



6 February 2006

VIA E-MAIL

Garry R. Thompson
PBL Account Executive - PSE/Spokane
Bonneville Power Administration
707 W. Main Ave., Suite 500
Spokane, Washington 99201
grthompson@bpa.gov

Re: PPC Policy Decisions Regarding Transfer Service.

Dear Garry:

At its February meeting, the PPC Executive Committee made some policy decisions on the outstanding GTA issues that we have been addressing in our meetings with you. We'd like to share those with you before our meeting this Thursday.

The Executive Committee adopted the following positions:

- PPC supports BPA staff's "last wheel" proposal¹ under the following conditions: (a) BPA commits to investigate the recovery through transmission rates of GTA costs for wheeling federal and non-federal resources and to make an initial proposal in its transmission rate cases to so recover those costs if it is reasonable to do so; (b) if, however, GTA costs of wheeling non-federal resources are recovered in BPA's power rates, then BPA will recover those costs through the Tier 2 rate, and only start to recover those costs through the Tier 1 rate once the effects of the costs allocated to Tier 1 and Tier 2 for all Transfer service come to be equal.²

¹In which BPA rolls in the costs of wheeling non-federal power over the Transferor or Transferors' systems if (a) the last wheel is purchased from a third-party transmission provider other than BPA, (b) the non-federal power is used only to meet the utility's requirements load in excess of load served by the Tier 1 power available to the customer, and (c) the non-federal power is wheeled, at some point in the transaction, over BPA's transmission facilities.

² PPC suggests a Tier 1/Tier 2 allocation scheme in which:

- (a) the Transfer costs for Tier 1 power are allocated to Tier 1 power rates;
- (b) the Transfer costs for Tier 2 federal and non-federal power (to serve only that requirements load which exceeds the allocated amount of Tier 1 power) is allocated to

- PPC opposes a cap on BPA's obligation to pay the costs of the "last wheel," as set forth above.
- PPC proposes that BPA pay the costs of real power losses associated with non-federal power deliveries.
- With regard to the direct assignment to transfer service customers of costs that the transmission service provider has directly assigned to BPA, PPC proposes that BPA apply the then-current TBL Direct Assignment Guidelines and the ARTS to determine how low-voltage and other transmission improvement costs for Transfer service should be recovered. PPC proposes further that PBL contract with TBL for assistance in implementing this proposal.
- To improve the quality of transfer service, PPC proposes that BPA improve its communication with transfer service customers. BPA should communicate with those customers in advance of events that impact service and establish meetings and lines of communication with and among Transfer customers and transferors to address service issues and planning. PPC proposes further that PBL contract with TBL to have TBL customer service engineers work with customers and transfer service providers to resolve quality of service issues that require transmission expertise.
- With regard to the management of transfer service agreements, PPC proposes that a transfer service customer managing its own transfer service be reimbursed for those costs that the customer incurs which, had BPA incurred them on the customer's behalf, BPA would otherwise recover either through rolled-in rates or through the GTA Delivery Charge.
- BPA staff has discussed a proposal regarding the responsibility for the costs of ancillary services acquired to provide transfer service. The proposal would continue current practice except that, when PBL acquires regulation and frequency response from the transfer service

Tier 2, up to the point at which the Tier 2 millage rate resulting from these costs equals the Tier 1 millage rate associated with Tier 1 Transfer costs (see (a)), at which point additional Tier 2 and non-federal Transfer costs are added proportionally to both Tier 1 and Tier 2 rates such that the resulting millage rates stat equal; and

(c) within Tier 1 and Tier 2, these Transfer costs will be spread *pro rata*.

A helpful analogy for this allocation methodology may be a two-part kitchen sink, in which the center partition is lower than the walls of the sink. The water flows into one half until it reaches the top of the partition, at which point it overflows into the other half. Once both halves have filled to top of the partition, they will remain equally full as the sink fills up.

provider, the customer would reimburse PBL at TBL's posted rate for that service. PPC supports this proposal.

- BPA staff has discussed a proposal for transfer service to annexed and acquired load, under which BPA would arrange and pay for transfer service for annexed and acquired loads only if the annexation or acquisition is demonstrated to be "friendly" or finally adjudicated. BPA staff also proposes that in the case of annexed load, all costs directly assigned to BPA by the transferor be directly assigned to the Transfer customer. PPC supports BPA's proposal for service to annexed and acquired load, but not the latter provision regarding direct assignment. PPC proposes that directly assigned costs be handled no differently for annexed load than for any other transfer load.

We look forward to discussing the reasons for PPC's policy decisions when we meet on February 9th, and we hope that this letter will inform your preparation for that meeting. Please feel free to call me if you have any questions.

Sincerely,

Nancy Baker
Senior Policy Analyst

cc: (all via e-mail)
Barbara Beck, Clark Public Utilities
Geoff Carr, NRU
Bill Drummond, WMG&T
Travis Metcalfe, Tacoma Power
Terry Mundorf, WPAG
Lon Peters, Northwest Economics
Aleka Scott, PNGC
Ron Williams, ICUA