (i) all radial and open loop lines serving loads and (ii) all Local Networks and Load Serving Networks serving loads from the Network Segment based on a power-flow review conducted by Snohomish. Snohomish would allocate the costs of these facilities either directly to the customer(s) who use them, or to the NT or PTP rate based on the class of the customer who uses a particular facility.

The utilities of the NT Customers group are all preference customers of BPA, many of whom are located outside the major urban areas of the Northwest and some distance from BPA's high voltage transmission system backbone. During its first 75 years, BPA built many radial taps and open loop lines from its high voltage backbone to the rural service areas of these preference customers in order to deliver the power it was obligated to sell them. Because local transmission levels historically varied in the Northwest, BPA also constructed many of these same facilities at lower voltage levels (e.g., 34.5 kV, 69 kV, 115 kV). In order to ensure that these rural customers pay the lowest rates possible regardless of where they are located, the costs of these facilities have always been spread across a larger customer base (first power, now transmission).

The Snohomish proposal would upend 75 years of BPA transmission policy and practice, to the extreme detriment of BPA's smaller and more rural customers and to the benefit of BPA's larger and more urban customers. As further explained below, the NT Customers urge BPA to reject Snohomish's proposal for the following reasons:

- (i) The proposal is contrary to and incompatible with BPA's core obligations to its rural and small preference customers as well as to the rural communities of the Northwest;
- (ii) The facilities that Snohomish proposes to remove from the Network are transmission facilities from both a technical and historical perspective;
- (iii) BPA's current definition of the Network Segment satisfies all of BPA's ratemaking obligations, whereas Snohomish's proposed approach does not; and
- (iv) The Snohomish proposal is errant and selective in its claimed use of cost causation principles.

II. BACKGROUND

The transmission facilities Snohomish wants to remove from BPA's Network Segment did not come to be included in the segment by accident. Rather, their inclusion stems from over 75 years of deliberate policy, contract and rate decisions made with the aim of encouraging the **widest possible diversified use of electric power in the Northwest at the lowest possible rates** to all consumers regardless of where those consumers are located. These decisions have brought and continue to bring prosperity and economic advantage to all corners of the Northwest, which was always the careful and deliberate purpose of those who made them.

This movement started with the simple, but at its core democratic, idea that rural and agricultural Northwest communities also deserve to enjoy the modern amenities and benefits of electric power.¹ During the early part of the 20th Century, investor owned utilities (IOUs) controlled both the production of power as well as the transmission network used to distribute it. The IOU monopoly on the production of power in the Northwest was broken by the construction of the federal dams in the Columbia River System, beginning with the Bonneville Dam. The IOUs still, however, enjoyed a monopoly on transmission. This effectively limited the availability of electricity to larger towns and cities because providing electrical service to the sparsely populated rural areas of the Northwest was not generally deemed profitable by the

¹ Congresswoman Nan Wood Honeyman, OR:

I cannot too strongly stress what this means to the people of that entire area. We know what the agricultural and rural elements mean to this country. We cannot ask or expect these people to remain in rural areas to carry on the farming industry without the benefits and conveniences of modern improvements, without the modern comforts that come through the use of electrical appliances and are enjoyed by those in metropolitan districts. But they cannot use electrical appliances unless they can get cheap electric power that is to be developed at Bonneville and, after all, is developed by a natural resource which really belongs to them. For this reason I favor the distribution of power over the widest possible area to the ultimate consumer at lowest cost possible.

81 CONG. REC. 7532 (July 23, 1937).

IOUs. Accordingly, through the early part of the 20th Century, rural areas were commonly not served by the IOUs, and thus had no access to electricity.²

With clear purpose, Congress intervened to bring electricity to rural communities. First, it passed the Rural Electrification Act of 1936, which provided financing for the construction of electric distribution systems in rural areas. And, most importantly for the Northwest, Congress passed the Bonneville Project Act of 1937 and thereby established BPA.³

Congress created BPA in large part to ensure that the hydro-electric facilities at the Bonneville Dam were “operated for the benefit of the general public, *and particularly of domestic and rural consumers.*”⁴ To this end, Congress directed BPA to (i) give preference and priority to public bodies and cooperatives in the sale of electric power,⁵ and (ii) take action to encourage the widest possible diversified use of electric energy⁶.

At the time Congress passed the Bonneville Project Act, its directive that BPA encourage the widest possible diversified use of electric energy was something of a unique concept. The purpose was to make certain that the electric energy sold by BPA reached those parts of the Northwest that theretofore did not have access to such energy. As explained, by Senator Charles L. McNary, OR:

This bill also provides, probably something unique, that the power shall be distributed as widely as possible . . . It is sought by this provision to make certain that any benefits which may accrue shall not be provincial in their application, but shall be distributed as far as is practicable . . . But we have placed no limitations on the area of distribution. The language encourages a wide and equitable distribution of the benefits of the rates which may be enjoyed by the people who live in the great Northwest section of the country.⁷

To facilitate BPA’s encouragement of the widest possible diversified use, Congress gave BPA (i) the power to construct and operate the transmission facilities it deemed necessary to deliver federal power to its preference customers⁸; and (ii) the obligation to fix and establish

² See, BONNEVILLE POWER ADMINISTRATION, COLUMBIA RIVER POWER FOR THE PEOPLE: A HISTORY OF POLICIES OF THE BONNEVILLE POWER ADMINISTRATION 21-28, 138 (1981).

³ See, COLUMBIA RIVER POWER FOR THE PEOPLE 142 (“The success of rural electrification in the Pacific Northwest involved close cooperation between REA and BPA, one providing low-cost loans, and the other low-cost power”).

⁴ Bonneville Project Act, § 4(a) (emphasis added).

⁵ *Id.*

⁶ Bonneville Project Act, § 6.

⁷ 81 CON. REC. 8523 (Aug. 9, 1937).

⁸ Bonneville Project Act, § 2(b).

rates as low as possible “with a view to encouraging the widest possible diversified use of electric energy.”⁹

A primary means that Congress envisioned BPA using to satisfy the above rate obligation was to use “uniform rates or rates uniform throughout prescribed transmission areas in order to extend the benefits of an integrated transmission system and encourage the equitable distribution of the electric energy developed at the Bonneville project.”¹⁰ This is because use of a uniform or “postage stamp” rate would spread the higher costs of building transmission facilities to serve BPA’s most rural customers across all of BPA’s customers; i.e., both rural and non-rural, federal and non-federal. As stated by Senator James P. Pope, ID:

[T]his is one of the purposes of starting a project at Bonneville. Many parts of the great Northwest section are not now being reached and supplied with electric energy. Therefore, it is important that they should be reached, if possible, by fixing of rates as low as possible and by such other means as may be used to the best advantage to attain that much desired objective. *Therefore the term “uniform rates” appeals to me very much. In that manner I believe we will be enabled to extend the use of electric energy to a great many people who might not otherwise be able to have it.*¹¹

Shortly following enactment of the Bonneville Project Act, BPA’s first and second Administrators, J.D. Ross and Dr. Paul J. Raver, set about realizing Congress’ vision for BPA. They began an aggressive transmission construction program that spread out into the rural and low density areas of the region, so that BPA could transmit and deliver the federal power to public bodies and cooperatives wherever they were located. This was critical because in order for BPA to meet its obligation under Section 2(b) of the Bonneville Project Act to ensure that the hydro-electric facilities at Bonneville Dam were “operated for the benefit of the general public, *and particularly of domestic and rural consumers*”, BPA needed a transmission system that reached the rural public bodies and cooperatives that intended to serve those consumers.

BPA’s first Administrators also established a postage stamp rate which bundled both power and transmission costs to be recovered under the same, low cost rate that did not change regardless of distance or location.¹² Since BPA’s inception, it has adopted many rates, rate changes and rate combinations (including the unbundling of power and transmission rates), but in all cases this fundamental postage stamp principle has survived.

⁹ Bonneville Project Act, § 6.

¹⁰ *Id.*

¹¹ 81 CONG. REC. 8527 (Aug. 9, 1937) (emphasis added).

¹² See, COLUMBIA RIVER POWER FOR THE PEOPLE at 63-68, 84-86.

In many instances, given the nature and location of its rural customers, BPA (i) built lengthy (often low voltage) transmission lines into areas of low density to reach the general service areas of its rural preference customers, (ii) built radial transmission facilities rather than looped facilities in order to save costs as was customary in the West,¹³ and (iii) entered into transfer agreements with the IOUs to transmit power over IOU owned transmission lines so it could be more efficiently delivered to the service areas of preference customers. As related by BPA in COLUMBIA RIVER POWER FOR THE PEOPLE, these transmission facilities were known as “customer service facilities” and from BPA’s early days they were recognized as essential in order for BPA to meet its obligation to bring electricity to the rural Northwest:

In 1940 BPA served five customers at six delivery points, four on the BPA transmission system and two via transfer over other systems. Presently, BPA serves some 650 delivery points, a fourth of which are by transfer. Each delivery point had to be built or arranged case by case, and reviewed every few years. New points of delivery often involved controversy. Most of them involved lower voltage, usually 115,000-volt lines and were known as “customer service facilities” as distinguished from “backbone” transmission facilities of 230,000 volts and over. The distinction has been crucial in BPA history.

Politically, private electric companies in the region supported construction of most Federal hydroelectric projects and “backbone” transmission lines, including high-voltage lines to major load centers of the large utilities. On the other hand, they initially opposed BPA’s proposed customer service facilities to preference agencies, including cooperatives, located within a private utility’s general service area, even when the cooperative intended to provide electricity to unserved farms and rural areas.

The successful extension of service to rural areas depended on transmission facilities. In building these lines or negotiating satisfactory arrangements, BPA made a vital contribution to electrifying the rural Northwest.¹⁴

Combined with postage stamp rates, the region prospered under this approach. The rural communities of the Northwest experienced a renaissance due to the low cost federal power first

¹³ For example, BPA’s Customer Service Policy from July 1, 1984, identified a joint, one-utility plan of service approach for determining which transmission facilities would be built and who would finance them. In the Policy, BPA assumed responsibility for constructing and financing facilities required to transmit power to a preference customer’s general service area. For deliveries to new systems the transmission lines built by BPA were to be 115 kV and above, but for deliveries to pre-existing customer systems that were less than 115 kV, BPA agreed to provide transmission at the established voltage level. Under most circumstances these lines, regardless of voltage level, were built at BPA’s expense. However, if a customer required a higher level of service (e.g., looped instead of radial service), the costs of providing the higher level of service were to be borne by the customer.

¹⁴ COLUMBIA RIVER POWER FOR THE PEOPLE 144-145.

delivered to their local public body or cooperative by BPA on BPA's transmission system and then to the ultimate consumer by such public body or cooperative. Rural homes, farms, schools, churches and workplaces became electrified. Appliance stores sold appliances to families that just years before did not have a place to plug them in. Fields became green with agriculture. Industry blossomed in places other than Seattle, Portland or Spokane. Wars were won with the help of Northwest irrigators and Northwest factories bolstered by the low cost power generated at the federal dams, transmitted by BPA, and delivered by BPA's preference customers. These are among the grand accomplishments achieved jointly by BPA and Northwest public power in BPA's first 75 years through the use of postage stamp rates.¹⁵

Recognizing that it had a good idea in 1937, through the years Congress repeatedly reaffirmed BPA's commitment to encouraging the widest possible diversified use of electric energy and its authority to use uniform rates to achieve that purpose including:

- Section 5 of the Flood Control Act of 1944 (“the Secretary of Energy... shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles...”);
- Section 9 of the Federal Columbia River Transmission System Act (Transmission System Act) (the Administrator shall fix and establish rates “with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles...”);
- Section 10 of the Transmission System Act (“[R]ates and charges for transmission...may provide, among other things, for uniform rates or rates uniform throughout prescribed transmission areas”);
- Section 7(a)(1) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) (“[R]ates shall be established in accordance with section 9 and 10 of the [Transmission System Act] . . . , section 5 of the Flood Control Act of 1944”).

In 1996, BPA unbundled its power and transmission rates and also established the current definition of the Network Segment to include transmission facilities at 34.5 kV and above. In every rate case since 1996, the BPA Administrator has found BPA's transmission rates and the segmentation policy from which they arise to satisfy the rate directives set forth in BPA's organic statutes.¹⁶ These include, but are not limited to, the requirement that BPA set rates with

¹⁵ See generally, COLUMBIA RIVER POWER FOR THE PEOPLE.

¹⁶ See, Administrator's Record of Decision: 1996 Wholesale Power and Transmission Rate Proposal, p. 552 (June 1996); Administrator's Record of Decision: 2002 Final Transmission Proposal, p. 33 (Aug. 2000); Administrator's Record of Decision: 2006 Final Transmission Proposal, p. 28 (June 2005); Administrator's Record of Decision: 2008 Final Transmission Proposal, p. 30 (April 2007); Administrator's Final Record of Decision: 2010 Wholesale Power and Transmission Rate Adjustment

“a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles”¹⁷, as well as the obligation that “the recovery of the cost of the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system”¹⁸.

In its review of BPA’s transmission rates for the rate periods from 1996 onward, FERC has agreed with BPA that BPA’s segmentation policy, including the current definition of the Network Segment, equitably allocates the costs of the Federal transmission system between Federal and non-Federal users of the system.¹⁹ In addition, FERC has held that BPA’s current segmentation policy satisfies both FERC’s comparability standards applicable to non-public utilities and to be not unjust, unreasonable, or unduly discriminatory or preferential.²⁰

Proceeding (BPA-10), p. 513 (July 2009); Administrator’s Final Record of Decision: 2012 Wholesale Power and Transmission Rate Adjustment Proceeding (BP-12), p. 527 (July 2011).

¹⁷ Transmission System Act, § 9.

¹⁸ Transmission System Act, § 10.

¹⁹ See, Order Confirming and Approving Rates on a Final Basis, 80 FERC P 61118 (1997):

In past filings, Bonneville has divided its transmission system into nine segments. In the current filing, Bonneville has combined some costs, and has divided its system into six segments. This change does not alter the allocation of costs between the production and transmission functions. We conclude that Bonneville has reasonably allocated its transmission costs between the Federal (Bonneville’s power customers) and non-Federal (transmission customers) users of the system and that the proposed transmission rates comply with section 7(a)(2)(C) of the Northwest Power Act.

See also, Orders Confirming and Approving Rates on a Final Basis (Order(s)), 95 FERC P 62094 (2001); 104 FERC P 62207 (2003); 112 FERC P 62258 (2005); 122 FERC P 61143 (2008); 132 FERC P 62098 (2010).

²⁰ See, Order, 80 FERC P 61118:

As we noted earlier, Bonneville’s transmission rates are based on the actual cost for each of the six segments of the grid. Bonneville has used this cost allocation method for designing transmission rates for all transactions since 1981, although it has in this case varied the number of segments. In addition, Bonneville will take transmission service under its open access tariff for its power sales. We find, therefore, that Bonneville’s proposed transmission rates including those proposed to be charged under its open access tariff (which we concurrently review in Docket No. NJ97-3-000), are not only comparable to what it charges other customers, but also both conform to applicable Federal laws as discussed above, and are not unjust, unreasonable, or unduly discriminatory or preferential. In short, they meet the standards of section 212(i)(1) of the Federal Power Act.

See also, Orders 95 FERC P 62094; 104 FERC P 62207; 112 FERC P 62258.

Lastly, it our understanding that BPA’s current approach of using one postage stamp rate for all transmission facilities within the Network Segment regardless of voltage level is consistent with the postage stamp rate constructs used by other Federal Power Marketing Agencies such the Western Area Power Administration and the Southwestern Power Administration as well as the Tennessee Valley Authority.

III. DISCUSSION

1. The Snohomish proposal would not establish rates with a view to encourage the widest possible diversified use of electric power at the lowest possible rates.

It is against the above legal and historical backdrop that Snohomish proposes to remove the transmission facilities historically known as “customer service facilities” from the Network and instead either directly assign the costs of those facilities to the customers who use them or allocate the majority of those costs to be recovered by the NT rate class (a class that predominantly consists of BPA’s small and rural preference customers). In making its proposal, Snohomish makes no attempt to reconcile the rate impacts its proposal would impose on BPA’s small and rural customers with BPA’s statutory obligation to establish rates with a view to encourage the widest possible diversified use of electric power at the lowest possible rates to consumers.²¹

The upfront conclusion is that they cannot. Take, for instance, the first alternative: direct allocation. As an example, under that proposal Fall River Rural Electric Cooperative could be directly assigned an estimated \$4,587,575 annually which is comprised of the carrying costs and O&M associated with the over \$34.1 million in gross plant of BPA owned customer service facilities that are used to transmit BPA power to Fall River’s service area. This represents a 555% increase over Fall River’s FY 2011 Base and Transmission Load Shaping charges. Fall River has approximately 15,000 customers and, because it has only 6.45 customers per mile of line, very high distribution system costs. Such a large transmission rate increase, therefore, would have severe impacts on the local economy within and around Fall River’s service area. This is an outcome that is antithetical and fundamentally hostile to what Congress intended BPA to do with respect to the rural communities of the Northwest.

Snohomish’s second alternative would allocate \$55 million in additional costs to the NT customers. This is comprised of the debt service recovery costs on \$357 million in additional NT “distribution segment investment” and \$19 million in additional “distribution segment O&M costs”. This would increase the NT rate by more than 40%. This enormous increase would be borne predominately by BPA’s smallest and most rural customers. Snohomish on the other hand, fortuitously located along BPA’s high-voltage transmission backbone, and BPA’s single largest power customer and one of its largest transmission customers, would enjoy an approximately 10% transmission rate decrease. As shown above, this is clearly not what

²¹ When asked at the August 22nd workshop whether they had calculated the rate impact of their proposal, the presenters for Snohomish responded that they had not. This forces us to determine these rate impacts on the information that we have available.

Congress intended when it directed BPA to fix and establish rates with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates.

2. The facilities that Snohomish proposes to remove from the Network are transmission facilities from both a historical and technical perspective.

Snohomish would have BPA set aside 75 years of policy and precedent as to what constitutes a BPA transmission facility to adopt a new definition that uses a combination of the FERC's 7-Factor test and the BES definition. The overt implication of Snohomish's proposal is that for 75 years BPA has been wrong about what is and what is not a transmission facility on its system, and that a large portion of the system that BPA and the region have always viewed as transmission facilities are in fact distribution facilities.

However, rather than Snohomish's unique hybrid of using FERC's 7-Factor test and the BES definition to identify transmission facilities, a more appropriate comparative against BPA's current segmentation policy is FERC's Uniform System of Accounts which defines "transmission system" and "distribution system" as follows:

A. Transmission system means:

(1) All land, conversion structures, and equipment employed at a primary source of supply (i.e., **generating station, or point of receipt in the case of purchased power**) to change the voltage or frequency of electricity for the purpose of its more efficient or convenient transmission;

(2) All land, structures, lines, switching and conversion stations, high tension apparatus, and their control and protective equipment between a generating or receiving point and **the entrance to a distribution center or wholesale point**; and

(3) All lines and equipment whose primary purpose is to augment, integrate or tie together the sources of power supply.

B. Distribution system means all land, structures, conversion equipment, lines, line transformers, and other facilities employed between the primary source of supply (i.e., generating station, or point of receipt in the case of purchased power) and of delivery to customers, which are not includible in transmission system, as defined in paragraph A, whether or not such land, structures, and facilities are operated as part of a transmission system or as part of a distribution system.

Note: Stations which change electricity from transmission to distribution voltage shall be classified as distribution stations.

C. Where poles or towers support both transmission and distribution conductors, the poles, towers, anchors, guys, and rights of way shall be

classified as transmission system. The conductors, crossarms, braces, grounds, tiewire, insulators, etc., shall be classified as transmission or distribution facilities, according to the purpose for which used.

D. Where underground conduit contains both transmission and distribution conductors, the underground conduit and right of way shall be classified as distribution system. The conductors shall be classified as transmission or distribution facilities according to the purpose for which used.

E. Land (other than rights of way) and structures used jointly for transmission and distribution purposes shall be classified as transmission or distribution according to the major use thereof.²²

According to FERC, therefore, the primary factor differentiating transmission and distribution facilities is that transmission facilities are used to move energy from a generating point to the entrance of a distribution center, or wholesale point. Under FERC's definition, it would seem that all facilities that are used to deliver energy to a wholesale point are functionalized as transmission, regardless of their voltage level or radial nature.

Consistent with FERC's Uniform System of Accounts, the facilities Snohomish proposes to remove from the Network are transmission facilities because they are used to primarily move energy between the Federal Columbia River Power System (i.e., the generating or receiving point) and the general service areas of BPA's power customers (i.e., the entrance of each power customer's distribution center or wholesale point). As demonstrated above, in order to encourage the widest possible diversified use of electric energy at the lowest possible rates, BPA historically built transmission facilities to the general service areas of its small and rural customers. For instance, in its 1984 Customer Service Policy BPA stated that:

As a marketing agency, Bonneville's primary responsibility for delivery of power is to provide a reliable transmission system for the integration and delivery of bulk power to its customers in the Pacific Northwest. Bonneville will construct and finance transmission facilities for the delivery of bulk power to general service areas. Bonneville will not assume a utility's area transmission responsibility and will encourage larger utilities to develop the necessary interconnected transmission system.²³

The Customer Service Policy further provides that the transmission lines built by BPA to new systems would be at 115 kV and above. However, for deliveries to pre-existing customer systems that were less than 115 kV, BPA agreed to provide transmission at the established voltage level. Under most circumstances these lines, regardless of voltage level, were built at BPA's expense. However, if a customer required a higher level of service (e.g., looped instead of radial service), the costs of providing the higher level of service were to be borne by the

²² 18 C.F.R. Pt. 101 (emphasis added).

²³ BPA Customer Service Policy, 3 (July 1984).

customer.²⁴ From 1981 until 1996, these facilities, formerly known as customer service facilities as discussed above, were included in what was known as the Fringe Segment and the costs of that segment were allocated to power rates.

In the 1996 rate case, BPA eliminated the Fringe Segment and rolled it into the Network Segment because it found (i) the Fringe Segment and the Network Segment served the same purpose and function (i.e., both segments were used to move energy from a generating point or point of receipt to the entrance of a distribution center or wholesale point) and (ii) continuation of both the Fringe Segment and the Network Segment would conflict with the policy of comparable transmission access.²⁵ For example, if a power customer wanted to wheel over the fringe segment it could result in the transmission component of BPA's power rate being different from the wheeling rate over those same facilities.²⁶ BPA thus concluded that "[i]n order for the rates for such open transmission access to meet the FERC comparability standards, BPA must provide all customers, whether wholesale or wheeling, comparable service at comparable rates. To do this, it was necessary to combine the cost of all facilities providing this service into a single segment, the Network, enabling BPA's power sales customers to buy from other providers, and still pay the same transmission charge as for buying Federal power."²⁷

If BPA were to adopt Snohomish's proposal, it would run head-on into the comparability problem it was trying to avoid in 1996. This is because it would have one set of customers (Snohomish and its other large power and wheeling customers) paying one rate to bring their electric energy from their generating or receiving point to the entrance of their distribution centers or wholesale points and then another set of customers (consisting of its smallest and most rural customers) paying a separate higher rate or rates for the exact same service. For this reason alone, BPA should reject Snohomish's proposal and retain its current segmentation policy. This is particularly true given the extraordinary efforts BPA has undertaken to achieve comparability in its transmission service over the last several years.

²⁴ *Id.* at 16.

²⁵ Administrator's Record of Decision: 1996 Wholesale Power and Transmission Rate Proposal, p. 411-412.

²⁶ *Id.*

²⁷ *Id.* at 411.

3. BPA's should retain its current definition of the Network Segment to include all facilities at 34.5 kV and above.

In the 1996 rate case, BPA defined the Network Segment to include all facilities at 34.5 kV and above. Facilities below 34.5 kV were included in the Delivery Segment.²⁸ BPA selected 34.5 kV as the dividing line between Network and Delivery Segments based in large part on the testimony of the Requirements Customer Coalition (RCC) which provided both a functional and historic rationale for including 34.5 kV facilities as transmission.²⁹ For instance, BPA found that RCC had “established that where voltage has been stepped down to 34.5 kV, there is transmission to another substation over 34.5 kV lines prior to the power being transformed to lower voltage and distributed to end users. In addition, the 34.5 kV was the transmission voltage that the Bureau of Reclamation used. Many customers that take power at 34.5 kV do so because of BPA's or their purchase of those Bureau facilities. Excluding 34.5 kV facilities from the Network would penalize them for conforming their system to Bureau standards.”³⁰

The factors identified by RCC and found determinative by BPA in 1996 still prevail today. Take for instance, the Alfalfa substation located in south central Washington, which Snohomish has identified as a distribution rather than a transmission facility. Alfalfa was built at 34.5 kV because at the time BPA was coordinating with the Bureau of Reclamation which, as discussed above, primarily constructed its facilities using 34.5 kV as the standard transmission voltage. Since Alfalfa was constructed to interconnect with the existing 34.5 kV system of the Bureau, there was no opportunity to construct it at a higher voltage without considerable additional expense. Today, the 34.5 kV line out of Alfalfa is used to transmit electric power to the general service areas of Benton REA and Yakama Power. Once the power is delivered to the general service areas of these customers it is transformed to a lower voltage and distributed by them to end users. Accordingly, despite its low voltage level, BPA's classification of the Alfalfa substation as transmission rather than distribution is wholly consistent with both BPA's and FERC's definition of what constitutes a transmission facility.

²⁸ In Order 888, FERC noted that while there is no uniform breakpoint between transmission and distribution, utilities account for facilities operated at greater than 30 kV as transmission and that distribution facilities are usually less than 40 kV. See, FERC Order 888 Appendix G-41. <http://www.ferc.gov/legal/maj-ord-reg/land-docs/rm95-8-0ad.txt>.

²⁹ *Id.* at 414-415; see also, Saven, Bickford, Schneider, Walters, Testimony of Requirements Customer Coalition Re: Segmentation Issues, WP-96-E-RC-06, pp. 24-32.

³⁰ *Id.* at 414.

4. The Snohomish proposal is errant and selective in its claimed use of cost causation principles.

Snohomish claims that its proposal is more consistent with cost causation principles because it would assign the costs of the above described customer service facilities to the customers who use them. However, Snohomish's narrow focus on these facilities demonstrates a selective commitment to using cost causation to allocate the costs of the facilities that comprise BPA's integrated Network Segment. For instance, BPA has made a roll-in determination for nearly \$1 billion in Network Open Season (NOS) projects. These costs are being incurred to primarily benefit BPA's larger PTP transmission customers and to support the export of wind energy generated inside BPA's balancing authority area to areas outside the Pacific Northwest.³¹ Although many of the NT Customers will derive little to no benefit from these facilities, under Snohomish's proposal the NT Customers would still share in paying for them via network transmission rates even though Snohomish's interpretation of cost causation would dictate otherwise.

In addition, in the 1996 rate case, BPA staff demonstrated "that there are significant, costly facilities in the Network that were built solely or primarily for wheeling customers."³² As stated by BPA staff in 1996:

A good example would be the transmission lines across the Cascade mountains and transmission facilities on the west side of the Cascades. Because most of the generating resources are located on the east side of the Cascades, those cross-Cascade and Westside facilities are not needed to serve power customers east of the Cascades. Nevertheless, the wheeling customers do not argue that these facilities be put in a separate segment and charged to only the customers that use them.³³

Again, just like the wheeling customers in 1996, Snohomish makes no attempt to reconcile its claimed commitment to cost causation with the continued inclusion of cross-Cascade and Westside facilities in the Network Segment even though those facilities are not needed to serve power customers east of the Cascades. Such arbitrary and selective use of cost causation is not a sound basis for upsetting 75 years of transmission policy and practice that has the endorsement of Congress and the acceptance of the greater region.

³¹ See, 2008-2009-2010 NOS Project Summary (Sept. 1, 2011) available at http://transmission.bpa.gov/Customer_Forum/open_season_2009/2008_nos_Summary_Timeline_Map.pdf; see also, Letter from Steve Wright, BPA Administrator, Re: 2010 NOS Decision (May 31, 2011) available at http://transmission.bpa.gov/Customer_Forum/open_season_2010/2010_nos_decision_letter.pdf.

³² Administrator's Record of Decision: 1996 Wholesale Power and Transmission Rate Proposal, p. 411-412; see also, Metcalf, Livesley, Rogers, Woerner, Gilman and Parker, WP-96-E-BPA-96, pp. 13-14.

³³ Metcalf, *et al*, WP-96-E-BPA-96 at 13.

IV. CONCLUSION

Snohomish's proposal is inconsistent with the definition of transmission system contained in FERC's Uniform System of Accounts and is only selectively committed to the cost causation principles to which it lays claim. More importantly, however, Congress endowed BPA with a greater purpose than Snohomish's proposal would allow it to achieve. By directing BPA to encourage the widest possible diversified use of electric energy at the lowest possible rate to consumers, Congress was instructing BPA to provide transmission in a manner that levels the playing field between the urban and rural communities of the Northwest. This was in recognition that the promise of prosperity created by the Federal Columbia River Power System belongs to all of the people the region, not just those advantaged by location and affluence.

For its first 75 years BPA has delivered on this promise to the entire region by building transmission facilities that reach into even its most remote, scantily populated areas and charging the rural customers that take service over those facilities the same postage stamp rate for transmission as their metropolitan counterparts. All corners of the Northwest have and continue to benefit from this approach, just as Congress intended. Snohomish has offered no higher principle or authority that justifies abandoning the pledge of equal opportunity and access for rural Northwest utilities and communities mandated by Congress and realized upon by BPA through its use of postage stamp rates over the last 75 years. BPA should therefore reject Snohomish's proposal and recommit itself to ensuring the widest possible diversified use of electric energy at the lowest possible rate to consumers, regardless of where those consumers are located.