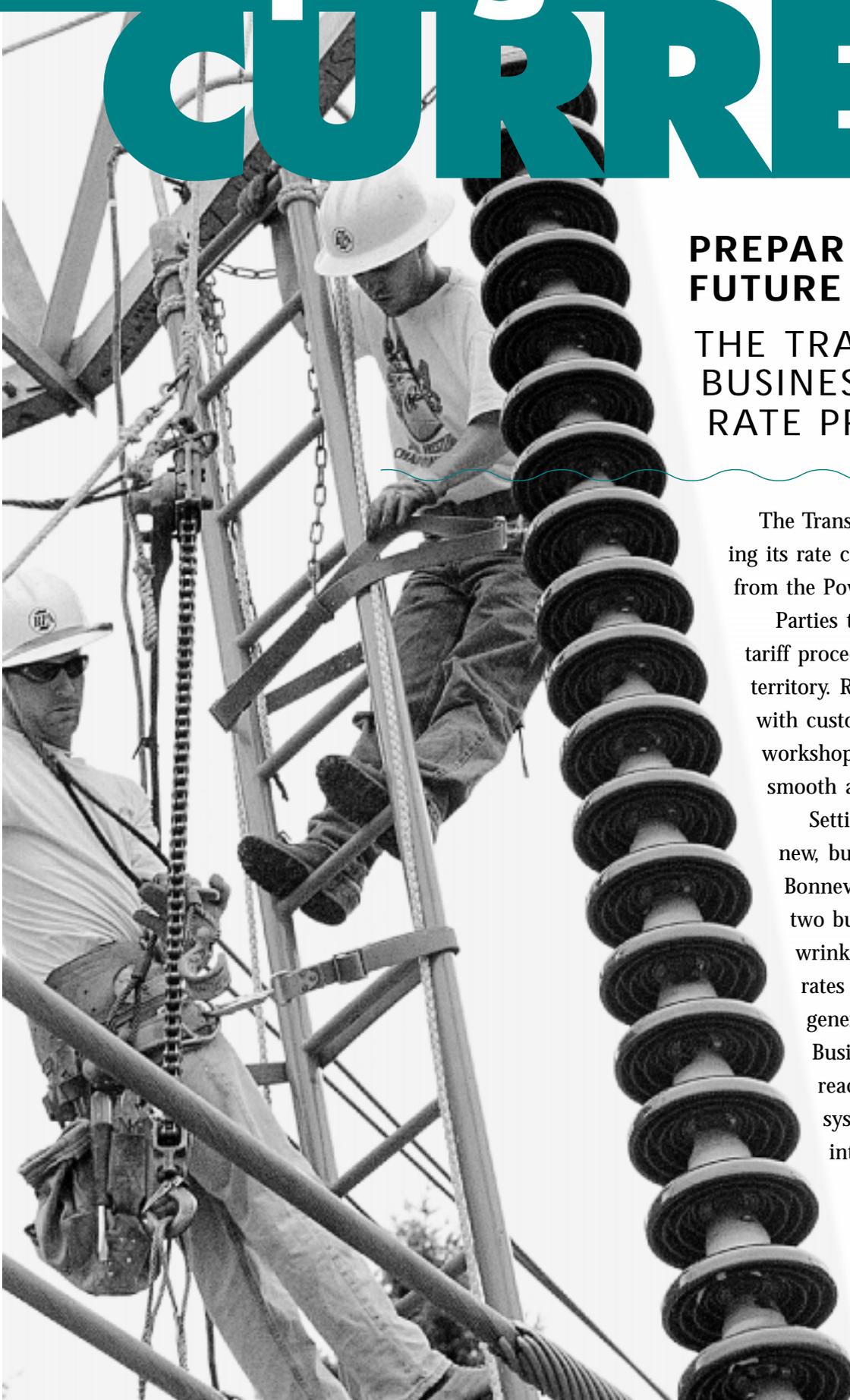


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March 2000

CURRENT



PREPARING FOR THE FUTURE

THE TRANSMISSION BUSINESS LINE'S INITIAL RATE PROPOSAL

The Transmission Business Line is launching its rate case and tariff proceeding separate from the Power Business Line.

Parties to the transmission rate case and tariff proceeding will be exploring some new territory. Representatives of TBL have met with customers and constituents in seven workshops to prepare the way for as smooth a process as possible.

Setting transmission rates is nothing new, but administrative separation of the Bonneville Power Administration into two business lines has added some new wrinkles to the process. Transmission rates will include some costs, such as generation inputs from the Power Business Line required to provide reactive support to the transmission system, that were formerly rolled into the power rates. And some



issues (for example, the methodology for function-izing corporate overhead) that affect power rates as well as transmission rates are being decided in the power rate case because the PBL needs to know its total costs in order to set its rates. General Transfer Agreement issues are also being settled in the power rate case because customers felt it was important information they need to make power supply decisions. The transmission initial rate proposal contains these “interbusiness line” costs at the levels in the initial power rates proposal. The figures will be adjusted to reflect the outcome of the power rate case.

TBL and its customers and constituents have also been conducting a separate process examining the TBL’s capital investments for transmission system reliability and other discretionary cost decisions. The results of that process on program levels won’t be available to be incorporated into the initial proposal, but the results

will be entered into the record and reflected in final proposed transmission rates.

In contrast to the power rate case, the transmission rates will cover two years (fiscal years 2002 and 2003) rather than five. In view of Federal Energy Regulatory Commission Order 2000, most observers expect that the Northwest will form some kind of regional transmission organization in the near future. The TBL rate case is to bridge any gap that may develop between the expiration of the current rates and the formation of a regional transmission organization.

THE PROCESS

It all begins officially with the March 29 prehearing conference for both the TBL Initial Rate Proposal for transmission and ancillary service rates and the proposed Open Access Transmission Tariff covering terms and conditions of service. The goal is to have a draft administrator’s record of decision in late September 2000 and a published final ROD about a month later.

In between the March opening and the November end come all the usual rate case elements — hearings conducted by a hearings officer; opportunity for presentation of both oral and written views; a discovery process that includes data requests and responses; cross-examination; and, finally, an administrator’s decision based on the record. The point of the rate case is to recover the costs of providing a safe and reliable transmission system during a time of unprecedented increases in transmission traffic caused by deregulation of the wholesale energy market and to distribute the costs equitably among users of the system.

INITIAL RATE PROPOSAL

The general impact of the TBL rate case will be that customers will see an increase in rates for transmission and ancillary services of as little as 0.4 mills/kilowatt-hour up to as much as 2.1 mills/kilowatt-hour depending on individual customer needs and circumstance. BPA’s projected transmission and ancillary service rates will amount to between 5 percent and 16 percent

PROPOSED SCHEDULE

The formal process is outlined below. A final schedule will be established by the hearing officer at the prehearing conference on March 29, 2000.

March 27	Petitions to intervene
March 29	Prehearing conference and filing of BPA direct case
May 22	Parties file direct cases
June 15	Close of participant comments
June 19	Litigants file rebuttal testimony
July 11	Cross examination begins
August 14	Initial briefs filed
August 18	Oral argument before the administrator
September 11	Hearing officer’s recommendations in regard to the tariff
September 29	Draft ROD issued
October 13	Briefs on exceptions
November 3	Final ROD — final studies

of the average retail cost of electricity service in the Northwest.¹

Some of the major factors causing an upward pressure on transmission and ancillary service rates are business line separation costs, including the implementation of separate systems for scheduling, billing, contracting and marketing; increased capital investment requirements for load growth, reactive needs, new generation reinforcements, constrained paths, changes in reliability criteria and system replacements; TBL's obligation to fully fund the Civil Service Retirement System and to fund negotiated wage and benefits increases; increased investments in technology and personnel to address significantly higher and more complex uses of the transmission system; actions to replace an aging TBL workforce, half of which is eligible to retire within five years; and the costs of generation inputs needed to provide ancillary services that are now the responsibility of the TBL.

The initial rate proposal is based on major studies — *Revenue Requirements*, which calculates the TBL's revenue requirements based on costs during the FY 2002-2003 rate period; *Transmission Rate*, which forecasts sales, allocates costs to the various services and designs rates to recover the allocated costs; and *Segmentation*, which assigns the transmission facilities to segments according to the types of service they provide. The six transmission segments and their definitions are the same as in the FY 1996 rate case — Generation Integration, Integrated Network, Southern Intertie, Eastern Intertie, Utility Delivery and Direct Service Industry Delivery. Ancillary Services is a new segment that is divided into the specific ancillary services.

The TBL is proposing five different rates for the Integrated Network segment — Formula Power Transmission (FPT-02), Integration of Resources (IR-02), Network Integration Transmission (NT-02), Point to Point (PTP-02) and Network Contract Demand (NCD-02). The NCD rate is being developed to apply to the new NCD transmission service that provides

greater flexibility to customers than either the PTP or the NT services.

In addition, other transmission rates include the Southern Intertie (IS-02), Use-of-Facilities (UFT-02), Advance Funding (AF-02) and Montana Intertie (IM-02). The Townsend-Garrison Transmission (TGT-02) and the Eastern Intertie (IE-02) are developed in accordance with the Montana Intertie agreement.

See the sidebar below for a description of ancillary services for which rates will be charged.

The rate schedules include rates for these and other services that can include delivery charges, power factor penalty charges, reservation fees and the like.

WHAT ARE ANCILLARY SERVICES AND WHY ARE THEY IMPORTANT?

Ancillary services are required to maintain the stability and reliability of the transmission system. Transmission customers must assure that these services are obtained from some supplier, and FERC requires that these services be unbundled from transmission rates. They include:

- **Scheduling, system control and dispatch:** Needed to schedule, monitor and control the movement of power flowing over the grid;
- **Reactive supply and voltage control from generation sources:** Needed to maintain transmission voltages within acceptable limits;
- **Regulation and frequency response:** Needed to maintain continuous balancing of resources with load and to maintain scheduled interconnection frequency;
- **Energy imbalance:** Needed to provide the difference between scheduled and actual delivery of energy to load in the control area over a single hour;
- **Spinning reserves:** Generating capacity that is on-line and ready for immediate response to system contingencies; and
- **Supplemental reserves:** Reserve capacity that can be brought on-line within a short period of time in a system contingency.

¹ This is based on an average residential rate of 51 mills/kWh (5.1 cents/kWh). The estimated range does not include transmission system costs of other service providers or the distribution system costs of individual utilities.

INITIAL TARIFF PROPOSAL

The terms and conditions proceeding is being held concurrently with the rates proceeding. TBL is proposing to revise the terms and conditions in the current TBL tariff in a number of ways. The primary revision is to match more closely the open access provisions in FERC's order 888, which set the standard for open access to transmission systems. One major change, the addition of Network Contract Demand (NCD) service, came from customer requests for a more flexible transmission service to handle sales of power that can come from an array of sources rather than from a particular generation plant. NCD service provides customers with flexible long-term service from network resources to identified points of delivery. TBL also is proposing a redispatch congestion management mechanism for more efficient use of the transmission system. NCD and Network Integration Transmission (NT) customers will participate in redispatch protocols and pay a share of any redispatch costs.

PARTICIPATION IN THE RATE CASE

Anyone can be a **participant** in the proceedings by sending comments, views and opinions to BPA on any aspect of the rate case. Those comments will be made part of the official record if they are received by June 15, 2000, and will be considered by the BPA administrator when she makes her final decision.

Someone who wants to be a **party** to one or both of the proceedings must petition in writing by March 27. A hearings officer will determine whether the petition demonstrates that the person or company has a relevant interest and should be included. Parties will be included in prehearing conferences and hearings and may cross examine witnesses, seek discovery, and serve and be served documents.

BPA's Power Business Line will be a party to the transmission rate case. BPA's standards of conduct do

not permit preferential access by the PBL to information about TBL's transmission or ancillary service pricing. The PBL will file its own testimony and briefs and will be subject to the rules regarding *ex parte* communications.

DEVELOPING THE RECORD; REACHING A DECISION

In both the rate proceeding and the terms and conditions proceeding, a hearing record will be compiled that will contain transcripts of the hearings, documents submitted by all parties and all other materials accepted by the hearings officer from participants and parties. The hearings officer will certify that the records are complete. In the terms and conditions proceeding, the hearings officer will make recommendations to the administrator based on the record. Then, for both the rates and the terms and conditions, the BPA administrator will make a decision. That decision will appear in a draft record of decision. All parties to the rate case will have an opportunity to respond to the draft ROD. After considering the parties' responses to the draft ROD, the administrator will issue a final ROD, and BPA will file its rates and its terms and conditions with FERC for confirmation and approval.

FOR MORE INFORMATION

TBL will take written comments on the Transmission Business Line Initial Proposal until June 15, 2000. Send comments to P.O. Box 12999, Portland, OR 97212, or e-mail them to comment@bpa.gov. For additional information, including the Initial Rate Proposal as it appears in the Federal Register, see the BPA Transmission Business Line Web site at <http://www.transmission.bpa.gov/ratecase>. You may also order publications by calling 800-622-4520 or (503) 230-3478 in Portland.

