

VIA EMAIL

September 19, 2014

To: techforum@bpa.gov

Re: **Comments of Avista Corporation, PacifiCorp, and Puget Sound Energy, Inc. to BPA on Powerex Proposal, Direct Assignment Guidelines, and BPA's Proposal to Use a 7-Year Historical O & M Methodology**

Avista Corporation, PacifiCorp, and Puget Sound Energy, Inc. respectfully submit these comments to Bonneville Power Administration ("BPA") concerning the Powerex Proposal, Direct Assignment Guidelines, and BPA's proposal to use a 7-year historical O & M methodology in response to BPA's request for comments on such topics confirmed by the September 11, 2014 e-mail from Tech Forum <techforum@bpa.gov>. We appreciate the opportunity to provide these written comments, which address the following:

- (i) the pricing and availability of BPA transmission on the Southern Intertie, which should not be revised to address perceived problems in the CAISO day-ahead auction process;
- (ii) BPA's draft Facility Ownership and Cost Assignment Guidelines, which should be clarified to be consistent with a "one-utility" planning approach, under which BPA does not build duplicative facilities, and to help ensure that BPA does not assume costs that should appropriately be borne by other entities; and
- (iii) BPA's O&M cost segmentation, which should use 7-year (rather than 3-year) historical averages in order to smooth out differences in costs resulting from different BPA maintenance cycles and one-time maintenance projects.

A. The Powerex Proposal regarding the Southern Intertie

At the August 27, 2014 and September 10, 2014 workshops, Powerex and BPA presented materials addressing the pricing and availability of BPA hourly non-firm transmission ("HNF") on the Southern Intertie.¹ In its August 27 Proposal, Powerex proposed calculating the BP-16 Southern Intertie HNF rate to "[r]eflect [r]educed [u]sage" and suggested that BPA's HNF rate is

¹ These materials are (i) the August 27, 2014 Powerex document titled "BP-16 Southern Intertie Hourly Non-Firm Rate Proposal" ("August 27 Proposal") available at http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/140826%20Powerex%20HNF%20rate%20presentation_final.pdf; (ii) the July 22, 2014 Powerex document prepared by FTI Consulting and titled "Preserving the Value of Firm Transmission Service on the Southern Intertie" available at http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Powerex%20IS%20Presentation_140722%20SI%20presentation_final.pdf; and (iii) the September 10, 2014 BPA document titled "Southern Intertie Discussion" available at <http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Southern%20Intertie%20Discussion%20-%2020140910.pptx>.

somehow now bearing an appropriate share of the costs of the Southern Intertie. In its Southern Intertie Discussion document, BPA at pages 10-11 described what it referred to as “[p]otential non-rates options to strengthen Southern Intertie LTF [long-term firm] resale market”.

In considering whether and how to revise the pricing methodology or availability of HNF on the Southern Intertie, there are several fundamental principles that BPA should observe:

- (i) BPA’s transmission rates should be cost-based and should not be set to reflect value of underlying power transactions. (This principle of course does not preclude BPA’s discounting of transmission rates consistent with the provisions of the *pro forma* OATT.)
- (ii) If there are perceived issues with the CAISO day-ahead auction process, any such issues should be taken up directly with the CAISO and should not be addressed through revision of the pricing or availability of BPA transmission service.
- (iii) In any analysis of whether the BPA HNF rate is making an appropriate contribution to the embedded cost of facilities, the HNF usage of HNF purchasers as a whole should be considered-- not the usage of any particular customer.
- (iv) FERC in adopting the *pro forma* OATT has been concerned about “hoarding” of transmission. BPA should ensure that any revisions to the pricing or availability of BPA HNF do not encourage “hoarding”.²
- (v) the availability and treatment of BPA HNF on the Southern Intertie should be consistent with the provisions of the *pro forma* OATT.
- (vi) If BPA ultimately determines that there is a principled basis for modifying the pricing methodology or availability of BPA HNF on the Southern Intertie, BPA must examine whether there is similarly a basis for modifying the pricing methodology or availability on BPA’s main grid.

B. Direct Assignment Guidelines

At the September 10, 2014 workshop, BPA presented draft Facility Ownership and Cost Assignment Guidelines.³ The Draft Guidelines should be revised as follows:

² In this regard, the BPA Southern Intertie Discussion document at page 11 refers to the “[n]eed to protect against transmission hoarding”.

³ These materials are the “BPA Transmission Services Facility Ownership and Cost Assignment Guidelines DRAFT: September 8, 2014” available at <http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Direct%20Assignment%20Guidelines%20-%20Clean.doc> (“Draft Direct Assignment Guidelines” or “Draft Guidelines”).

Examples where BPA will extend the Network and not assign the costs to the customer include:

1. Extending service to a new customer in a new service territory if and to the extent it is not practicable to provide such service using existing facilities owned by BPA or third parties;
2. ~~Facility upgrades~~ Upgrades of BPA's Bulk Electric System facilities required for BPA to meet applicable NERC or WECC reliability standards ~~criteria~~; or
3. Establishment of a new interconnection point to which customers will interconnect if and to the extent it is not practicable to provide such interconnection using existing facilities owned by BPA or third parties.

These revisions should be made to clarify the Draft Guidelines and help ensure that BPA continues to follow a "one-utility" planning approach, under which BPA does not build duplicative facilities, and to help ensure that BPA does not assume costs that should appropriately be borne by other entities.

C. O&M Cost Segmentation

At the August 27, 2014 workshop, BPA presented information regarding its O&M cost segmentation and proposed to move to using 7-year historical averages (from 3-year historical averages) in assigning O&M costs during the rate period to each transmission segment.⁴

BPA should use the 7-year historical averages (rather than the 3-year historical averages) in assigning O&M costs during the rate period to each transmission segment. Using the 7-year averages will help smooth out the differences in costs resulting from different BPA maintenance cycles and reduce temporary rate shocks or rates shifts due to one-time maintenance projects.

⁴ These materials are in the August 27, 2014 "BP-16 Transmission Rate Workshop" available at pages 19-23 of http://www.bpa.gov/Finance/RateCases/BP-16/Meetings%20Workshops/Workshop%20Slides_BP-16%20Rates%20_08-27-14.pdf.