

March 30, 2012

**Via Electronic Submission**

Bonneville Power Administration

[techforum@bpa.gov](mailto:techforum@bpa.gov)

**Re: Comments of Point to Point Customers Coalition on Bonneville Power Administration's Cost Allocation Alternatives**

The Point to Point Customers Coalition ("Coalition") thanks the Bonneville Power Administration ("BPA") for the opportunity to submit these comments in response to the March 13, 2012 request for comments on the cost allocation methodologies presented at the Transmission Cost of Service Analysis ("COSA") workshops. The Coalition includes Benton County Public Utility District No. 1, EDP Renewables, Franklin County Public Utility District No. 1, M-S-R Public Power Agency, Pend Oreille Public Utility District No. 1, Powerex, Seattle City Light, Snohomish County Public Utility District No. 1, and Tacoma Power. The Coalition is a non-homogenous group of point-to-point ("PTP") customers of BPA, including public agencies, an independent power producer and a power marketer.

BPA must adopt a cost allocation methodology that equitably allocates costs of the Federal transmission system between Federal and non-Federal power users.<sup>1</sup> To this end, the Coalition urges BPA to adopt a 1 non-coincident peak ("NCP") or to continue with a 1 CP cost allocation methodology. As discussed below, the 12 CP methodology that other customers have suggested would create unjustifiable cost shifts and is not appropriate for BPA's transmission system.

**I. BPA Should Not Allocate Demand Costs on a 12 CP Basis.**

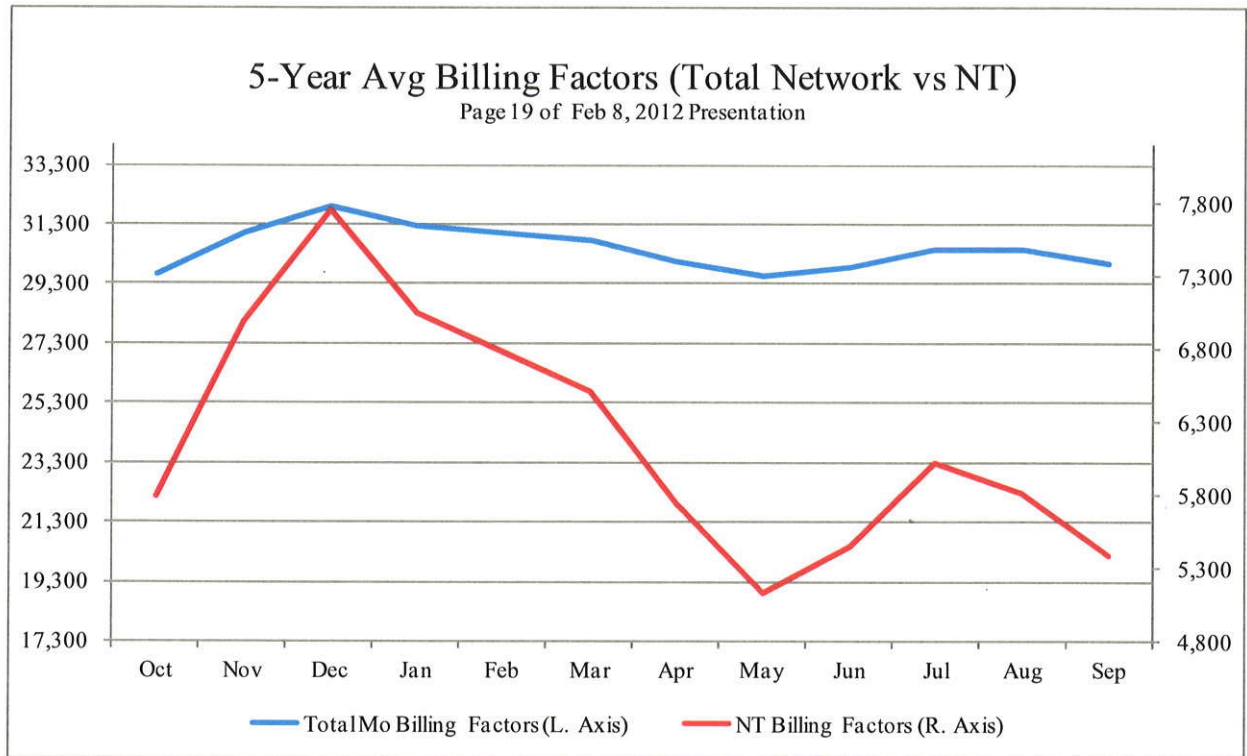
**A. The FERC Cost Allocation Tests Have Been Proven Inapplicable.**

The Coalition has supported BPA's investigation of the FERC cost allocation tests for possible guidance on how BPA and its customers could develop a more appropriate cost allocation methodology. The Coalition recognizes the fact that the FERC tests were designed for utilities that serve native load with only a very small percentage, if any, of PTP or third-party transactions; which is not at all the case for BPA. Now that the investigation has concluded, it is clear that these tests do not take into account the uniqueness of BPA's arrangements. Approximately 80% of BPA's transmission customers are PTP, integration of resources rate ("IR") and Formula Power Transmission rate ("FPT") customers. This means that about 80% of the BPA's transmission service is associated with reserved capacity as opposed to usage. This ratio between reservation- and usage-based customers biases the FERC test results toward a 12

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<sup>1</sup> 16 U.S.C. § 838h.

CP methodology. As the following graph illustrates, it is the non-network transmission (“NT”) customers that are creating the relatively flat overall BPA peak load profile, thus skewing the FERC tests to a 12 CP result.



In fact, the Coalition’s analysis demonstrates that if the tests only accounted for BPA’s network customers, the tests would justify a 1 CP method under the FERC cost allocation tests.

**NT Billing Factors** (BPA's "Historical Billing Factor" Spreadsheet)

Year	Annual Peak	Annual Average	Avg 11 off Peak	Annual Min	----- NT Results -----		
					Test 1	Test 2	Test 3
2006	6,825	5,866	5,779	4,971	15%	73%	86%
2007	8,322	6,441	6,270	5,006	25%	60%	77%
2008	7,722	6,283	6,152	5,253	20%	68%	81%
2009	8,797	6,150	5,910	4,950	33%	56%	70%
2010	9,767	6,221	5,898	5,152	40%	53%	64%
5-Yr Average					27%	62%	76%
12 CP Condition					<19%	>66%	>81%
<b>12CP or 1CP?</b>					<b>1CP</b>	<b>1CP</b>	<b>1CP</b>

This is consistent with the fact that BPA’s transmission system has been built to meet the annual anticipated peak demand, plus a margin, for its customers. Therefore, it does not make sense for

BPA to rely on the results of the FERC cost allocation tests for allocating the costs of its network segment among its customers.

Moreover, while the FERC tests are based upon load, service to NT customers on the BPA system is directed by the BPA Memorandum of Agreement for the Management of Network Integration Transmission Service for Delivery of Federal Power to Network Customer Loads, September 30, 2011 (“NT MOA”). The NT MOA ensures NT customers access to 65% of the aggregated nameplate capacity of designated BPA network resources (including network resources and non-federal designated network resources) and firm transmission necessary to deliver such. The Coalition believes that the access to designated resources should be considered as a proxy for reserved capacity for NT customers.

**B. 1 NCP Should Be the Starting Point for Cost Allocation Discussions.**

In its 1996 decision, BPA identified the 1 NCP method as superior because it created “equivalent” demands for NT and PTP customers. In other words, equivalency in terms of cost allocation could be achieved by recognizing that BPA formally reserves capacity for PTP/IR/FPT customers and informally reserves capacity for NT customers (i.e., NCP for NT and contract demand for PTP). Since then, BPA and its customers have implemented transmission rates achieved through settlement agreements. Those settlement agreements have no precedential value. Therefore, the coalition believes that 1NCP should be the starting point for BPA’s current COSA process.

It is important to note that in 1996, BPA chose 1 NCP even though others argued for the adoption of the 12 CP method. There is no indication from what we have learned through the COSA workshops that circumstances have changed since 1996 in a manner that would warrant a change to this cost allocation method. In fact, according to the FERC cost allocation tests, BPA has effectively met a 12 CP test since 1996. However, that cost allocation method has been rejected and adopting it now would ignore the fact that BPA stands by, ready to transmit power to its public power customers under various load, weather and system conditions.

If BPA were to divert from 1 NCP, then it would need to adjust the demands for the NT class of customers upward in some way to ensure equitable treatment and adherence to cost causation principles.

**C. A 12 CP Cost Allocation Methodology Will Inappropriately Shift Costs From NT Customers to PTP Customers.**

Cost causation requires that costs be borne by those who cause them or benefit from them. From this perspective, 1 CP or 1 NCP is more consistent with traditional cost causation principles than the 12 CP approach for BPA. Changing to a 12 CP method without recognizing BPA practices simply creates an inappropriate cost shift or cross-subsidization between customer classes, where some classes pay more than their share and others pay less.

As illustrated in BPA's January 11, 2012 presentation titled "Transmission Cost of Service Analysis Workgroup," BPA anticipates a 5.4 percent rate increase for PTP customers and a 0.2 percent rate increase for NT customers using a 1 CP methodology. By contrast, BPA anticipates a 9.8 percent rate increase for PTP customers and a 14.4 percent rate decrease for NT customers using a 12 CP methodology. Use of the 12 CP methodology without adjustments to recognize BPA practices inappropriately shifts costs from the NT customers to other transmission customers, particularly the PTP customers.

The cost shift results in large part because the 12 CP method does not properly incorporate the system flexibility set aside by BPA per the NT MOA and inappropriately allocates a portion of the short-term transmission sales revenues to NT customers. The 12 CP method typically uses monthly coincidental peak use for customer classes as the basis for cost allocation. However, in this case, using the NT coincident monthly peak use is inappropriate as BPA is setting aside transmission to ensure access to 65% of the aggregated nameplate capacity of designated network resources. The appropriate monthly allocator for NT customers under 12 CP is the greater of NT coincident monthly peak use or the set aside capacity.

The load shaping charge is the rationale behind which *both* PTP and NT customers benefit from BPA's short-term sales revenues. Without a load shaping charge, there is no logical foundation for including short-term sales in the denominator when calculating NT rates, because NT customers no longer have a claim on the inventory BPA uses to make short-term sales. Eliminating the load-shaping charge without correspondingly allocating a higher proportionate share of short-term sales revenues to PTP rates is wrong computationally and results in an unjustifiable cost shift to PTP customers.

BPA should also consider the risk that the resultant rate disparity, which would occur by using the 12 CP methodology, may trigger conversion requests from PTP customers and undermine the anticipated result. A change from 1 NCP to 12 CP would constitute a fundamental change in the "rules of the road" that PTP customers were unaware of when executing their PTP contracts. The same "rules of the road" were the cost allocation method expectations under which NT customers signed their contracts.

## **II. BPA Should Ensure that Transmission Costs Are Equitably Allocated Between Transmission Customers.**

Section 10 of the Transmission System Act allows for uniform rates and specifies that the costs of the Federal transmission system be equitably allocated between Federal and non-Federal power utilizing the system.<sup>2</sup> This is the rate standard that BPA is required to meet. The Coalition is deeply concerned that certain transmission customers may be paying the same or

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<sup>2</sup> 16 U.S.C. § 838h.

greater rate than other transmission customers without having caused a particular cost or received any benefits from that cost. Such a disparity would be contrary to traditional cost causation principles and the Transmission Act's cost allocation standard.<sup>3</sup> The Coalition strongly urges BPA to ensure that transmission costs are directly assigned to those customers that cause or benefit from these costs.

While it is fair for BPA to charge transmission customers a proportionate share of the embedded cost of the entire transmission system, it is not fair for one group of customers to subsidize another. The Coalition requests that BPA confirm that the following service costs are appropriately allocated between NT and PTP classes of customers or transmission customers in general.

- Redispatch service<sup>4</sup>
- Secondary network service<sup>5</sup>
- Determination of firm transmission commitments<sup>6</sup>
- Planning of transmission system improvements<sup>7</sup>
- Staffing for NERC compliance activities<sup>8</sup>
- Staffing to comply with NAESB standards for NT service<sup>9</sup>
- Staffing to establish a new Network Integration Transmission Service Model<sup>10</sup>

### **III. Topics for Further Investigation**

#### **A. Assignment of Plant to Segments and Plant Replacements**

The Coalition wishes to understand how the assignment of lines carrying voltages of 34.5 kV or less to the Utility Delivery Segment aligns with FERC ratemaking tests distinguishing between distribution and transmission, as well as NERC's reliability definition and functional

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<sup>3</sup> The "equitable allocation" seems to suggest that costs be allocated between PTP and NT in the same manner, i.e., either allocated upon "use" for both services or, "reservation" for both purpose. This "rate-making" standard is not inconsistent with public utilities' interest in BPA adopting, as closely as reasonable, terms and conditions that embrace open-access.

<sup>4</sup> Attachment M to BPA Open Access Transmission Tariff

<sup>5</sup> NT MOA, Section 10(a).

<sup>6</sup> NT MOA, Section 6(a).

<sup>7</sup> NT MOA, Section 6(d).

<sup>8</sup> See Exhibit A, p. 1.

<sup>9</sup> See Exhibit A, p. 3.

<sup>10</sup> See Exhibit A, p. 3.



test of what constitutes the bulk electric system. We would like the opportunity for our engineers to review the color-coded one-line diagrams that are used to determine whether certain facility costs should be included as part of BPA's transmission system costs and confirm that the network segment consists of only those lines and equipment associated with providing transmission service to the network.

In addition, we wish to understand how BPA ensures that the color-coded one-line diagrams are kept up to date. Are the drawings audited on a periodic basis? How are plant replacements captured?

BPA identified some issues concerning the financial accounting for plant retirements. Does BPA have any plans for addressing these issues? Will they be addressed before the next rate case?

## **B. General Plant**

Staff has informed the Coalition that general plant for corporate services was allocated equally between transmission and power rates. Now, it appears that 65% will be allocated to transmission and 35% to power rates. Why was general plant for corporate services allocated equally in the past and what circumstances have changed to warrant this significant change in the allocation of these costs?

## **IV. BPA Should Establish Protocols to Provide Transmission Cost Information to Customers In Advance of Transmission Rate Cases.**

The Coalition thanks BPA staff for providing the models that comprise the cost of service analysis – the Revenue Requirement model, the investment model, and the general plant spreadsheet.<sup>11</sup> In addition, members found staff's explanation of the models particularly helpful and appreciated BPA staff's commitment to transparency in our discussions. The models are easy to follow and easily replicable. Given the benefits of the models to customers, the Coalition requests that these models become standard documents filed as part of staff's initial proposal in all future rate cases and that the costs used in the models be subject to audit.

Also, staff provided another spreadsheet which was a list of detailed Integrated Program Review ("IPR") costs by category/program that served as the base detail input into the revenue requirement model. This table should be addressed in the IPR process as the beginning point for the rate case COSA. The Coalition recommends that in the IPR, each category/program and their costs should be paired with the customer segment(s) who will ultimately be assigned these costs, and the method that will be used to assign the category/program costs should be clearly set

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<sup>11</sup> We understand that the collection of these models is included in BPA's Annual Revenue Requirement Study.

forth during the IPR. This will permit customers to know before the costs are incurred how recovery will be achieved, e.g., from the network or from the delivery segment.

The Coalition hopes that BPA will adopt these recommendations going forward. The Coalition believes these recommendations are essential for customers to understand the nexus between costs and rates and to allow them to work with staff to develop a consensus around those rates.

## **V. Conclusion**

The Coalition urges BPA to maintain either the 1 NCP or 1 CP cost allocation methodology for setting transmission rates. BPA should reject any suggestions for a 12 CP methodology because as discussed in these comments, such a methodology would unjustifiably shift transmission costs and not equitably allocate those costs, as required by the Transmission Act, and would not be appropriate for BPA's transmission system. BPA must also ensure that transmission costs used in the cost allocation methodology are equitably allocated between transmission customers. The Coalition thanks BPA for its consideration of these comments and looks forward to continuing the discussion.

Sincerely,



Dana Toulson  
Assistant General Manager  
Power, Rates, and Transmission Management  
Snohomish County PUD No. 1

Representative of the Point to Point Customers Coalition

w/Attachment

EXHIBIT A

FY12-FY13 Transmission Staffing Scenario						
As part of the IPR process, Transmission received customer comments on a number of staffing issues. These included:						
Organization	IPR Program Area	CFTE	BFTE	TERM	Capital / Expense	Justification of Need for Position
<ul style="list-style-type: none"> <li>- Recommending BPA implement a succession planning initiative for the key Transmission Services areas.</li> <li>- Ensuring there is sufficient staffing to efficiently perform in key areas, such as policy and rates, reliability compliance and operations.</li> <li>- Validating there is sufficient staff to work on NERC standard compliance and operations. Includes ensuring a coordinated approach to NERC standard compliance, between BPA and its customers.</li> <li>- Provide continuity in staff working on NT policy development</li> <li>- Maintaining continuity in staffing and preservation of expertise in order to enable Transmission (and the customers) to move forward on pressing issues rather than spend time re-training staff.</li> <li>- Dedicating sufficient resources to the interconnection process, the implementation of new operational capabilities, and important policy decisions, in order to avoid delays in new renewable energy investment.</li> <li>- Prioritizing and increasing spending levels for the Wind Integration Team (WIT) and other advances in transmission and ancillary services operations. Adding an 10-15 additional FTE are required to fully reach the potential of WIT.</li> <li>- Committing more resources towards achieving FERC reciprocity status.</li> </ul>						
Based on this feedback, Transmission reviewed its staffing levels and has the following proposal.						
1 Transmission Internal Operations	External Reimbursable Services	4			Reimbursable Expense	<b>Compliance</b> Develop new internal processes, ongoing program documentation and system enhancements to support ongoing customer coordination for NERC compliance associated with the Joint Registration Organization (JRO). This program supports up to 60 customers. Risk is non-compliance for BPA and its customers for those customers who elect the JRO option.
2 Transmission Engineering	Regulatory & Regional Association Fees		1		Expense	Additional support needed to provide advice and guidance to customers for NERC/CIP compliance associated with communications interphases - fiber, relays, etc. This is new ongoing core work specifically to provide customer support. Risk is non-compliance for BPA and its customers for those customers who elect the JRO option.
3 Transmission Customer Service Engineering	External Reimbursable Services	2			Reimbursable Expense	Provide ongoing annual technical coordination, review and certification for load serving entity (LSE) and distribution provider (DP) registered customers for NERC compliance. Risk is non-compliance for BPA and its customers.



Organization	IPR Program Area	CFTE	BFTE	TERM	Capital / Expense	Justification of Need for Position
						<b>Compliance</b>
4 Marketing & Sales	Regulatory & Regional Association Fees	1			Expense	Technical modifications are required to BPA's webTrans system that only OATI can perform in order for BPA to be FERC compliant. The risk is that BPA won't meet the effective date for the NERC ATC Standards.
5 Transmission Commercial Systems	Regulatory & Regional Association Fees		2		Expense	Additional support needed to maintain additional commercial IT systems required under the NERC ATC Standards and Reciprocity. This includes integration with existing commercial systems, new enhancements, documentation, and new certification requirements. The risk is that BPA is non-compliant.
6 Transmission Account Services	Regulatory & Regional Association Fees			1	Expense	Additional support needed to process JRO Agreements. The risk is that BPA is non-compliant.
						<b>Wind Integration</b>
7 Transmission Planning	Internal Reimbursable Services	1			Reimbursable	Support for completing studies required for wind integration. Risk is non-compliance with LGIP.
8 Transmission Operations	Capital Program			1	Capital	Improving wind integration process with control center system environment and to respond to customer's needs. Risk is delay of project energization.
9 Transmission Engineering	Capital Program			2	Capital	Additional project managers are needed for wind integration projects. Risk is failure to execute projects.
10 Transmission Policy Development & Analysis	Scheduling Technical Support			1	Expense	Additional support needed to improve ancillary services required to implement the wind integration initiatives and to respond to customer needs. The risk is decreased reliability to the FCRPS.

	Organization	IPR Program Area	CFTE	BFTE	TERM	Capital / Expense	Justification of Need for Position
11	Transmission Policy Development & Analysis	Marketing Business Strategy	1			Expense	Additional support needed to improve customer access to existing and new intertie capacity, increase Dynamic Transfer Capability (DTC) between regions, reduce the risk of negative Northwest prices, and shift balancing service responsibilities to California Balancing Authority Areas (BAA). Risks include the inability to export surplus wind power out of the region during periods of high water or non-power constraints on hydro operation, thereby creating a risk of negative prices, and inability to shift balancing service responsibilities to California BAAs due to lack of DTC.
							<b>NT Service</b>
12	Transmission Marketing & Sales	Scheduling Technical Support		1		Expense	Conversion of MBA Coop Student. Additional support needed to maintain additional commercial IT systems required under the NAESB NT Standards, which includes the Network Integration Transmission Service (NITS). This includes a new transacting system for just NT service, integration with existing commercial systems, new enhancements, and customer support. The risk is that BPA is non-compliant in implementing new industry standards for NT Service.
13	Transmission Commercial Systems	Scheduling Technical Support		3		Expense	Additional support needed to maintain additional commercial IT systems required under the NAESB NT Standards, which includes the Network Integration Transmission Service (NITS). This includes a new transacting system for just NT service, integration with existing commercial systems, new enhancements, and customer support. The risk is that BPA is non-compliant in implementing new industry standards for NT Service.
14	Transmission Commercial Systems	Scheduling Technical Support	3			Expense	Additional support needed to setup the new Network Integration Transmission Service (NITS) model. This includes data population, testing, integration with other commercial systems, troubleshooting before the model is ready to be commercially available, and customer support. The risk is that BPA is non-compliant in implementing new industry standards for NT Service.
<b>TOTAL</b>			12	7	5		

<b>FY12 Staffing Cost Rule of Thumb:</b>	
BFTE	\$102,000
CFTE	\$129,846

**CAPITAL:**

Capital FTE are already covered in the FY12-13 capital program and there is no resulting incremental IPR program increase. There are 3 Term BFTE added in lieu of CFTE. Although the budget rule of thumb for CFTE is \$129,846, for most engineering functions the annual CFTE cost is typically \$150-300K.

**EXPENSE:**

The incremental expense FTE is 14 with an associated annual expense program increase is \$1,567,230. There are 2 Term BFTE and 7 permanent BFTE added in lieu of CFTE. These BFTE are added because the positions are inherently governmental and/or cost of CFTE significantly exceeds BFTE.

**REIMBURSABLE EXPENSE:**

Seven of the FTE are for reimbursable services and would be rate neutral.

EXPENSE FTE		CAPITAL FTE	
5	Expense CFTE	\$649,230	0
7	Expense BFTE	\$714,000	0
2	Expense Term BFTE	\$204,000	3
			Capital Term BFTE
			\$306,000

Total annual cost

\$1,567,230

Total annual cost

\$306,000

**RATE IMPACT**

Rule of thumb rate impact for expense program \$6.2M = 1% change	Rule of thumb for capital program \$66M = 1% change
Rate Impact: 0.25%	Rate Impact: Not applicable

*BPA Financial Disclosure Information: This information has been made publicly available by BPA on August 20, 2010 and does not contain Agency-approved Financial Information.*