2012 BPA Rate Case
Customer Workshop

Transmission Rate Development

April 14, 2010

Rates Workshop Agenda
9:00 A.M. – 5:00 P.M.

- **Opening and Introduction**
- **Transmission Rate Development**
  - Transmission Parking Lot Topics
    - Short Distance Discount Added to Southern Intertie
    - Customer Served Load Replacement
    - Delivery Charge
    - Reservation Fee
    - Incremental Rates
- **Wind/Generation Inputs**
  - Reserves Forecast Methodology
  - Cost Allocation
- **Next Steps**

Acronym List

- BAA – Balancing Authority Area
- CF – Conditional Firm
- COB – California-Oregon Border
- CSL – Customer Served Load
- DNR – Designated Network Resource
- FCRTS – Federal Columbia River Transmission System
- HLH – Heavy Load Hour
- IR – Integration of Resources
- NEPA – National Environmental Policy Act
- NOS – Network Open Season
- NT – Network Transmission
- OATT – Open Access Transmission Tariff
- POD – Point of Delivery
- POR – Point of Receipt
- PTP – Point to Point
- PV – Present Value
- SDD – Short Distance Discount
- SI – Southern Intertie
- TSA – Transmission Service Agreement
- TSR – Transmission Service Request
- UD – Utility Delivery
- UFT – Use of Facilities

Objective

- **Our objective today is to discuss the transmission parking lot issues, initiated by customers during the 2009 fall customer meetings. The proposals for each parking topic lot do not reflect BPA commitment to adopt any particular proposal or position.**

- **Today's discussion is preliminary and pre-decisional.**

- **We look forward to working together to better understand the issues that will help shape the development of the Initial Proposal.**

Rate Making Principles

- **Full and timely cost recovery**
- **Lowest possible rates consistent with sound business principles**
- **Cost causation—fairly allocate costs to customers based on proportionate use**
- **Statutory requirement of equitable allocation**
- **Simplicity, understandability, public acceptance, and feasibility of application**
- **Avoidance of rate shock and rate stability from rate period to rate period (e.g. magnitude of rates and rate design)**

Transmission Parking Lot Topics

	TRANSMISSION PARKING LOT TOPIC	COMMENT
1	Incremental Cost Rates	See Workshop Schedule
2	Utility Delivery Charge	See Workshop Schedule
3	Short Distance Discount Added to Southern Intertie	See Workshop Schedule
4	Reservation Fee	See Workshop Schedule
5	Replacement of Customer Served Load in the form of Short Distance Discount	See Workshop Schedule
6	Transmission Segmentation	See Workshop Schedule
7	Revenue Requirement	See Workshop Schedule
8	Revenue/Load Forecasting/LGIA Credits	To be scheduled
9	Risk Analysis	See Workshop Schedule
10	**Use of Cash Reserves**	**See Workshop Schedule**
11	Ratchet Demand Relief Charge	See Workshop Schedule
12	**Power Factor Penalty Charge**	**See Workshop Schedule**
13	**Montana/Eastern Intertie**	**See Workshop Schedule, Transmission Segmentation**
14	Overall Transmission Rates (No Surprises)	To be scheduled

Bold font represents customer suggestions submitted on March 3, 2010

Short Distance Discount – Southern Intertie Rate

Short Distance Discount
Added Provision Under Southern Intertie

- The K Falls plant is a 485 MW gas-fired cogeneration plant located in Klamath Falls, OR and is connected to the AC Intertie northwest of Captain Jack. While it is interconnected to PAC's system, K Falls is inside BPA's BAA.

- It was previously argued that when running, K Falls creates Intertie capacity (about 50% of the time) and it is the only resource not using the entire John Day COB path for deliveries to COB.

- BPA applies a SDD to PTP and IR rates for Network transactions that use less than 75 circuit miles of FCRTS facilities.

➢ BPA-TS is interested in customer feedback to determine the need to retain this parking lot issue.

Customer Served Load Replacement

Customer Served Load

- **CSL is the monthly amount in megawatts of the Transmission Customer's Network Load that the Transmission Customer elects to serve on a firm basis from sources internal to its system, or over non-Federal transmission facilities, or pursuant to contracts other than the Network Integration (NT) Service Agreement.**
  - The Customer must specify the amount of CSL in the Customer's NT Service Agreement.
- **The Billing Factor for Customers with CSL is the Customer's Network Load on the hour of the Monthly Transmission Peak Load <u>less</u> Declared CSL (unless the Actual CSL is less than 60% of the Declared CSL during Heavy Load Hours, in which case the CSL credit does not apply).**

Background

- **Currently, five NT Customer have declared CSL in their NT Service Agreements totaling approximately 278 MW.**
- **Since 1996 CSL has been included in the BPA-TS NT Rate Schedule and Open Access Transmission Tariff (OATT).**
- **Pursuant to the 2006 Transmission Rate Case Settlement Agreement, CSL will expire effective on October 1st, 2011.**
  - BPA-TS agreed to work with interested Customers to determine the appropriate mechanism, if any, to replace CSL.

CSL Replacement Preliminary Alternatives

- **Alternative 1: No CSL Replacement**
- **Alternative 2: The 2007 Draft Proposal for a Short Distance Discount to Replace CSL benefits**
- **Alternative 3: BPA Preliminary Draft Revised Short Distance Discount Proposal to Replace CSL**

2007 Draft Proposal for a Short Distance Discount (SDD)

- **Main features of the draft proposal developed in the summer of 2007 (see separate handout):**
  - The monthly NT bills shall be adjusted when a long-term (designated for at least 12 months) Network Resource, interconnected to the FCRTS or to the customer's system and designated in the NT Service Agreement as being short distances, uses FCRTS facilities for less than 75 circuit miles for delivery to the Network Load.
  - Equation:
    - Average Generation on Peak Hour x NT Rate x (75-Tx Distance)/75 x 0.4

BPA-TS Preliminary Suggested Revisions to the Customer Proposal

1. **Amendment of "Average Generation on Peak Hour" element of formula**
   - "Average Generation During Heavy Load Hours"- Average KWh generated during Heavy Load Hours (HLH) by the Designated Network Resource over the current billing month.

2. **Treatment of "Behind the Meter Resources"**

CSL Replacement

- **Any questions?**
- **We are interested in your feedback as to when we should schedule the next workshop(s).**

Delivery Charge

Delivery Charge

- The Delivery Charge is a charge for delivery over the Utility Delivery segment, defined as the segment of FCRTS that provides service to customers below voltages of 34.5 kV. This service is used to reduce transmission voltages for delivery to customers.

- Currently about 31 public utility customers pay for this Utility Delivery service.

- The monthly billing factor for the Delivery Charge is the total load on the hour of the Monthly Transmission Peak Load at the POD specified as Utility Delivery facilities.

Delivery Charge Background

- As part of the 1996 Rate Case in which the Delivery Charge was established, BPA adopted the Sale of Facilities policy, which states that upon written request, a delivery charge customer has the right to purchase the substation(s) that serve them.
- As a result of this policy, Delivery Charge customers have bought about 80% of the Utility Delivery substations that existed in 1996.
- However, transmission rate settlements have to some degree shielded the Delivery Charge rate from price signals that may have otherwise encouraged more utility delivery substation sales.
- Utility Delivery substation sales have slowed considerably and we understand there is little prospect for the sale of a significant number the 53 unsold facilities.
- A complicating factor is that BPA's Transfer customers pay a charge equal to the Delivery Charge rate, but do not have the option of purchasing the substations that serve them.

Delivery Charge Preliminary Alternatives

1. **Set the Delivery Charge to a rate that will recover all the costs of the Utility Delivery segment.**

2. **Cap the Delivery Charge increase to an amount not to exceed X%.**

3. **Roll the Utility Delivery segment into the Network and eliminate the Delivery Charge.**

4. **Substitute a Use Of Facilities (UFT) charge for the Delivery Charge.**

Delivery Charge Preliminary Alternatives

1. **Set the Delivery Charge to recover all of the costs of the Utility Delivery segment.**

   Pros: Complies better with the principle of cost causation (costs fairly allocated to customers based on use) than does current practice

   Cons: Could be viewed as conflicting with the principle of avoiding rate shock (although this effect is more a result of cumulative rate settlements and not a conscious policy decision)

2. **Cap the Delivery Charge increase to an amount not to exceed X%.**

   Pros: Complies better with the principle of avoiding rate shock

   Cons: Conflicts with the principle of cost causation, since any Utility Delivery segment costs not recovered by the Delivery Charge will have to be recovered via rates borne by other segments

Delivery Charge Preliminary Alternatives Continued

3. **Roll the utility delivery segment into the Network and eliminate the Delivery Charge.**

   Pros: Relatively easy to implement, and could be seen by many as more in keeping with the principle of simplicity and understandability

   Cons: Conflicts with the principle of cost causation

4. **Substitute a Use Of Facilities (UFT) charge for the Delivery Charge.**

   Pros: Complies even more closely with the principle of cost causation than current policy. However, some customers may view it as inequitable since different Delivery Charge customers would pay different Delivery Charge rates.

   Cons: Conflicts with the principles of simplicity/understandability and avoidance of rate shock.

Next Steps for Delivery Charge

- **Any questions?**
- **We are interested in your feedback as to when we should schedule the next workshop(s).**

Reservation Fee Deferral Rate

History of Extensions for Commencement of Service (Deferral)

- **The *pro forma* OATT allows for up to five one-year extensions of a PTP TSR's commencement of service date**
- **The *pro forma* charge and the charge currently in BPA's transmission rate is one months PTP charge for each extension**
- **In 2009, BPA put two constraints on the ability of NOS participants related to deferral of TSRs**
  - If the capacity is won through a deferral competition, it cannot be deferred a second time
  - If a competitor is identified for a deferred TSR, the deferring party must move up their start date to match the start date of the competitor that would otherwise be able to begin taking service (under the *pro forma* OATT, the deferring party would have the ability to release the capacity)
- **BPA remains open to exploring other ways of appropriately adjusting for the risks of deferral rights in a NOS financial model**

Background

- **BPA has set up Network Open Season, which is a process that will be performed every year to determine which requests can be offered service with or without a build.**

- **If a build is determined to be needed to offer service to a request, BPA will analyze if the request can be offered service at rolled-in rates.**

- **Through this Network Open Season process, BPA takes on the risks of building projects for which it makes a decision to build.**

  - Allowing customers to defer service requested during NOS creates additional revenue risk and uncertainty, particularly when BPA is building to accommodate the request.
  - BPA is exploring pricing options for deferrals to better mitigate this risk.

Possible Alternate Deferral Constructs

- **Increase the charge for extensions of commencement of service above the current one month's charge. The higher charge could be:**
  - For standard tariff deferral rights
  - In exchange for BPA agreeing not to compete when the customer defers
- **Increase in the performance assurance**
- **Limit deferral rights or the number of years of deferral rights:**
  - For any deferral
  - For deferral under certain circumstances (for CF, if construction is needed)
- **Questions:**
  - Should alternate deferral construct only apply when BPA needs to build a new facility?
  - Should a delay in interconnection be related to deferral rights?

Possible Pricing Methodologies for Deferrals

1. Present Value of lost revenues

- Calculate the present value of the lost revenue stream when a customer defers.
- Discount rate would be determined by the Treasury borrowing rate.

2. Three to six months revenues per year

- Charge three to six month's revenues for each year of deferral.
- The numbers of months charged are based on the amount of time that will take to possibly do competitions and offer contracts (or on present value calculations).

		PV Revenue Difference of Deferral	Six Months Revenues Based on Demand
1	Total Carrying Costs		
2	O & M		
3	Total Capital Carrying Costs Plus O & M		
4	Total Annual MWs Subscription		
5	Annual MWs Deferred	100	
6	Total Capital Carrying Costs Plus O & M		
7	Pro-rata Share of Total Subscription		
8	Cost per MW	6,295	
9	Total Financial Costs Loss of Deferred MWs	629,466	778,800
10	Total Reservation Fee	**129,800**	**129,800**
11	Total Financial Costs Loss Less Reservation Fee	499,666	649,000

Next Steps for Reservation Fee

- **Any questions?**

- **We are interested in your feedback as to when we should schedule the next workshop(s).**

Incremental Rates

Background

Under our current (FY10-11) Rate Schedules, Incremental cost rates must be established in a 7(i) rate case. As part of the FY10-11 rate case, we considered replacing the 7(i) process with a less formal public process to establish the inputs to a formula incremental rate. We made some progress, but both BPA and Customers were not quite ready to commit to that approach so we agreed to table the issue.

BPA-TS retains the need for incremental costs rates. Network upgrades identified in the Network Open Season cluster study as required for service, but not moved forward at embedded costs rates, are subject to incremental rates.

A key challenge is that the NEPA process could take 3 or more years after System Facility Studies are completed.

Incremental Rate Preliminary Alternatives

1. **Adopt a formula Incremental Rate in the 2012 Rate Case; apply formula rate to the costs developed during NEPA process if facilities are not Directly Assigned and BPA decides to build the facilities after completion of NEPA:**
   - **Pros**
     - Assures that the Incremental Rate formula will be in place when needed
     - In theory would eliminate the need to run special 7(i) Process and would minimize the time required to offer incremental rate TSAs
     - Could facilitate process of building new facilities
     - When deciding whether to pay for NEPA the customer would know incremental rate methodology
   - **Cons**
     - Difficult to develop formula rate in the abstract
     - When a specific need arises, BPAT may find that the formula rate previously adopted may not be appropriate to the circumstance, requiring a special 7(i)
     - Could limit BPAT's flexibility
     - Requires heavy use of limited available staff time
     - Customers have asked for significant public process for implementing the formula rate, which would take almost as much time as a special 7(i) process

Incremental Rate Preliminary Alternatives

2. Wait until start of NEPA process to develop formula rate:

- **Pros**
  - NEPA process takes at least three years so there would plenty of time to adopt a formula rate during that period
  - In theory would eliminate the need to run special 7(i) Process and would minimize the time required to offer incremental rate TSAs
  - Could facilitate process of building new facilities
  - More would be known about specific circumstances than under Alternative #1
  - Avoids use of limited staff time now
- **Cons**
  - When deciding whether to pay for NEPA, the customer would not know Incremental Rate methodology
  - Still possible (although much less likely than in Alternative #1) that the methodology adopted may not work once the NEPA process is finished

Incremental Rate Preliminary Proposal

3. Continue with the current rate schedule language requiring a 7(i) process and if BPA decides to build facilities after the NEPA process, adopt a specific Incremental Rate once NEPA process is done:

- **Pros**
  - Eliminates need to run 2 processes—Incremental Rate methodology and application
  - Easier to develop Incremental Rate methodology in specific fact circumstance
  - Avoids use of limited staff time now
- **Cons**
  - Could result in delay in constructing new facilities
  - When deciding whether to pay for NEPA the customer would not know the Incremental Rate methodology
  - Unless the customer(s) has signed a precedent agreement obligating it to take service if the Incremental Rate is not higher than a certain level, and the actual rate is within the limit, the customer could decide not to sign the service agreement after the rate is developed, thus resulting in wasted effort and possibly the need to do another 7(i) for any customers that are still interested, with the same possible outcome

Next Steps for Incremental Rates

- BPA would like to continue to hear your feedback regarding the information we discussed today.
- We are keeping a close eye on NOS to identify any specific Network upgrades that do not move forward at embedded cost rates and are subject to Incremental Rates. At that time, we will be able to better understand the inter-related revenue requirement and revenue recovery issues. That said, we are not planning to provide illustrative examples of potential incremental costs at this time.
- BPA's 2012 Rate Case Workshop Calendar will be updated to remove Incremental Rates from the May 12, 2010 workshop topics. We remain open to modifying the workshop calendar to discuss Incremental Rate development, as relevant information becomes available.
- Preliminary rate level calculations may not be available later this summer. We plan to assess rate design options to inform the Initial Proposal at that time, if not sooner.

Wrap Up for Preliminary Transmission Rate Development

- Workshop participants seeking to suggest topics to be added to the parking lot for consideration may do so by submitting a written request to techforum@bpa.gov. Please state "2012 Rate Case" in the subject line. Customers are encouraged to also participate in workshop discussions where such topic(s) are being discussed with other interested participants.

- Customers that desire to post other rate-related materials to our rates website must submit a written request to techforum@bpa.gov

- See 2012 Rate Case website for additional information, workshop postings and handouts, and the BPA Calendar: http://www.bpa.gov/corporate/ratecase/2012. The BPA Calendar is also located at http://www.bpa.gov/corporate/public_affairs/calendar/.