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TESTIMONY OF

DENNIS METCALF AND SUSAN GARIFO FURST

Witnesses for Bonneville Power Administration

SUBJECT: Payment of Non-Federal Transmission Cost for GTA Customers' Non-Federal Power Purchases

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Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

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

A. My name is Susan Garifo Furst and my qualifications are contained in WP-02-Q-BPA-24.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to describe BPA Transmission Business Line's (TBL) proposal regarding payment for non-Federal transmission service for General Transfer Agreement (GTA) customers' non-Federal power purchases.

Q. How is your testimony organized?

A. The testimony is organized in three sections, including this introduction. Section 2 reviews the background and rationale for TBL's proposal to pay non-Federal transmission cost for GTA customers, and Section 3 discusses the specifics of the proposal.

Section 2: Background and Rationale

Q. Please summarize TBL's proposal regarding payment for transmission over third party systems for GTA customers' non-Federal purchases.

A. The TBL is proposing to pay up to $6.5 million annually for non-Federal transmission to allow preference and DSI customers who have historically been served by GTAs to avoid pancaked transmission rates when serving their loads with non-Federal power. (Some of the GTAs will expire soon and may be replaced with the transmission providers' Open

Access transmission agreements. For simplicity, we will refer to all customers that have been served entirely or in part by GTAs as "GTA customers.") This proposal is separate and distinct from the proposal by BPA's Power Business Line (PBL) to pay for the cost of GTAs or GTA-replacement contracts for delivery of Federal power and roll this cost into the power rates. *See* Pedersen, et al., WP-02-E-BPA-28.

Q. *Please explain why BPA contracted for service (GTAs) over non-Federal transmission systems in the past?*

A. BPA built the Federal transmission system to deliver Federal power to its preference and DSI customers. When preference customers chose to build resources or purchase non-Federal power, BPA provided the wheeling service over those Federal transmission facilities. However, BPA did not construct transmission facilities to some preference and DSI customers when it was demonstrated to be less expensive to acquire transfer service over existing non-Federal transmission facilities (GTA service). Therefore, BPA spent less money on acquiring transmission service than it would otherwise have spent to build transmission facilities.

Q. *Which BPA network customers benefited from the use of GTAs versus building new facilities?*

A. The GTA arrangements have benefited all BPA power and transmission customers by lowering the overall cost of BPA transmission. Wheeling customers (transmission-only customers) benefited particularly by this arrangement because GTA costs were not included in BPA's network cost, but the GTA customers' loads were included in network cost allocations.

Q. *Why is TBL proposing to pay GTA customers' non-Federal transmission cost for non-Federal power purchases?*

A. GTA customers who want the opportunity to take advantage of the emerging competitive marketplace face the prospect of paying pancaked rates--open access transmission rates

to the TBL *and* to the intervening non-Federal transmission owner(s). In contrast, TBL's proposal provides GTA customers a level playing field to evaluate power purchase options from the PBL and other suppliers--GTA customers would pay only one transmission rate for power delivered from the BPA network to their load. The TBL proposal is consistent with FERC's open access principle promoting competition in bulk power markets and is a step toward FERC's policy to eliminate pancaked rates. It is desirable, where possible, not to introduce additional pancaking for customers who have not faced pancaked rates in the past.

Section 3: TBL Proposal

Q. Please describe the TBL's proposal.

A. The TBL is proposing to pay up to $6.5 million annually for the acquisition of network-equivalent transmission for the non-Federal power purchases of GTA customers, assuming certain criteria are met. The $6.5 million cap does not include the cost of acquiring transmission over facilities equivalent to BPA delivery or directly assigned facilities. TBL proposes that the costs, if any, of delivery- and direct assignment-equivalent facilities not be rolled into the Network. Further treatment of these costs will be decided in the transmission rate case. Finally, TBL will not pay the cost of any ancillary services required for the non-Federal transmission.

Q. How will the cost of the non-Federal transmission be treated in the TBL's transmission rate case?

A. The TBL will forecast the cost of network-equivalent non-Federal transmission required to serve the non-Federal power purchases of the GTA customers based on the best information available at that time. The lesser of the forecasted amount or $6.5 million will be included in Network cost.

Proposals for treatment of any forecasted non-Federal delivery- and direct assignment-equivalent facility cost will also be addressed in the transmission rate case.

Q. TBL has indicated that it intends to develop transmission rates for a two year period. Is the term of this proposal the five year power rate period or the two year transmission rate period?

A. TBL expects that a PNW regional transmission organization (RTO) will be formed and operational before the expiration of the 2002 transmission rates on September 30, 2003, which is almost two years beyond the deadline, December 15, 2001, set in the FERC RTO Notice of Proposed Rulemaking. TBL anticipates that it will be part of a PNW RTO and that the RTO will address the pancaking issues that are at the heart of the GTA problem. If an RTO is not operational or does not completely address the pancaking issue, the TBL would expect to continue to implement the proposal as outlined in this testimony for the full 5-year period proposed for the power rates, ending September 30, 2006.

Q. What criteria must be met for TBL to pay for non-Federal transmission service?

A. Eligibility is limited to GTA customers for their existing service territories. The non-Federal power purchases for which non-Federal transmission service is acquired must utilize BPA's network. Payment of non-Federal transmission cost will be limited to the cost of transmission service *from* BPA's network *over* the intervening non-Federal transmission system *to* these customers. The TBL will not pay for non-Federal transmission service to get *to* BPA's network, or for service over BPA's Interties.

Section 3.1: Capped Cost

Q. How did you arrive at the $6.5 million cap?

A. The TBL estimated the amount of GTA and GTA-replacement cost for network-equivalent service that would be required for the current level of diversification (i.e., power purchases displacing 1981 Power Sales Contract purchases) by GTA customers would be about $6.5 million. This analysis was based on an average diversification of 10 percent of these utilities' loads.

Q. Do you expect the $6.5 million cap will cover the non-Federal transmission cost for non-Federal power purchases by GTA customers?

A. A number of factors would suggest that the $6.5 million cap may be sufficient to cover all the GTA customers' non-Federal transmission costs for network-equivalent service for non-Federal purchases. As we examined GTA customers' current purchase patterns, we found that their non-Federal purchases were well below 10 percent of their load, primarily because they are purchasing much of their diversification from the PBL. In addition, PBL rates are forecasted to be below market prices in the upcoming rate period so we anticipate that most GTA customers will continue to purchase much of their power from the PBL. Finally, we understand that the PBL has made significant Pre-Subscription sales to GTA customers.

However, there are a number of factors that could cause GTA customers' non-Federal power purchases to increase, thereby increasing the associated non-Federal transmission costs. The GTA customers have more experience in dealing in the competitive marketplace; their requirements contracts with BPA are expiring; and the South Idaho Exchange customers are trying to access alternative power suppliers on the BPA network.

Q. Why are you proposing an annual cap of $6.5 million?

A. Given the uncertainty about the amount of GTA customers' non-Federal power purchases and the transmission costs associated with such purchases, we believe that the $6.5 million cap represents a reasonable balance between mitigating the effect of pancaked rates on GTA customers and protecting the network transmission rates from large cost increases. We propose to adopt the $6.5 million annual cap rather than any formula that would lead to uncertainty because of changing data and assumptions.

Q. How does TBL propose to implement the $6.5 million cap?

A. TBL expects to conduct an informal survey of GTA customers to see how much power each expects to purchase from non-Federal suppliers during the rate period. TBL will

estimate the annual cost of purchasing non-Federal transmission service for the expected non-Federal purchases. If the forecasted cost is less than $6.5 million, the TBL will tell the GTA customers that result and will work with GTA customers to obtain the necessary transmission service.

If the forecasted cost exceeds the cap, we will calculate, based on survey results, a preliminary load percentage that would limit our costs to $6.5 million. That is, if all GTA customers limit the purchase of non-Federal power to the lesser of the amount specified in the survey or the preliminary load percentage limit, the TBL's costs would be limited to $6.5 million. TBL would inform the customers of the preliminary load percentage limit, and they could then make their purchase arrangements. The purchase arrangements would not be limited by the survey submission or the preliminary load percentage limit.

Q. *How will the TBL implement the cap after total actual power purchases by GTA customers is known?*

A. If the cost of non-Federal transmission for the GTA customers' actual non-Federal purchases is greater than $6.5 million, the TBL will calculate a new load percentage limit based on the actual purchases. Customers would be responsible for the actual non-Federal transmission costs for non-Federal purchases above the new load percentage limit.

Q. *Are you proposing an individual customer cap that could trigger even if the total non-Federal transmission costs are below $6.5 million?*

A. No. We presented such a proposal at a customer workshop, because we were concerned about the potential that individual GTA customers might impose significant costs on TBL based on the shape of their non-Federal purchases. However, customers considered that possibility to be unlikely. In any case, total TBL costs for network-equivalent non-Federal transmission will be limited by the $6.5 million cap.

Section 3.2: Losses

Q. How will losses associated with the non-Federal transmission service be treated?

A. The TBL proposes to include losses resulting from non-Federal power deliveries over non-Federal transmission systems in the calculation of BPA's network loss factors, thereby spreading the losses over all network transmission system users. The PBL would supply the losses to be returned to the non-Federal transmission provider, and would be compensated through the higher network loss factor. Losses on non-Federal transmission will receive this treatment to the extent that TBL pays for associated transmission over the non-Federal system. The GTA customer will be responsible for losses on any portion of its non-Federal transmission that exceeds the cap. This proposal would result in the Network loss obligation of GTA customers for non-Federal power purchases under the cap being the same as for all TBL network transmission customers.

Q. Do you expect a significant increase in BPA's network loss factor?

A. No. We estimate that the increase in the network loss factor would be less than 1 percent. For example, assuming the BPA network loss factor would otherwise remain 1.9 percent, the loss factor may increase to 1.92 percent due to the GTA loss return obligation.

Section 3.3: Service Over Non-Federal and BPA-Owned Facilities

Q. How do you propose to treat the transmission cost for GTA customers who receive service at both GTA points of delivery (PODs) and BPA PODs?

A. TBL can serve a portion of some GTA customer's loads without utilizing non-Federal transmission. We propose that a pro rata share of the Federal and non-Federal power be delivered over each path. For example, if a GTA customer purchases 90 percent of its power from PBL and 10 percent from non-Federal suppliers, then 90 percent of the power wheeled over non-Federal transmission will be PBL power and 10 percent will be non-Federal power. Similarly, 90 percent of the power delivered directly to the customer using only BPA transmission will be PBL power and 10 percent will be non-Federal

power. The PBL will pay the non-Federal transmission cost associated with the 90 percent Federal power use, and the TBL will pay the non-Federal transmission cost associated with the 10 percent non-Federal power use. This assumption results in an equitable split of costs between the TBL and PBL.

Q. Does this conclude your testimony?

A. Yes.