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TESTIMONY OF  
DIANE CHERRY AND DENNIS METCALF  
Witnesses for Bonneville Power Administration

**SUBJECT: Bifurcated Rate Case Testimony**

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1 TESTIMONY OF

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4  
5 **SUBJECT: BIFURCATED RATE CASE TESTIMONY**

6 **Section 1: Introduction and Purpose of Testimony**

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

8 A. My name is Dennis Metcalf and my qualifications are contained in WP-02-Q-BPA-49.

9 A. My name is Diane Cherry and my qualifications are contained in WP-02-Q-BPA-11.

10 *Q. What is the purpose of your testimony?*

11 A. We explain why BPA is bifurcating its general rate proceeding into separate power and  
12 transmission rate cases, outline the inter-business line issues that will be treated in the  
13 power rate case, and discuss the relationship between the treatment of those issues in the  
14 power rate case and the follow-on transmission rate case.

15 *Q. How is your testimony organized?*

16 A. It is organized in four sections, including this introduction. The second section  
17 describes why we are doing a bifurcated rate case; the third section discusses what  
18 “inter-business line” related issues will be decided in the power rate case; and the fourth  
19 section discusses other transmission-related issues that are addressed in this rate case.

20 **Section 2: Need for Separate Rate Cases**

21 *Q. Why is BPA conducting separate power and transmission rate cases?*

22 A. BPA has committed to marketing its power and transmission services in a manner  
23 modeled after the regulatory initiative undertaken by the Federal Energy Regulatory  
24 Commission (FERC) in Order Nos. 888 and 889. In Order No. 888, FERC directed  
25 public utilities regulated under the Federal Power Act to unbundle transmission and  
26 ancillary services from their wholesale power services. Establishing BPA’s power and

1 transmission rates in separate rate cases is consistent with FERC's unbundling paradigm  
2 because it will separately resolve power and transmission issues in the separate rate cases.

3 *Q. Why is the timing for the separate rate cases staggered?*

4 A. The two business lines have different practical needs with regard to rate case timing.  
5 BPA's power and transmission rates both expire on October 1, 2001. The Power  
6 Business Line (PBL) must establish rates for the post-2001 period now in order to move  
7 ahead with the Subscription process. *See* Burns and Elizalde, *et al.*, WP-02-E-BPA-08.  
8 However, the Transmission Business Line (TBL) has a number of reasons for deferring  
9 the transmission rate case until later in the 1996-2001 rate period. TBL's financial  
10 performance during the remainder of the rate period is uncertain, but will affect its  
11 financial position at the beginning of the next rate period. TBL's projected costs and  
12 sales during the next rate period are uncertain, but more reliable information will be  
13 available later in this rate period. Generating adequate revenue to cover costs in an  
14 uncertain future will be more feasible with a transmission rate case that is closer to the  
15 period for which rates are developed.

16 *Q. Please describe the current transmission environment.*

17 A. The transmission environment is in a state of flux. During the last few years, there has  
18 been an industry-wide transition to open transmission access; IndeGO was formed and  
19 then dissolved; FERC issued a Notice of Proposed Rulemaking (NOPR) on a capacity  
20 reservation tariff, but then decided not to proceed further; and FERC has recently issued a  
21 NOPR on formation of Regional Transmission Organizations. In addition, the Regional  
22 Review called for legislative separation of the TBL and PBL, and numerous legislative  
23 proposals have been advanced in the region and in Congress that would change the legal  
24 standards under which BPA's transmission rates, and terms and conditions are developed  
25 and reviewed. At the state level, Montana has proceeded with retail access and other

1 Pacific Northwest states are considering or have taken similar action. There is every  
2 reason to believe that the pace of change will not slow in the next two years.

3 *Q. How has the current transmission environment affected the decision regarding the timing of*  
4 *the transmission rate case?*

5 A. Uncertainty in the transmission environment suggests that a later transmission rate case is  
6 appropriate. FERC is issuing orders that provide guidance and direction in developing  
7 open access transmission rates and tariff terms and conditions. For example, a recent  
8 order clarified FERC's position on the functionalization of generation step-up  
9 transformers and generation integration facilities. More clarification and guidance from  
10 FERC should make the rate case less divisive and improve the likelihood of settlement  
11 and FERC approval. Delaying the transmission rate case may also help avoid the  
12 confusion that the region faced in 1996, when FERC issued Order No. 888, along with  
13 final pro forma tariffs, only weeks after the BPA rate case parties had settled on rates and  
14 terms and conditions that were based on the draft pro forma tariffs contained in the earlier  
15 NOPR. On the other hand, TBL has heard from some of its customers that they would  
16 like an earlier transmission rate case. TBL now expects to make an initial rate proposal  
17 in March 2000 and issue a final Record of Decision in November 2000.

18 **Section 3: Inter-Business Line Issues to be Decided in this Power Rate Case**

19 *Q. Are there transmission-related issues that will be decided in the power rate case?*

20 A. Yes. Many of these are identified as inter-business line issues. The inter-business line  
21 issues to be decided in this power rate case include: assignment of overhead, Generation  
22 Integration and generation step-up transformer costs; the determination of the generation  
23 input costs that will become the basis for ancillary service rates (ancillary services rates  
24 will be developed in the transmission rate case); and the determination of generation  
25 costs for services used by the TBL, including Remedial Action Schemes (RAS) and  
26 station service.

1 Other transmission issues to be decided in this power rate case include General  
2 Transfer Agreement (GTA) and GTA replacement costs. Additionally, PBL  
3 responsibility, if any, for Delivery segment costs, will be addressed in the power rate  
4 case. These issues are discussed in more detail in Section 4 of this testimony.

5 *Q. Please explain why it is necessary to decide inter-business line issues in the power rate*  
6 *case.*

7 *A.* In order to set power rates, the PBL needs to calculate its total revenue requirement and  
8 forecast all expected revenues. The inter-business line issues identified here affect  
9 whether costs are recovered in power rates, or transmission and ancillary service rates.  
10 Therefore, these issues must be addressed in the power rate case in order to develop the  
11 power revenue requirement.

12 *Q. Please explain why Generation Integration (GI) facilities and generation step-up*  
13 *transformers (GSUs) are addressed in the power rate case.*

14 *A.* GI and GSU facilities are system components that comprise the division between  
15 generation and transmission facilities. These costs must be assigned between the  
16 business lines in order to calculate the PBL revenue requirement. Treatment of GI and  
17 GSU costs is addressed in the testimony of DeClerck, *et al.*, WP-02-E-BPA-27.

18 *Q. Please discuss the determination of generation input costs.*

19 *A.* The costs of providing ancillary services for spinning and supplemental operating  
20 reserves and for regulation are primarily generation costs. In order to determine  
21 generation costs that will be recovered through ancillary service rates, BPA is  
22 determining the unit cost of generation inputs for operating reserves and regulation  
23 service in this power rate case. The PBL will make these generation inputs available to  
24 the TBL at these unit costs. PBL will also have the ability to discount the unit cost of  
25 these generation inputs. Using these unit costs and a forecast of use, PBL forecasts  
26 revenue from the sale of these generation inputs, and credits power costs with

1 these revenues. In the transmission rate case, the TBL will forecast an expense to  
2 purchase these generation inputs from the PBL. This forecast will be used in determining  
3 the ancillary services rates. *See* DeClerck, *et al.*, WP-02-E-BPA-26, for the  
4 determination of the unit costs and PBL forecasts.

5 *Q. Please explain the treatment of the cost of generation inputs for reactive service, the cost*  
6 *of station service, and the cost of RAS.*

7 *A.* BPA is forecasting the total generation cost for providing generation-supplied reactive  
8 service. BPA expects that the cost determined in the power rate case (revenue to PBL)  
9 will be the cost (expense to TBL) used in the transmission rate case to develop the  
10 ancillary service rate for this service. The power rate case will also decide the generation  
11 costs to TBL for station service and RAS. *See* DeClerck, *et al.*, WP-02-E-BPA-26.

12 *Q. Please summarize the treatment of generation inputs for the power and transmission rate*  
13 *cases.*

14 *A.* In the power rate case, BPA is calculating a unit cost for the sale of generation inputs for  
15 operating reserves and regulation service. Revenues forecasted to be recovered through  
16 the sale of these generation inputs are used to credit power costs. In the transmission rate  
17 case, the TBL will forecast the expenses for these generation inputs, and use them to  
18 develop the ancillary service rates.

19 In the power rate case, BPA is determining the total cost (as opposed to unit cost)  
20 for the reactive service generation input. Revenue recovered through the sale of this  
21 generation input is credited against power costs. In the transmission rate case, the TBL  
22 will use the total cost of reactive service generation inputs to develop the ancillary service  
23 rates. The total cost of reactive service generation inputs determined in the power rate  
24 case will be the same amount that is used in the transmission rate case.

1 Similar to the reactive cost, the cost of the other generation services (station  
2 service and RAS) is determined in the power rate case and used to credit power costs in  
3 the power rate case, and to develop transmission rates in the transmission rate case.

4 All transmission and ancillary service rate design issues will be addressed in the  
5 transmission rate case.

6 *Q. Is BPA deciding on the level of the transmission costs that will be used to set  
7 transmission rates in the power rate case?*

8 A. BPA is deciding on the level of costs for generation inputs for generation supplied  
9 reactive and for station service and RAS. For other inter-business line issues, only cost  
10 allocation *methodologies* and unit cost calculations are being decided in the power rate  
11 case—not the particular cost levels for the transmission revenue requirement. In the  
12 transmission rate case, TBL will use the unit costs and methodologies decided upon in  
13 the power rate case, but the data required to calculate costs (such as load forecasts) will  
14 be updated with then-current information.

15 *Q. Will the methodologies for assigning inter-business line costs be revisited in the  
16 transmission rate case?*

17 A. No. The methodologies decided upon in the power rate case will not be revisited in the  
18 transmission rate case. Because the power revenue requirement will be based on  
19 forecasts or determinations derived from these methodologies, retaining these  
20 methodologies in the transmission rate case will help ensure that power and transmission  
21 rates does not over- or underrecover costs during the next rate period.

22 *Q. What are the roles of PBL and TBL with respect to development of the inter-business line  
23 methodologies?*

24 A. The initial proposal was developed with input from both business lines, and both will  
25 participate throughout the power rate case to further develop and resolve these issues.  
26 The proposals and recommended decisions are made by BPA, not by either business line.

1 **Section 4: Other Transmission-Related Issues**

2 *Q. Does BPA propose that PBL continue to pay a portion of Delivery segment costs?*

3 A. No. The decision to assign a portion of the Delivery segment costs to the power rates in  
4 1996 was a condition of the settlement of the 1996 transmission rate case. This decision  
5 represented a phasing-in of the new segmentation and transmission rate design  
6 methodologies. It also gave customers time to purchase Delivery facilities under the sale  
7 of facilities policy. For the upcoming rate period, all issues concerning the Delivery  
8 segment, including which facilities are in the segment and how the charge is designed,  
9 will be determined in the transmission rate case. In any event, those costs will not be  
10 borne by the PBL unless it is the transmission customer using those facilities.

11 *Q. Why is the power rate case addressing GTA service and GTA replacement service?*

12 A. To the extent these costs are borne by BPA, these costs must be assigned to either power  
13 or transmission. Then these costs must be further allocated within the power and  
14 transmission customer groups. Customer workshops yielded a number of alternatives for  
15 treating GTA and GTA replacement costs. GTA customers argued that they needed to  
16 see the complete cost methodology picture before they could make informed power  
17 purchase decisions. For example, a proposal stating only that TBL pay some of the costs  
18 does not provide enough information because it does not address whether those costs  
19 would be included in the Network rates or directly assigned. Therefore, BPA has agreed  
20 to address all GTA-related costs in the power rate case. The PBL proposes that GTA  
21 costs for Federal deliveries will be included in power rates. *See Pedersen, et al.,*  
22 *WP-02-E-BPA-28.* The TBL proposes that limited costs for non-Federal deliveries will  
23 be included in transmission rates. *See Metcalf and Furst, WP-02-E-BPA-35.*

24 *Q. What measures is BPA taking to help ensure that the inter-business line methodologies*  
25 *and resolution of other transmission-related issues will not be revisited in the*  
26 *transmission rate case?*

1 A. First, all rate case parties and other interested persons were informed by Federal Register  
2 Notice that BPA proposes to decide these issues in the power rate case. Second, BPA  
3 proposes that the Administrator decide these issues in the Record of Decision, and  
4 commit in that document not to revisit those decisions in the transmission rate case.  
5 Finally, BPA intends to ask FERC to approve these methodologies for purposes of both  
6 the power rate case, and the upcoming transmission rate case under the ratemaking  
7 standards of the Pacific Northwest Electric Power Planning and Conservation Act  
8 (P.L. 96-501, 1980), the Federal Power Act standards applicable to BPA, and the  
9 reciprocity standards of Order No. 888.

10 *Q. Will PBL forecast transmission expenses in the power rate case?*

11 A. Yes. The PBL will forecast transmission expenses that it will incur in its marketing  
12 efforts in order to develop the power revenue requirement. However, these forecasts do  
13 not constitute a transmission rate proposal and will not be binding on the transmission  
14 rate case. *See* Pederson, *et al.*, WP-02-E-BPA-28.

15 *Q. Does this conclude your testimony?*

16 A. Yes.

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