

INDEX

TESTIMONY of

DENNIS E. METCALF, REBECCA E. FREDRICKSON,

DAVID W. BOGDON, and STEPHEN A. WHITE

Witnesses for Bonneville Power Administration

<b>SUBJECT: MONTANA INTERTIE</b>	<b>Page</b>
Section 1. Introduction and Purpose of Testimony .....	1
Section 2. BPA’s Initial Proposal Regarding the Eastern Intertie .....	2
Section 3. Consideration of Montana Rate Issues Identified in the 2012 ROD .....	3
Section 4. Whether Eastern Intertie Roll-in Would be a Precedent for Southern Intertie Roll-in .....	9

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5  
6 **SUBJECT: MONTANA INTERTIE**

7 **Section 1. Introduction and Purpose of Testimony**

8 *Q. Please state your names and qualifications.*

9 A. My name is Dennis E. Metcalf, and my qualifications are contained in BP-14-Q-BPA-47.

10 A. My name is Rebecca E. Fredrickson, and my qualifications are contained in BP-14-Q-  
11 BPA-21.

12 A. My name is David W. Bogdon, and my qualifications are contained in BP-14-Q-BPA-07.

13 A. My name is Stephen A. White, and my qualifications are contained in BP-14-Q-BPA-69.

14 *Q. Please state the purpose of your testimony.*

15 A. The purposes of this testimony are, first, to explain BPA's Initial Proposal for the rates  
16 for transmission service on the Eastern Intertie. Those rates are the Montana Intertie  
17 (IM-14) rate, the Eastern Intertie (IE-14) rate, and the Townsend-Garrison Transmission  
18 (TGT-14) rate ("Montana rates"). Second, we describe how we have considered in  
19 developing this Initial Proposal for those rates certain issues identified in the BP-12 Final  
20 Administrator's Record of Decision (BP-12 ROD), BP-12-A-02, regarding rolling into  
21 the Integrated Network the costs of service on the Eastern Intertie. Third, we describe  
22 how we have addressed the results of the workshops regarding the future of the Montana  
23 rates that were held after the BP-12 rate case.

1 Q. *Please define the Eastern Intertie and the Montana Intertie.*

2 A. The Eastern Intertie is the double-circuit 500 kilovolt (kV) line between Garrison  
3 Substation and Townsend, and parts of Garrison Substation. BPA owns the Eastern  
4 Intertie. The Montana Intertie includes the Eastern Intertie plus the two-single circuit  
5 500 kV lines and associated substation facilities between Townsend and Broadview  
6 Substation (Broadview-to-Townsend segment). The other parties to the Montana Intertie  
7 Agreement own the Broadview-to-Townsend segment.

8 Q. *What is the Montana Intertie Agreement?*

9 A. The Montana Intertie Agreement, BPA contract No. DE-MS79-90210, as amended,  
10 between BPA, Avista Corp., NorthWestern Energy Corp., PacifiCorp, Portland General,  
11 and Puget Sound Energy, Inc., provides for the construction and operation of the Eastern  
12 Intertie, cost allocation among the parties to the agreement, and transmission service by  
13 BPA over the Eastern Intertie.

14  
15 **Section 2. BPA's Initial Proposal Regarding the Eastern Intertie**

16 Q. *What is BPA's Initial Proposal for the TGT-14, IM-14, and IE-14 rates?*

17 A. BPA's Initial Proposal for the TGT-14, IM-14, and IE-14 rates is to make no changes to  
18 the methodologies used to calculate the rates. These methodologies are explained in the  
19 Transmission Rates Study, BP-14-E-BPA-07, section 5.2.

20 Q. *In developing the Initial Proposal for the Montana rates, did BPA consider the issues  
21 identified in the BP-12 ROD regarding such rates?*

22 A. Yes. In the following sections of this testimony, we discuss how we considered those  
23 issues as well as the results of the workshops held during the current rate period.  
24  
25

1 **Section 3. Consideration of Montana Rate Issues Identified in the BP-12 ROD**

2 *Q Please summarize how the issues identified in the BP-12 ROD, section 4.3.1, regarding*  
3 *the Montana rates affected your proposal to make no changes to the existing rates.*

4 A. In this testimony, we discuss those issues in the BP-12 ROD, section 4.3.1, that we  
5 believe could result in network rate impacts. In general, we believe that none of those  
6 issues, or any other issues identified in BP-12 ROD section 4.3.1, would prevent BPA  
7 from rolling the costs of BPA's capacity on the Eastern Intertie into network rates.  
8 However, we prefer that there be some agreement among parties that Eastern Intertie  
9 roll-in would not be used as a precedent to support Southern Intertie roll-in.

10 *Q. Please explain why you would consider rolling the costs of the Eastern Intertie into*  
11 *network rates.*

12 A. Eliminating a transmission rate (the IM rate) between Montana wind generation and loads  
13 would reduce transmission costs for utilities wishing to acquire that generation.  
14 Transmission service requests in BPA's network transmission queue indicate that there is  
15 a demand for transmission of Montana wind generation to serve loads to the west. We  
16 believe that wind generation in eastern Montana would be competitive with wind  
17 generation near the Columbia Gorge in meeting any unmet Oregon and Washington  
18 renewable portfolio standard (RPS) requirements, assuming roll-in of BPA's share of  
19 Eastern Intertie costs and no new capital costs for transmission on BPA's system  
20 resulting in significant rate increases. Further, as described below, roll-in of BPA's share  
21 of Eastern Intertie costs would have a negligible impact on network rates. Therefore,  
22 roll-in would help meet the needs of Pacific Northwest utilities that wish to acquire  
23 renewable generation and would not adversely affect transmission rates for existing  
24 transmission service.

1 Q. *Why would wind generation in eastern Montana be competitive with wind generation*  
2 *near the Columbia Gorge?*

3 A. Eastern Montana wind patterns could produce wind generation with a higher capacity  
4 factor than wind near the Columbia Gorge, resulting in reduced generation costs  
5 compared to Columbia Gorge wind. Further, eastern Montana wind patterns would  
6 generally be expected to result in generation that is shaped more into heavy load hours  
7 and higher load seasons than wind near the Columbia Gorge.

8 Q. *Please compare the capacity factor of wind near the Columbia River with wind in*  
9 *Montana.*

10 A. The Western Renewable Energy Zones (WREZ) model, developed by the National  
11 Renewable Energy Laboratory (NREL) at the request of the Western Governors'  
12 Association, indicates significant remaining feasible potential for wind development in  
13 excess of 9,000 megawatts (MW) in Montana. Wind in the model indicates a weighted  
14 average capacity factor for Montana wind of 41 percent. Because Montana wind  
15 resources have not been significantly developed, the capacity factor of undeveloped  
16 Montana wind in more favorable locations could be as high as 46 percent. Conversely,  
17 wind patterns near the Columbia Gorge tend to produce lower capacity factors due to  
18 wind patterns. Further, there has been significant wind resource development near the  
19 Columbia Gorge. Competition for the best wind sites has led to gradually declining site  
20 quality of remaining undeveloped sites, although improvements in wind turbine  
21 technology have largely made up the difference. The result is an expected average  
22 capacity factor of about 30 percent for Columbia Gorge wind resources. This is a rule of  
23 thumb that does not take into account the annual variability of wind resource capacity  
24 factors.

1 Q. *Please describe needs for additional renewable generation to meet renewable portfolio*  
2 *standards in Oregon, Washington, and California.*

3 A. On a regional basis, the Northwest has adequate resources to meet RPS standards through  
4 at least 2019, depending on load growth expectations. Wind resource development is  
5 continuing in the Gorge and is often exported under long- and short-term contracts to  
6 satisfy California's RPS standard of 33 percent of electricity production by 2020.

7 However, recent statements from major utilities in California indicate that they are not  
8 interested in pursuing out-of-state renewable resources because California requires that,  
9 over time, they increase the amount of renewable resources they acquire or produce from  
10 in-state resources. Information from the California Public Utilities Commission and the  
11 California Energy Commission indicates that utilities in California show a strong  
12 preference for in-state development and some preference for Southwest solar resources.  
13 California investor-owned utilities are buying surplus renewable energy credits (RECs)  
14 from Northwest utilities. However, specific REC positions are not available because the  
15 management of surplus RECs is a trading strategy decided at the individual utility level.

16 Q. *Given that Oregon and Washington RPS needs through 2019 may be met with currently*  
17 *available generation, and the apparently declining demand in California for out-of-state*  
18 *wind generation, why would BPA consider rolling the costs of Eastern Intertie capacity*  
19 *in with network costs?*

20 A. Even though it is projected that Oregon and Washington RPS needs through 2019 may be  
21 met with currently available generation, those states' RPS requirements increase in 2020  
22 and again in 2025. We understand that utilities subject to the RPS requirements may not  
23 have acquired renewable generation to meet all the increases in those years. We believe  
24 that Montana wind generation would be competitive with wind generation near the

1 Columbia Gorge to meet those higher RPS requirements, assuming transmission rates on  
2 BPA's network are not significantly affected by new capital costs for transmission.

3 Further, as discussed below, roll-in of only the costs of Eastern Intertie capacity  
4 that BPA sells would have an insignificant impact on network rates, and existing network  
5 customers would be protected from the costs of any new facilities that may be needed to  
6 transmit additional generation from Montana.

7 *Q. Please describe the rate impacts of roll-in of Eastern Intertie costs on network*  
8 *transmission rates.*

9 A. Three roll-in scenarios were discussed in workshops: (1) status quo: BPA does not  
10 change segments; (2) if BPA rolls in only the costs of its share of Eastern Intertie capacity it  
11 sells (currently 16 MW) without additional network sales, the current rate impact would be  
12 .02 percent; (3) if BPA rolls in the share of Eastern Intertie costs for the entire 200 MW of its  
13 westbound Eastern Intertie capacity without additional network sales, the current rate impact  
14 would be .195 percent; and (4) if BPA rolls in the entire capacity of the Eastern Intertie  
15 without additional network sales, the current rate impact would be 1.9 percent. Roll-in of only  
16 the costs of BPA's Eastern Intertie capacity that it sells would have the least impact on  
17 Network rates.

18 *Q. Which issues regarding Montana rates that were identified in the BP-12 ROD could*  
19 *result in significant additional costs to network customers?*

20 A. The only issue that could result in a significant network rate increase is the issue of  
21 whether roll-in of Eastern Intertie costs would be a precedent that could result in roll-in  
22 of Southern Intertie costs. BP-12 ROD, BP-12-A-02, Issue 4.3.1.9. The impact on  
23 network transmission rates of rolling in the Southern Intertie would be approximately  
24 15 percent. In section 4 of this testimony, we discuss the status of discussions regarding

1 a potential agreement that roll-in of the Eastern Intertie would not be a precedent for  
2 roll-in of the Southern Intertie.

3 *Q. The BP-12 ROD identified the following issues that intervenors argued could affect*  
4 *network rates as a result of rolling in Eastern Intertie capacity: (1) costs to existing*  
5 *network customers due to network upgrades needed to transmit new wind generation,*  
6 *BP-12 ROD, BP-12-A-02, Issue 4.3.1.6, and (2) roll-in of Eastern Intertie costs being a*  
7 *precedent for roll-in of non-network segments other than the Southern Intertie, id.*  
8 *Issue 4.3.1.9. Please explain whether those issues could result in significant added costs*  
9 *to network rates due to roll-in of BPA’s share of Eastern Intertie capacity.*

10 *A. The BP-12 ROD did not determine that those factors would result in significant impacts*  
11 *to network rates as a result of roll-in of Eastern Intertie capacity. Regarding the impact*  
12 *of the cost of new transmission service over new network facilities, if there were*  
13 *expansion projects, the Administrator would review the costs of projects needed to satisfy*  
14 *new service requests under BPA’s Network Open Season (NOS) and determine whether roll-*  
15 *in of the costs would be appropriate based on minimal impacts on network rates and other*  
16 *factors, including consideration of stakeholder input. If the Administrator does not decide to*  
17 *move forward with the project at rolled-in rates, it could be subject to the “or” test and an*  
18 *incremental cost rate. Any transmission request for service on the Network that is processed*  
19 *outside the Network Open Season could also be subject to the “or” test and incremental cost*  
20 *rates under the PTP and NT rate schedules. See Transmission, Ancillary and Control Area*  
21 *Service Rate Schedules and General Rate Schedule Provisions, BP-14-E-BPA-10, at 16, 20.*  
22 *An incremental cost rate obligates the customer receiving such service to pay the costs of the*  
23 *new facilities in its rate if the incremental cost rate would be higher than the embedded cost*  
24 *rate that includes the costs of the new facilities, thus protecting existing customers from*  
25 *significant rate impacts. Regarding the issue of Eastern Intertie roll-in as a precedent for*

1 roll-in of non-network facilities other than the Southern Intertie, we do not believe there  
2 are any other comparable non-network segments for which roll-in of the Eastern Intertie  
3 would be a precedent.

4 *Q. Certain parties argued in the BP-12 rate case that roll-in of only BPA's share of Eastern*  
5 *Intertie capacity would be discriminatory as to the TGT rate customers. BP-12 ROD,*  
6 *BP-12-A-02, Issue 4.3.1.11. Do you agree?*

7 *A. No. BPA financed and built the Townsend–Garrison line and Garrison substation to*  
8 *transmit Colstrip generation to BPA's Integrated Network for delivery to load. Under the*  
9 *TGT rate, which was agreed upon by BPA and the Colstrip parties in the Montana*  
10 *Intertie Agreement, the Colstrip parties pay the costs of the Eastern Intertie, less the*  
11 *proportion of cost equal to the proportion of capacity sold by BPA under non-TGT rates*  
12 *to total capacity sales under the TGT and other rates. Therefore, the charge under the*  
13 *TGT rate would decline if BPA made additional rolled-in Eastern Intertie capacity sales*  
14 *under network rates. The Montana Intertie Agreement provides that Colstrip parties have*  
15 *network contracts for BPA delivery of Colstrip generation west of Garrison. BPA*  
16 *network transmission service over the Eastern Intertie on BPA's capacity would reduce*  
17 *the charges the Colstrip parties pay under the combined TGT and network rates for*  
18 *Colstrip deliveries to the west and therefore would benefit the Colstrip parties. Thus,*  
19 *network transmission service over BPA's share of Eastern Intertie capacity at embedded*  
20 *cost rates would not be unfair or discriminatory to the Colstrip parties.*

1 *Q. Certain parties argued in their BP-12 rate case briefs that roll-in of BPA's share of the*  
2 *costs of the Eastern Intertie would reduce the participants' return on investment and thus*  
3 *be a disincentive to potential joint participants in BPA transmission projects such as new*  
4 *intertie facilities. BP-12 ROD, BP-12-A-02, Issue 4.3.1.12. Do you agree?*

5 A. No. The Montana Intertie Agreement provides that the Colstrip parties pay a share of the  
6 costs of the Eastern Intertie facilities. The agreement includes mechanisms that may  
7 decrease or increase the Colstrip parties' costs under various circumstances. For  
8 example, we described how the TGT rate would decline and therefore reduce the Colstrip  
9 parties' costs if BPA makes additional sales of transmission capacity on the Eastern  
10 Intertie. The TGT rate increased when BPA terminated the exchange under the  
11 agreement in 2011 and could increase in the future to recover costs of upgrades or  
12 replacements. The Colstrip parties agreed to these provisions. Therefore, we do not  
13 agree that roll-in of the costs of BPA's Eastern Intertie capacity would be a disincentive  
14 for joint participation with BPA in new facilities. Any joint participant with BPA in new  
15 facilities may negotiate for whatever terms it desires to protect its interests.

16  
17 **Section 4. Whether Eastern Intertie Roll-in Would be a Precedent for Southern Intertie**  
18 **Roll-in**

19 *Q. Did BPA make any commitments regarding the Eastern Intertie and the Montana Intertie*  
20 *in the 2012 rate case settlement agreement?*

21 A. Yes. The settlement agreement states:  
22  
23 ... during the Rate Period BPA will hold a public process to discuss with  
24 all interested parties the future of the IM, IE, and TGT rates. The  
25 workshops will include discussion of the then-existing rate treatment and  
26 potential alternative rate treatments of the costs of BPA's share of  
27 Montana Intertie transmission capacity and the costs of the Eastern  
28 Intertie. BPA will include in its initial proposal in the 2014 rate case a

1 proposal for the rate treatment of the above costs, including proposals  
2 regarding the existence and level of the IM, IE, and TGT rates[.]  
3

4 BP-12 ROD, Appendix A: Transmission Settlement Agreement, BP-12-A-02A,  
5 section 2(b).

6 *Q. Did BPA hold a public process to discuss the IM, IE, and TGT rates, as required by the*  
7 *settlement agreement?*

8 A. Yes. Treatment of Eastern Intertie costs and rates were discussed in a number of rate  
9 case workshops. In those workshops, the State of Montana and wind developers  
10 proposed that BPA roll the costs of the Eastern Intertie into the Integrated Network and  
11 eliminate the Montana Intertie rate.

12 *Q. Is BPA open to the idea of rolling Eastern Intertie costs into the Network?*

13 A. Yes. BPA's primary concern with rolling Eastern Intertie costs into the Network is that it  
14 could be argued that it would set a precedent for rolling in the costs of the Southern  
15 Intertie. The BP-12 ROD, at 496-497, discusses some distinguishing characteristics  
16 between the Southern and Eastern Interties:

17  
18 The Southern Intertie connects two areas, the Pacific Northwest and  
19 California, which have sizeable markets and a history of transactions in  
20 both directions, while the Eastern Intertie has been a path to bring  
21 generation to the Pacific Northwest. . . .

22  
23 Regardless of the other distinguishing features between the Eastern and  
24 Southern Interties, a significant, and perhaps deciding, distinguishing  
25 factor between the two is that Eastern Intertie roll-in may have a  
26 de minimis impact on Network rates, while roll-in of the Southern Intertie  
27 would have a much greater impact. However, BPA encourages customers  
28 to come to an explicit agreement that they will not argue in future rate  
29 cases that rolling in the Eastern Intertie would create a precedent for  
30 rolling in the Southern Intertie.

31 We believe that the foregoing distinctions between the Eastern and Southern  
32 Interties could be sufficient to avoid Eastern Intertie roll-in being a precedent for

1 Southern Intertie roll-in. However, to avoid the potential risk of a large rate  
2 increase due to a possible holding that Eastern Intertie roll-in would be a  
3 precedent that requires Southern Intertie roll-in, we still prefer that customers  
4 reach an agreement that Eastern Intertie roll-in would not be a precedent for  
5 Southern Intertie roll-in.

6 *Q. Have the customers come to an agreement as discussed in the BP-12 ROD?*

7 A. Not yet. We understand that a number of discussions have taken place, and some  
8 progress has been made. However, as we write this testimony, we have not been notified  
9 that an explicit agreement has been reached, so we are not currently proposing to roll the  
10 Eastern Intertie into the Network or eliminate the IM rate. If enough customers are able  
11 to come to an agreement on this issue, BPA remains open to rolling Eastern Intertie costs  
12 into the Network.

13 *Q. Would BPA propose to roll in Eastern Intertie capacity if an agreement is not reached?*

14 A. It is uncertain at this time whether BPA would roll in any amount of Eastern Intertie costs  
15 either with or without such an agreement, although we prefer having such an agreement.

16 *Q. Does this conclude your testimony?*

17 A. Yes.

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