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TESTIMONY OF

ANGELA R. DECLERCK, DAVID L. GILMAN, RONALD J. HOMENICK

Witnesses for Bonneville Power Administration

**SUBJECT: Segmentation of U.S. Army Corps of Engineers and
Bureau of Reclamation Transmission Facilities**

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6 **BUREAU OF RECLAMATION TRANSMISSION FACILITIES**

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

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

9 A. My name is Angela DeClerck. My qualifications are contained in WP-02-Q-BPA-15.

10 A. My name is David Gilman. My qualifications are contained in WP-02-Q-BPA-25.

11 A. My name is Ronald Homenick. My qualifications are contained in WP-02-Q-BPA-30.

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

13 A. The purpose of this testimony is to sponsor the segmentation analysis of the U.S. Army
14 Corps of Engineers (COE) and Bureau of Reclamation (Reclamation) transmission
15 facilities. See Section 4.3 of the Wholesale Power Rate Development Study,
16 WP-02-E-BPA-05.

17 *Q. How is your testimony organized?*

18 A. Our testimony includes this introduction in Section 1. Section 2 is an explanation of the
19 segmentation analysis of the COE and Reclamation facilities. Section 3 is a description
20 of the treatment of Generation Integration (GI) costs. Section 4 is a discussion of the
21 calculation of the revenue credit for COE and Reclamation Network and Delivery
22 facilities.

23 **Section 2: COE and Reclamation Segmentation Analysis**

24 *Q. Please define the proposed treatment for COE and Reclamation transmission costs.*

25 A. A small portion of COE and Reclamation investment is associated with transmission
26 facilities. In previous rate cases, COE and Reclamation transmission investment was

1 identified and included in the transmission repayment study and the associated annual
2 costs were included in the transmission revenue requirement. For the first time, all COE
3 and Reclamation investments, including those associated with transmission facilities, are
4 now included in the generation repayment study and the generation revenue requirement.
5 *See* the Revenue Requirement Study, WP-02-E-BPA-02. The investment associated with
6 the transmission facilities owned by the COE and Reclamation is identified and assigned
7 to the appropriate transmission segment. The investment for COE and Reclamation
8 transmission facilities has changed compared to the 1996 rate case based on new data
9 from the COE and Reclamation, both as updates to actual investment, as well as more
10 detailed component data.

11 *Q. Why is it necessary to assign the investments of COE and Reclamation transmission*
12 *facilities to the transmission segments?*

13 A. COE and Reclamation transmission facilities perform GI, Network, and Delivery
14 functions. The investment of transmission facilities must be identified and segmented so
15 the costs can be assigned to the appropriate use. GI cost is assigned to be recovered
16 through power rates, while the cost of COE and Reclamation Network and Delivery
17 facilities is assigned to be recovered through transmission rates.

18 *Q. How are COE and Reclamation transmission facility investments assigned to the*
19 *transmission segments?*

20 A. The assignment of transmission facility investment to the appropriate segment is
21 consistent with the segmentation for the 1996 rate filing. The segment definitions used to
22 segment COE and Reclamation Network and Delivery facilities are from the 1996 Final
23 Segmentation Study, WP-96-FS-BPA-03, pp. 2-4. The GI segment definition in the
24 1996 final study is expanded to include generator step-up (GSU) transformers.
25 This change affects the segmentation of COE and Reclamation facilities only, because
26 the COE and Reclamation have investments in GSUs, and BPA does not.

1 Q. Does this proposal determine the segmentation for BPA-owned transmission facilities?

2 A. No. The segmentation of BPA-owned transmission facilities will be done in the
3 transmission rate case. To the extent the segment definitions change in that case, the cost
4 of the COE and Reclamation facilities will be placed in the appropriate segment.

5 **Section 3: Generation Integration**

6 Q. What are Generation Integration (GI) facilities?

7 A. These are the transmission facilities that connect the federal generating plants to the BPA
8 Network. The GI segment normally includes the line from the powerhouse to the
9 Network substation and the associated switching equipment. This is consistent with the
10 GI segment definition in the 1996 Final Segmentation Study, WP-96-FS-BPA-03, p. 2.
11 In addition, GSU transformers are included in the GI segment for the first time.

12 Q. What are GSUs?

13 A. These are the facilities at the Federal projects that transform the voltage of the power
14 from that of the generator to that of the local transmission system. The GSUs are all
15 owned by the project owner. In the 1996 rate case, the GSU costs were not separately
16 identified from generation costs, and thus, were included in the generation revenue
17 requirement. Separate identification of the GSUs facilitates the allocation of these costs
18 to generation inputs for ancillary services. See DeClerck *et al.*, WP-02-E-BPA-26.
19 All GI costs, including GSUs, will be assigned to be recovered through power rates,
20 which is the same treatment as in the 1996 rates.

21 Q. Why are you assigning GI cost to power?

22 A. Although BPA had historically assigned GI cost to power rates, we decided to review the
23 treatment of this cost after an examination of the practice of other utilities in the region,
24 as well as historical Federal Energy Regulatory Commission (FERC) rulings, suggested
25 that BPA's practice was not consistent with that of the industry. However, FERC
26 reversed its position and now assigns such costs to generation for ratemaking purposes.

1 *Q. How was the GI cost calculated?*

2 A. The GI facilities have been separated into two portions, those owned by the COE and
3 Reclamation, and those owned by BPA. The COE and Reclamation GI annual costs were
4 included directly in the generation revenue requirement. The costs associated with the
5 GI facilities owned by BPA are estimated by PBL, as these costs will not be
6 identified until the BPA transmission revenue requirement is calculated for the
7 transmission rate case. The annual cost of BPA GI facilities was estimated to be
8 \$8 million based on the GI costs for BPA-owned facilities in the 1996 rate case.
9 *See* Section 4.3 of the Wholesale Power Rate Development Study, WP-02-E-BPA-05.
10 *See* also the 1996 Final Segmentation Study, WP-96-FS-BPA-03. This cost is treated as
11 an expense in the generation revenue requirement. *See* the Revenue Requirement Study,
12 WP-02-E-BPA-02.

13 **Section 4: Calculation of Revenue Credit for COE and Reclamation Network**
14 **and Delivery Facilities**

15 *Q. Please describe the revenue credit to the generation revenue requirement for the COE and*
16 *Reclamation transmission facilities.*

17 A. The credit to the generation revenue requirement is for COE and Reclamation
18 transmission facilities that perform a Network or Delivery function. The annual cost of
19 these facilities (operation and maintenance, depreciation, and interest expense) is
20 calculated and assigned to transmission and will be recovered through transmission rates.
21 The segmentation analysis determines the COE and Reclamation investment in these
22 segments, which is used to develop the associated annual cost of \$3.7 million. *See* the
23 Documentation for Revenue Requirements Study, WP-02-E-BPA-02B. This annual cost
24 is a revenue credit to the generation revenue requirement and will be an expense in the
25 transmission revenue requirement when transmission rates are developed. *See* Section 4.3
26 of the Wholesale Power Rate Development Study, WP-02-E-BPA-05. Inclusion of the

1 cost of COE and Reclamation Network and Delivery facilities in the transmission revenue
2 requirement is consistent with their treatment in the 1996 and previous rates.

3 *Q. Does this conclude your testimony?*

4 *A. Yes.*

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