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TESTIMONY OF
MARGARET PEDERSEN AND PATRICK MCRAE
Witnesses for Bonneville Power Administration

SUBJECT: Transmission Expense Forecast

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3 Witnesses for Bonneville Power Administration

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5 **SUBJECT: TRANSMISSION EXPENSE FORECAST**

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

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

8 A. My name is Margaret Pedersen. My qualifications are contained in WP-02-Q-BPA-56.

9 A. My name is Patrick McRae. My qualifications are contained in WP-02-Q-BPA-47.

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

11 A. The purpose of this testimony is to explain the Bonneville Power Administration (BPA)
12 Power Business Line (PBL) proposed forecast of transmission expenses that PBL will
13 incur in the post-2001 rate period.

14 *Q. How is your testimony organized?*

15 A. The introduction is this Section 1. Section 2 describes the sources of transmission
16 expenses faced by the PBL and discusses resale of surplus transmission capacity.
17 Section 3 discusses the methodologies PBL proposes to use in forecasting specific cost
18 components that the Transmission Business Line (TBL) may include in developing
19 transmission rates for the next rate period. Section 4 discusses the treatment of General
20 Transfer Agreements (GTAs) for deliveries of Federal power.

21 **Section 2. PBL Transmission Expense Sources**

22 *Q. What are the sources of transmission expenses faced by PBL?*

23 A. Transmission expenses arise from four source categories: (1) Priority Firm sales;
24 (2) "grandfathered" contracts; (3) market sales; and (4) other transmission expenses.

1 Q. *Do any of your current assumptions differ from those used to forecast transmission expenses*
2 *in the initial rate proposal?*

3 A. Yes. At the time the initial rate proposal was published, PBL planned to be the
4 transmission contract holder for many full and partial requirements customers who chose
5 network service from the TBL. Currently, PBL has abandoned that plan and instead will
6 offer to be a designated agent for Priority Firm customers with loads at 20 average annual
7 megawatts or below. This will not affect the proposed rate calculation because
8 transmission expenses forecasted by PBL for priority firm sales had equivalent associated
9 revenue for PBL under the transmission contract holder arrangement, resulting in a net
10 expense of zero. As a designated agent, PBL will not be billed by TBL on behalf of the
11 Priority Firm customer; nor will PBL bill the customer for transmission service. Under
12 the designated agent agreement the customer will be billed directly by TBL. Therefore,
13 the priority firm sales line item will be removed from the study and documentation in the
14 final rate proposal.

15 Q. *What do transmission expenses for “grandfathered” contracts include?*

16 A. Some contracts with BPA’s power customers utilize the SP and FPS power rate schedules
17 and include transmission requirements that extend beyond September 30, 1996. These
18 contracts were entered into prior to July 12, 1996, and thus are “grandfathered” by
19 Federal Energy Regulatory Commission (FERC) from unbundling requirements.
20 However, PBL purchases transmission from the TBL under the Point –to-Point (PTP)
21 Tariff to deliver power under the grandfathered contracts. *See* Section 4.3.2,
22 Table Annual Transmission Expenses for Annual Expenses and Section 4.3.5,
23 Table Transmission Billing Determinants Associated with Grandfathered Contracts for
24 Demand Levels in Documentation for Wholesale Power Rate Development Study,
25 WP-02-E-BPA-05B.

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Q. What do transmission expenses for market sales include?

A. For contracts entered into after July 12, 1996, that utilize BPA’s FPS power rate schedules and include transmission requirements, PBL acquires PTP transmission service to make deliveries. These delivered sales include short-term (hourly, daily, and monthly) and long-term (yearly and multiyear) sales. See Section 4.3.2, Table Annual Transmission Expenses for Annual Expenses and Rows 3, 4, and 5 in the Wholesale Power Rate Development Study, WP-02-E-BPA-05B and Section 4.3.5, Table Market Sales Forecast for Transmission Purchases for Demand Levels in the Wholesale Power Rate Development Study, WP-02-E-BPA-05B.

Q. Does PBL ever have surplus transmission capacity available resulting from purchases to support market sales?

A. Yes. Sometimes PBL purchases more transmission capacity than it can use for its market sales. PBL must often purchase transmission capacity long before executing market sales agreements; thus, it is difficult to precisely match transmission purchases with market sales deliveries. During the 2002-2006 rate period, PBL intends to offer surplus transmission capacity for resale. Therefore, PBL proposes to include the following language in the final version of its general rate schedule provisions:

PBL may reassign transmission capacity that it has reserved for its own use at a price not to exceed the highest of: (1) the original transmission rate paid by PBL; or (2) the applicable transmission provider’s maximum stated firm transmission rate on file at the time of the transmission reassignment. Except for the price, the terms and conditions under which the reassignment is made shall be the terms and conditions governing the original grant by the transmission provider. Transmission capacity may only be reassigned to a customer eligible to take service under the transmission provider’s open access transmission tariff or other transmission rate schedules.

1 *Q. What other transmission expenses are included in the forecast?*

2 A. Some transmission expenses arise from products which PBL is required to deliver that do
3 not fall into the other specified categories. These expenses include charges to PBL for
4 transmission service to deliver energy under the Pacific Northwest Coordination
5 Agreement and under Non-Treaty Storage agreements. Also included in this category are
6 the costs associated with purchasing backup transmission from parties other than the
7 TBL. There are two items that decrease the transmission expense included under the
8 other category. One is a \$1 million per year charge paid by Montana Power Company
9 (MPC) to BPA pursuant to a contractual agreement between BPA and MPC, and the
10 other is a \$1 million per year credit paid to BPA under the Canadian Entitlement
11 Agreement.

12 **Section 3. Cost Components in the Forecast of TBL's Transmission Rate**

13 *Q. What are the cost components and associated dollar costs assumed in forecasting the TBL*
14 *rate post Fiscal Year 2001?*

15 A. See Section 4.3.1, Table Transmission Expense Forecast for a list of components and
16 their associated costs in the Documentation for Wholesale Power Rate Development
17 Study, WP-02-E-BPA-05B.

18 *Q. What network cost allocations were assumed in the forecast?*

19 A. PBL is assuming TBL will utilize a 12 coincidental peak (CP) method (average of
20 12 coincidental peaks over the year) for cost allocation rather than the 1 non-coincidental
21 method (annual Non-Coincidental Demand (NCD)) used in the 1996 rate development.
22 Prior to the 1996 rate case, BPA had used the 12 CP method, but at the time of the
23 1996 rate case, FERC had adopted the 1 CP cost allocation method. Since then, FERC
24 has indicated that it will accept the 12 CP cost allocation method where systems have
25 diverse seasonal loading. PBL anticipates TBL will use monthly coincidental demands
26 (12 CP) because BPA's system has high seasonal diversity loading. This is expected to

1 increase the network costs by \$28.4 million per year. This \$28.4 million is based on
2 allocating the 1996 rate case Network costs across 12 CP demand rather than 1 NCD.

3 *Q. What is meant as "Risk" in the estimated transmission cost increases?*

4 A. In the current rate period TBL did not explicitly account for potential under-recovery since
5 rates were locked in by customer settlement. TBL will likely seek to mitigate potential
6 under-recovery for the post 2001 rate period. PBL predicts that TBL will include a cost
7 recovery premium for contingencies such as variations in weather, the economy, and water
8 conditions (including fish mitigation).

9 The upward pressure on rates due to expected reductions in long-term transmission
10 demand has been included under the "Risk" category. In response to Order No. 888,
11 transmission providers now allow customers to choose the level of service they purchase.
12 Transmission customers will purchase the most economical mix of transmission services to
13 avoid paying for unused transmission demand. Thus, short-term transmission purchases
14 increase, while long-term purchases decrease, and TBL must spread the revenue
15 requirement over a smaller sales volume.

16 *Q. What is expense escalation included in expected TBL cost increases?*

17 A. PBL predicts that TBL will face cost increases stemming from reliability needs, such as
18 system additions, as well as inflation and cost escalation. PBL forecasts that these increases
19 will total \$10 million.

20 *Q. What does \$7.2 million of additional System Operation and Maintenance (O&M) include?*

21 A. In the 1996 rate case, \$7.2 million of system O&M was functionalized to power. For the
22 post-2001 rate period, these costs should not be functionalized to power. These costs should
23 remain in the transmission revenue requirement to be recovered through transmission rates
24 because these costs are associated with dispatch and control center facilities.

1 Q. *What is the reactive power charge?*

2 A. FERC requires all transmission customers to purchase the ancillary service, Reactive Supply
3 and Voltage Control from Generation Sources, from the transmission provider (or control
4 area operator). Therefore, PBL assumes that the TBL will develop a reactive power charge
5 as an adder to transmission rates.

6 The proposed cost of the generation input to the Reactive Supply and Voltage
7 Control from Generation Sources Service rate is \$29.7 million. *See* testimony of
8 DeClerk *et. al.*, WP-02-E-BPA-26. PBL is assuming that this cost will be spread across all
9 transmission demand for a charge of approximately \$1.20/kW-yr.

10 Q. *What is the operating reserve charge?*

11 A. PBL anticipates that the TBL will develop an operating reserve charge as an adder to
12 transmission rates. In the 1996 rate case, Operating Reserves were allocated to generation.
13 PBL expects that in the future these costs will be allocated to load, consistent with FERC
14 policy. The proposed cost of the generation input to operating reserves is \$38.6 million.
15 *See* testimony of DeClerk *et. al.*, WP-02-E-BPA-26. PBL predicts that this cost will be
16 spread across all transmission demand for a charge of approximately \$1.60/kW-yr.

17 Q. *How does the assumption for transmission rate treatment for Operating Reserves differ from*
18 *current rate treatment?*

19 A. Currently, BPA assesses the charge for operating reserves to generators in the BPA control
20 area. In terms of an expense forecast, PBL has made the assumption that the TBL will no
21 longer charge operating reserves to generation owners within the BPA control area during
22 the next rate period. If the TBL proposes an Operating Reserve rate with the current
23 generation billing factor, PBL will pay more for Operating Reserve than is forecasted in this
24 rate case.

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1 *Q. Does this assumption preclude the TBL from charging operating reserves to generation in*
2 *the BPA control area?*

3 A. No. The TBL may propose a different billing factor than what the PBL has assumed. One
4 of the elements of PBL's planned net revenues for risk addresses variations between
5 forecasted and actual transmission and ancillary service expenses.

6 *Q. Why has PBL not included a forecast expense for energy imbalance service from TBL for its*
7 *requirement customers?*

8 A. PBL has stated in certain Subscription product descriptions that requirements service
9 includes energy imbalance service; however, FERC guidance suggests that requirements
10 customers will not incur energy imbalance charges.

11 *Q. What is a Stability Reserve cost?*

12 A. A stability reserve cost results from an agreement with BPA's direct service industrial
13 customers who provide TBL the ability to interrupt their loads for certain transmission
14 system contingencies. The cost to TBL for stability reserves is forecasted by PBL to be
15 \$7 million based upon historic costs. See 1996 Wholesale Power Rate Development Study,
16 Appendix B, WP96-FS-BPA-05, App. B.

17 *Q. Does the TBL endorse your cost assumptions?*

18 A. No. Transmission rates will be developed by the TBL in its separate post-2001 transmission
19 rate case. Therefore, TBL does not know what the level of the rate change may be, nor the
20 design of the products that will be offered.

21 **Section 4. General Transfer Agreements**

22 *Q. What does PBL propose to do with its existing GTA service to current load?*

23 A. Consistent with the Subscription strategy, BPA PBL proposes to continue existing GTA
24 service to current load for delivery of Federal power through the 2001-2006 rate period.
25 Continuation of GTA service for Federal power deliveries is consistent with BPA's
26

1 historical practice and helps promote the widespread use of Federal power. The GTA costs
2 associated with delivery of Federal power will be borne by PBL.

3 *Q. What are PBL's intentions regarding service to new preference customers or to existing*
4 *preference customers' service territory expansions?*

5 A. Service under the GTAs will not be available to new preference customers or to its existing
6 preference customers for service territory expansions. There are several reasons for this
7 decision. Provision of GTA service is grounded in an affirmative obligation to serve BPA's
8 historic preference load and to assist such customers in avoiding unexpected cost shifts
9 during the transition to a competitive market. Thus, the GTAs provide a means of ensuring
10 that these customers receive requirements power service that is comparable to directly
11 served preference customers. The rationale to continue this treatment is not compelling with
12 respect to new load coming into service under FERC's current regulatory regime, which
13 envisions transmission service being provided under open access tariffs.

14 *Q. Does BPA expect any of the GTAs to expire before or during the next rate period?*

15 A. Yes, BPA expects some of the GTAs will expire prior to the next rate period. For the
16 preference customers served via an existing GTA, BPA will obtain comparable service
17 under the transmitting utility's open access tariff. The cost of comparable service under an
18 open access tariff is expected to be substantially more than under the existing GTA. We
19 have included costs associated with conversion to open access tariffs in the GTA cost
20 estimate. These costs will be rolled-in to the Priority Firm rate, consistent with the
21 Subscription strategy.

22 *Q. Is PBL accounting for GTA costs associated with non-Federal power?*

23 A. No. PBL is accounting for only those GTA costs associated with delivering Federal power.

24 *Q. Does this conclude your testimony?*

25 A. Yes.
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