BP-16 SEGMENTATION

WHITE PAPER COMMENTS

Updated June 27, 2014

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COMMENT FROM BENTON
RECEIVED VIA TECH FORUM ON JUNE 18, 2014

BENTON
Bonneville Power Administration
Benton PUD comments on June 11, 2014 Segementation White Paper
June 18, 2014

Ray, Rebecca, Eric,

Thanks for the opportunity to comment on the June 11, 2014 Segmentation White Paper. Upon further review, Benton PUD no longer supports the IOU Alternative, rather we support to the "Status Quo" option. Thanks

Chris Johnson
Manager of Power Resources
Benton PUD
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Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

June 12, 2014

Introduction

Big Bend Electric Cooperative, Inc. submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Big Bend Electric Cooperative, Inc. is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, Big Bend Electric Cooperative, Inc. has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. Big Bend Electric Cooperative, Inc. is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on _____

In the following section we describe the rate impacts for Big Bend Electric Cooperative, Inc. as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Snohomish County PUD's Radial Segment (Alternative #4) proposal would increase Big Bend's overall transmission costs by 17.0% compared to the status quo alternative. This would have a significant impact on our overall cost of service, particularly in light of BPA proposing general Power and Transmission increases for FY 2016 – FY 2017.

The IOUs/Large Public Transformation Charge (Alternative #5) proposal would also increase Big Bend's transmission costs, in this instance by 5.7%.

We support NRU's proposal to cap the Low Voltage Delivery Charge because Big Bend has such facilities and is concerned that BPA may otherwise consider another 25% increase in the UDC for the FY 2016 – FY 2017 rate case.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Yvette M. Armstrong

Interim General Manager/CEO

Big Bend Electric Cooperative, Inc.

CC: Northwest Requirements Utilities

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Elliot Mainzer, Administrator
Bonneville Power Administration
Portland, OR
Via techforum@bpa.gov

RE: Regional White Paper Segmentation Methodology Alternatives

June 17, 2014

Dear Elliot:
We have reviewed the Bonneville Power Administration Regional White Paper: Segmentation Methodology Alternatives and e appreciate the thoroughness with which your staff has conducted the segmentation process. They have allowed all parties to submit different ideas pertaining to segmentation and have provided useful analysis of the various alternatives. As a cooperative utility, we believe our mission is to bring electricity to our members, no matter where they are located, at affordable prices. We believe BPA's mission is similar: to facilitate the widest possible use at the lowest possible cost to consumers consistent with sound business principles. With this in mind, we offer the following comments on the various proposals.

Network Alternative 1 – Status Quo
Although the status quo segmentation methodology has many positive aspects, its treatment of utility delivery facilities, if not addressed, will violate the principles BPA and its customers set forth at the beginning of this segmentation process and create significant hardship for those utilities that take delivery under 34.5 kV. BPA's past policies provided utilities, especially smaller utilities, with delivery points at lower voltages. BPA often provided delivery voltages based on considerations such as proximity to Corp or Bureau facilities, and BPA's own policies. Consequently, many utilities simply took the delivery voltage that BPA provided. In 1996, the Utility Delivery Charge (UDC) was implemented as one result of a rate case settlement. Now however, the UDC has become a rate pancake and threatens to act as a doubling on network rates under the status quo. If the Status Quo alternative means another 25% rate increase in UDC on top of the 25% in the last rate case, then this alternative can no longer be considered to provide the "widest possible use at the lowest possible cost to consumers consistent with sound business principles." The anticipated rate increase to UDC will instead cause rate shock, create a permanent underclass of transmission users who pay the equivalent of two times the NT base rate, and will negatively impact rural electrification and rural economies.
We therefore urge you to either adopt the PNGC proposal, which we discuss in more detail below, or to find a way to make the UDC rate reasonable and stable over time.

Network Alternative 2 - PNGC - Roll in of Utility Delivery Segment into Network Segment
PNGC's alternative recognizes that the vast majority of delivery substations that are able to be purchased from a utility point of view, have already been purchased. The remaining stations are extremely unlikely to be purchased no matter how high the delivery charge goes. Instead of

implementing a punishing UDC increase, we urge you to adopt this proposal which acknowledges that the UDC is at the end of its useful life. BPA acknowledges that facilities in the Utility Delivery segment are wholesale transmission facilities. Rolling them in to the Network Segment would provide significant relief from the pancaked UDC to 50 utilities, while having a very minimal rate to other customers. This proposal certainly accomplishes BPA statutory mission of the widest possible use at lowest possible cost to consumers.

Network Alternative 3 - NRU - Maintain Adjusted Utility Delivery Charge

NRU's proposal also addresses the rate shock that utilities that are subject to the UDC will pay if the status quo is kept. Because it addresses rate shock and rate stability, it is worthy of consideration as an alternative.

Network Alternative 4 - Snohomish – Develop a Radial Segment Charge

Snohomish's proposal to segment radial facilities away from the Network segment runs counter to the history of BPA and the region and violates the principles set forth in this segmentation process. If implemented, this proposal would have a considerably negative impact on most of public power. This proposal would provide three transmission charges to the 100+ customers who also pay the Utility or the GTA Delivery Charge: 1) NT Base charge, 2) Radial segment charge, and 3) Utility or GTA Delivery Charge. It would be an unraveling of much of the good BPA has accomplished over its history. BPA made it possible for the farms and rural communities of this region to be electrified. It did this by building transmission out to where no IOU would build, and then charging a single, uniform network rate for use of that transmission, no matter where a utility was located. In accomplishing these aims, BPA planned its transmission network as a single utility system, meaning some utilities were served radially, although they would have strongly preferred looped service.

Further, Snohomish's proposal results in an additional rate pancake and in large rate increases (31% on average) to 69 customers who are served across radial facilities to produce a small rate decrease (4% on average) for 97 customers. The Snohomish proposal's impact on our utility would be extremely detrimental, resulting in a *47*% increase in our overall transmission and power bill.

This proposal would create make utilities served by radial lines permanent second class citizens. It is the antithesis of BPA's mission of "widest possible use at lowest possible cost to consumers". This proposal would provide three transmission charges to the 65 customers who also pay the UDC: Network Charge, Radial segment charge, and UDC. We urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 5 – IOU/Large public coalition: Develop transformation charge

Because this proposal would retain the UDC, this proposal could result in 4 rate pancakes: NT Base Charge, 1-2 transformation charges, and UDC. This IOU/Large Customer coalition proposal is also contrary to BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles." While the rate increases in this proposal are not as dramatic, it is nonetheless an insidious proposal. This proposal penalizes all the customers for whom BPA provided points of delivery at less than 230 kV. It ignores BPA's crucial role in rural electrification and its past policies of single utility planning. It would provide an average 4% rate reduction for 35 of the largest transmission customers (the large public, the IOUs, and some wind developers) on the backs of 131 preference customers who would bear a rate increase on average of 7 percent.

Again, we urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 7 – Seattle City Light (SCL) – Sub-transmission segment and rate based on voltage threshold.

SCL's proposal also creates potentially three transmission rate pancakes for those impacted by it: NT Base charge, sub-transmission segment charge, and UDC. SCL's proposal is based on the flawed idea that the 115 kV system provides no benefit to those who take delivery above 145 kV. As such, it has no technical merit. Further, the results of SCL's proposal are so absurd that it must be rejected out of hand. Under SCL's proposal, 36 of the largest customers (the large public, the IOUS, and some wind developers) get a 23% rate decrease on average, while 130 preference utilities bear a whopping 44% rate increase on average. The rate increase to our utility is 48%, which is simply unacceptable.

It is also clear that this proposal violates BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles," causes rate shock, and is harmful to the region in general. We must urge you to reject soundly this proposal for segmentation.

Summary

In summary, we support the PNGC proposal as a way to forward BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles" and to avoid serious impacts to your rural utility customers. The proposals submitted by Snohomish, the IOUs/Large public coalition, and Seattle City Light result in rate decreases for the few on the backs of the many and should be rejected. Finally, the Status Quo proposal should address the impending 25% rate increase to the UDC which will cause rate shock and will act as a rate pancake to those subject to the UDC. We believe the PNGC proposal addresses this problem in the most efficient manner, but the NRU proposal also addresses this issue and is worthy of your consideration.

Sincerely,

Joe Jarvis
General Manager
Copy to: John Prescott, PNGC

CENTRAL ELECTRIC
COOPERATIVE, INC.

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Bonneville Power Administration
Portland, OR
Via techforum@bpa.gov

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Sincerely,

Dave Markham
President/CEO

CC: John Prescott, PNGC Power

Serving Portions of Coos, Douglas, Lane, and Lincoln Counties on Oregon's Central Coast

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YOUR PUBLICLY-OWNED ELECTRIC UTILITY

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Bonneville Power Administration
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Via email: techforum@bpa.gov
June 16, 2014

Introduction

Central Lincoln People's Utility District (Central Lincoln) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Central Lincoln is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, Central Lincoln has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. Central Lincoln is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

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Thanks again for this opportunity to comment.

Respectfully Submitted,
Brandon Hignite
Power Analyst
Central Lincoln PUD
CC: Northwest Requirements Utilities

Bonneville Power Administration

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Via email: techforum@bpa.gov

DATE: June 13, 2014

Introduction

Centralia City Light (CCL) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

CCL is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, CCL has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. CCL is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

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We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, **1(d) *"Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,"*** is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo:* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC):* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU):* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD):* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair. CCL is adamantly opposed to this option.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics):* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations. CCL is adamantly opposed to this option
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics):* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is

application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.

- *Montana Intertie – Status Quo (Public Power Council):* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric):* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU. CCL is adamantly opposed to this option

Impacts on Centralia City Light

In the following section we quantify the expected rate impacts for CCL as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Centralia City Light is a small utility supplying the needs of approximately 10,000 customers. Lewis County, where the City of Centralia resides, has been one of Washington's most depressed areas with high unemployment and little industrial growth since the downturn in 2008. It is vital to the people of Centralia that our electrical rates remain comparatively low in order to attract new industrial growth and jobs for our unemployed citizens.

The financial impact on CCL utility of Snohomish's Radial Segment (Alternative #4) is expected to result in an increase in CCL's power costs of 59.2% or $69,000 in 2014/2015. This is an unacceptable increase that will harm the city economy.

The financial impact on CCL utility of Seattle's recommended changes is expected to result in an increase in CCL's power costs of 46.9% or $461,000 in 2014/2015. This is a completely unacceptable increase that will devastate the city economy.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

M.L. Norton

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CC: Northwest Requirements Utilities

City Of Cheney
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June 11, 2014

Bonneville Power Administration
RE: BPA Regional White Paper: Segmentation Methodology Alternatives
Via email: techforum@bpa.gov

Introduction

The City of Cheney submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic. The City of Cheney is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, the City of Cheney has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. The City of Cheney is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
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Impacts on the City of Cheney

In the following section we describe the rate impacts for the City of Cheney as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Snohomish's Radial Segment (Alternative #4):

Under Snohomish's radial segment proposal the City of Cheney's rates would go up $384,000 annually, which is a 60% increase over the current methodology. This dollar amount represents more than half of our annual Capital Improvement budget. This increase alone would result in more than a 4% rate increase to our current customer base. This increase when combined with projected power and transmission rate increase could easily result in a large double digit rate increase to our customers. The City of Cheney is comprised largely of, educational institutions, students going to Eastern Washington University and small businesses which cannot afford these kinds of increases. Our economy here in Cheney is fragile and has not rebounded from the economic downturn in recent years and this kind of energy increase may well kill any economic momentum in the future.

IOUs/Large Public Transformation Charge (Alternative 5):

Under the IOUs/Large Public Transformation Charge the City of Cheney would be looking at a $45,000 annual increase which is a 7% increase over the current methodology. Although this seems considerably less than the Snohomish proposal, when combined with the proposed Power and transmission rate increase, we could easily be looking at a double digit rate increase. The City of Cheney's economy would likely be severely damaged by these kinds of energy rate increases. Cheney's ability to retain load or sustain growth would be severely hampered by such large increases.

Seattle Proposal:

Although we have not completely analyzed Seattle's proposal, it would increase our rates by $304,000 annually and result in over a 47% increase over the current methodology. The financial impacts when combined with other Power and Transmission rate increase would lead to rate shock that we haven't seen since the West Coast energy crisis. This type of increase would devastate our economy.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Joe Noland,
City of Cheney Light Department Director

CC: Northwest Requirements Utilities

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Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

DATE: June 13, 2014

Introduction

The City of Richland Energy Services (RES) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

RES is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, RES has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. RES is also a member of Northwest Requirements Utilities (NRU). We fully support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

RES fully supports BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a)

through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,"* is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

In its response letter, NRU provides detailed perspective regarding each of the segmentation alternatives being considered by BPA. RES agrees in principle with all of NRU's comments. In particular, attention is drawn to the analysis provided under ***Network Alternative 3 – Maintain Adjusted Utility Delivery Charge- Proposed by NRU.***

Impacts on RES

The financial spreadsheet provided by BPA indicates wide variations of impacts on RES (the City of Richland) depending on the segmentation alternative selected. For example, under the Snohomish proposal, RES is shown to be positively impacted by approximately $180,000 annually while under the City of Seattle proposal, negatively impacted close to $1.9 million annually. The radical variation in impacts to RES (and also several other consumer owned utilities) is indicative of a fragile financial balance whereby implementing any of the alternatives moving away from the status quo would result in misalignment with BPA's segmentation principles.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united with RES in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its

customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Robert R. Hammond

Robert R. Hammond

Title: City of Richland Energy Services Director

cc: Northwest Requirements Utilities

June 18, 2014

SUBMITTED VIA E-MAIL

TO: techforum@bpa.gov

RE: Comments of Clallam County PUD on Regional White Paper: Segmentation Methodology Alternatives

Public Utility District No. 1 of Clallam County ("Clallam") appreciates this opportunity to comment on the Regional White Paper: Segmentation Methodology Alternatives ("White Paper"). Clallam thanks BPA staff for facilitating the segmentation workshops and for providing analysis of the various alternative proposals. The workshops produced a fruitful regional discussion that enabled a greater understanding of the various segmentation methodology alternatives.

Segmentation is an important issue to Clallam as we provide service to over 30,000 electric customers dispersed throughout a 2,000 square mile territory that is situated at the furthermost NW corner of BPA's Integrated Network transmission segment (the "Network"). Since 1949 Clallam has relied on BPA for power and transmission services at cost to ensure that residents of the Northern Olympic Peninsula equitably share in the many benefits that the Federal Columbia River Power System provides.

In summary, Clallam firmly believes that the status quo use of a bright-line voltage threshold at 34.5kV is both the best segmentation methodology and the only one that satisfies all of BPA's Segmentation Principles. The current uniform rates for all facilities in the Network produces the lowest possible Network rates for the region as a whole. Conversely, Network Alternatives 4 – 7 each rely on flawed concepts of cost causation to justify modest savings for a few typically larger urban utilities at the great expense of many smaller rural utilities. Such policies not only run counter to BPA's celebrated historic use of uniform or "postage stamp" rates to spread the benefits of the Federal system as broadly as possible throughout the region, but they also fail to satisfy as a matter of law BPA's statutory mandate to "encourage the widest possible diversified use of electric power at the lowest possible rate to customers" throughout the region. Accordingly, BPA should reject Network Alternatives 4 – 7, and maintain the uniform rate for all facilities currently in the Network.

In addition, BPA must address the unsustainable Utility Delivery ("UD") segment. The UD segment serves as a poignant example of the significant rate volatility and under-recovery of costs that result from tiered or "pancaked" rate policies. Over the past eighteen years, UD customers have purchased 170 of an original 215 low voltage facilities to avoid paying the Utility Delivery Charge ("UDC"). The remaining UD customers are unable to similarly respond to the punitive pancaked rate because of the quality of the facilities left in the segment. The UDC currently recovers a mere 56% of the depleted segment's revenue requirement, despite a 25% rate increase in BP-14. Setting the UDC to recover the full cost of the segment would require an immediate rate increase of over 100%—a rate nearly double that of Network. BPA must address this dysfunctional segment in a manner that is equitable to both the former UD customers who responded to the UDC's price signal and those remaining UD customers who face exorbitant rate increases because they were unable to do so. BPA should reject Network Alternatives 4 –

7 to avoid creating a similarly volatile new segment. BPA should maintain the status quo for the Network, and focus its efforts on solving the predicament of the UD segment.

Clallam supports BPA's principles for evaluating segmentation methodology alternatives. These principles are:

1. **Consistent with statutory requirements**
    a. Full and timely cost recovery
    b. BPA's rates are based on total system costs
    c. Equitable cost allocation between federal and non-federal uses of the transmission system
    d. Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

2. **Consistent with rate making principles**
    a. Cost causation
    b. Simplicity, understandability, public acceptance and feasibility of application
    c. Avoidance of rate shock
    d. Rate stability from rate period to rate period

3. **Considers a regional perspective**
    a. Alternatives include how costs are allocated and recovered
    b. BPA asks that proponents of alternatives explain how the region benefits from the alternative compared to the status quo
    c. Historically BPA has applied uniform rates to achieve widest possible diversified use

The best policy for satisfying all of these principles is the status quo's use of a bright-line voltage threshold at 34.5kV. These comments address each of these three principles in turn.

First, the status quo is the only methodology that is consistent with all of BPA's statutory obligations. Only the status quo assures full and timely cost recovery. Since its origins, BPA as a general rule has used a uniform rate for the transmission component of its bundled rates.[1] The 34.5kV bright-line threshold for the Network enjoys precedent since 1996 when power and transmission costs were unbundled. Since that time BPA has asserted—and FERC has confirmed—that transmission rates as a whole are sufficient to recover BPA's costs.[2] As the Cost Transfer Table below exhibits, each of the alternative proposals involve significant cost shifts generally from larger urban utilities to smaller rural utilities.[3] The dramatic rate impacts the alternative proposals would have on these smaller rural utilities would require mitigation. Such mitigation—as the UD segment demonstrates—impairs full and timely cost recovery.

Cost Transfer Table

Network Tx. Service	Alt. 1: Status Quo	Alt. 4: Radial Proposal	Alt. 5: Voltage Trans. Proposal (1 step – 2 Step)	Alt. 6: Seven Factor Test Proposal	Alt. 7: 145kV Sub-Tx. Proposal
Adjusted PTP	0%	-5%	-5% – -5%	No Analysis	-32%
Adjusted NT	0%	-5%	-5% – -5%	No Analysis	-32%
PTP + Segment Charge	0%	+105%	+15% – +67%	No Analysis	99%
NT + Segment Charge	0%	+89%	+12% – +56%	No Analysis	80%

[1] Regional White Paper: Segmentation Methodology Alternatives, p. 3. June 11, 2014.
[2] Order Confirming and Approving Rates on a Final Basis, 147 FERC ¶ 61,053 (April 16, 2014).
[3] Segmentation Workshop Presentation, June 11, 2014.

Moreover, the 34.5kV bright-line threshold is the only proposal that satisfies as a matter of law BPA's statutory obligation to encourage the widest possible diversified use of electric power at the lowest possible rate to customers throughout the region. The radical rate increases that would occur under Network Alternatives 4 – 7 to smaller rural utilities like Clallam would inevitably discourage diversified use of electricity in our territories. Smaller rural utilities already have less means to provide cheap and reliable service than our larger urban counterparts, and our markets are often less attractive to new business due to our distance from urban centers. Such rate increases would only further encourage commerce and industry to abandon our communities in favor of the areas not impacted. BPA's historic uniform rate policy is a rare foundation of equal economic opportunity for every community in the region. Such a policy benefits the region as a whole, and remains indispensable as many communities are still struggling to recover from the effects of the Great Recession.

Second, the status quo is the most consistent methodology for meeting BPA's ratemaking principles. The 34.5kV bright-line threshold is the most aligned with cost causation because it appropriately distinguishes the transmission facilities that operate in concert to provide services and benefits to customers throughout the region.[4] The 34.5kV bright-line threshold is also typical of industry practice. According to BPA's Industry Practices Scan, utilities commonly use some sort of voltage threshold to separate transmission from distribution, and 35kV is the median threshold used.[5] The use of this threshold is further reinforced by FERC's finding in Order No. 888 that "while there is no uniform breakout point between transmission and distribution, it appears that utilities account for facilities operated at greater than 30kV as transmission and that distribution facilities are usually less than 40kV."[6] Thus, the 34.5kV bright-line provides an appropriate threshold for BPA's system that is also typical of industry practice.

The 34.5kV bright-line threshold is also the most aligned with cost causation because it encourages development of BPA's Network in a reliable least-cost manner. BPA designed and constructed its cohesive Network based on engineering and economic considerations that sized facilities to meet load in a manner that would achieve maximum efficiency and reliability at a minimum system-wide cost. For decades, BPA's decisions have benefited all users of the Network by minimizing cost. It would be unjust to now transfer costs to some customers based on BPA's—as oppose to those customers' own—prior decisions that a lower voltage or a radial line was appropriate. In addition, it would send price signals that encourage customers to advocate for development decisions based on pancaked rate avoidance rather than system-wide least-cost. Customers for example would be incented to advocate for higher voltage service or looped lines. Furthermore, with the radial segment proposal, customers would be incented to develop generation simply to qualify for an exemption from the segment. Because the segment's revenue requirement largely stems from a handful of radials (6 of 71 radials constitute 53% of the total segment's revenue requirement),[7] a few strategically sited generators could gut the segment's revenue requirement and billing determinants, thus leading to the type of undesirable predicament that currently plagues the UD segment. The 34.5kV bright-line threshold sends price signals that result in the lowest possible Network rates for the entire region.

Conversely, Network Alternatives 4 – 7 penalize smaller rural customers simply because BPA chose to serve them with facilities appropriately sized for their location and load. The core argument underlying

[4] See BP-14 Power and Transmission Rate Proceeding, Testimony of Bonneville Power Administration. BP-14-E-BPA-29 at p. 3-4.
[5] Scan of Industry Segmentation-Related Practices, January 2014, at p. 1-2.
[6] Order No. 888, Appendix G, FERC STATS. & REGS. ¶ 31,036 at 31,981 n.100.
[7] Segmentation Workshop Presentation, June 11, 2014, at p. 9.

the Network Alternatives 4 – 7 is that they are more closely aligned with cost causation. Yet transmission costs arise from a vast and complex array of factors, as do the benefits of the transmission system to particular customers. Cherry-picking particular facilities for removal from the Network based on a limited subset of these many factors is more arbitrary of an approach than the status quo. For example, the two-step transformation proposal would lead to certain customers paying a four-tiered transmission rate (NT or PTP + Transformer Charge 1 at 116kV + Transformer Charge 2 at 69kV + the Utility Delivery Charge) despite the fact that lower voltage facilities provide reliability benefits to the entire Network by supplying parallel paths for electricity to travel when the primary paths are constrained or temporarily out of service. The 145kV sub-transmission proposal similarly overlooks this system-wide reliability benefit. Such tiered rates would severely disadvantage certain customers simply because their location and load size was better served with lower voltage facilities. FERC strongly prefers uniform rates precisely to avoid this inequitable outcome.[8] According to FERC, uniform rates are the most "consistent and equitable method of costing electric transmission service."[9] The 34.5kV bright-line threshold is better aligned with cost causation than Network Alternatives 4 – 7 because it produces the most cost-efficient grid that benefits all users of the system.

The 34.5kV bright-line threshold is also the most simple, understandable, publically accepted, and easiest to administer of the proposals. The status quo is a common industry practice.[10] It also provides an objective bright-line test that eliminates the need to make burdensome functional analyses, which require highly subjective interpretations of the numerous facilities in the Network. These controversial judgment calls would inevitably result in increased disputes, contentious litigation, and rate instability for years to come. With the radial segment proposal, disputes will arise over whether a line should be excluded from the segment because it meets one of the several exceptions (e.g. closed looped service or wheeled or federal generation), or whether additional exceptions have been arbitrarily excluded such as reliability benefits to the Network from demand response, the number of load serving entities the radial serves, or whether an outage of the radial would affect Network reliability.[11] The transformation charge proposal likewise requires a burdensome functional analysis, and the magnitude of the issues that arise are exponentially increased in the two-step alternative. Moreover, the proposal to create a segment based on application of the seven factor test involves a functional analysis that is so highly subjective that BPA staff did not even consider it worthwhile to explore the rate implications of the proposal in the workshops. The 34.5kV bright-line threshold is far superior to these proposals because it is the clearest, most objective, publically accepted, and easily applicable methodology.

Finally, the 34.5kV bright-line threshold is the only proposal that truly considers a regional perspective. As exhibited in the Cost Transfer Table, Network Alternatives 4 – 7 all would result in marginal rate reductions for a few larger urban utilities and dramatic rate increases for many smaller rural utilities who already have less means to provide cheap and reliable service due to their geography and demography. Uniform rates provide a rare and important foundation of equal economic opportunity for every community in the region. Providing this foundation is exactly what Congress intended when it directed BPA to fix and establish rates that encourage the widest possible diversified use of electric power at the lowest possible rates to customers, and it is exactly what BPA's uniform rate has achieved for more than three quarters of a century. The 34.5kV bright-line is the best methodology to ensure the lowest and most stable rates to the region as a whole.

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[8] See also *California Dept. of Water Resources v. FERC*, 489 F.3d 1029, 1037-38 (9th Cir. 2007).
[9] *N. States Power CO. (Minnesota) v. FERC*, 30 F.3d 177, 179 (D.C. Cir. 1994) (internal quotations omitted).
[10] Scan of Industry Segmentation-Related Practices, January 2014, at p. 1-2.
[11] See *Mansfield Mun. Elec. Dep't v. New England Power Co., 94 FERC* ¶ 61,134 (2001).

In conclusion, Clallam firmly believes that the status quo use of a bright-line voltage threshold at 34.5kV is both the best segmentation methodology and the only one that adequately satisfies all of BPA's Segmentation Principles. The status quo is the only methodology that satisfies all of BPA's statutory obligations as a matter of law, it is the most consistent methodology with BPA's ratemaking principles, and it is the only proposal that truly considers a regional perspective. Therefore, BPA should reject Network Alternatives 4 – 7, maintain the status quo for the Network, and focus its efforts on solving the predicament of the UD segment.

Sincerely,

Doug Nass
General Manager

cc: Fred Mitchell
Christopher Casey

Columbia REA

Bonneville Power Administration
RE: BPA Regional White Paper: Segmentation Methodology Alternatives
Via email: techforum@bpa.gov

June 12, 2014

Introduction

Columbia REA submits the following comments regarding the Bonneville Power Administration (BPA) "Regional White Paper Segmentation Methodology Alternatives." We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic. Columbia REA is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, Columbia REA has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. Columbia REA is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "Segmentation Principles," which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles," is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

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Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo.* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC) BPA* should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU) BPA* needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD).* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council).* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.

- *Montana Intertie – Roll IM Rate into the Network (Gaelectric).* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Les Teel, CEO

CC: Northwest Requirements Utilities

COLUMBIA RIVER PUD
A COMMUNITY-OWNED UTILITY

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June 17, 2014

Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

Board of Directors
David Baker
Jake Carter
Carol Everman
Richard Simpson
Loren Tarbell

General Manager
Kevin P. Owens, P.E.

Introduction

Columbia River PUD submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Columbia River PUD is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, Columbia River PUD has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. Columbia River PUD is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

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study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

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- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

While we have reviewed the projected financial impact of the various proposals under consideration, it has been noted that there is a very wide range of dollar impacts to our utility, from slightly positive to extremely negative. Consequently, each clearly represents a different policy perspective behind the proposed segmentation methodology. Any attempts to vastly digress from the Agency's current practice of assigning Network costs to Load Following utilities is very troubling and clearly represents bad policy for public power.

<u>The rate impacts to Columbia River PUD for the five alternatives are summarized below.</u>

We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Alternative #1 (PNGC)	.9% increase
Alternative #2 (NRU)	.3% increase
Alternative #3 (SnoPUD)	-4.4% decrease
Alternative #4 (IOU)	7.9% increase
Alternative #5 (SCL)	53% increase

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Kevin P. Owens, PE

CC: Northwest Requirements Utilities
Diego Ochoa, BPA
Scott Wilson, BPA
CRPUD Board of Directors

COMMENT FROM CONSTELATION
RECEIVED VIA TECH FORUM ON JUNE 18, 2014

Constellation
Bonneville Power Administration
Segmentation White Paper Comments
June 18, 2014

Constellation appreciates the efforts that BPA staff and stakeholders have made to re-evaluate BPA's transmission segmentation. Constellation believes that reforms are warranted to achieve an allocation of BPA's transmission revenue requirement that better reflects its obligation to charge cost-based rates and respect cost causation rate-making principles. Constellation also recognizes that any large cost shifts among customers that result from the implementation of a revised definition of BPA's transmission segments should also include a conversation about appropriate mitigation measures.

With respect to which of the current segmentation alternatives should be adopted, Constellation believes that the Utility Delivery Charge should remain in place, so that the customers benefitting from such service continue to pay for those facilities, and that the establishment of a "Transformation" charge should be implemented as it is straightforward and represents a reasonable approach that embraces cost-causation principles. For the same reason, i.e., recognition of cost-causation principles, we believe that the "Radial" segment, and "Sub-transmission segment" for lower than 146-kV facilities are alternatives may have merit, although the one-step Transformation approach appears to be the approach the minimizes overall customer impacts.
.
Constellation will continue to participate with BPA staff and stakeholders in this effort. Please call if you have any questions.

Mary Lynch
Vice President, Wholesale Market Development
916 606 0783

June 18, 2014

Elliot Mainzer, Administrator
Bonneville Power Administration
Portland, OR
Via techforum@bpa.gov

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RE: Regional White Paper Segmentation Methodology Alternatives

Dear Elliot:

Coos-Curry Electric Cooperative, Inc. (CCEC) has reviewed the Bonneville Power Administration (BPA) Regional White Paper: Segmentation Methodology Alternatives and appreciate the thoroughness with which your staff has conducted the segmentation process. They have allowed all parties to submit different ideas pertaining to segmentation and have provided useful analysis of the various alternatives. CCEC is a cooperative utility; we believe our mission is to bring electricity to our members, no matter where they are located, at affordable prices. We believe BPA's mission is similar: to facilitate the widest possible use at the lowest possible cost to consumers consistent with sound business principles. With this in mind, CCEC offers the following comments on the various proposals.

Network Alternative 1 – Status Quo

Although the status quo segmentation methodology has many positive aspects, its treatment of utility delivery facilities, if not addressed, will violate the principles BPA and its customers set forth at the beginning of this segmentation process and create significant hardship for those utilities that take delivery under 34.5 kV. BPA's past policies provided utilities, especially smaller utilities, with delivery points at lower voltages. BPA often provided delivery voltages based on considerations such as proximity to Corp, Bureau facilities or urban areas, and BPA's own policies. Consequently, many utilities simply took the delivery voltage that BPA provided. In 1996, the Utility Delivery Charge (UDC) was implemented as one result of a rate case settlement. Now however, the UDC has become a rate pancake and threatens to act as a doubling on network rates under the status quo. If the Status Quo alternative means another 25% rate increase in UDC on top of the 25% in the last rate case, then this alternative can no longer be considered to provide the "widest possible use at the lowest possible cost to consumers consistent with sound business principles." The anticipated rate increase to UDC will instead cause rate shock, create a permanent underclass of transmission users who pay the equivalent of two times the NT base rate, and will negatively impact rural electrification and rural economies.

We therefore urge you to either adopt the Pacific Northwest Generating Cooperative (PNGC) proposal, which we discuss in more detail below, or to find a way to make the UDC rate reasonable and stable over time.

Network Alternative 2 - PNGC - Roll in of Utility Delivery Segment into Network Segment

PNGC's alternative recognizes that the vast majority of delivery substations that are able to be purchased from a utility point of view, have already been purchased. The remaining stations are extremely unlikely to

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be purchased no matter how high the delivery charge goes, such as those delivery points that provide delivery for more than one consumer-owned utility. Instead of implementing a punishing UDC increase, we urge you to adopt this proposal which acknowledges that the UDC is at the end of its useful life. BPA acknowledges that facilities in the Utility Delivery segment are wholesale transmission facilities. Rolling them into the Network Segment would provide significant relief from the pancaked UDC to 50 utilities, while having a very minimal rate to other customers. This proposal certainly accomplishes BPA statutory mission of the widest possible use at lowest possible cost to consumers.

Network Alternative 3 – Northwest Requirements Utilities (NRU) - Maintain Adjusted Utility Delivery Charge

NRU's proposal also addresses the rate shock that utilities that are subject to the UDC will pay if the status quo is kept. Because it addresses rate shock and rate stability, it is worthy of consideration as an alternative.

Network Alternative 4 - Snohomish – Develop a Radial Segment Charge

Snohomish's proposal to segment radial facilities away from the Network segment runs counter to the history of BPA and the region and violates the principles set forth in this segmentation process. If implemented, this proposal would have a considerably negative impact on most of public power. This proposal would provide three transmission charges to the 100+ customers who also pay the Utility or the GTA Delivery Charge: 1) NT Base charge, 2) Radial segment charge, and 3) Utility or GTA Delivery Charge. It would be an unraveling of much of the good BPA has accomplished over its history. BPA made it possible for the farms and rural communities of this region to be electrified. It did this by building transmission out to where no IOU would build, and then charging a single, uniform network rate for use of that transmission, no matter where a utility was located. In accomplishing these aims, BPA planned its transmission network as a single utility system, meaning some utilities were served radially, although they would have strongly preferred looped service, which was and has been provided to urban areas in the northwest.

Further, Snohomish's proposal would result in a large increase for many at a small benefit for others such as Snohomish: 97 customers receive a 4% rate decrease at the expense of 69 customers having their rates increase by 31% on average. The Snohomish proposal's impact on our utility would be extremely detrimental, resulting in a 59% increase in Coos-Curry Electric Cooperative's overall transmission and power bill.

This proposal would make utilities served by radial lines permanent second class citizens. It is the antithesis of BPA's mission of "widest possible use at lowest possible cost to consumers". This proposal would provide three transmission charges to the 65 customers who also pay the UDC: Network Charge, Radial segment charge, and UDC. We urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 5 – IOU/Large public coalition: Develop transformation charge

Because this proposal would retain the UDC, this proposal could result in 4 rate pancakes: NT Base Charge, 1-2 transformation charges, and UDC. This IOU/Large Customer coalition proposal is also contrary to BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles." While the rate increases in this proposal are not as dramatic, it is nonetheless a large cost shift proposal. This proposal penalizes all the customers for whom BPA provided points of delivery at less than

230 kV. It ignores BPA's crucial role in rural electrification and its past policies of single utility planning. It would provide an average 4% rate reduction for 35 of the largest transmission customers (the large public, the IOUs, and some wind developers) on the backs of 131 preference customers who would bear a rate increase on average of 7%.

Again, we urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 7 – Seattle City Light (SCL) – Sub-transmission segment and rate based on voltage threshold.

SCL's proposal also creates potentially three transmission rate pancakes for those impacted by it: NT Base charge, sub-transmission segment charge, and UDC. SCL's proposal is based on the flawed idea that the 115 kV system provides no benefit to those who take delivery above 145 kV. As such, it has no technical merit. Further, the results of SCL's proposal are so rate damaging to many utilities that it should be rejected out of hand. Under SCL's proposal, 36 of the largest customers (the large public, the IOUS, and some wind developers) get a 23% rate decrease on average, while 130 preference utilities bear a whopping 44% rate increase on average. The rate increase to our utility is 47%, which is simply unacceptable.

It is also clear that this proposal violates BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles," causes rate shock, and is harmful to the region in general. We must urge you to reject soundly this proposal for segmentation.

Summary

In summary, we support the PNGC proposal as a way to forward BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles" and to avoid serious impacts to your rural utility customers. The proposals submitted by Snohomish, the IOUs/Large public coalition, and Seattle City Light result in rate decreases for the few on the backs of the many and should be rejected. Finally, the Status Quo proposal should address the impending 25% rate increase to the UDC which will cause rate shock and will act as a rate pancake to those subject to the UDC. We believe the PNGC proposal addresses this problem in the most efficient manner, but the NRU proposal also addresses this issue and is worthy of your consideration.

Sincerely,

Roger Meader, GM/CEO
Coos-Curry Electric Cooperative

cc: John Prescott, PNGC

Comments of Cowlitz PUD and Eugene Water & Electric Board
to
White Paper on Segmentation Methodologies

Introduction.

Cowlitz Public Utility District No. 1 (Cowlitz PUD) and Eugene Water & Electric Board (EWEB) appreciate the opportunity to comment on the segmentation methodologies proposed by various interested parties following BPA's rate making process. We particularly want to thank BPA staff for the open and helpful means by which it has solicited input to this important matter and the extensive work it has done to refine the proposals and calculate the effects of the different proposals on various customers.

As a preliminary matter, we note that the segmentation methodologies proposed as potential alternatives to the status quo, with the exception of the Seattle proposal for creating a separate "sub-transmission" segment (see below), have relatively small rate effects, either positive or negative depending on the alternative, on either Cowlitz PUD or EWEB when compared to the rate effects on many other customers. Consequently, our comments are intended to be very high level and to focus, uninfluenced by our own pocket book interests, on policy principles we believe are particularly important to the questions presented. We do not focus on what we consider to be immaterial issues or principles that are not differentially affected by the various proposals.

None of the various proposals appear to improve or degrade BPA's ability to recover its cost in a timely manner, to base its rates on its total system costs or to equitably allocate its transmission system costs between federal and non-federal uses of the system, and we do not intend to address those principles. Our comments are based primarily on our understanding of the principles summarized under the rubrics of "rate making principles" and "regional perspective".

Second, we group our comments into two broad subject matters: i) should BPA deviate from its status quo proposal regarding the "utility delivery segment," and ii) should BPA change its criteria for segmenting what is currently the "network segment".

Utility Delivery Segment.

<u>Alternative 2 – Roll the Delivery Facilities into the Network Segment.</u> Although there are good reasons for BPA to reconsider its current status quo approach to the Utility Delivery Charge, we do not support PNGC's proposal to roll all existing delivery facilities into the network segment. By the end of the current rate period, BPA will have had for 20 years a policy of charging utilities with PODs with delivery voltages below 34.5 kV a utility delivery charge (UDC) combined with a policy that provides for the sale of the low voltage facilities to the utilities which use them. Most of BPA's low voltage facilities were in fact purchased by the utilities using such facilities. For BPA now to roll the unsold delivery facilities into the network would be perceived by those who bought their facilities as inequitable. More importantly, changing the existing price incentives so dramatically in such an arbitrary way would undercut the value of price incentives going forward. It would be more appropriate for BPA to address the concerns expressed by PNGC and NRU by moderating the upward trajectory of the UDC and not by eliminating the UDC.

<u>Alternative 3 – Maintain Adjusted UDC.</u> NRU and PNGC argue persuasively that the current and proposed UDC under the status quo attempts to recover excessive costs from, and poses a large and growing burden on, the utilities subject to it. The extreme age of the facilities in the delivery segment means that the undepreciated investment allocated to that segment using BPA's composite depreciation

methodology exceeds what the undepreciated investment value would be under a facility specific depreciation methodology. Looked at differently, these facilities have already resulted in a disproportionately large recovered depreciation expense that, in many cases, likely exceeded their costs. Moreover, the UDC includes a substantial O&M component that recovers in part allocated indirect overheads, which from a "but for" causation standpoint are not "caused" by the existence of the Delivery segment. Nor would the sale of these facilities have reduced the indirect overheads currently recovered in the UDC. Thus, we do not believe that freezing part of the UDC along the lines proposed by NRU is unreasonable or imposes new or undue burdens on other customers.

The logic of our reasoning above however does not support the NRU proposal in its entirety. In no event should the UDC be allowed to recover less than the direct avoidable costs of supporting the delivery segment, which costs include all direct O&M costs and any costs to replace delivery facilities as they wear out or become obsolete. We would support BPA adopting a UDC rate for the BP-16 rate period consistent with NRU's proposal, subject to implementing a policy to be effective for the BP-16 rate period to address delivery segment replacement costs in a manner that does not shift such costs to customers that do not use the delivery segment.

Segmenting Existing Network Facilities.

In evaluating network segmentation alternatives 4 through 7 we were surprised by the implicit interpretation of ratemaking principle 2. D, "Rate stability from rate period to rate period," adopted by the advocates for these alternatives. They treated this principle as if it had relevance only to the stability of a methodology *after* it had been adopted and implemented and as if it had no relevance to the initial adoption of the methodology. . Rate stability is a worthwhile principle in part because important long term decisions are made in reliance on the continuity of rate making policies. Thus, rate stability should be considered not just from the prospective of the stability a methodology will maintain once adopted but also in evaluating whether a methodology should be replaced with an alternative in the first instance. A necessary corollary of weighing rate stability when considering whether to change rate making methodologies is the need to evaluate whether the magnitude of the rate change the new methodology involves is worth the improvement over the old methodology it achieves, if any. Cowlitz and EWEB submit that all of the proposed alternative methodologies to segment existing network facilities fail this basic test.

<u>Alternative 4 – Develop a "Radial Segment" and Recover the Costs of the Segment from Customers that use the Segment</u>. Implementation of this methodology would involve very significant rate changes for a number of BPA's customers, which in our view is inconsistent with the principle of rate stability. Moreover, this alternative cannot be justified by prospective cost causation because the costs of the existing radial facilities have already been incurred.

According to statements made by BPA staff during the workshops, the decisions to install the existing radial facilities were made in order to reduce costs from what they would otherwise be if all network facilities had been looped. Thus, from a cost causation perspective, it appears that the radial facilities were installed as a means to reduce costs to all customers under BPA's long existing policies to maintain a single segment for all network facilities. It is also certain that changing BPA's existing segmentation methodology as it affects existing facilities will not produce "price signals" that could meaningfully affect customer behavior. We also note that adoption of this alternative would be inconsistent with BPA's historic responsibility to electrify sections of the Pacific Northwest at generally uniform rates. Therefore, we conclude that, if BPA determined there is any merit to treating radial facilities differently from other network facilities, any change to BPA's segmentation practices (or its

direct assignment policies) should apply only to facilities installed after the new policy were adopted and announced. Our recommendation on this alternative is consistent with general utility practices reflected in the industry scan presented by Staff.

Alternative 5 – Develop Transformation Charges. This alternative seems to be based on the assumption that network service is inherently high voltage and that providing lower voltage service necessarily involves extra costs associated with step-down transformation. Based on information provided by Staff during the segmentation workshops, this assumption is not correct. BPA has used different voltages for network service at different times, and much of the generation on the system is integrated at voltages below the levels suggested by the advocates for this alternative as the threshold for extra transformation charges. The voltage level at which service is provided to any particular customer is very much a function of the voltage level of the nearby system, so lower voltage service does not necessarily, or perhaps even commonly, involve extra step-down transformation. Indeed, it appears that BPA provides service to each customer at voltage levels that minimize the cost of service to all customers. While not advocating BPA do so, if BPA were to make any change to policies, BPA should apply it to prospective facilities only on a case-by-case basis reflecting actual cost considerations instead of an arbitrary voltage threshold.

Alternative 6 - Apply the Seven Factor Test to Create a Segment Based on Function. This alternative has not been fleshed out sufficiently to allow for evaluation. Of note; however, the seven factor test was devised solely to distinguish wholesale from retail facilities and is not likely to be useful for BPA's wholesale-only system.

Alternative 7 – Establish a Sub-Transmission Segment and Rate Based on Voltage Threshold. This alternative is based on at least two assumptions that are simply not true on BPA's system. Seattle asserts that facilities above 145 kV are most likely used for marketing transactions, whereas facilities at less than 145 kV are most likely used for delivery of power to end users. On BPA's system, all of the current network facilities are used for market transactions and none are used to deliver power to end users. Seattle also asserts that "the new alternative entails a cost and rate shift *from customers not using the proposed segment to customers that do*." (emphasis supplied) However, alternative 7 would apply the new sub-transmission rate based solely on the voltage level at a customer's points of delivery. Thus, alternative 7 would shift all of the cost of existing network lower voltage facilities currently used to move generation within the lower voltage components of the network, or to move generation integrated at lower voltages before it encounters higher voltage facilities, to customers with lower voltage PODs. The alternative would thereby exempt customers with higher voltage PODs purchasing such generation from any of the costs of the lower voltage facilities required to move such generation to their systems. There is no cost justification for alternative 7, and we oppose it.

Montana Intertie. We support the status quo treatment of the Montana Intertie and oppose rolling the Montana Intertie into the network segment for the reasons stated by the Public Power Council.

Summary. Cowlitz PUD and EWEB oppose all of the alternative segmentation methodologies proposed by parties to the segmentation workshops. We would however support a variant of Alternative 3 proposed by NRU. We support maintaining the UDC charge, adjusted in each future rate case to reflect the overall transmission rate increase, but only if BPA commits to adopt a methodology to ensure that the future direct costs of operating, maintaining and replacing the facilities now in the utility delivery segment are recovered in whole from customers using such facilities. We are open to whether such cost recovery is done with a class O&M rate or with a use-of-facilities charge. If our proposal is adopted, there would be no need for any rate shock mitigation.

June 18, 2014

DOUGLAS
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Elliot Mainzer, Administrator
Bonneville Power Administration
Portland, OR
Via techforum@bpa.gov

RE: Regional White Paper Segmentation Methodology Alternatives

Dear Elliot:

We have reviewed the Bonneville Power Administration Regional White Paper: Segmentation Methodology Alternatives and appreciate the thoroughness with which your staff has conducted the segmentation process. They have allowed all parties to submit different ideas pertaining to segmentation and have provided useful analysis of the various alternatives. As a cooperative utility, we believe our mission is to bring electricity to our members, no matter where they are located, at affordable prices. We believe BPA's mission is similar: to facilitate the widest possible use at the lowest possible cost to consumers consistent with sound business principles. With this in mind, we offer the following comments on the various proposals.

Network Alternative 1 – Status Quo

Although the status quo segmentation methodology has many positive aspects, its treatment of utility delivery facilities, if not addressed, will violate the principles BPA and its customers set forth at the beginning of this segmentation process and create significant hardship for those utilities that take delivery under 34.5 kV. BPA's past policies provided utilities, especially smaller utilities, with delivery points at lower voltages. BPA often provided delivery voltages based on considerations such as proximity to Corp or Bureau facilities, and BPA's own policies. Consequently, many utilities simply took the delivery voltage that BPA provided. In 1996, the Utility Delivery Charge (UDC) was implemented as one result of a rate case settlement. Now however, the UDC has become a rate pancake and threatens to act as a doubling on network rates under the status quo. If the Status Quo alternative means another 25% rate increase in UDC on top of the 25% in the last rate case, then this alternative can no longer be considered to provide the "widest possible use at the lowest possible cost to consumers consistent with sound business principles." The anticipated rate increase to UDC will instead cause rate shock, create a permanent underclass of transmission users who pay the equivalent of two times the NT base rate, and will negatively impact rural electrification and rural economies.

We therefore urge you to either adopt the PNGC proposal, which we discuss in more detail below, or to find a way to make the UDC rate reasonable and stable over time.

Network Alternative 2 - PNGC - Roll in of Utility Delivery Segment into Network Segment

PNGC's alternative recognizes that the vast majority of delivery substations that are able to be purchased from a utility point of view, have already been purchased. The remaining stations are extremely unlikely to be purchased no matter how high the delivery charge goes. Instead of implementing a punishing UDC increase, we urge you to adopt this proposal which acknowledges that the UDC is at the end of its useful life. BPA acknowledges that facilities in the Utility Delivery segment are wholesale transmission facilities. Rolling them in to the Network Segment would provide significant relief from the pancaked UDC to 50 utilities, while having a very minimal rate to other customers. This proposal certainly accomplishes BPA statutory mission of the widest possible use at lowest possible cost to consumers.

Network Alternative 3 - NRU - Maintain Adjusted Utility Delivery Charge

NRU's proposal also addresses the rate shock that utilities that are subject to the UDC will pay if the status quo is kept. Because it addresses rate shock and rate stability, it is worthy of consideration as an alternative.

Network Alternative 4 - Snohomish – Develop a Radial Segment Charge

Snohomish's proposal to segment radial facilities away from the Network segment runs counter to the history of BPA and the region and violates the principles set forth in this segmentation process. If implemented, this proposal would have a considerably negative impact on most of public power. This proposal would provide three transmission charges to the 100+ customers who also pay the Utility or the GTA Delivery Charge: 1) NT Base charge, 2) Radial segment charge, and 3) Utility or GTA Delivery Charge. It would be an unraveling of much of the good BPA has accomplished over its history. BPA made it possible for the farms and rural communities of this region to be electrified. It did this by building transmission out to where no IOU would build, and then charging a single, uniform network rate for use of that transmission, no matter where a utility was located. In accomplishing these aims, BPA planned its transmission network as a single utility system, meaning some utilities were served radially, although they would have strongly preferred looped service.

Further, Snohomish's proposal results in an additional rate pancake and in large rate increases (31% on average) to 69 customers who are served across radial facilities to produce a small rate decrease (4% on average) for 97 customers. The Snohomish proposal's impact on our utility would be extremely detrimental, resulting in a 38% increase in our overall transmission and power bill

This proposal would make utilities served by radial lines permanent second class citizens. It is the antithesis of BPA's mission of "widest possible use at lowest possible cost to consumers". This proposal would provide three transmission charges to the 65 customers who also pay the UDC: Network Charge, Radial segment charge, and UDC. We urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 5 – IOU/Large public coalition: Develop transformation charge

Because this proposal would retain the UDC, this proposal could result in 4 rate pancakes: NT Base Charge, 1-2 transformation charges, and UDC. This IOU/Large Customer coalition proposal is also contrary to BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles." While the rate increases in this proposal are not as dramatic, it is nonetheless an insidious proposal. This proposal penalizes all the customers for whom BPA provided points of delivery at less than 230 kV. It ignores BPA's crucial role in rural electrification and its past policies of single utility planning. It would provide an average 4% rate reduction for 35 of the largest transmission customers (the large public, the IOUs, and some wind developers) on the backs of 131 preference customers who would bear a rate increase on average of 7 percent.

Again, we urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 7 – Seattle City Light (SCL) – Sub-transmission segment and rate based on voltage threshold.

SCL's proposal also creates potentially three transmission rate pancakes for those impacted by it: NT Base charge, sub-transmission segment charge, and UDC. SCL's proposal is based on the flawed idea that the 115 kV system provides no benefit to those who take delivery above 145 kV. As such, it has no technical merit. Further, the results of SCL's proposal are so absurd that it must be rejected out of hand. Under SCL's proposal, 36 of the largest customers (the large public, the IOUS, and some wind developers) get a 23% rate decrease on average, while 130 preference utilities bear a whopping 44% rate increase on average. The rate increase to our utility is 50%, which is simply unacceptable.

It is also clear that this proposal violates BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles," causes rate shock, and is harmful to the region in general. We must urge you to reject soundly this proposal for segmentation.

Summary

In summary, we support the PNGC proposal as a way to forward BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles" and to avoid serious impacts to your rural utility customers. The proposals submitted by Snohomish, the IOUs/Large public coalition, and Seattle City Light result in rate decreases for the few on the backs of the many and should be rejected. Finally, the Status Quo proposal should address the impending 25% rate increase to the UDC which will cause rate shock and will act as a rate pancake to those subject to the UDC. We believe the PNGC proposal addresses this problem in the most efficient manner, but the NRU proposal also addresses this issue and is worthy of your consideration.

Sincerely,

DOUGLAS ELECTRIC COOPERATIVE

Dave Sabala
General Manager

proposal in BP-16, the results will likely differ somewhat from the analysis of that alternative contained in this paper.

Network Segment Alternatives

Network Alternative 1 – Status Quo

BPA's transmission rates currently identify and allocates costs to seven segments: Generation Integration, Integrated Network, Southern Intertie, Eastern Intertie, Utility Delivery, Direct Service Industry (DSI) Delivery, and Ancillary Services. The BP-14 Final Proposal documentation contains information on how these numbers were developed. Facilities are divided between the Integrated Network and the Utility Delivery segment based on a 34.5kV bright-line threshold; all transmission facilities not in other segments that are 34.5kV or higher are placed in the Integrated Network segment.

The status quo is offered as an alternative for consideration in this process. The fact that BPA is undertaking a review of its segmentation alternative does not mean that BPA must or should change its segmentation methodology. However, because the status quo alternative was generated from a non-precedential rate settlement, the status quo should not be considered the presumptive alternative where other alternatives must demonstrate conditions necessitating a change in segmentation. The status quo is offered as another alternative being considered. However, in the analysis of the various alternatives, the status quo is used as a measure of cost shift because it is the basis for rates today.

Status Quo Justification

The status quo use of a bright-line voltage threshold at 34.5kV appears to be solidly in the center of the practice that jurisdictional utilities across the country use to distinguish between transmission and distribution. The Commission's preference is to roll transmission facilities into network rates unless cause is shown to separately recover costs from ratepayers; the status quo alternative is aligned with the Commission's preference. Because the facilities currently in the Utility Delivery segment are transmission facilities, they could be rolled into the Integrated Network segment under the Commission's preference. However, there may be good policy reasons to retain the Utility Delivery segment. This policy is examined in more detail in the discussion on Alternative 1 and Alternative 2.

BPA should retain the Status Quo for the existing transmission facilities. BPA's industrial scan showed that about 50 % of Transmission Providers studied designate 34.5kV facilities as Network Facilities, similar to BPA's Status Quo present Network designation. Any proposed changes to segmentation should be applied to new facilities moving forward and not impact existing facilities designated as Network.

Michael Rascho—Elcon Associates,INC

Network Alternative 2 – Roll In Utility Delivery Segment - Proposed by PNGC

Pre-decisional. For discussion purposes only.

The proposal recovers all costs for low voltage utility delivery service using an updated cost recovery methodology as described herein using BPA data from the BP-14 rate case.

b. Simplicity, understandability, public acceptance and feasibility of application
The proposal is easy to understand, straightforward to administer, and should be acceptable to BPA transmission customers because it protects customers taking low voltage delivery service from excessive increases, while shielding other customer groups from cost increases. Utilities that have already purchased such facilities should not object because a BPA charge for low voltage delivery service is maintained.

c. Avoidance of rate shock
By limiting future increases in the utility delivery charge to the overall average increase in rates for Network service (NT and PTP), customers paying the delivery charge are shielded from rate shock. Other customer groups are not impacted by this proposal compared to the status quo.

d. Rate stability from rate period to rate period
This proposal achieves rate stability from rate period to rate period for both Network customers and customers with low voltage delivery facilities. Conversely, this principle will be violated if customers taking low voltage delivery service continue to experience 25% rate increases every rate period.

3. Considers a regional perspective
a. Alternatives include how costs are allocated and recovered
The NRU proposal fully describes how costs are allocated and recovered.

b. BPA asks that proponents of alternatives explain how the region benefits from the alternative compared to the status quo
The region benefits from this alternative compared to the status quo for three primary reasons. First, by resolving the issue of the cost basis for the UDC and basically removing it from future transmission rate cases, the transmission rate case should be less contentious between BPA and the customer groups, as well as the potential GTA related issues for the power rate cases. Second, BPA can avoid imposing a disproportionately high increase in the UDC that has a questionable analytical foundation of cost recovery, and can do so without adversely impacting other customer groups. Third, the proposed UDC maintains an incentive for utilities to purchase these facilities, while simultaneously not imposing steep cost increases for those utilities that may not be in a position to acquire these facilities to avoid the charge.

c. Historically BPA has applied uniform rates to achieve widest possible diversified use
The NRU proposal does not change BPA's application of uniform rates for transmission service.

The NRU proposal for UDC maintains the UDC segment and present rates adjusted for Network rate increases and provides a fair treatment for both Network and UDC customers. It will not unfairly burden UDC customers in the future, or have a significant impact on Network Rates.

Michael Raschio – Elcon Associates, INC

Pre-decisional. For discussion purposes only.

- Phases-in costs of radial service over ten rate periods; 10% of the overall revenue requirement would be applied in each successive rate period
- Results in the full identified $33M Radial Service Revenue Requirement being collected at the end of the phase-in

Mitigation Plan 2: Phased-in Approach with Revenue Requirement Cap

- Phases-in costs of radial service over ten rate periods; 5% of the overall revenue requirement would be applied in each successive rate period
- Results in only 50% of the total identified Radial Service Revenue Requirement being collected at the end of the phase-in

As stated previously, Snohomish is primarily interested in achieving an engineering-based, technically-justified and transparent Segmentation methodology. If BPA decides to adopt the Radial Service proposal, Snohomish is open to a range of potential alternatives to mitigate rate shock. The options outlined above are simply two out of many possibilities available for consideration.

Between these two options, Snohomish prefers Mitigation Plan 1, which results in fully recovering the Radial Service Revenue Requirement at the end of the phase-in. However, if BPA sees the need for further mitigation beyond what is outlined in Mitigation Plan 1 in order to successfully adopt the Radial Service proposal, Snohomish is also receptive to further mitigation as described in Mitigation Plan 2.

The Radial Segment proposal would significantly impact the rates to smaller utility customers that are served off the radial facilities designated by this option. This option would encourage addition of facilities such as power circuit breakers to re-designate a radial facility to a network facility or perhaps force utilities to close normally open operated switches, which could decrease its overall reliability just to get re-designated. Further, this would require customers that are getting a lower degree of service to pay a higher rate.

Michael Raschio – Elcon Associates, INC

Network Alternative 5 – Develop transformation charge – Proposed by IOU/Large public coalition: Puget, Seattle City Light, Pacificorp, PGE, Powerex, Tacoma, Avista, Ibedrola, Benton County PUD

The coalition proposes that BPA develop a rate associated with transformation through the following process:

1. Identify intertie, generation integration, delivery, ancillary service, and direct assignment facilities. (Any changes to BPA's methodologies for identifying facilities in these segments is beyond the scope of this particular proposal.)
2. Network segment facilities are those remaining transmission facilities not falling into the segments in item 1 above.

Pre-decisional. For discussion purposes only.

The One Step Transformation Charge is the next best but distant option for segmentation to that of the Status Quo. It provides a more uniform application across BPA's Transmission Customers and has significantly lower rate impacts to the other Network Segmentation Options being proposed. However, it does take out facilities out of the Network segment that would be considered as network facilities by almost all of the transmission providers included in the industry scan. This does not seem consistent with the industry or logically consistent with any segmentation process that would include Network facilities on both sides of the transformers and not the transformer itself. Further, the 230[115-kV transformers and 115-kV transmission system backs up the 230-kV system in many situations on the system, as well as being part of the Network rated paths in some cases.

Michael Raschio—Elcon Associates, INC

Network Alternative 6 – Apply Seven Factor Test to Create Segment Based on Function – Proposed by IOU/Large public coalition: Puget, Seattle City Light, Pacificorp, PGE, Powerex, Tacoma, Avista, Ibedrola, Benton County PUD

The coalition proposes that BPA perform an analysis of the functions performed by BPA's facilities through the following method:

1. Identify intertie, generation integration, ancillary service, and direct assignment facilities. (Any changes to BPA's methodologies for identifying facilities in these segments are beyond the scope of this particular proposal.)
2. Network segment facilities and delivery facilities are those remaining transmission facilities not falling into the segments in item 1 above.
3. Segment remaining transmission or delivery facilities using an analysis of the functions performed by BPA's facilities.
    a. As discussed below, BPA's system seems relatively unique insofar as BPA's lower-voltage Network facilities are used predominately to serve a subset of BPA's transmission customers, while other BPA transmission customers—investor-owned utilities and larger preference agencies—provide their own lower-voltage facilities. Because of this fact, segmenting BPA's system using the FERC seven-factor test or similar functional test is particularly appropriate.
4. After the segmentation and to the extent practicable, limit the proposed average increase in the Network segment rate and the distribution segment rate for any rate period (for example, the average rate increase in each rate is to be no more than 20%). Spread the cost of such limit pro rata to the Network segment rate and the distribution segment rate, so that to the extent practicable neither rate experiences an average rate increase greater than 20% (for example) for any rate period. This limit mitigates any "rate shock" that may otherwise occur.

Coalition Justification

This approach more closely aligned with cost causation because it should result in rates based on the function or usage of the various BPA facilities and should not be unduly complicated to implement.

Coalition Evaluation Based on BPA Principles

2. For facilities below 145 kV, excluding the Delivery Segment, establish a new Sub-Transmission Segment.

   Facilities at less than 145 kV are most likely used to deliver power to end users. The new rate would be applied to customers taking service from BPA's transmission system at point(s) of delivery less than 145 kV.

   The Voltage threshold segmentation proposal of Defining the Network facilities as those facilities at 145-kV or above has a significant impact on a majority of the customers that serve load on the BPA system and is discriminatory against most of the public utilities in the Northwest. Historically, the 115-kV system was considered as part of the Main Grid in the early development of the transmission system, and was the only option for many of the customers to connect to at that time. It was also the low cost option for development of the transmission system at that time.

   For the region to now consider it as sub-grid and not part of the Network, and in turn charge an additional segment charge to most NW utilities and benefiting just a select few is not consistent with BPA's statutory requirements of equitable cost allocation, or avoids rate shock over time, or has public acceptance, or provides a regional benefit as compared to the status quo.

   In addition, the 115-kV system backs up the 230-kV system in many cases, and functions as an integrated network facility, and also is part of some rated network paths.

   And finally, the industry scan shows that 99 percent of the Transmission Providers studied considered the 115-kV system as transmission facilities and not distribution or sub-grid type facilities.

   Michael Raschio—Elcon Associates, INC

Seattle City Light Justification

This approach provides for improved comparability of service and uses between the segments. Frequently referred to as a "bright line" the alternative is simple to apply.

Evaluation Based on BPA Principles

BPA has developed "BPA's Final Segmentation Principles" dated March 20, 2014. The alternative has similarities and differences with the current conditions, which are evaluated.

1. Consistent with statutory requirements
   a. Full and timely cost recovery
      - The alternative includes all facilities and attendant costs, and proposes no changes to BPA's policies and practices regarding cost recovery. Consequently, the alternative should provide for the same cost recovery as the current conditions.

Pre-decisional. For discussion purposes only.

COMMENT FROM FRANKLIN PUD
RECEIVED VIA TECH FORUM ON JUNE 18, 2014

Franklin PUD
Bonneville Power Administration
Comments on Segmentation White Paper
June 18, 2014

Ray and Rebecca –

After reviewing the Regional White Paper on Segmentation Methodology Alternatives, Franklin PUD is supportive of the Status Quo, PNGC and NRU Alternatives.

For some context, Franklin is served at 115 kV at most of its points of delivery, and owns all but one substation. We purchased 4 substations from BPA in the 2005-2006 time-frame (Franklin, Connell, Sagehill and Taylor Flats). We have made substantial investments in some of those substations since their purchase, and plan to spend $2+ million during the next five years to replace some 50-60 year old transformers. The one substation we were not able to purchase, Ringold, delivers energy at 34.5 kV, and serves USBR and Big Bend Electric Coop loads as well as Franklin load, primarily irrigation.

Comments on two different groups alternatives are discussed below:

Status Quo / PNGC / NRU Alternatives:

The industry scan indicates that BPA's current segmentation practice of using 34.5 kV as the threshold between transmission and distribution are well within the norm when compared with other utilities across the nation. It is also consistent with BPA's statutory obligation to encourage the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles.

Under the PNGC Alternative, in terms of dollars and percentages, the increases to the 117 customers that would pay more are minimal; and the dollar impact (savings) to the 49 customers whose transmission costs would be less is also minimal.

If it is determined that a Delivery Charge needs to remain in the transmission rates, the NRU Alternative provides a more fair, and more predictable methodology that will not have rate impacts out of proportion to what happens with PTP and NT rates. It is likely that many of the customers paying delivery charges would, like Franklin, purchase those substations if they could, and it would be unfair to burden them with the entire cost of BPA maintaining the facilities given their age and condition.

Snohomish / IOU / Seattle Alternatives:

The rate shock that would result from each of these alternatives is not feasible. Even with phased-in increases, the "losers" under the most extreme scenario still end up with increases to

their transmission rates approaching 70 percent after the phase-in period, everything else remaining equal. It does not seem fair to change the methodology significantly as these alternatives propose.

Thank you for all the work you have done to educate customers on the history of BPA's segmentation policy, and to make it easier to compare and contrast the alternatives presented during this process.

Linda Esparza

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GLACIER ELECTRIC
COOPERATIVE, INC.

June 12, 2014

Tech Forum
Bonneville Power Administration
911 NE 11th Ave.
Portland, Oregon 97232
techforum@bpa.gov

Re: RE: BPA Regional White Paper: Segmentation Methodology Alternatives
[Submitted Electronically to techforum@bpa.gov]

Glacier Electric Cooperative submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Glacier Electric Cooperative is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail member/owners. Thus, Glacier Electric Cooperative has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. Glacier Electric Cooperative is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank BPA staff for their efforts on the White Paper and the studies of transmission segmentation approaches used in other regions. We also appreciate the principles used to guide decision making, as well as the open and deliberative workshops and analysis of rate impacts of various proposals. This information will be a solid foundation for the Administrator to make a decision regarding segmentation in the BP-16 Rate Case.

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy. As part of this effort, BPA undertook a

comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

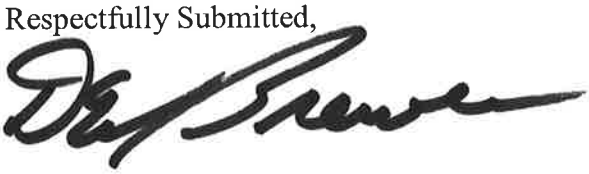
We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues.

Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the extreme adverse financial impact it would have on other customers.

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Respectfully Submitted,



Dan Brewer
Interim General Manager
CC: Northwest Requirements Utilities

SERVICE CENTERS:
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HARNEY ELECTRIC COOPERATIVE, INC.

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Elliot Mainzer, Administrator
Bonneville Power Administration
RE: Transmission Segmentation Discussion and Proposed Principles
Via email: techforum@bpa.gov

Dear Administrator Mainzer:

Harney Electric Cooperative Inc. appreciates this opportunity to comment on BPA's segmentation process and proposed segmentation principles. The issue of BPA's segmentation policy is of paramount concern to our utility, and I appreciate your personal attention to this matter. Harney Electric also supports the comments of Northwest Requirements Utilities (NRU) and urges BPA to adopt the Segmentation principles as proposed by NRU, which we have also included.

One of the primary reasons Congress created BPA was to ensure that the entire Northwest region would have access to affordable electricity. BPA's statutes obligate the agency to "promote the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." In order to meet this objective, BPA has always used a postage stamp rate, which allows all of BPA's public preference customers to receive transmission service at the same affordable price without regard to location or size.

This access to affordable electricity allowed our community to develop and grow, and it continues to be essential to the viability of our local economy. Moreover, due to the nature of our service territory, we have fewer customers to whom we can spread costs. For example:

- Harney Electric has the least dense service territory of any of BPA's customers at less than one half of a customer per mile of line
- Harney serves over 20,000 square miles about 90% of the land in Harney Co. Or. and 75% of the land in Humboldt Co. Nv.
- Harney Co. has an unemployment rate of 11.9%
- 19% of the residents of Harney Co. live below the poverty level
- The average median household income level is $39,000
- The main source of income for our members is ranching and agriculture, mostly growing alfalfa. The agriculture portion utilizes deep wells for water; they are very dependent on reasonable rates to remain competitive.

- Without postage stamp transmission rates, the cost per consumer for energy service would put a huge burden on a few.
- NRU's geek squad has run the numbers for Harney Electric and the cost of our transmission service would double under the proposed scheme.

A few of BPA's larger and more urban customers are now advocating that BPA abandon its longstanding segmentation policy for a policy that would slightly benefit those customers proposing alternatives to the extreme detriment of BPA's smallest and most rural customers. However, BPA remains obligated to encourage the widest possible use of power, and the postage stamp rate should be the baseline to determine whether any alternative segmentation proposal meets the widest use obligation. The rate impacts under any alternative proposal must be as good or better *for the entire region* as compared to the current postage stamp rate.

If an alternative proposal would result in rate impacts that would have BPA's more rural and remote customers paying more for transmission service than the rest of the region, and thereby failing the widest use standard, BPA should not consider it, which also means not engaging in time-consuming technical studies. BPA should not spend valuable staff time and resources doing any analytical work that is not supported by a sound legal and policy basis.

Furthermore, BPA should recognize that utilities throughout the region have planned and built their transmission and distribution systems around BPA's longstanding policy of postage stamp rates. Simply put, we developed our utility's plan of service with a reliance on BPA's application of its longstanding segmentation policy to existing facilities.

Thank you for this opportunity to comment and your continued involvement on this issue. I also appreciate the excellent work by BPA staff to explain the historical and analytical basis for BPA's current segmentation policy.

Sincerely,

Randall Whitaker
General Manager
Harney Electric Cooperative, Inc.

CC: John Saven, Northwest Requirements Utilities

COMMENT FROM HERMISTON ENERGY SERVICES
RECEIVED VIA TECH FORUM ON JUNE 13, 2014

Hermiston Energy Services
Bonneville Power Administration
RE: BPA Regional White Paper: Segmentation Methodology Alternatives
June 13, 2014

Introduction

Hermiston Energy Services in Hermiston, Oregon submits the following comments regarding the Bonneville Power Administration (BPA) "Regional White Paper Segmentation Methodology Alternatives." We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Hermiston Energy Services is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customer-owners. Thus, Hermiston Energy Services has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. Hermiston Energy Services is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "Segmentation Principles," which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles," is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles. This is HES's preferred option.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on Hermiston Energy Services

In the following section we describe the rate impacts for Hermiston Energy Services as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary

level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

The financial impact on Hermiston Energy Services if the Snohomish's Radial Segment (Alternative #4) is implemented would be a **15.1 percent increase**.

The financial impact on Hermiston Energy Services if the IOUs/Large Public Transformation Charge (Alternative 5) is implemented would be 34.8 percent increase.

The above two alternatives would create an undue financial hardship on HES customer-owners and is not supported by us or the ratepayers of the City of Hermiston.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.
Respectfully Submitted,

Nate Rivera
Superintendent
Hermiston Energy Services

CC: Northwest Requirements Utilities

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Nate Rivera
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Idaho County Light & Power Cooperative Association, Inc.
A Touchstone Energy® Cooperative
The power of human connections®

June 11, 2014

Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

Introduction

Idaho County Light & Power Cooperative (ICLP) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

ICLP is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, ICLP has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. ICLP is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for the comprehensive job they have done in preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, for completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

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General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles*," which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.

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- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on Idaho County Light & Power Cooperative

The rate impacts for ICLP as identified in the BPA rate analysis model suggest that further segmenting of transmission costs to the smaller and more rural utilities in any manner only succeeds in greater disparity for those utilities and their customers as compared to the larger generating and urban utilities. We believe a more accurate and equitable formula is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

We clearly cannot support the principles upon which the Snohomish (Alternative #4) or the IOU/Large Public (Alternative #5) transformation charges are based.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Again, we greatly appreciate this opportunity you have provided for review and comment.

Respectfully Submitted,

Jake Eimers
General Manager
Idaho County Light & Power Cooperative

CC: Northwest Requirements Utilities

Idaho Falls Power
A Division of the City of Idaho Falls
"A community with its own kind of energy"
Reliable Public Power Provider

June 18, 2014

Tech Forum Comments
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

RE: Segmentation Proposal Comments Sent via: techforum@bpa.gov

Idaho Falls Power (IFP) appreciates the opportunity to submit our thoughts and comments on the various segmentation proposals that have been presented in the Segmentation White Paper. There are certainly valid points by all parties who have engaged in this discussion. We support the principles that were laid out for analyzing the various proposals, and believe they are on target with BPA's history and statutory obligations.

The current segmentation methodology (Status Quo) has been meeting all of these principles and is consistent with other similarly sized transmission providers around the U.S., as demonstrated in BPA's Industry Scan. Therefore, the Status Quo is the benchmark any new proposals should be measured against in order to create a "superior" policy. Certain proposals are very strong in meeting numerous principles; however by falling short on just one, they should be removed from consideration of creating a "superior" segmentation policy.

Proposal #2 – PNGC – Roll in Utility Delivery Segment

- Short on principle 2a – Cost causation
  - There are a number of sub 34.5 voltage facilities that do not provide a network function and are not purchasable for one reason or another by the user.
- Short on principle 2c – Avoidance of rate shock
  - A 30% plus rate decrease for a few customers on the back of 1% plus increase for a larger number of other customers is not any more supportable than a 30% increase for those customers. Both create rate shock.
  - The proposal states that it would result in only a .3% increase for NT rates, but the BPA Customer Impact Analysis shows a 1.1% increase for IFP.
- Short on principle 3b – Regional benefits / perspective
  - A number of customers since 1996 have purchased their low voltage delivery facilities from BPA. Rolling the existing facilities into the network now would have a rate pancake effect on those utilities that purchased theirs from BPA.

Proposal #3 – NRU – Adjusted Utility Delivery Charge

- The NRU proposal, when looking at the customer impacts, appears to be the proposal that matches up nearest to the Status Quo. There are a number of valid points made for this proposal vs. the Status Quo, i.e.:
  - Is there a double charging effect for overhead expenses in the O&M currently?

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    - Are the values of these facilities accurate when compared with other similar depreciation cycles?
    - Direct assignment of actual O&M expenses.
- The area where this proposal gives me concern is in the accounting changes and what ripple effects this might have in other areas. We could not find any area though, where this proposal fails to meet the principles.

Proposal #4 – Snohomish – Radial Segment

- Short on principle 2b – Simplicity, understandability and feasibility of application
    - The explanation and design given are fairly clear but my concern is with the ability for certain users to be able to easily redesign their system configuration to avoid the segment charge.
- Short on principle 2c – Avoidance of rate shock
    - This is the other side of the coin from proposal #2. According to the BPA Customer Impact Analysis this would result in greater than a 4% rate decrease for 73 customers while 34 customers would experience a greater than 30% increase.
    - The proposal does offer mitigation for rate shock over a 20 year period. Clearly this proposal has a rate shock if it takes 20 years to implement due to the magnitude of rate change.
- Short on principle 3b – Regional benefits compared to Status Quo
    - The greatest benefit is a 5% reduction in rates. 58% of the customers will see a rate decrease of some sort up to 5% while 11% of the customers are strapped with a 50% or greater increase.

Proposal #5 – IOU/Large Publics – Transformation Charge

- Short on 1d – Consistent with sound business principles
    - Moving to a transformation charge would be a completely new direction for BPA and within the industry. We do not know of any large transmission provider that has moved to a transformation charge as outlined in the proposal. This would be uncharted waters for not only BPA but the industry.
- Short on 2b – Simplicity, understandability and feasibility
    - Similar concerns as listed for 1d, in that there is no industry precedence for us to understand the feasibility of this type of change. There are always unintended consequences with all policy changes and there would be greater risk with this type of 'first in the industry' change.
- Short on 3b & c – Region benefits from the alternative and uniform rates
    - Essentially the proposal would separate the network into two main cost buckets; wires and transformers. This would be moving away from uniform rates when you have separate charges for each type of transformation that is done. What about 500/345/230 transformations? One customer's 115 or 69kv delivery serves the same function as larger customers' 230 or 345kv delivery.

Proposal #6 – IOU/Large Publics – Seven Factor Test

- Short on 1d – Widest use at lowest rates consistent with sound business principles
    - Using the seven factor test for determination of network facilities is not consistent with sound business principles as was already covered in the BP-14 rate case.
- Short on 2 – Consistent with rate making principles
    - A seven factor test is a retail test and not for wholesale network use.
- Short on 3b & c – Regional benefits & widest possible diversified use
    - Proposal #6 in our view would narrow the uniform rates that have been applied historically while adding additional complexity to the rate structure. The benefits of this complexity are spread to a few customers while the costs are shouldered by a greater number of other customers.

Proposal #7 – Seattle City Light – Voltage Threshold

- Short on 1d – Widest use at lowest rates consistent with sound business principles
    - Moving to a 145 kV bright line threshold would create additional rate pancaking for smaller customers, further driving up their costs for wholesale power deliveries. Additional rate pancakes is not consistent with widest possible diversified use of the system.
- Short on 2 – Consistent with rate making principles
    - A bright line of 145 kV does not recognize how numerous customers use 115 & 69 in a traditional network manner. A number of these sub 145 kV facilities also provide network back-up creating needed redundancy and network stability. A bright line at this high of voltage level would not recognize the current unique use of different facilities in the network.
- Short on 2c - Avoidance of rate shock
    - In similar spirit to proposals #2 and #4, proposal #7 has dramatic effects on customers' rates depending upon what side you are on. This proposal has double digit percent increases and decreases. According to the BPA Impact Study, 15% of the customers would see a 20% or greater decrease in their rates while, 57% of the customers would see a 40% or greater increase in their rates. These are large magnitude changes which would certainly create rate shock to most of the customers.
- Short on 3c – Uniform rates for widest possible diversified use
    - By moving from 34.5 kV up to 145 kV would be a dramatic change from uniform rates for a wide diversified use of the system. It would create the argument of the need to further separate 115 kV or even 69 kV level voltages from the costs of 34.5 kV since a number of these facilities are so different in their use. This would create the argument for another segmenting of the system based upon more granular voltage levels, creating more rate pancaking along with narrowing of the uniform rates and use.

Idaho Falls Power appreciates the BPA and staff bringing the topic of segmentation to the customers to discuss, propose and analyze how potential changes could benefit the region and the customers we serve. The region benefits with wide customer engagement and

dialogue on potential rate and policy changes. At this time we feel that the historic 34.5 kV segmentation policy created in 1996 has served the region well and cannot find a compelling argument for change. Under most of the proposals above, Idaho Falls Power would recognize a reduction on our transmission expenses. While this is certainly a benefit financially for our customers, we feel this would come at too great of cost in a divergence from BPA's statutory requirements and history. Rate and policy stability are of greater value to IFP than these limited reductions in our current transmission costs.

Thank you

Bear Prairie

Bear Prairie
Assistant General Manager

cc. File BP/145
cc. Nancy Schimmels, BPA
cc. Jackie Flowers, IFP

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Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

June 17, 2014

Introduction

Inland Power and Light submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Inland Power is a Load Following customer of BPA that relies on BPA Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we must pass on to our retail customers. Thus, Inland Power has a significant financial, as well as policy interest, in the approach BPA takes to assigning costs of the Network. Inland Power serves a largely rural area with only 5 customers per mile of line compared to the Washington state utility average of over 40 customers per mile of line. Because of the varied and numerous challenges related to economic sustainability and development in Inland Power's service territory, affordable electric rates are critically important.

Inland Power is a member of Northwest Requirements Utilities (NRU). We fully support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary and highly professional job in preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This extensive information and the related analyses greatly assists us in preparing these comments and will be a solid foundation for the BPA Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

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We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,"* is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this requirement. This process has clearly not provided an alternative that better achieves this statutory requirement, while also realizing the other segmentation principles.

<u>Discussion of Network Segment Alternatives</u>

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
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- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal

5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on Inland Power

Below we describe the rate impacts for Inland Power as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Both the Snohomish Radial Segment and the IOU/Large Public Transformation Charge alternatives would significantly impact Inland Power's cost of transmission service. With an annual rate impact of 8.9% and 6.5%, respectively, these alternatives would place a significant and unwarranted cost burden on Inland Power and its retail customers. As previously noted, Inland Power's service territory already presents various challenges to providing affordable electric service. The allocation of any additional costs to Inland Power, particularly costs stemming from concepts that are inconsistent with long standing practice and statutory requirements, is not appropriate. Furthermore, it would be fundamentally inappropriate for a transmission provider such as BPA to directly assign the cost of facilities to an end user or users

after the facilities have been built, rolled into the Network, and utilities such as Inland Power have planned, invested in and built their own systems based on BPA's longstanding policy of using postage stamp rates.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores both the history of how BPA and its customers developed the Network and how customers in turn planned and developed their own facilities, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Fred Rettenmund

CC: Northwest Requirements Utilities

COMMENTS ON
NETWORK ALTERNATIVE 1
STATUS QUO

These comments of Avista Corporation, Iberdrola Renewables, LLC, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. are on the status quo, under which the threshold between the Utility Delivery Segment and the Integrated Network Segment is 34.5 kV – facilities below 34.5 kV are assigned to the Utility Delivery Segment, and facilities 34.5 kV and above not assigned to other segments are assigned to the Integrated Network Segment.

Historically, BPA built lower voltage facilities to serve a subset of its customers. For example, these customers, which receive deliveries at lower voltages, avoid incurring the costs of transformation facilities to step the voltage down from higher voltages. BPA customers not in this subset installed and incurred the costs of their own facilities to step the voltage down from higher voltages at which they receive deliveries from BPA.

The White Paper correctly recognizes that the "status quo alternative was generated from a non-precedential rate settlement" in 1996. Prior to 1996, the costs of BPA's lower voltage facilities were separately identified as being in the Fringe Segment, and these costs were not included in the Integrated Network Segment. The Fringe Segment was rolled into the Integrated Network Segment in 1996. The roll-in of the Fringe Segment into the Integrated Network Segment had a significant financial impact on transmission customers. As described in the 1987 Segmentation Study, Fringe facilities were described as those "facilities that serve local power purchasers at voltages above 69-kV . . . serve a specific load area where BPA serves all the load . . . serve customer substations and carry power primarily for local use without significant through-flow." The 1987 Segmentation Study identified 7 percent of BPA's Transmission Plant and 11 percent of O&M costs as being related specifically to the Fringe Segment, costs that have been borne by Integrated Network Segment customers since 1996.

Principle: Consistent with statutory requirements – Equitable cost allocation between federal and non-federal uses of the Transmission system

The status quo fails to reflect different charges for different services received using facilities of the Integrated Network Segment. Lower voltage Integrated Network Segment facilities were installed for and used to provide service to a subset of BPA's transmission customers. Accordingly, a uniform charge for higher voltage and lower voltage Integrated Network Segment facilities fails to equitably allocate the cost of Integrated Network Segment facilities.

Principle: Consistent with statutory requirements – Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

The status quo does not align with cost causation because it fails to reflect different charges based on the facilities used to provide services received from BPA. This is particularly

appropriate in light of the fact that BPA's lower voltage Integrated Network Segment facilities are used predominately to serve a subset of BPA's transmission customers.

The status quo fails to send an appropriate price signal because the charges for facilities are not borne by those who receive services over those facilities. Accordingly, the status quo fails to promote efficient transmission facility decisions.

Principle: Consistent with rate making principles – Cost causation

The roll-in of the Fringe Segment into the Integrated Network Segment moved away from cost causation as a ratemaking principle. The status quo fails to align with cost causation because it fails to reflect different charges based on the facilities used to provide services received from BPA. This is particularly appropriate in light of the fact that BPA's lower voltage Integrated Network Segment facilities are used predominately to serve a subset of BPA's transmission customers.

Principle: Considers a regional perspective – Comparison of the alternative to the status quo

For the reasons discussed above, the status quo is inconsistent with cost causation and fails to send an appropriate price signal.

COMMENTS ON
NETWORK ALTERNATIVE 2
ROLL-IN UTILITY DELIVERY SEGMENT

These comments of Avista Corporation, Iberdrola Renewables, LLC, PacifiCorp, Portland General Electric Company, Powerex, and Puget Sound Energy, Inc. are on Network Alternative 2 – Roll In Utility Delivery Segment. Basically, Network Alternative 2 would roll into BPA's Integrated Network Segment the Utility Delivery Segment facilities, which are facilities below 34.5 kV and used to deliver power to BPA's preference customers.

Under Network Alternative 2, the entire costs – current and future – of the Utility Delivery Segment would be transferred to the Integrated Network Segment, where they would be shared by BPA customers that do not use or benefit from Utility Delivery Segment facilities. This is particularly important because the Utility Delivery Segment facilities were built only for the subset of BPA customers using those facilities and because the future costs of those facilities are uncertain, given their typical age.

In light of these factors, it would be inequitable and inappropriate to transfer any Utility Delivery Segment costs to the Integrated Network Segment. Further, such a transfer of costs would be unfair to those customers that have purchased the Utility Delivery Segment facilities that serve them. In any event, any such transfer would be premature in light of the future cost uncertainties discussed above and the fact that there may well be additional BPA sales of Utility Delivery Segment facilities.

The following should be noted with regard to whether this alternative is consistent with several of the key principles enunciated by BPA for evaluation of alternatives in the White Paper.

Principle: Consistent with statutory requirements – Equitable cost allocation between federal and non-federal uses of the Transmission system

Network Alternative 2 would less closely align with cost causation than the status quo because the facilities that are currently in the Utility Delivery Segment are solely for the use and benefit of the customers served by those facilities. Under Network Alternative 2, the costs of facilities currently in the Utility Delivery Segment, which are currently borne by the users of those facilities, would be borne by customers using BPA's Integrated Network facilities.

Principle: Consistent with statutory requirements – Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

Network Alternative 2 would less closely align with cost causation than the status quo because the facilities that are currently in the Utility Delivery Segment are solely for the use and benefit of the customers served by those facilities. Network Alternative 2 would send an inferior price signal because costs of facilities in the Utility Delivery Segment would not be borne solely by the BPA customers that use and benefit from the use of such segment. As such, Network

Alternative 2 would lack transparency and fail to promote efficient transmission facility decisions.

Principle: Consistent with rate making principles – Cost causation

Network Alternative 2 would less closely align with cost causation than the status quo because the facilities that are currently in the Utility Delivery Segment are solely for the use and benefit of the customers served by those facilities.

Principle: Considers a regional perspective – Comparison of the alternative to the status quo

Network Alternative 2 is inferior to the status quo and would be less consistent with cost causation, would send an inferior price signal, would discourage further BPA sales of these low voltage facilities, and would be inequitable to users of BPA's Integrated Network Segment and to those customers that have purchased the Utility Delivery Segment facilities that serve them.

COMMENTS ON
NETWORK ALTERNATIVE 3
MAINTAIN ADJUSTED UTILITY DELIVERY CHARGE

These comments of Avista Corporation, Iberdrola Renewables, LLC, PacifiCorp, Portland General Electric Company, Powerex, and Puget Sound Energy, Inc. are on Network Alternative 3 – Maintain Adjusted Utility Delivery Charge. Basically, Network Alternative 3 would retain the Utility Delivery Segment but cap the rate for that segment at a rate that is increased above current levels but would remain substantially below the cost of the facilities in that segment.

Under Network Alternative 3, a portion of the costs – current and future – of the Utility Delivery Segment would be transferred, subject to a cap, to the Integrated Network Segment, where they would be shared by BPA customers that do not use or benefit from Utility Delivery Segment facilities. This is particularly important because the Utility Delivery Segment facilities were built only for the subset of BPA customers using those facilities and because the future costs of those facilities are uncertain, given their typical age. The design of the cap on costs borne by the Utility Delivery Segment should not expose the Integrated Network Segment to future increases in the costs of Utility Delivery Segment facilities.

Any transfer of Utility Delivery Segment costs to the Integrated Network Segment is inequitable and inappropriate. (Network Alternative 3's allocation of a portion of the costs of the Utility Delivery Segment to the users of those facilities is recognized; however, Network Alternative 3 moves away from the principle of cost causation and would result in a permanent undercollection of Utility Delivery Segment costs from the users of those facilities.) Further, such a transfer of costs would be unfair to those customers that have purchased the Utility Delivery Segment facilities that serve them. In any event, any such transfer would be premature in light of the future cost uncertainties discussed above and the fact that there may well be additional BPA sales of Utility Delivery Segment facilities.

The following should be noted with regard to whether this alternative is consistent with several of the key principles enunciated by BPA for evaluation of alternatives in the White Paper.

Principle: Consistent with statutory requirements – Equitable cost allocation between federal and non-federal uses of the Transmission system

Network Alternative 3 would less closely align with cost causation than the status quo because the facilities that are currently in the Utility Delivery Segment are solely for the use and benefit of the customers served by those facilities. Under Network Alternative 3, the underrecovery of costs in the Utility Delivery Segment would be borne by customers using BPA's Integrated Network facilities.

Principle: Consistent with statutory requirements – Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

Network Alternative 3 would less closely align with cost causation than the status quo because the facilities that are currently in the Utility Delivery Segment are solely for the use and benefit of the customers served by those facilities. Network Alternative 3 would send an inferior price signal because costs of facilities in the Utility Delivery Segment would not be borne solely by the BPA customers that use and benefit from the use of such segment. As such, Network Alternative 3 would lack transparency and fail to promote efficient transmission facility decisions.

Principle: Consistent with rate making principles – Cost causation

Network Alternative 3 would less closely align with cost causation than the status quo because the facilities that are currently in the Utility Delivery Segment are solely for the use and benefit of the customers served by those facilities.

Principle: Considers a regional perspective – Comparison of the alternative to the status quo

Network Alternative 3 is inferior to the status quo and would be less consistent with cost causation, would send an inferior price signal and would be inequitable to users of BPA's Integrated Network Segment and those customers that have purchased the Utility Delivery Segment facilities that serve them.

COMMENTS ON
NETWORK ALTERNATIVE 4
DEVELOP A "RADIAL" SEGMENT

These comments of Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. are on Network Alternative 4 – Develop a "Radial" Segment.

The consistency of this alternative with the principles enunciated by BPA for evaluation of alternatives in the White Paper is discussed by the sponsor in the White Paper, but the following additional comments are provided.

Principle: Consistent with statutory requirements – Equitable cost allocation between federal and non-federal uses of the Transmission system

Network Alternative 4 would more closely align with cost causation than the status quo because it reflects charges for facilities based on the function of the facilities used to provide service.

Principle: Consistent with statutory requirements – Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

Network Alternative 4 would more closely align with cost causation than the status quo because it reflects charges for facilities based on the function of the facilities used to provide service. This is particularly appropriate in light of the fact that facilities performing a particular function as identified by the radial test were built and are used to provide service to the customers receiving service over those facilities.

Network Alternative 4 would send a superior price signal as compared with the status quo because the charges for facilities would be borne by those who receive services over those facilities. Accordingly, this alternative would promote efficient transmission facility decisions.

Principle: Consistent with rate making principles – Cost causation

Network Alternative 4 would more closely align with cost causation than the status quo because it reflects charges for facilities based on the function of the facilities used to provide service. This is particularly appropriate in light of the fact that facilities performing a particular function as identified by the radial test were built and are used to provide service to the customers receiving service over those facilities.

Principle: Consistent with rate making principles – Avoidance of rate shock

The mitigation plans proposed by the sponsor are simple and understandable. They are based on the development of the total identified Radial Service Revenue Requirement and would appropriately mitigate rate shock as may be necessary while providing transparency in BPA's

ratemaking processes. Mitigation of rate shock is best considered in the context of the particular alternative selected and its form.

Principle: Considers a regional perspective – Comparison of the alternative to the status quo

For the reasons discussed above, Network Alternative 4 is superior to the status quo and would be more consistent with cost causation and would send a superior price signal.

COMMENTS ON
NETWORK ALTERNATIVE 5
DEVELOP TRANSFORMATION CHARGE

These comments of Avista Corporation, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. are on Network Alternative 5 – Develop transformation charge. For the transformation-charge alternative, two options are under discussion:

(i) one-step transformation charge; and

(ii) two-step transformation charge.

The consistency of the transformation-charge alternative with the principles enunciated by BPA for evaluation of alternatives in the White Paper is discussed in the White Paper, but the following additional comments are provided.

Principle: Consistent with statutory requirements – Equitable cost allocation between federal and non-federal uses of the Transmission system

Network Alternative 5 would more closely align with cost causation than the status quo because it reflects different charges based on the transformation services received from BPA.

Principle: Consistent with statutory requirements – Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

Network Alternative 5 would more closely align with cost causation than the status quo because it reflects different charges based on the transformation services received from BPA. This is particularly appropriate in light of the fact that BPA's lower voltage Integrated Network Segment transformer facilities are used predominately to serve a subset of BPA's transmission customers.

Network Alternative 5 would send a superior price signal as compared with the status quo because the charges for facilities would be borne by those who receive services over those facilities. Accordingly, these alternatives would promote efficient transmission facility decisions.

Principle: Consistent with rate making principles – Cost causation

Network Alternative 5 would more closely align with cost causation than the status quo because it reflects different charges based on the transformation services received from BPA. This is particularly appropriate in light of the fact that BPA's lower voltage Integrated Network Segment facilities are used predominately to serve a subset of BPA's transmission customers. Historically, BPA built lower voltage facilities to serve a subset of its customers. These customers, which receive deliveries at lower voltages, avoid incurring the costs of transformation facilities to step the voltage down from higher voltages. BPA customers not in this subset

installed and incurred the costs of their own facilities to step the voltage down from higher voltages at which they receive deliveries from BPA.

The two-step transformation charge is more consistent with cost causation than the one-step transformation charge because it better reflects the voltage transformation service received by customers. Accordingly, the two-step transformation charge results in a greater rate impact on the customers that receive greater transformation service.

Principle: Consistent with rate making principles – Avoidance of rate shock

Although Network Alternative 5 included a proposal for mitigation of rate shock, mitigation of rate shock is best considered in the context of the particular alternative selected and its form.

Principle: Considers a regional perspective – Comparison of the alternative to the status quo

For the reasons discussed above, Network Alternative 5 is superior to the status quo and would be more consistent with cost causation and would send a superior price signal.

KootenaiElectric
COOPERATIVE
A Touchstone Energy® Cooperative

Via email: techforum@bpa.gov

June 11, 2014

Bonneville Power Administration
905 N.E. 11th Avenue
P.O. Box 3621
Portland, OR 97208-3621

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Introduction

Kootenai Electric Cooperative submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Kootenai Electric Cooperative is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, Kootenai Electric Cooperative has a significant financial as well as policy interest in the approach the Agency takes to Network assignment costs. Kootenai Electric Cooperative is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU which has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for an exemplary job in preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops and, finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and which have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet and, of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 – Status Quo:* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.

- *Alternative 2 – Roll in Utility Delivery Segment (PNGC):* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.

- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU):* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.

- *Alternative 4 – Develop a Radial Segment (Snohomish PUD):* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a near doubling in rates for fully impacted customers (if all of their service lines are radial). Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.

- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics):* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 – Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics):* Our understanding is that this alternative was only a fallback for the IOUs/large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.

- *Montana Intertie – Status Quo (Public Power Council):* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.

- *Montana Intertie – Roll IM Rate into the Network (Gaelectric):* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.

- *Seattle Staff Proposal:* We understand that Seattle City Light staff made a last minute verbal request at the end of the segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. BPA provided ample time for its customers to formally present segmentation proposals and many did. Due to the significance of this issue, the very fact this proposal was made with such informality should serve as grounds to dismiss it. Even so, BPA chose to quantify the impact of the verbal proposal. Given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on Kootenai Electric Cooperative

According to BPA's analysis, Kootenai Electric Cooperative's members could anticipate transmission rates to increase by 1.4% to 6.5% if either the Snohomish or IOU proposals were implemented. Such an increase would purportedly, and arbitrarily, impose an additional $30,000 to $141,000 of annual costs on our members. We suspect the actual financial impact of these proposals is in fact greater than stated.

We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission-related costs such as ancillary services.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending on the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

In its consideration of these proposals, BPA should also be mindful that unintended consequences often result when changes of this significance are implemented. While this risk should not deter the agency from making necessary change, it must be recognized that risk exists. Kootenai Electric Cooperative is concerned that many of the proposals, if implemented, would create additional problems which BPA (and its customers) would need to be responsive to in the future.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network and hinders regional cooperation to address the truly important issues we face.

Thank you again for this opportunity to comment.

Respectfully submitted,

Douglas A. Elliott
General Manager

cc: Northwest Requirements Utilities

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June 16, 2014

Elliot Mainzer, Administrator
Bonneville Power Administration
Via email: techforum@bpa.gov
June 16, 2014

Dear Administrator Mainzer:

Thank you for allowing me the opportunity to comment on the Transmission Segmentation proposals that have been brought forward by various interest groups in the region. As you are well aware my members here at Lincoln Electric are struggling to make ends meet during these difficult economic times. Our Cooperative has made substantial cuts in our work force to try and offset the current BPA increases and their affects on our members. With that in mind I strongly encourage you to reject any proposals that would unfairly redistribute the cost of the transmission system.

The founding principles on which BPA was organized needs to remain the focus for its existence today. "Encouraging the widest possible diversified use at the lowest possible rates consistent with sound business principles" is a standard that any proposed segmentation methodology must pass to even be considered. I want to reiterate that any methodology that shifts current costs from one customer base to another should be rejected.

BPA's long history of extending the transmission system to remote areas such as ours was key to the economic survival of Eureka and the surrounding country side. Keeping that system affordable is just as important today as it was in 1950 when Bonneville extended its reach to our community. Please remember that we did not get to choose our delivery voltage or dictate the manner in which it would be accomplished. That was Bonneville's decision based on the best economics at the time.

I realize that I have not based my appeal on technical merits as many others from PNGC, NRU and utilities at large but rather on the emotional and policy aspects of the issue. Again, it is simple; my members cannot afford even the increases that Bonneville is currently suggesting in the IPR process let alone the enormous increase any new segmentation proposal would impose.

Thank you for your time and consideration,

V. Ray Ellis, Jr.
General Manager
Lincoln Electric Cooperative
Eureka, Montana

This institution is an equal opportunity provider and employer.

LOWER VALLEY ENERGY
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Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

June 10, 2014

Introduction

Lower Valley Energy submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives*." We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Lower Valley Energy is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Therefore, Lower Valley Energy has a significant financial interest, as well as policy interest, in the approach the BPA takes to assigning costs of the network. Lower Valley Energy is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the Regional White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the BPA Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing network facilities from delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles*," which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diver-*

sified use of electric power at the lowest possible rates to consumers consistent with sound business principles," is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo*: The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery seg ment, BPA should retain the Status Quo.

- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)*: BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.

- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)*: BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.

- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)*: This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair. This alternative would have little impact directly on Lower Valley Energy while the South Idaho Exchange is still being utilized. However, the impact could be significant to Lower Valley Energy depending on what alternative BPA ultimately uses to replace the South Idaho Exchange, which will expire in 2016.

- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)*: This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below, is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers, to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 kV (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 - Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)*: Our understanding is that this alternative is only a fallback for the IOUs/Large Publics in the event they discarded alternative #5. In any event, we note that the Regional White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven

factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.

- *Montana Intertie – Status Quo (Public Power Council)*: We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.

- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)*: We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.

- *Seattle Staff Proposal*: We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on Lower Valley Energy

In the following section we describe the rate impacts for Lower Valley Energy as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Alternative #4 (Snohomish Radial Segment) per the BPA customer impact summary would result in an estimated reduction in Lower Valley Energy's costs of 4.4%. However, when an alternative to the South Idaho Exchange is implemented by BPA, this alternative could place a significant financial burden on Lower Valley Energy and its customers.

Alternative 5 (IOUs/Large Public Transformation Charge) would have a 6.8% negative impact to Lower Valley Energy per the BPA customer impact summary. Once again, that cost could be significantly higher and detrimental to our customers when an alternative to the South Idaho Exchange is implemented.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of

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whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

We feel strongly that the region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thank you again for this opportunity to comment.

Respectfully Submitted,

James R Webb
President/CEO
Lower Valley Energy

CC: Northwest Requirements Utilities

McMinnville WATER and LIGHT

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June 11, 2014

Sent via email to techforum@bpa.gov

Bonneville Power Administration
Portland, Oregon

Subject: BPA Regional White Paper: Segmentation Methodology Alternatives

McMinnville Water & Light (MWL) is a load following customer of the Bonneville Power Administration (BPA). MWL is also a member of Northwest Requirements Utilities (NRU) and the Public Power Council (PPC). MWL is in agreement with the NRU segmentation alternative and is in agreement with PPC as it relates to treatment of the Montana Intertie proposal. MWL believes that transmission segmentation alternatives that drastically change the cost recovery methodology used by BPA should be rejected. We offer the following comments:

1. Since 1996, rate cases have upheld the current transmission segmentation methodology. FERC has accepted the methodology. If one could make the case for a different transmission segmentation rate methodology, at best the cost recovery methodology should be applied going forward and not retroactively. The white paper cites examples of utilities that may change cost recovery methods based on future loads, equipment, customers, etc. but grandfather customers that have been served based on long established cost of service rates.
2. FERC has encouraged rolled in rates when any amount of integration of transmission facilities is involved. To test this FERC preference at this late date will probably only add to BPA's future legal costs.
3. The proposals which indicate that a different voltage level or new radial/looped classification may better represent more accurate cost causation accounting fail to credit the original capital improvement process in evaluating the most cost effective method to install the transmission facility improvement. Most low voltage radial systems that exist today may have cost rate payers much more if high voltage looped systems were preferred based on preferential transmission or delivery rates.
4. Another topic that is not addressed is the reliability of service. BPA customers that enjoy a looped transmission system at or near their delivery points also enjoy an increased reliability and power quality when compared with many BPA customers on an extended radial transmission line. Should there be cost differences based on the level of reliability or quality of electric transmission service?

5. Existing customers and future customers should be able to expect that the basis of their capital infrastructure improvements to serve their customers is valid for the useful life of their infrastructure. If BPA changes how they recover costs in a retroactive manner to customers who have paid cost of service rates for decades and subject those customers to rate shock, how will utilities be able to have any certainty going forward that the basis of their capital improvements and rates are valid?
6. Alternative 4 – (Snohomish), Alternative 5 – (IOUs/Large Publics), Alternative 6 – (IOUs/Large Publics) and the Seattle Staff Proposal are all proposals that begin with a finished result that would give certain utilities favorable rate treatment and work backwards to create a plausible way to accomplish the goal. These proposals, if adopted, would violate BPA Segmentation Principles, ignore how the BPA transmission system was developed, and create an atmosphere that is counterproductive to BPA and its customers' success.
7. The rate impact to MWL ranges from less than 1% to more than 25% depending on the alternative chosen. Other NRU customers would experience even more dramatic ranges varying from double digit decreases to double digit increases depending on the alternative chosen. If a transmission alternative was selected by BPA that dramatically changed transmission rates to customers and was enacted retroactively, it is probable that a corresponding power rate alternative would be required by BPA in future rate cases to address proper cost recovery rates.

McMinnville Water & Light strongly recommends rejection of transmission segmentation alternative proposals that will dramatically change the cost recovery methods of BPA. Thank you for the opportunity to comment on this issue.

Sincerely,

Kem M. Carr
General Manager

Copy: Northwest Requirements Utilities
Public Power Council

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A Touchstone Energy® Cooperative
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Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

June 11, 2014

Introduction

Midstate Electric Cooperative (MEC) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

MEC is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, MEC has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. MEC is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles*," which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible*

diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles," is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate constructed to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
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- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this

option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on MEC

The cost analysis of the various alternative proposals shows MEC would benefit from some, and others would drive up our costs. MEC strongly believes that this process has not provided a better alternative than the "postage stamp rates" used in the past by BPA to achieve the statutory requirements of principle 1 (d) while also realizing the other segmentation policies.

MEC fully supports the comments submitted by NRU.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Dave Schneider
General Manager

CC: Northwest Requirements Utilities

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MISSIONVALLEYPOWER
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June 11, 2014

Bonneville Power Administration

Via email: techforum@bpa.gov

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Ladies & Gentlemen:

Mission Valley Power submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Mission Valley Power (MVP) is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, MVP has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. MVP is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles*," which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,"* is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
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and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
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Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation

policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Ralph Goode
General Manager

CC: Northwest Requirements Utilities

Western Montana Electric Generation and Transmission

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To: Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

Date: June 12, 2014

Introduction

Missoula Electric Cooperative submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Missoula Electric Cooperative (MEC) is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, MEC has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. MEC is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

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We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

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Impacts on NT Transmission Customers

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Thanks again for this opportunity to comment.

Respectfully Submitted,

Mark C. Hayden
General Manager

CC: Northwest Requirements Utilities

MODERN ELECTRIC WATER COMPANY

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904 North Pines Road • P.O. Box 14008 • Spokane Valley, WA 99214-0008

Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

June, 17, 2014

Introduction

Modern Electric Water Company (MEWCO) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

MEWCO is a Load following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, MEWCO has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. MEWCO is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

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Discussion of Network Segment Alternatives

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- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.

- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council).* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric).* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on Modern Electric Water Company

In the following section we describe the rate impacts for MEWCO as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the

opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Michael Baker
General Manager
Modern Electric Water Company

CC: Northwest Requirements Utilities
Modern Electric Water Company Board of Directors

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CITY OF MONMOUTH

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Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

June 13, 2014

Introduction

The City of Monmouth submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

The City of Monmouth is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, The City of Monmouth has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. The City of Monmouth is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

Home of Western Oregon University
MAYOR John Oberst, COUNCILORS Chris Larsen, Ben Meyer, Darin Silbernagel, Jon Carey, Cecelia Koontz, Kenn Lehto

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 - Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on the City of Monmouth

The rate impacts for the City of Monmouth as identified in the BPA rate analysis model would place undue rate pressure on the customers of Monmouth Power & Light. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT

customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Chuck Thurman

Chuck Thurman

Superintendent, Monmouth Power and Light

CC: Northwest Requirements Utilities

Comments of the M-S-R Public Power Agency
Regarding Bonneville Power Administration's
Segmentation Whitepaper

The M-S-R Public Power Agency is a joint powers agency formed by the Modesto Irrigation District, and the Cities of Santa Clara and Redding, California, each of which is a consumer owned utility. Beginning with a 2005 contract, M-S-R obtained contractual rights to the output from some of the first large scale wind resources developed in Washington State. M-S-R and its members currently have rights to 350 MW of wind generation in Washington and Oregon, which its members use to serve their customers and meet California's Renewable Portfolio Standards (RPS). Those customers ultimately bear the cost of the Bonneville Power Administration ("BPA") transmission rates.

M-S-R appreciates the opportunity to comment on BPA's Segmentation Whitepaper. M-S-R submits limited comments addressing two points: the complexity of certain proposals; and equity issues associated with the Montana Intertie proposal.

Network Segment Alternatives (1-7). M-S-R is not supporting any particular segmentation alternative at this time, rather M-S-R supports a structural change that complies with the principles established at the outset of the segmentation workshops. Those principles reasonably reflect the competing issues that must be considered when creating a methodology that charges customers for the facilities they use, while also considering the statutory purpose for which certain facilities were developed, the system costs avoided due to historical decisions to serve areas using lower voltages and/or single feeds, and reduces rate shock. Several of the principles are served by dividing the existing network segment into further segments so customers do not pay for facilities they do not use. For example, the single transformation (Alternative 5) and the high/low voltage split (Alternative 7) proposals would create structures that follow cost causation principles by charging customers for the group(s) of facilities used to provide them with service. While structurally sound from a cost causation perspective, Alternatives 5 and 7 may not reflect the "widest possible diversified use" statutory goals for which the facilities were designed. Finally, adoption of many of the alternatives would require some form of rate mitigation, given the potential rate increases that were identified as being upwards of 110%.

Montana Intertie Alternatives. With regard to the proposal to roll-in the Eastern Intertie, M-S-R notes that BPA rolled in the Northern Intertie in 1996. Rolling in the Eastern Intertie would leave only the Southern Intertie as a stand alone segment. It would be inequitable to subject users of the Southern Intertie to pancaked rates while all other interties enjoy a single rolled-in rate. This is particularly true given the system benefits provided by the Southern Intertie, including access to the large Southwest load centers for BPA to market secondary sales and economy purchases from entities and markets in the Southwest. M-S-R submits that roll-in of the Eastern Intertie cannot be reasonably considered without also rolling in the Southern Intertie.

M-S-R looks forward to further dialogue regarding the segmentation proposals.

NORTHERN LIGHTS, INC.
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Elliot Mainzer, Administrator
Bonneville Power Administration
Portland, OR
Via techforum@bpa.gov

RE: Regional White Paper Segmentation Methodology Alternatives

June 18, 2014

Dear Elliot:

We have reviewed the Bonneville Power Administration Regional White Paper: Segmentation Methodology Alternatives and appreciate the thoroughness with which your staff has conducted the segmentation process. They have allowed all parties to submit different ideas pertaining to segmentation and have provided useful analysis of the various alternatives. As a cooperative utility, we believe our mission is to bring electricity to our members, no matter where they are located, at affordable prices. We believe BPA's mission is similar: to facilitate the widest possible use at the lowest possible cost to consumers consistent with sound business principles. With this in mind, we offer the following comments on the various proposals.

Network Alternative 1 – Status Quo

Although the status quo segmentation methodology has many positive aspects, its treatment of utility delivery facilities, if not addressed, will violate the principles BPA and its customers set forth at the beginning of this segmentation process and create significant hardship for those utilities that take delivery under 34.5 kV. BPA's past policies provided utilities, especially smaller utilities, with delivery points at lower voltages. BPA often provided delivery voltages based on considerations such as proximity to Corp or Bureau facilities, and BPA's own policies. Consequently, many utilities simply took the delivery voltage that BPA provided. In 1996, the Utility Delivery Charge (UDC) was implemented as one result of a rate case settlement. Now however, the UDC has become a rate pancake and threatens to act as a doubling on network rates under the status quo. If the Status Quo alternative means another 25% rate increase in UDC on top of the 25% in the last rate case, then this alternative can no longer be considered to provide the "widest possible use at the lowest possible cost to consumers consistent with sound business principles." The anticipated rate increase to UDC will instead cause rate shock, create a permanent underclass of transmission users who pay the equivalent of two times the NT base rate, and will negatively impact rural electrification and rural economies.

We therefore urge you to either adopt the PNGC proposal, which we discuss in more detail below, or to find a way to make the UDC rate reasonable and stable over time.

Network Alternative 2 - PNGC - Roll in of Utility Delivery Segment into Network Segment

PNGC's alternative recognizes that the vast majority of delivery substations that are able to be purchased from a utility point of view, have already been purchased. The remaining stations are extremely unlikely to be

purchased no matter how high the delivery charge goes. Instead of implementing a punishing UDC increase, we urge you to adopt this proposal which acknowledges that the UDC is at the end of its useful life. BPA acknowledges that facilities in the Utility Delivery segment are wholesale transmission facilities. Rolling them in to the Network Segment would provide significant relief from the pancaked UDC to 50 utilities, while having a very minimal rate to other customers. This proposal certainly accomplishes BPA statutory mission of the widest possible use at lowest possible cost to consumers.

Network Alternative 3 - NRU - Maintain Adjusted Utility Delivery Charge

NRU's proposal also addresses the rate shock that utilities that are subject to the UDC will pay if the status quo is kept. Because it addresses rate shock and rate stability, it is worthy of consideration as an alternative.

Network Alternative 4 - Snohomish – Develop a Radial Segment Charge

Snohomish's proposal to segment radial facilities away from the Network segment runs counter to the history of BPA and the region and violates the principles set forth in this segmentation process. If implemented, this proposal would have a considerably negative impact on most of public power. This proposal would provide three transmission charges to the 100+ customers who also pay the Utility or the GTA Delivery Charge: 1) NT Base charge, 2) Radial segment charge, and 3) Utility or GTA Delivery Charge. It would be an unraveling of much of the good BPA has accomplished over its history. BPA made it possible for the farms and rural communities of this region to be electrified. It did this by building transmission out to where no IOU would build, and then charging a single, uniform network rate for use of that transmission, no matter where a utility was located. In accomplishing these aims, BPA planned its transmission network as a single utility system, meaning some utilities were served radially, although they would have strongly preferred looped service.

Further, Snohomish's proposal results in an additional rate pancake and in large rate increases (31% on average) to 69 customers who are served across radial facilities to produce a small rate decrease (4% on average) for 97 customers.

This proposal would create make utilities served by radial lines permanent second class citizens. It is the antithesis of BPA's mission of "widest possible use at lowest possible cost to consumers". This proposal would provide three transmission charges to the 65 customers who also pay the UDC: Network Charge, Radial segment charge, and UDC. We urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 5 – IOU/Large public coalition: Develop transformation charge

Because this proposal would retain the UDC, this proposal could result in 4 rate pancakes: NT Base Charge, 1-2 transformation charges, and UDC. This IOU/Large Customer coalition proposal is also contrary to BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles." While the rate increases in this proposal are not as dramatic, it is nonetheless an insidious proposal. This proposal penalizes all the customers for whom BPA provided points of delivery at less than 230 kV. It ignores BPA's crucial role in rural electrification and its past policies of single utility planning. It would provide an average 4% rate reduction for 35 of the largest transmission customers (the large public, the IOUs, and some wind developers) on the backs of 131 preference customers who would bear a rate increase on average of 7 percent.

Again, we urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 7 – Seattle City Light (SCL) – Sub-transmission segment and rate based on voltage threshold.

SCL's proposal also creates potentially three transmission rate pancakes for those impacted by it: NT Base charge, sub-transmission segment charge, and UDC. SCL's proposal is based on the flawed idea that the 115 kV system provides no benefit to those who take delivery above 145 kV. As such, it has no technical merit. Further, the results of SCL's proposal are so absurd that it must be rejected out of hand. Under SCL's proposal, 36 of the largest customers (the large public, the IOUS, and some wind developers) get a 23% rate decrease on average, while 130 preference utilities bear a whopping 44% rate increase on average. The rate increase to our utility is 38%, which is simply unacceptable.

It is also clear that this proposal violates BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles," causes rate shock, and is harmful to the region in general. We must urge you to reject soundly this proposal for segmentation.

Summary

In summary, we support the PNGC proposal as a way to forward BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles" and to avoid serious impacts to your rural utility customers. The proposals submitted by Snohomish, the IOUs/Large public coalition, and Seattle City Light result in rate decreases for the few on the backs of the many and should be rejected. Finally, the Status Quo proposal should address the impending 25% rate increase to the UDC which will cause rate shock and will act as a rate pancake to those subject to the UDC. We believe the PNGC proposal addresses this problem in the most efficient manner, but the NRU proposal also addresses this issue and is worthy of your consideration.

Sincerely,

Annie Terracciano

Annie Terracciano, CPA
General Manager
Northern Lights, Inc.

Copy to: John Prescott, PNGC

Northwest & Intermountain Power Producers
Bonneville Power Administration
Transmission Segmentation White Paper
June 18, 2014

The Northwest & Intermountain Power Producers Coalition (NIPPC) appreciates the opportunity to comment on Bonneville Power Administration's Regional White Paper on Segmentation Methodology Alternatives, issued June 11, 2014.

NIPPC represents the interests of its members who rely on Bonneville for Point-to-Point transmission service. NIPPC and its members therefore have a direct interest in the segmentation issue, and in remedying the rate distortions that have arisen since the 1996 transmission rate settlement, where the current approach originates.

At the outset, NIPPC recognizes the difficulties Bonneville faces in developing an approach to segmentation that is both technically and legally defensible, and does not create undue hardship for the smaller Bonneville customers that are the beneficiaries of the artificialities in the current approach to segmentation.

NIPPC supports adoption of a segmentation approach that corrects the status quo and which is built upon core ratemaking concepts such as cost causation. The Coalition also recognizes that mitigation of rate impacts may be necessary to achieve a palatable outcome.

Segmentation Occurs on a Changing National Backdrop

The fundamental issue at the heart of segmentation – finding a logical point to separate facilities used for local distribution of electricity from facilities used for backbone electric transmission – has been the subject of ongoing national debate. After years of effort, FERC and NERC have developed a technically justified and carefully calibrated definition of Bulk Electric System ("BES") that addresses this issue. But the outcome of that process is still unresolved, as FERC's BES Rulemaking orders are subject to a pending appeal in the U.S. Court of Appeals (*Public Service Comm'n of NY v. FERC,* No. 13-2316 (2nd Cir.)(in briefing)). In addition, the new definition does not take effect until July 1, 2014, so any issues that may arise in implementation of the new definition are not yet known.

NIPPC therefore urges Bonneville to take a cautious approach by adopting an interim policy for treating segmentation in the upcoming rate case, but making clear that the approach will prevail for the duration of that rate case only and Bonneville may revisit the issue based on developments that arise nationally.

Segmentation Should Reflect Basic Ratemaking Principles

While NIPPC does not endorse any one proposal at this time, we urge Bonneville to choose among the proposals put forth by Snohomish County PUD, the IOU/Large Public Power Coalition, or by Seattle City Light. These proposals all have the virtue of aligning Bonneville transmission rates with basic cost causation principles and, in addition, borrow from carefully vetted FERC policies such as the BES definition or FERC's venerable seven-factor test.

Bonneville Should Consider Rate Mitigation

Because of the peculiar circumstances resulting from the 1996 transmission rate settlement, Bonneville's current approach has strayed significantly from anything that would have been adopted in a fully litigated rate case. Over time, the distortions inherent in the current approach have grown. While NIPPC believes now is the time to start addressing the obvious flaws in the current approach, we also recognize that moving immediately to permanently rectify the problems with the status quo could produce serious rate shock for at least some of those Bonneville customers that have artificially benefitted from almost two decades of neglect of this issue.

NIPPC therefore recognizes that Bonneville may need to take some action to ameliorate rate shock that may arise from the approach it adopts. As noted in our February 11, 2014, comments on the segmentation issue, Bonneville has several reasonable options available to it. These include, for example, use of the Low Density Discount provision of the Northwest Power Act.

Conclusion

The time has come for Bonneville to adopt a new approach to segmentation that corrects the problems with the status quo. The current approach is not defensible on either technical or legal grounds. Bonneville has been presented with several options that meet the need for a technically justifiable approach to segmentation and, although we do not endorse any particular approach, we urge Bonneville to choose one of those options for this upcoming rate case. Because some Bonneville customers who benefit from the current approach (status quo) may be significantly impacted, NIPPC also urges Bonneville to examine its options for mitigating any rate shock.

NRU

Northwest Requirements Utilities

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jsaven@nru-nw.com

825 NE Multnomah, Suite 1135
Portland, Oregon 97232

TO: Bonneville Power Administration

RE: BPA's Regional White Power: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

DATE: June 16, 2014

I. INTRODUCTION

Northwest Requirements Utilities ("NRU") appreciates this opportunity to comment on the Bonneville Power Administration's ("BPA") Regional White Paper: Segmentation Methodology Alternatives ("White Paper"). NRU is a non-profit trade association of 54 public utilities that rely upon BPA as their primary or exclusive supplier of wholesale power and transmission services. NRU's members are all BPA Network Integration Transmission ("NT") Service customers.

BPA's segmentation of its transmission system is an issue of the utmost importance to NRU's membership because of its significant policy and financial implications. This issue is fundamental to the Agency's mission. NRU, therefore, appreciates the open, transparent, and thorough process BPA has undertaken to examine its segmentation methodology. BPA staff has conducted extensive analytical work and taken the time to meet with various customer groups, including NRU, to assist them in developing their proposals. BPA staff also conducted an Industry Scan that has been beneficial in evaluating BPA's current methodology and the alternative proposals.

Perhaps most beneficial, BPA developed a list of Segmentation Principles to guide this process and evaluate each of the proposals. These Principles reflect the crucial considerations that should be taken into account in assessing each proposal, and NRU has, therefore, structured these comments in a manner that does so. It is important to note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,"* is the most relevant for this segmentation process.

This process has been valuable in demonstrating that BPA's current methodology, specifically the definition of the Network segment, has a sound policy and technical basis and best meets BPA's Segmentation Principles. With the exception of the treatment of the Utility Delivery segment, BPA should retain the status quo.

II. NETWORK ALTERNATIVES

Network Alternative 1 – Status Quo

BPA should retain its current definition of the Network segment. Under the status quo[1], BPA's Integrated Network segment includes "facilities that serve a transmission function, including sub-transmission, from 34.5 kV to 500 kV."[2] The Network segment "is the core of BPA's transmission system," and "provides services and benefits to nearly all of BPA's customers, including users of both Federal and non-Federal power."[3] As a result, BPA treats these facilities as integrated for purposes of cost allocation and recovery.[4] For historical, policy, and financial reasons, BPA should retain the status quo as its methodology for segmenting its transmission system. As described in subsequent sections, proponents of redefining the Network segment have failed to provide any alternative that meets both BPA's statutory obligations and utility ratemaking principles.

A. BPA's Heritage of Postage Stamp Rates and It's Primary Mission Provide Substantial Justification for the Status Quo.

BPA's current segmentation methodology is a result of over 75 years of deliberate policy decisions to achieve a primary purpose of BPA's creation. Congress created BPA to ensure widespread distribution of low cost power from the federal hydroelectric projects of the Federal Columbia River Power System to the entire Northwest region, especially the rural communities and farms of the Northwest. BPA and several parties documented this history in detail in the BP-14 Rate Case.[5] For the sake of brevity, we provide a summary of this here, but note that the longer, more detailed, history of BPA and its organic statutes is a primary justification for the status quo.

During the early part of the 20th Century, investor owned utilities ("IOUs") controlled both production and transmission of power.[6] This effectively prevented rural areas from being electrified, because IOUs did not see it as profitable to build transmission to serve the sparsely populated areas of the Northwest.[7] Key policymakers recognized that the rate construct for power and its transmission would either advance or hinder the goal of encouraging the widest

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[1] For purposes of NRU's comments, we refer to the "status quo," as the current definition of the Network segment and the treatment of those facilities currently included in that segment. As discussed in subsequent sections, NRU urges BPA to adopt a different methodology for calculation of the Utility Delivery Charge.
[2] BP-14 Initial Rate Proposal, BPA Transmission Segmentation Study, BP-14-E-BPA-06 at 4 (November 2012).
[3] *Id*.
[4] *Id*.
[5] *See* Bliven, *et. al*., BP-14-E-BPA-42; Scott, *et. al*., BP-14-E-JP03-03 at 7-33; Saleba, *et. al*., BP-14-E-WG-03.
[6] Gene Tollefson, *BPA and the Struggle for Power at Cost*, 50th Anniversary Edition at 47-86 (1987).
[7] Gus Norwood, *Columbia River Power for the People: A History of Policies of the Bonneville Power Administration* at 47-86 (1981).

possible diversified use of the electric energy generated at the Columbia River dams.[8] Therefore, when Congress passed the Bonneville Project Act, it authorized BPA to construct and operate "transmission lines and substations, and facilities and structures appurtenant thereto" in order "to encourage the widest possible use of all electric energy."[9] The Act directed BPA to ensure that the federally owned hydroelectric facilities on the Columbia River and its tributaries are, "operated for the benefit of the general public, and particularly of domestic and rural consumers."[10] Specifically regarding the rate construct, section 6 of the Act directs BPA to set rates "with a view to encouraging the widest possible diversified use of electric energy," and that rate schedules "may provide for uniform rates or rates uniform throughout prescribed transmission areas in order to extend the benefits of an integrated transmission system and encourage the equitable distribution of the electric energy."[11] And indeed, from its very beginning, BPA implemented a policy of providing uniform transmission, otherwise known as postage stamp rates, throughout the Pacific Northwest.[12] Over time BPA has had to adapt its transmission and power rates, including segmenting its transmission system, to accommodate changes in the electric industry, but the policy of a uniform rate has remained a fundamental tenet of BPA's ratemaking for transmission service.[13]

B. BPA Industry Scan Demonstrates that BPA's Segmentation Methodology Falls Within the Industry Standard.

NRU appreciates BPA staff's thorough examination of utility industry practices regarding transmission segmentation among utilities throughout the country. The Industry Scan clearly demonstrates that using the 34.5 kV threshold to delineate between transmission and distribution places BPA's current transmission segmentation policy squarely in the middle of industry standards. BPA's use of 34.5 kV as the bright line threshold is consistent with the industry benchmark for demarcating Network and Delivery segments. For example, the Industry Scan found the median threshold for segmenting transmission from distribution is 35 kV.[14] The report also found that 99% of the sampled Transmission Providers consider 115 kV facilities to be part of the Network segment, and 92% consider 69 kV facilities to be part of the Network segment.[15] Clearly, BPA's current segmentation methodology that utilizes 34.5 kV as the threshold to delineate between the Network and Delivery segment is consistent with the industry standard. Additionally, FERC has recognized 34.5 kV as a common breakpoint between transmission and distribution.[16] In Order 888, FERC stated, "while there is no uniform breakout point between

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[8] Pacific Northwest Regional Planning Commission report on the *Columbia Basin Study*, (December 1935), http://www02.us.archive.org/stream/regionalplanning00unit/regionalplanning00unit_djvu.txt.
[9] 16 U.S.C. 832a(b).
[10] 16 U.S.C § 832c(a).
[11] 16 U.S.C. § 832e
[12] Bliven, *et. al*., BP-14-E-BPA-42 at 13.
[13] *Id.* at 13-20.
[14] BPA *Scan of Industry Segmentation-Related Practices* at 2 (January 2014).
[15] *Id.* at 8.
[16] NRU notes that BPA is non-jurisdictional, and FERC has held that BPA's segmentation methodology is an aspect of "the design of Bonneville's rates, and [is] therefore beyond the scope of [FERC's] authority." *Order Confirming and Approving Rates on a Final Basis* 147 FERC ¶ 61,053, at P 16 (April 16, 2014).

transmission and distribution, it appears that utilities account for facilities operated at greater than 30 kV as transmission and that distribution facilities are usually less than 40 kV."[17]

BPA's Industry Scan also showed that most utilities only apply new policies on a going forward basis. In other words, existing facilities that have historically been defined as "Network" facilities are not retroactively removed from the Network when the transmission provider adopts a new policy. BPA notes that while both Duke Energy and Southern California Edison have recently adopted new policies for the treatment of radial lines, these policies are only applied on a going forward basis.[18] While NRU does not believe that BPA should adopt a new definition of the Network segment, we do agree that applying new policies only on a going forward basis is consistent with sound business principles. It is unfair to financially penalize some customers for business decisions and capital investments made under established policies when those policies change.

Finally, we note that BPA's current segmentation policy for "rolled in" Network transmission rates creates a level playing field for all transmission customers. This integrated approach to Network transmission rates is also consistent with FERC's preference for facilities that perform a transmission function to be "rolled in" to Network rates.

C. The Status Quo Meets All of BPA's Segmentation Principles.

Unlike the alternatives put forth by Snohomish PUD, the Large Customer Coalition, and Seattle City Light, the status quo meets all of BPA's Segmentation Principles.

Achieves Principles 1(a) Full and timely cost recovery and (b) BPA's rates are based on total system costs.

The current methodology fully and timely recovers the cost of BPA's transmission system and is based on BPA's total system costs. FERC reviews BPA's rates under section 7(a) of the Northwest Power Act to ensure that BPA meets these standards and has held that BPA's current segmentation methodology meets both of them.[19]

Achieves Principle 1(c) Equitable Allocation between federal and non-federal use of the Transmission System

The current methodology equitably allocates the costs of BPA's transmission system between federal and non-federal uses of the system because it does not distinguish between whether the power flowing over BPA's transmission facilities is federal or non-federal. FERC also reviews

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[17] *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036, 61 Fed. Reg. 21540 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048, *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order No. 888-C, 82 FERC ¶ 61,046 (1998), ("Order No. 888"), Appendix G, at n.100.
[18] *Scan of Industry Segmentation-Related Practices* at 9.
[19] 147 FERC ¶ 61,053 at P 9-16.

BPA's rates to ensure BPA meets this standard and has held that BPA's current methodology meets this standard as well.[20]

Achieves Principle 1(d) Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

BPA's current segmentation methodology and definition of the Network segment meets this principle by charging all BPA transmission customers the same for transmission regardless of customers' location or delivery voltage. As described above, BPA has always met this standard by providing transmission service under a postage stamp rate construct. This ensures even the least densely populated areas can have access to affordable electricity, a concept just as relevant today as it was when Congress created BPA. It also comports with sound business principles because it acknowledges that BPA and utilities have made engineering and business decisions relying upon BPA's longstanding postage stamp rate policy. If they had anticipated that BPA would change that policy, they would likely have made different decisions.

Achieves Principle 2(a) Cost causation

BPA's current methodology comports with the principle of cost causation because it recognizes that BPA's transmission system is an "integrated network that operates as a single machine to move power in bulk from generation sources to load centers."[21] The BPA transmission system has been historically designed and constructed consistent with "least cost" utility planning. In other words, when BPA undertakes a new transmission project, BPA identifies the lowest cost alternative that will meet the forecasted needs of BPA's transmission customers. Therefore, all Network transmission customers benefit from BPA's current segmentation policy as it meets customer needs at the lowest reasonable cost.

Achieves Principle 2(b) Simplicity, understandability, public acceptance and feasibility of application

The current methodology meets this principle because it is simple and straightforward. Additionally, BPA would simply be maintaining the policy, analysis, and calculations it already implements.

Achieves Principle 2(c) Avoidance of rate shock

The majority of BPA's transmission customers would not experience any rate shock if BPA retains the status quo. However, customers who are subject to the Utility Delivery Charge ("UDC") would experience rate shock if the UDC continues to disproportionately rise with each rate period. This is discussed in more detail under NRU's proposal.

Achieves Principle 2(d) Rate stability from rate period to rate period

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[20] *Id*.
[21] Bliven, *et. al*., BP-14-E-BPA-42 at 24.

Similarly, the majority of customers would experience rate stability if BPA retains the status quo. However, customers who are subject to the UDC would experience significant rate increases every rate period resulting in rate instability.

Achieves Principles 3(a)-(c) Considers a regional perspective

As described above, BPA's current methodology is based on over 75 years of policy and precedent. The current methodology uses a postage stamp rate to achieve the widest possible diversified use standard. No proposal that would redefine the Network segment would benefit the entire region. As demonstrated by BPA's calculation of the rate impacts, the Radial proposal, the Transformation Charge proposal, and Seattle's bright line proposal would all benefit a few of BPA's larger and more urban customers while being significantly detrimental to many of BPA's small, rural customers. This is discussed in more detail below.

Network Alternative 2 – Roll IN Utility Delivery Segment – Proposed by PNGC

BPA should consider PNGC's proposal to roll in the Delivery segment into the Network segment in light of BPA's Segmentation Principles. BPA should pay particular attention to the rate shock and instability that the UDC customers would face if BPA continues to increase the UDC to recover the entire Delivery segment costs as they are currently calculated.

Network Alternative 3 – Maintain Adjusted Utility Delivery Charge- Proposed by NRU

NRU supports maintaining an adjusted UDC, as proposed by NRU staff in the Segmentation White Paper. In this proposal, the Utility Delivery segment is eliminated and the updated cost of providing this service is capped at or below its current level of $1.399 kW/Mo, and then increased in future rate periods to parallel any overall cost changes in the Network. Absent corrective action, BPA projects it would increase the charge 25% for FY 2016 – 2017, making it essentially equivalent to the Network Transmission rate, followed by additional major increases in the next two rate periods. NRU already provided detailed comments for the White Paper on how this proposal achieves all of BPA's Segmentation Principles. We reiterate the most important points here.

The NRU proposal achieves *full and timely cost recovery* and is closely tied to *cost causation.* NRU has provided detailed calculations as to why the BPA cost for this service should be $3.6 M rather than the current $6.4 M. The NRU proposal results in *avoidance of rate shock* by eliminating the prospect of continuing 25% UDC increases for utilities in the Utility Delivery segment, while not increasing the rates for other customer groups. The NRU proposal achieves *rate stability from rate period to rate period* by essentially recalibrating the UDC and having the charge change over time parallel with the increase in the averaged Network rates. The NRU proposal *considers a regional perspective* by maintaining an incentive for utilities to purchase delivery facilities where feasible, while recognizing that some facilities are not purchasable. In addition, the proposal does not require BPA to re-examine its current cost recovery methodology for GTA served customers taking delivery service over non-federal facilities.

The region benefits from the NRU alternative compared to the status quo because BPA's currently methodology for UDC cost recovery is outdated and produces unacceptably high charges. For example, federal power that is delivered over non-federal low voltage facilities that

are operated below 34.5 kV are charged $0.820 kW/Mo, based on averaged actual costs, less than 59% of the BPA UDC rate. The region also benefits because rate cases will be more simplified by removing a contentious issue that needlessly divides customers over a $2.8 M difference in a $650 M Network revenue requirement.

Network Alternative 4 – Develop a "Radial" Segment – Proposed by Snohomish[22]

BPA should reject Snohomish's Radial segment proposal, as it establishes an inappropriate regional transmission policy that violates BPA's Segmentation Principles and creates an overly complex ratemaking process. The Radial proposal also flies in the face of BPA's organic statutes and longstanding policy.

Violates Principle 1(d) Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

The Radial proposal would result in very small rate decreases for large, more urban customers while many small, rural utilities will experience a significant rate increase. Utilities impacted by this proposal will pay at least two and as many as three transmission charges (e.g., Network, Radial Charge, and UDC) to serve a single load. This clearly does not meet the widest possible diversified use of electric power at the lowest possible rates to consumers when the result is that many of BPA's small, rural customers would pay significantly more for transmission than BPA's more urban customers.

On a going forward basis, this proposal is inconsistent with sound business principles and will incent utility plan-of-service decisions that are based on the avoidance of the Radial Charge rather than sound engineering. For example, utilities that have the option to shift load from radially fed facilities to an alternate point of delivery may do so to avoid a pancaked transmission charge. Additionally, it is also inconsistent with sound business principles to allocate more costs to customers that are receiving a lower quality of service. Under this proposal, utilities receiving radial transmission service would pay significantly higher transmission charges when compared to non-radial customers, and at the same time, those radial customers are more likely to experience more frequent outages with longer durations.

The proposal also ignores long-standing business decisions based on good utility practices that have been made by BPA and its customers. For nearly a century, utilities have relied on BPA's transmission policies when interconnecting to the BPA grid and coordinating load service. These decisions were predicated on BPA's network transmission policies and business practices and likely would have been altered if utilities were aware that they may be directly assigned facilities at a future point in time. Furthermore, BPA's current policy does not allow for a Transmission Provider to reassign the costs of facilities to an end user *after* the facilities have been built, rolled into the network, and paid for by all Network users. Retroactively assigning costs is also inconsistent with prevailing industry standards shown in BPA's Industry Scan, which is discussed above.

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[22] The White Paper states that Snohomish also suggested a separate proposal that would revise BPA's Direct Assignment Policy. However, Snohomish did not present this proposal in the Segmentation workshops so NRU does not comment on that proposal here.

Snohomish claims that the Radial proposal achieves this principle because it provides a "better price signal than an arbitrary 34.5 kV line" and that it "will promote efficient transmission facility decisions."[23] However, Snohomish's proposal would re-segment facilities that were built decades ago. It is illogical to create a price signal for facilities that have been in operation for decades. Instead, it simply penalizes customers based on their geographical location and BPA's least cost plan-of-service determinations that were based on the prevailing policy. Furthermore, as described above, BPA's current methodology is based on "least cost" utility planning, which means BPA's current methodology has promoted the most efficient transmission facility decisions.

Violates Principle 2(a) Cost Causation

The Radial proposal assumes that loads served over radial facilities provide no benefit to the Network, and the users of the radial facilities should be allocated the costs of those facilities. It is nearly impossible to assess BPA's transmission grid without its radial facilities and simply ignore the benefits that loads served over radial lines provide to the transmission system. These benefits include participation in BPA's Under Frequency Load Shedding program, Demand Response, and BPA's NT Redispatch program.

Violates Principle 2(b) Simplicity, understandability, public acceptance and feasibility of application

This proposal may simply be unworkable within BPA's ratemaking processes. Most of the definitions and determinations as defined by Snohomish will create a good deal of subjectivity and changeability. For instance, Snohomish suggests that if any generation is wheeled from a radial facility, then it will no longer be considered radial and included in the Network Segment. In this context, BPA must then define a set of rules for determining what meets a 'wheeling' threshold—is this one MW per year? Or is it wheeled the majority of the year? In any case, BPA will have to make subjective determinations and then reassess these policies each rate period. This will likely lead to radial determinations that are constantly in flux with each new rate period, and BPA rate staff will be left to recreate the guidelines and results every two years. BPA would need to implement some type of process to reconcile disputes resulting from this subjectivity.

Additionally, this proposal will not achieve public acceptance and would likely result in a great deal of conflict among those with radial lines. For example, utilities with one or two short radial lines may oppose being lumped into a Radial segment where they may end up paying more than the actual cost of the radial lines they use.

Violates Principle 2(c) Avoidance of rate shock

This proposal fails to achieve the "avoidance of rate shock." In this proposal BPA projects a 4.4% rate reduction for Snohomish and comparable rate decreases for other large utilities. Conversely, the rate increases for many NRU members would be orders of magnitude higher. For example, for a subset of NRU members: Ferry Co, PUD, Hood River, Idaho Co., Milton Freewater, Orcas Power and Light, Salem, Salmon River and Tanner, the average increase would

[23] White Paper at 21.

be over 45%, or in other words, ten times more than the decrease to Snohomish. Also, for purposes of judging impacts, the small, rural utilities most likely to receive transmission service via radial lines have lower population density and the least number of customers over which to spread increased rates.

Snohomish has proposed a rate mitigation plan to allegedly avoid rate shock. Perhaps this is a useful tool to avoid facing the underlying financial consequences of their proposal. However, as described in this section, Snohomish's proposal fails to meet several of the segmentation principles, not just avoidance of rate shock. The end result is still the same, even if it is phased in over a number of rate periods; many of BPA's smallest and most rural customers will end up paying substantially more for transmission service than BPA's larger and more urban customers. The proposal is still contrary to BPA's historical mission and its statutory requirement to encourage the widest possible diversified use of electric power at the lowest possible rates to consumers. It also has numerous policy and implementation issues that exist regardless of whether rate mitigation is applied.

Violates Principle 2(d) Rate stability from rate period to rate period

Similar to why this proposal violates principle 2(b), it also would result in rate instability from rate period to rate period because as the system changes, so would the allocation of costs. BPA would have to reexamine its system before every rate case and give customers the opportunity to contest its findings. This could result in fluctuations in rates, in addition to the typical rate increases, every rate period.

3(a)-(c) Considers a regional perspective

The Radial proposal fails to consider the impacts on the entire region and does not result in achieving the widest possible diversified use standard better than or equal to BPA's current policy of uniform rates. BPA's customers served by radial lines could pay up to 89% more for Transmission service[24] than BPA's other customers who pay the Network rate only, especially those in more urban areas.

Network Alternative 5 –Develop transformation charge – Proposed by IOU/Large public coalition: Puget, Seattle City Light, PacifiCorp, PGE, Powerex, Tacoma, Avista, Iberdrola, Benton County PUD

BPA should reject the Large Customer Coalition's Transformation Charge proposal because it violates BPA's segmentation principles and implements a vague and untested ratemaking methodology.

Violates Principle 1(d) Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

The Transformation Charge proposal would result in very small rate decreases for large, more urban customers while many small, rural utilities will experience a rate increase. Utilities

[24] Transmission service in this context means the Network Rate plus the Radial Charge, and does not include other ancillary transmission charges.

impacted by this proposal will pay at least two and as many as four transmission charges (e.g., Network, Two Transformation Steps, and UDC) to serve a single load. It is interesting to note that any of the reductions that the large customers would receive are negligible. For example, the BPA projected reductions are as follows: POWEREX 1.7%, PacifiCorp 1.9%, Puget 2.0% and PGE 4.3%. While the increases for the NRU members are not as notable as in other proposals, the actual cost increase for Network related service will be higher than in BPA's summary tables because the cost of other functions, such as ancillary services and power related costs are included.

Furthermore, the proposal is inconsistent with sound business principles and ignores long-standing business decisions based on good utility practices that have been made by BPA and its customers. For nearly a century, utilities have relied on BPA's transmission policies when interconnecting to the BPA grid and coordinating load service. These decisions were predicated on BPA's network transmission policies and business practices and likely would have been altered if utilities where aware that they may be directly assigned facilities at a future point in time. Furthermore, BPA's current policy does not allow for a Transmission Provider to reassign the costs of facilities to an end user *after* the facilities have been built, rolled into the network, and paid for by all Network users. Retroactively assigning costs is also inconsistent with prevailing industry standards as discussed above.

The Large Customer Coalition claims that the Transformation Charge proposal achieves this principle because it provides a "better price signal than an arbitrary 34.5 kV and that it "will promote efficient transmission facility decisions."[25] However, this proposal would re-segment facilities that were built decades ago. It is illogical to create a price signal for facilities that have been in operation for decades. Instead, it simply penalizes the customers who use those facilities for decisions based on the prevailing policy. Furthermore, as described above, BPA's current methodology is based on "least cost" utility planning, which means BPA's current methodology promotes the most efficient transmission facility decisions.

Along these same lines, the Transformation Charge proposal may incent plan-of-service decisions that are highly inefficient and based on the avoidance of the Transformation Charge rather than sound engineering principles. For instance, utilities might implement redundant substations at higher voltages to avoid using a BPA transformer where the Transformation Charge is applied.

Violates Principle 2(a) Cost Causation

The Transformation Charge proposal implies that lower voltage transformations should be directly assigned to the end users of those facilities but higher voltage transformations should be allocated to all users of the Network. This would indicate that the Large Customer Coalition believes that the cost allocation associated with 230 and 500 kV transformers is somehow different than the lower voltage transformers. If the Large Customer Coalition truly believed in assigning the costs of transformation as a separate charge based on cost causation, then it seems that all voltage transformation levels should be allocated according to usage by all Network customers. Otherwise, the Transformation Charge appears to apply an arbitrary bright line to cost causation.

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[25] White Paper at 22.

Furthermore, it is important to recognize the reason BPA originally incurred many of these costs. The Transformation Charge proposal disregards the historical evolution of the Network. Initially, the 115 kV facilities were the backbone of the Network. Over time, most upgrades below 115 kV were installed to support the grid operations rather than the local owners' load or a specific need of the local utility that the facility now serves. Those costs were borne to support the Network as a whole and not individual utilities.

Violates Principle 2(b) Simplicity, understandability, public acceptance and feasibility of application

The Transformation Charge Proposal fails to meet this principle because it is an unproven approach to ratemaking, which may lead to unforeseen implementation issues. It is true that a few Transmission Providers and RTO's utilize voltage differentiated rates, but they only apply it to broad voltage facilities (e.g., *all* lines and substations at 230 kV and below) rather than specific equipment like transformers. For instance, Southern Company differentiates delivery by voltage levels, but it simply rolls all the equipment in a particular substation up to the highest voltage facility in a substation (rather than isolating any particular piece of equipment).[26] This is further complicated by the fact that the Transformation Charge proposal is either vague or silent on almost all implementation details and provides no rationale for the chosen voltage levels. For instance, the proposal is silent on the treatment of 'step up' transformations and how those charges will be applied to generators. In short, given that this Transformation Proposal has no industry precedent and the proposal itself is vague as to which facilities will be exempt or included, it is nearly impossible to determine how BPA would implement such a proposal.

Violates Principles 3(a)-(c) Considers a regional perspective

The Transformation Charge proposal fails to consider the impacts on the entire region and does not result in achieving the widest possible diversified use standard better than or equal to BPA's current policy of uniform rates. Any BPA customers served exclusively by two lower voltage segments could end up paying 56% more for NT service than BPA's other customers, especially those in more urban areas.

Network Alternative 6 – Apply Seven Factor Test to Create Segment Based on Function – Proposed by IOU/Large public coalition: Puget, Seattle City Light, PacifiCorp, PGE, Powerex, Tacoma, Avista, Iberdrola, Benton County PUD

As noted in the White Paper, this proposal was litigated in the BP-14 Case. Also, the Large Customer Coalition agreed that BPA should not conduct extensive analysis on this proposal. NRU, therefore, limits its comments on this proposal to explanation of how the Seven Factor Test is inapplicable to BPA.

The Seven Factor Test is used by jurisdictional utilities to determine whether a facility is performing a transmission function, and is therefore subject to FERC jurisdiction, or is performing a distribution function, and is therefore subject to state jurisdiction.[27] The Seven

[26] *Scan of Industry Segmentation-Related Practices* at 8.
[27] Order No. 888 at pp. 21619-21620; 21626-21627.

Factor Test is not a standalone test. In order to establish whether FERC has jurisdiction over a jurisdictional utility's transmission facility, it first must answer the question of whether the transmission facility is used for unbundled *wholesale* wheeling or whether the facility is used for unbundled *retail* wheeling.[28] If the facility is being used for wholesale purposes, FERC determines it has jurisdiction over that facility and the analysis ends there. *Only if* the facility is being used for retail purposes does FERC apply the Seven Factor Test. Therefore, even if the FERC jurisdictional test were applied to BPA, the analysis would end at the first stage; BPA facilities are used for unbundled *wholesale* wheeling, and BPA does not provide retail service.

Network Alternative 7-- Establish a Sub-Transmission Segment and Rate Based on Voltage Threshold – Proposed by Seattle City Light

The proposal from Seattle to establish a new sub-transmission segment based on a bright line of 145 kV represents a transfer of wealth from the vast majority of BPA's customers to a select few. Under this proposal, very few of BPA's customers would see their rate decrease, while over 100 customers would see increases greater than 20%. With a small minority of BPA's customers realizing any benefit under this proposal, Seattle's assertion that only facilities below 145 kV primarily deliver power to end users[29] is misguided.

NRU also notes that Seattle introduced this proposal near the conclusion of the Segmentation process and several months after all other parties had submitted alternative proposals. This timing has given other customer groups insufficient time to adequately analyze this proposal.

Violates Principle 1(d) Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

The 145 kV bright line proposal would result in rate decreases for a small subset of BPA's customers while the vast majority of BPA's customer utilities will experience a significant rate increase. Utilities impacted by this proposal will pay at least two and as many as three transmission charges (e.g., Network, Sub-Transmission, and UDC) to serve a single load. This clearly does not meet the widest possible diversified use of electric power at the lowest possible rates to consumers when the result is that the vast majority of BPA's customers would pay significantly more for transmission and only a small minority of large, urban utilities and Independent Power Producers would benefit under this proposal.

Seattle admits that "[t]he new alternative entails a cost and rate shift from customers not using the proposed segment to customers that do" but argues that "no parties have provided information that the cost shifts will affect consumption."[30] First, Seattle fails to demonstrate why this cost shift is appropriate. Second, it is simply incorrect that parties have not provided information about how such cost shifts would affect consumption. At the January 28th, 2014 Segmentation Meeting, numerous utility general managers provided extensive comments on the devastating impacts to their service territories if BPA adopts some of the proposed transmission segmentation alternatives. They pointed out that affordable BPA transmission rates are essential not only to helping existing businesses recover from the economic recession but also to attract

[28] *Id*.
[29] White Paper at 28.
[30] White Paper at 29.

new businesses to their service territories. The cost shifts projected under the 145 kV bright line proposal would seriously impair the ability of many utilities—both urban and rural--to attract and retain businesses and runs counter to the *widest use* principle.

Violates Principle 2(a) Cost Causation

The 145 kV bright line proposal is not consistent with cost causation because it forces the vast majority of BPA's customer utilities into paying a pancaked rate for transmission service. It is short sighted to assert that the 145 kV bright line is a meaningful threshold for facilitating bulk power and power marketing transactions when a majority of BPA's customer utilities use facilities above and below 145 kV to transmit bulk power purchases to their load. Furthermore, this also implies that power marketing only occurs on facilities above 145 kV, and it dismisses the diverse array of resources across the Northwest that use facilities below 145 kV to inject energy onto the BPA grid. Rather than follow principles of cost causation, the 145 kV bright line proposal creates a financial benefit for large, urban utilities and Independent Power Producers at the expense of the vast majority of BPA's small, rural customers.

Furthermore, it is important to recognize the reason BPA originally incurred many of these costs. The Seattle proposal disregards the historical evolution of the Network. Initially, the 115 kV facilities were the backbone of the Network. Over time, most upgrades below 115 kV were installed to support the grid operations rather than the local owners' load or a specific need of the local utility that the facility now serves. Those costs were borne to support the Network as a whole and not individual utilities.

Violates Principle 2(b) Simplicity, understandability, public acceptance and feasibility of application

While Seattle notes that BPA's Industry Scan documents "a variety of approaches to segmentation,"[31] they fail to recognize that the report also found that 99% of the sampled Transmission Providers consider 115 kV facilities to be part of the Network segment, and 92% consider 69 kV facilities to be part of the Network segment as noted above.[32] Moreover, a proposal in which the majority of BPA's utility customers would pay twice for transmission service does not meet the *public acceptance* principle.

Violates Principle 2(c) Avoidance of rate shock

Of all the segmentation alternatives analyzed in this process, the 145 kV bright line proposal comprises the most extreme rate shock. With more than one hundred utilities experiencing at least a 20% increase, and at least fifteen utilities experiencing a 50% increase, this proposal inflicts significant rate shock on the vast majority of BPA's customer utilities at the benefit of large, urban utilities and Independent Power Producers.

Violates Principles 3(a)-(c) Considers a regional perspective

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[31] White Paper at 29.
[32] *Scan of Industry Segmentation-Related Practices* at 8.

The 145 kV bright line proposal fails to consider the impacts on the entire region and does not result in achieving the widest possible diversified use standard better than or equal to BPA's current policy of uniform rates. In this proposal Seattle would receive a 28.5% rate reduction, as would a few other larger entities, while in contrast the NRU members would almost all be faced with very steep double digit increases.

III. MONTANA INTERTIE ALTERNATIVES

NRU supports the status quo of retaining the Eastern Intertie as a separate segment. The status quo is consistent with BPA's statutory requirements and the Segmentation Principles. Additionally, NRU is particularly concerned about the precedential effect of rolling in the Eastern Intertie. Therefore, NRU urges BPA to keep the Eastern Intertie a separate segment.

IV. CONCLUSION

As demonstrated by BPA's Industry Scan, the extensive analysis conducted by BPA staff, and evaluation under BPA's Segmentation Principles, BPA should retain the status quo for segmenting its transmission system with the exception of the Utility Delivery Segment. Most importantly, the status quo achieves one of the primary purposes for which Congress created BPA, to encourage the widest possible diversified use of power at the lowest possible rates to consumers. Conversely, the proposals put forth by Snohomish PUD, the Large Customer Coalition, and Seattle City Light would haphazardly assign greater costs to those utilities with the lowest population densities in violation of this principle. Admittedly there are instances where an individual NRU member may be better off financially compared to the status quo with one or more of the proposals from these other large customer groups. Nonetheless, our membership adheres to the more compelling principles articulated in this response and has no interest whatsoever in BPA redesigning transmission segments as if it were equitable to start from scratch.

Regarding the Utility Delivery segment, as NRU has demonstrated, BPA needs to take a critical look at how it is currently calculating the revenue requirement for that segment. We conclude that BPA is unfairly assigning a disproportionate amount of costs to the utilities using the delivery facilities.

NRU thanks the BPA staff for its substantial time and consideration spent on this important topic and for this opportunity to comment on the various proposals.

Best Regards,

John D. Saven
Chief Executive Officer

CC: Members of NRU

Elliot Mainzer, Administrator
Bonneville Power Administration
Portland, OR
Via techforum@bpa.gov

RE: Regional White Paper Segmentation Methodology Alternatives

June 18, 2014

Dear Elliot:

Okanogan County Electric Cooperative has reviewed the Bonneville Power Administration Regional White Paper: Segmentation Methodology Alternatives and appreciates the thoroughness with which your staff has conducted the segmentation process. They have allowed all parties to submit different ideas pertaining to segmentation and have provided useful analysis of the various alternatives. As a rural cooperative utility, we believe our mission is to bring electricity to our members, no matter where they are located, at affordable prices. We believe BPA's mission is similar: to facilitate the widest possible use at the lowest possible cost to consumers consistent with sound business principles. With this in mind, we offer the following comments on the various proposals.

Network Alternative 1 – Status Quo

Although the status quo segmentation methodology has many positive aspects, its treatment of utility delivery facilities, if not addressed, will violate the principles BPA and its customers set forth at the beginning of this segmentation process and create significant hardship for those utilities that take delivery under 34.5 kV. BPA's past business model provided utilities, especially smaller, rural utilities like OCEC, with delivery points at lower voltages. BPA often provided delivery voltages based on considerations such as proximity to Corp or Bureau facilities, and BPA's own policies. Consequently, many utilities simply took the delivery voltage that BPA provided. In 1996, the Utility Delivery Charge (UDC) was implemented as one result of a rate case settlement. Now however, the UDC has become a rate pancake and threatens to act as a doubling on network rates under the status quo. If the Status Quo alternative means another 25% rate increase in UDC on top of the 25% in the last rate case, then this alternative can no longer be considered to provide the "widest possible use at the lowest possible cost to consumers consistent with sound business principles." The anticipated rate increase to UDC will instead cause rate shock, create a permanent underclass of transmission users who pay the equivalent of two times the NT base rate, and will negatively impact rural electrification and rural economies.

We therefore urge you to either adopt the PNGC proposal, which we discuss in more detail below, or to find a way to make the UDC rate reasonable and stable over time.

Network Alternative 2 - PNGC - Roll in of Utility Delivery Segment into Network Segment

PNGC's alternative recognizes that the vast majority of delivery substations that are able to be purchased from a utility point of view, have already been purchased. The remaining stations are extremely unlikely to be purchased no matter how high the delivery charge goes. Instead of implementing a punishing UDC increase, we urge you to adopt this proposal which acknowledges that the UDC is at the end of its useful life. BPA acknowledges that facilities in the Utility Delivery segment are wholesale transmission facilities. Rolling them in to the Network Segment would provide significant relief from the pancaked UDC to 50 utilities, while having a a

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very minimal rate to other customers. This proposal certainly accomplishes BPA statutory mission of the widest possible use at lowest possible cost to consumers.

Network Alternative 3 - NRU - Maintain Adjusted Utility Delivery Charge

NRU's proposal also addresses the rate shock that utilities that are subject to the UDC will pay if the status quo is kept. Because it addresses rate shock and rate stability, it is worthy of consideration as an alternative.

Network Alternative 4 - Snohomish – Develop a Radial Segment Charge

Snohomish's proposal to segment radial facilities away from the Network segment runs counter to the history of BPA and the region and violates the principles set forth in this segmentation process. If implemented, this proposal would have a considerably negative impact on most of public power. This proposal would provide three transmission charges to the 100+ customers who also pay the Utility or the GTA Delivery Charge: 1) NT Base charge, 2) Radial segment charge, and 3) Utility or GTA Delivery Charge. It would be an unraveling of much of the good BPA has accomplished over its history. BPA made it possible for the farms and rural communities of this region to be electrified. It did this by building transmission out to where no IOU would build, and then charging a single, uniform network rate for use of that transmission, no matter where a utility was located. In accomplishing these aims, BPA planned its transmission network as a single utility system, meaning some utilities were served radially, although they would have strongly preferred looped service.

Further, Snohomish's proposal results in an additional rate pancake and in a large rate increases (31% on average) to 69 customers who are served across radial facilities to produce a small rate decrease (4%) for 97 customers. The Snohomish proposal's impact on our utility would be extremely detrimental, resulting in a 43% increase in our overall transmission and power bill.

This proposal would create make utilities served by radial lines permanent second class citizens. It is the antithesis of BPA's mission of "widest possible use at lowest possible cost to consumers". This proposal would provide three transmission charges to the 65 customers who also pay the UDC: Network Charge, Radial segment charge, and UDC. We urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 5 – IOU/Large public coalition: Develop transformation charge

Because this proposal would retain the UDC, this proposal could result in 4 rate pancakes: NT Base Charge, 1-2 transformation charges, and UDC. This IOU/Large Customer coalition proposal is also contrary to BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles." While the rate increases in this proposal are not as dramatic, it is nonetheless an insidious proposal. This proposal penalizes all the customers for whom BPA provided points of delivery at less than 230 kV. It ignores BPA's crucial role in rural electrification and its past policies of single utility planning. It would provide an average 4% rate reduction for 35 of the largest transmission customers (the large public, the IOUs, and some wind developers) on the backs of 131 preference customers who would bear a rate increase on average of 7 percent.

Again, we urge you as Administrator to soundly reject this proposal for segmentation.

Network Alternative 7 – Seattle City Light (SCL) – Sub-transmission segment and rate based on voltage threshold.

SCL's proposal also creates potentially three transmission rate pancakes for those impacted by it: NT Base charge, sub-transmission segment charge, and UDC. SCL's proposal is based on the flawed idea that the 115 kV system provides no benefit to those who take delivery above 145 kV. As such, it has no technical merit. Further, the results of SCL's proposal are so absurd that it must be rejected out of hand. Under SCL's proposal, 36 of the largest customers (the large public, the IOUS, and some wind developers) get a 23% rate decrease on average, while 130 preference utilities bear a whopping 44% rate increase on average. The rate increase to our utility is 34 %, which is simply unacceptable.

It is also clear that this proposal violates BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles," causes rate shock, and is harmful to the region in general. We must urge you to reject soundly this proposal for segmentation.

Summary

In summary, we support the PNGC proposal as a way to forward BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles" and to avoid serious impacts to your rural utility customers. The proposals submitted by Snohomish, the IOUs/Large public coalition, and Seattle City Light result in rate decreases for the few on the backs of the many and should be rejected. Finally, the Status Quo proposal should address the impending 25% rate increase to the UDC which will cause rate shock and will act as a rate pancake to those subject to the UDC. We believe the PNGC proposal addresses this problem in the most efficient manner, but the NRU proposal also addresses this issue and is worthy of your consideration.

Sincerely,

David Gottula, P.E

General Manager

cc: John Prescott, PNGC

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Bonneville Power Administration

Via email: techforum@bpa.gov

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

June 10, 2014

Orcas Power & Light Cooperative (OPALCO) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

OPALCO is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, OPALCO has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. OPALCO is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation

policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Title: Manager of Engineering & Operations

CC: Northwest Requirements Utilities

OREGON TRAIL ELECTRIC COOPERATIVE

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Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

DATE June 11, 2014

Introduction

Oregon Trail Electric Cooperative (OTEC) submits the following comments regarding the Bonneville Power Administration (BPA) *"Regional White Paper Segmentation Methodology Alternatives."* We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

OTEC is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, OTEC has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. OTEC is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

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We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities

would be considered part of the Network. Spending more time on such an alternative would be counterproductive.

- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on Oregon Trail Electric Cooperative

In the following section we describe the rate impacts for OTEC as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

The financial impact on OTEC of the IOUs/Large Public Transformation Charge (Alternative 5) would be 6.9% increase in OTEC's Annual Charge.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in

opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Werner Buehler
Executive Vice President and General Manager

CC: Northwest Requirements Utilities

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June 12, 2014

Comments on Regional White Paper Segmentation Methodology

Parkland Light & Water Company (PL&WCo) appreciates the opportunity to comment on the Regional White Paper Segmentation Methodology discussion.

PL&WCo is a small distribution cooperative in unincorporated Pierce County serving approximately 4.300 electric customers from our Curtis and Brookdale substations receiving our power over the Network Transmission System. PL&WCo is a good example of the current Status Quo methodology that provides the lowest rates possible for the most people in the region including the small utilities thus promoting the widest possible diversified use of the electric power system. As stated by the Administrator, "the uniform rate policy, which began 75 years ago, distributes Federal power throughout the Pacific Northwest region utilizing rates that do not distinguish among customers by size and location."

When looking at the other proposals and not the Status Quo current methodology, each of the proposed new methodologies distances BPA away from the widest possible diversified use of electricity at the lowest costs and heads the transmission system toward Activity Based Costing which adds layers of costs on to the smaller utilities. One layer of costs would be for being small and an additional layer of costs would be added depending on how remote from the network those small utilities are. These options remove the current postage stamp peanut butter costs from all utilities except the large ones and pancakes rates on to those who can least afford them. This would in a sense create a class struggle between the large powerful publics and the small public powers.

Small utilities that are distant from urban centers were created to provide electric service to rural America thus providing the same benefits to all through the use of public power. The Bonneville Power Administration historic use of a uniform or postage stamp rate meets the objective of spreading the benefits of the Federal System as broadly as possible to all recipients of public power.

Parkland Light & Water Company estimates that depending on the methodology selected other than status quo, that the transmission cost increase to the customers of PL&WCo will range from 1.1% up to 47.4%.

Parkland Light & Water Company respectfully urges that the Bonneville Power Administration maintain the Status Quo Methodology that it has used since its inception to provide equitable use of the transmission system.

Respectfully submitted

Mark R Johnson

General Manager
Parkland Light & Water Company

PNGC Power
Smart. Local. Connected.

To: Elliot Mainzer, Administrator, Bonneville Power Administration
From: Aleka Scott, PNGC's Vice President of Transmission and Contracts
RE: PNGC's Comments on the Regional White Paper: Segmentation Methodology Alternatives
Date: June 18, 2014

Sent via e-mail to techforum@bpa.gov

Pacific Northwest Generating Cooperative ("PNGC") appreciates the opportunity to comment on the Regional White Paper: Segmentation Methodology Alternatives ("White Paper") distributed by the Bonneville Power Administration ("BPA"). PNGC is an electric generation and transmission cooperative owned by fourteen Northwest rural electric distribution cooperative utilities with service territory in seven western states.

PNGC is particularly concerned about BPA's segmentation policy both because it has significant financial implications for our member cooperatives and because many of the segmentation proposals directly contradict the history and policy choices that BPA was founded on and has been operated under. When BPA was created, Congress recognized how important access to electricity at reasonable rates was to the region and that it was necessary to provide that access broadly in order to ensure healthy rural economies. The Bonneville Project Act memorialized these intentions and specifically authorized BPA to "provide, construct, operate, maintain, and improve such electric transmission lines and substations, and facilities and structures appurtenant thereto" as a way to "encourage the widest possible use of all electric energy." 16 U.S.C. § 832a(b). Further, BPA must establish power and transmission rates "with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." 16 U.S.C. § 838g.

Because of the importance of this issue, we are very pleased that BPA staff has completed thorough analytical work to provide the information critical to making an informed decision on this topic. We believe that the segmentation principles ("Principles") BPA developed in conjunction with its customers should be the basis for evaluating the various proposals. Our comments in this letter are structured in a manner that provides a separate review of each proposal based on those Principles and other policy considerations.

We have given much consideration to the segmentation methodologies that have been proposed and firmly believe that with the exception of its treatment of the Utility Delivery segment, BPA's current methodology is based on sound policy and credible technical analysis. The Utility Delivery segment, however, must be rolled in to the Network segment or the rate dramatically revised to avoid violating

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the Principles going forward. Our more detailed comments on each specific segmentation proposal follow.

Based on BPA's spreadsheet analysis and in order to understand the aggregate impacts of the alternatives, we looked at the average positive and negative rate impacts of each proposal and the number of customers impacted. For the reader's convenience, the following table summarizes the results of our analysis. We note that because BPA analyzed the combined impacts of alternatives on power and transmission rates, the rate impacts are considerably lower than they would be had BPA analyzed the impacts on transmission rates only.

Network Alt	Proposal	# of cust Rate Increase	average rate increase	# of cust Rate Decrease	average rate decrease
2	PNGC Roll In	116	1%	50	28%
3	NRU Stabilize	133	0.3%	33	15%
4	SNoPUD - Radial	69	31%	97	4%
5	IOU Transformation	131	7%	35	4%
7	SCL < 145 kV	130	44%	36	23%

PROPOSED SEGMENTATION ALTERNATIVES

1. Network Alternative 1: Status Quo

Under the status quo, BPA's segmentation methodology allocates costs to seven segments. Although we strongly support the majority of the status quo segmentation methodology, the Utility Delivery segment is leading to pancaked rates with untenable rate increases for those customers subject to the Utility Delivery Charge ("UDC"). Additionally, the UDC increasingly lacks a policy basis to justify its current structure. Under the status quo, facilities are divided between the Integrated Network segment and the Utility Delivery segment based on a 34.5 kV threshold, where transmission facilities at or above 34.5 kV are included in the Integrated Network and facilities below that threshold are placed in the Utility Delivery segment. The current UDC is $1.399 kW/Mo, which includes a 25% increase from the BP-14 Rate Case and BPA projects that the UDC will increase an additional 25% under the status quo for FY 2016 – 2017. If that occurs, the UDC will be at a level essentially equivalent to the Network Transmission ("NT") rate. Therefore, NT customers who are subject to the UDC will pay roughly double the transmission rate in FY 2016 – 2017 as those NT customers who are not subject to the UDC.

The status quo Utility Delivery segment is evaluated in the following paragraphs and several Principles are shown to be violated. However, other than the specific problem with the Utility Delivery segment and UDC, PNGC strongly supports the majority of the status quo segmentation methodology and our criticisms should not be seen as a wider disavowal of BPA's current segmentation approach. We believe the majority of the status quo segmentation methodology to be vastly superior to other segmentation

proposals that are being advocated for in this process. By fixing the status quo Utility Delivery segment and UDC as PNGC proposes, we believe an even stronger segmentation methodology can be achieved.

Violates Widest Possible Use:

The current Utility Delivery segment and Charge does not encourage the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles. The charges are increasingly punitive for customers taking delivery at lower voltages and hinder the delivery of affordable power.

Causes Rate Shock:

Due to the dramatic increases in the UDC, the current Utility Delivery segment is not sustainable and leads to severe rate shock. Additionally, this situation is projected to get significantly worse in the coming rate period as the UDC becomes as high or higher that the NT rate.

Induces Rate Instability:

Although the majority of customers would see stable rates under the status quo, those customers subject to the UDC would experience additional large rate increases in the coming rate periods, which would violate the principle that rate stability should be achieved.

Does Not Apply Uniform Rates:

The current UDC runs counter to the Principle that BPA should apply uniform rates to achieve the widest possible diversified use. Despite the fact that BPA acknowledges that the facilities in the Utility Delivery segment are wholesale transmission facilities, the UDC creates a sub-class of transmission customers that are required to pay a higher rate for transmission. This occurs despite the fact that it was past BPA policies that provided smaller utilities with delivery points at lower voltages. For example, delivery voltages were often provided by BPA in accordance with its Customer Service Policy in past decades, based on considerations such as proximity to Corp or Bureau facilities, or other factors specific to the system at the time they were constructed. Consequently, many utilities simply took the delivery that BPA provided based on BPA's "least cost" transmission system planning.

The rate impacts of the Status Quo on the UDC need to be addressed if the status quo segmentation is to be maintained.

2. Network Alternative 2: Roll In Utility Delivery Segment – Proposed by PNGC

PNGC supports the roll in of the Utility Delivery segment for the reasons set forth in the White Paper. In addition to the reasons we provided in that document, we offer the following additional support:

It is important to note that the Utility Delivery segment was established in 1996 as a result of a settlement that was influenced in part by large changes that were occurring in the industry, driven

primarily by FERC Order No. 888. Since that time, FERC's preference for rolling wholesale transmission facilities into network rates has become much clearer. Given that the Utility Delivery facilities are used exclusively for wholesale deliveries of power and are transmission facilities, we believe that rolling the Utility Delivery segment facilities into the Network segment is appropriate.

Further, most of the Utility Delivery facilities were installed by BPA as a result of BPA's Customer Service Policy that was in effect in previous decades. This policy provided that BPA would provide point of delivery substations, up to 50 MVa, for utilities whose loads were less than 25 aMW. The cost of these wholesale transmission points of delivery was segmented separately as a result of a settlement in 1996. Given where the industry is today, rolling these facilities back into the Integrated Network segment is good public policy and is consistent with the practices found in the Industry Scan that BPA conducted.

Now that we are thoroughly examining this issue, we believe that BPA should roll in the remaining Utility Delivery facilities into the Network based on the combination of 1) BPA's statutory obligations for widest possible use at lowest possible cost, 2) the national preference for rolled in transmission rates to provide broad access to electricity for all parts of the country in an open access environment , 3) the "unpurchaseability" of most of the remaining delivery facilities, and 4) the vastly uneven rate impacts and rate pancaking that will occur if BPA goes ahead with the plan to increase the UDC by another 25% in the next rate period.

As a demonstration of how this would help BPA improve its mission of "widest possible use at lowest possible cost to consumers, please consider the numbers. The roll in proposal would lower rates for 50 utilities by an average of 28% (according to BPA's spreadsheet analysis considering the effects on both transmission and power rates), thus effectively eliminating the UDC rate pancake currently charged to these customers, while raising rates by an average of 1% for 116 customers. On the other hand, if the status quo is maintained, utilities paying the UDC will pay the equivalent of an additional NT rate if the projected 25% rate increase in UDC goes forward next rate period. This rate pancaking effect is simply not in compliance with BPA's statutory obligation for widest possible use at lowest cost to consumers, nor with its mission of rural electrification. BPA can address the enormous disparity in treatment at very little cost to other transmission customers now by making the decision to eliminate the delivery segment and rolling it into the Network.

It is worth noting that not all PNGC member cooperatives benefit from this proposal, but as a group still believes it is the right and logical thing to do. Of PNGC's 14 member cooperatives, nine PNGC member cooperatives would receive a rate reduction as a result of rolling the Utility Delivery segment into the Network segment. The remaining five member cooperatives would experience modest rate increases similar to other customers who do not currently have Utility Delivery facilities. Many PNGC members have already purchased delivery substations. Yet, even this disparate group of utilities agrees that rolling the Utility Delivery segment in is the right thing to do as BPA moves forward into the next rate case.

We urge the Administrator to accept this proposal.

3. Network Alternative 3: Maintain Adjusted Utility Delivery Charge – Proposed by NRU

Although the PNGC and NRU proposals differ in approach, they attempt to address the same problems. NRU makes several important points in their proposal to make certain adjustments to the UDC. In particular, we agree that the status quo UDC is based on an outdated methodology that leads to unacceptably high costs. In part because of this, the status quo UDC causes rate shock and rate instability, each of which would increase as BPA projects the rate to significantly increase in the coming years.

NRU's proposal is one way to address these issues and is worthy of consideration.

4. Network Alternative 4: Develop a "Radial" Segment – Proposed by Snohomish

PNGC opposes Snohomish's proposal to establish a new segment based on radially operated facilities. This proposal would not only violate most of the Principles set forth in this discussion, it would also create an unnecessarily complex ratemaking process while harming a great number of BPA customers.

Violates Widest Possible Use:

This segmentation and rate structure would violate BPA's mission of "widest possible use at lowest possible cost to consumers consistent with sound business principles." In fact, Snohomish's proposal would create a permanent underclass of transmission customers who would pay higher rates for poorer quality service. The proposal would force 69 customers to pay on average 31% more in rates so that 97 customer could enjoy, on average, a 4% rate decrease. It would also economically punish those customers for whom BPA put in the most economic plan of service, a radial line. All utilities want looped service as it provides better reliability to consumers. However, given the vast geographic area and often, small amount of load, many of BPA's wholesale customers recognize and accept that looped service is not economically feasible. To charge those customers transmission rates that are 89% more on average for lower reliability service (BPA June 11, 2014 presentation, page 3) than the transmission rates of customers receiving looped service is counter intuitive, contrary to BPA's statutory mission, and punishing to BPA's more electrically or geographically remote utilities.

No Regional Benefit:

Snohomish's proposal also is damaging to the principle that BPA should maintain a "regional perspective". And it would certainly be a setback for rural electrification as much rural service is radial. In fact, this proposal sets up two regions: those fortunate enough by geography or customer density to enjoy looped service, and those who are geographically remote or due to low customer densities, are served radially. Balkanizing the BPA Network was certainly not the intent of Congress. The proposal would further disadvantage the rural areas of the region dramatically increasing rates to rural and less densely populated areas where radial service is prevalent solely for the purpose of a slight reduction in

for urban and higher density areas where the majority of looped service exists. There is no "regional" benefit from this proposal, but it does create clear and dramatic losers.

Causes Rate Shock:

This proposal would create pancaked rates and rate shock for many public power customers; for example, NT customers on radial lines could now pay three transmission charges: 1) NT base charge, 2) Radial Segment Charge, and the 3) Utility or GTA Delivery Charge. And each of these charges is roughly equal to the NT base charge, resulting in dramatic rate shock. No amount of mitigation can alleviate the potential end-state rate shock for those customers who would pay the radial segment charge and mitigation is no solution for the bad policy this proposal would create.

Contrary to cost causation:

This proposal is also contrary to cost causation. BPA planned its transmission system using the one utility planning concept. This resulted in BPA saving costs as it built its network by only providing radial service to many remote or less populated portions of the region. To now segment those costs violates the tenets of the one utility planning concept and cost causation (lowest cost for a one utility system).

Induces Rate Instability:

This segmentation proposal is inherently unstable. It provides perverse incentives to locate generation on radial lines in order to move the radial line into the Network segment. Every rate period would likely require BPA to perform a new analysis of what facilities would or would not fall into this segment and the contents of the segment would be likely to shift in a manner that exacerbated the inherent rate instability of this proposal.

Does Not Apply Uniform Rates:

By virtue of its structure, Snohomish's proposal is contrary to BPA's historic approach of uniform rates to achieve widest possible diversified use.

Not in Sync with the Industry Scan:

Further, this proposal is not in line with standard utility practice. BPA's industry segment scan turned up no cases where a radial segmentation methodology like this existed. Further, we have seen that FERC is in favor of broader roll-in of facilities, rather than less. Certainly one aim of that preferred policy position is to prevent the sort of balkanization of the transmission system that is produced by Snohomish's proposal. Further, even when utilities have altered their segmentation methodologies, the industry scan does not support the idea that the changes be applied retroactively to existing facilities. Surely, if Snohomish's radial segmentation proposal had been the policy for the last several decades, the system would have developed very differently. PNGC and its members do not believe that a dramatic re-segmentation of this type should apply to existing facilities.

This radial segment proposal should be rejected.

5. Network Alternative 5: Develop a Transformation Charge – Proposed by IOU/Large Public Coalition

PNGC opposes the IOU/Large Public Coalition's segmentation proposal based on transformation charges, which violates numerous Principles and would lead to bad policy.

Violates Widest Possible Use:

Similar to some of the other proposals, about 35 transmission customers would see a small (4% on average) rate decrease, while most of the BPA's load serving utilities would experience a 7 % increase on average. By segmenting based on transformation voltage, arbitrary lines are drawn that do not take into account the reasons and policies that drove facilities decisions in the past. (See our discussion in Network Alternative 2. for a fuller discussion of why lower voltage wholesale points of delivery were provided to many utilities by BPA.)

The Coalition believes that it will provide a better price signal to promote more efficient transmission decisions. This is not at all the case. The proposal retroactively segments facilities that are already built and therefore it cannot provide a price signal for those facilities. Instead, it penalizes utilities for decisions that were made decades ago and often for reasons that were not in the direct control of the utilities that would be subject to additional charges under this proposal. In fact, many utilities would have built different voltages but for BPA's planning and provisioning policies of the past.

Contrary to cost causation:

This proposal is also contrary to cost causation. BPA planned its transmission system using the one utility planning concept. BPA made a determination in building these facilities that construction of lower voltage facilities was appropriate under its single utility planning model. To now segment those facilities and their costs retroactively violates the tenets of the one utility planning concept and cost causation.

Not in Sync with the Industry Scan:

Further, this proposal is not in line with standard utility practice. Although the Coalition points to BPA's industry scan in an attempt to justify this proposal, a closer examination of the document reveals little support for this methodology. Although a portion of utilities in the scan do have voltage differentiated rates, those utilities are largely part of ISO/RTOs and those rates differ depending on the ISO/RTO that they are a part of. Additionally, those voltage differentiated rates are intended to encourage development of new transmission facilities and not to retroactively recover the costs of facilities like those at issue on the BPA system. Because of this, the voltage differentiated methodologies are of little use for purposes of BPA decision making on segmentation. In fact, the industry scan provides strong support that a single rolled-in transmission rate is more widely adopted and far more justifiable for BPA rate making purposes.

This transformation charge segmentation proposal should be rejected.

6. Network Alternative 6: Apply Seven Factor Test to Create Segment Based on Function – Proposed by IOU/Large Public Coalition

PNGC opposes the Coalition's proposal to apply the seven factor test to create a segment based on function.

The Seven Factor Test is Functional Inquiry for FERC Jurisdiction:

The seven factor test is the second part of a two part test that is used by FERC purely to determine whether it has jurisdiction over a utility's transmission facilities. In determining whether it has jurisdiction over certain transmission facilities, FERC first examines whether the subject facilities are used for unbundled wholesale wheeling. If the answer is yes, FERC has jurisdiction. If the subject facilities are used for unbundled retail wheeling, rather than wholesale, the seven factor test is applied to determine which facilities are subject to state jurisdiction and which facilities are subject to FERC jurisdiction. The seven factor test was not intended for use as a methodology to determine segmentation for rates and doing so would be a gross misapplication of the test.

BPA Did Not Perform a Rate Impact Analysis on this Proposal:

BPA did not perform a rate impact analysis on this proposal and therefore our comments are limited in this regard. However, based on general guidance provided by BPA, we believe that the rates for many transmission customers would be significantly higher under this proposal than the status quo segmentation methodology for the Network rates. Therefore, this proposal would violate the widest possible use principle and rate directive, in addition to being illogical for the reasons set forth above.

This Proposal is Subjective and Would Cause Rate Instability:

The very nature of the seven factor test is subjective and ripe for dispute when classifying facilities. This is likely to lead to long and repetitive fights each rate period in order to determine how to segment various facilities. This would be extremely inefficient and counterproductive to the goal of creating a defensible segmentation alternative that promotes rate stability.

This proposal should be rejected.

7. Network Alternative 7 – Establish a Sub-Transmission Segment and Rate Based on Voltage Threshold – Proposed by Seattle City Light

PNGC opposes the establishment of a sub-transmission segment and rate. This proposal has no justification and is erroneously based on the assumption that if a customer's delivery voltage is above 145 kV, that customer should not pay any of the costs of the transmission system below that threshold.

Violates Widest Possible Use:

This proposal results in an average rate decrease of 23% for Seattle and 35 of the other customers on the system while delivering rate increases that average 44% for the remaining 130 customers. This proposal blatantly violates the principle of widest possible use at lowest possible cost to consumers.

Contrary to cost causation:

This proposal is also contrary to cost causation. BPA planned its transmission system using the one utility planning concept. BPA made a determination in building these facilities that construction of lower voltage facilities for these customers was more cost-effective than higher voltage facilities. That determination lowered the overall cost of the BPA transmission system. To now segment those costs violates the tenets of the one utility planning concept and cost causation.

Seattle also errs in its understanding of the operation of the Integrated Network system. For example, generation is often integrated through 115 kV or lower portions of the Network. Also, 115 kV lines are often parallel to and support the 230 kV system. A rated path may comprise both the 230 and 115 kV or lower lines and stations. So even if a utility takes delivery at 230 kV, it is using the Network which includes 115 kV or lower voltage lines and stations. A proposal that excludes payment of large parts of the Network based on delivery voltage is inherently flawed, ignores cost causation, and should be discarded.

Causes Rate Shock:

Seattle's proposal would cause dramatic rate increase for the overwhelming majority of BPA's transmission customers. Based on rate shock alone, the proposal should be discarded.

No Regional Benefit:

This proposal would engender regional economic harm by unfairly burdening the transmission rates of most load serving utilities in the region with the costs of the Network transmission facilities lower than the bright line threshold.

Seattle's proposal should be soundly rejected.

Comments of Powerex Corp. on Alternatives #4, #5 and #7 of the Customer Segmentation Proposals

Company	Date Submitted
Powerex Corp.	June 18, 2014

Powerex appreciates staff's efforts to solicit, review, clarify and analyze the customer segmentation proposals. This issue is important to BPA's transmission customers, and staff's efforts have been beneficial.

Powerex supports a segmentation policy that is rooted in and adheres to the cost causation principle. Powerex believes that Snohomish's proposal to develop a "radial" segment (Alternative 4); the IOU/Large Public Coalition's proposal to develop a transformation charge (Alternative 5); and Seattle City Light's proposal to establish a sub-transmission segment and rate based on voltage threshold (Alternative 7) are more consistent with cost causation principles than the current status quo. In view of this, Powerex urges BPA to give these proposals significant consideration when selecting a segmentation policy for the BP-16 rate proceeding.

Powerex notes, however, that the time allotted for reviewing the customer-specific analysis has unfortunately been quite short and, as a result, has not allowed thorough analysis and understanding of the studies. Due to the number of assumptions and inherent uncertainties with the rate impacts predicted under the various alternatives, coupled with the limited amount of time to review, Powerex reserves the right to further examine and file supplemental comments on customer segmentation proposals going forward.

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Tech Forum via Email

TO: Bonneville Power Administration

RE: Regional White Paper – Segmentation Methodology Alternatives

DATE: June 17, 2014

The Public Power Council ("PPC") appreciates this opportunity to comment on BPA's draft "Regional White Paper - Segmentation Methodology Alternatives." As the trade association representing the preference customers of BPA, all of PPC's members are materially affected by BPA's decisions regarding the segmentation and allocation of its transmission system costs.

In this context, PPC is narrowly focused on the issue of retaining the Eastern Intertie Segment. Most recently PPC has made presentations and submitted formal comments to BPA on the appropriateness of retaining the Eastern Intertie. PPC staff also worked with BPA to ensure that PPC's position and rationale regarding retention of the Eastern Intertie are accurately represented in the white paper.

The issue of retaining the Eastern Intertie segment has been a contentious and fully litigated issue in each of BPA's last two general rate proceeding. In both those proceedings proposals to roll the Eastern Intertie into the network were broadly opposed by many parties and ultimately rejected by the Administrator on the basis of the evidence in the record. PPC does not believe that any facts have changed to warrant a change in the current treatment of the Eastern Intertie, which has been in place for decades.

PPC has reviewed Gaelectric's rationale for rolling in the Eastern Intertie rates in this process. Based on this review, PPC believes that our comments as submitted to BPA and represented in the white paper provide a comprehensive refutation to that proposal. Without fully re-iterating those comments here, rolling in the Eastern Intertie would be contradictory to cost causation principles, would create significant risk of additional costs

to network customers, and would not serve to provide any demonstrable economic benefits within the region.

Thank you again for your consideration of these comments and BPA's engagement on this issue. Please feel free to contact PPC staff at any time with further questions or clarifications.

Ravalli County Electric Cooperative
PO Box 190
Corvallis, MT 59828

Tech Forum
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911 NE 11th Ave.
Portland, Oregon 97232
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Re: RE: BPA Regional White Paper: Segmentation Methodology Alternatives
[Submitted Electronically to techforum@bpa.gov]

Date June 13, 2014

Introduction

Ravalli County Electric Cooperative (REC) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

REC is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, REC has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. REC is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,"* is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

<u>Discussion of Network Segment Alternatives</u>

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal

5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Summary

Impacts to individual NT customers differ under the radial or transformation proposals, depending upon the configuration of their transmission service from BPA. The amount of complexity involved with these proposals designed to benefit the few at the expense of the many are likely to require constant attention and revision. With these complexities and cost shifts they will impose, BPA should be mindful of their successful history and the culture that has evolved from this history. Items such as this will cause cost shifts and instill divisiveness across the northwest. With all of the items that sit before the collective whole of BPA, items such as this are counterproductive to the long range viability of BPA.

We need to stand united in opposing these changes on a principled basis due to the impacts it would have on a select group of customers while causing long term erosion of relationships. Those relationships will help us resolve the more pressing problems we as a collective BPA can solve.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Mark S. Grotbo
General Manager, Ravalli County Electric Cooperative

Renewable Northwest Members

3Degrees
American Wind Energy Association
Atkins
Blattner Energy
Bonneville Environmental Foundation
Center for Energy Efficiency & Renewable Technologies
Christenson Electric
Citizens' Utility Board of Oregon
Climate Solutions
Columbia Gorge Community College
Community Renewable Energy Association
DNV GL
Ecofys
EDF Renewable Energy
EDP Renewables
Environment Oregon
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GE Energy
Geothermal Resources Council
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HDR Engineering, Inc.
Iberdrola Renewables
Idaho Conservation League
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Natural Capital Partners
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NW Energy Coalition
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Portland Energy Conservation, Inc.
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RES America Developments
Solar Oregon
SolarCity
Stoel Rives, LLP
SWCA Environmental Consultants
Tonkon Torp LLP
Vestas Americas
Warm Springs Power & Water Enterprises
Washington Environmental Council
WashPIRG
Western Resource Advocates

Renewable Northwest

June 27, 2014

SUBMITTED VIA EMAIL to Tech Forum at techforum@bpa.gov

RE: Comments on BPA's Draft Regional White Paper on Segmentation Methodology Alternatives

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Renewable Northwest appreciates the opportunity to comment on the Segmentation White Paper and specifically on the treatment of the "segment" associated with BPA's capacity (200 MW) on the Eastern Intertie (Townsend-to-Garrison).

We are unclear about how to best resolve our concerns with the Montana Intertie Rate ("IM Rate") in the context of this broader segmentation discussion. We had hoped that the segmentation discussion would provide guidance on a consistent approach for examining the appropriateness of the IM Rate pancake but, at this time, that does not appear to be the case. From a voltage and functional perspective—the two primary metrics advanced in this segmentation discussion—BPA's capacity on the Eastern Intertie is a part of the 500 kV Network.

To the extent that there are other questions surrounding the elimination of the IM Rate, they may be best answered in some other forum. Regardless, our position is that BPA's capacity on the Eastern Intertie should be treated consistently with all of the other BPA transmission assets that are similar in function and voltage.

For all of the reasons expressed in the previous two rate cases—some of which are highlighted here—Renewable Northwest continues to advocate for the elimination of the IM Rate pancake:

1. It will facilitate the development of renewable resources in the Pacific Northwest.
2. It will promote economic development in the state of Montana.
3. It will put BPA in a position to earn revenue on capacity that has earned zero revenue for roughly twenty years.
4. It will facilitate cost-effective reduction of carbon dioxide emissions and help the region comply with the EPA's proposed carbon pollution regulations.

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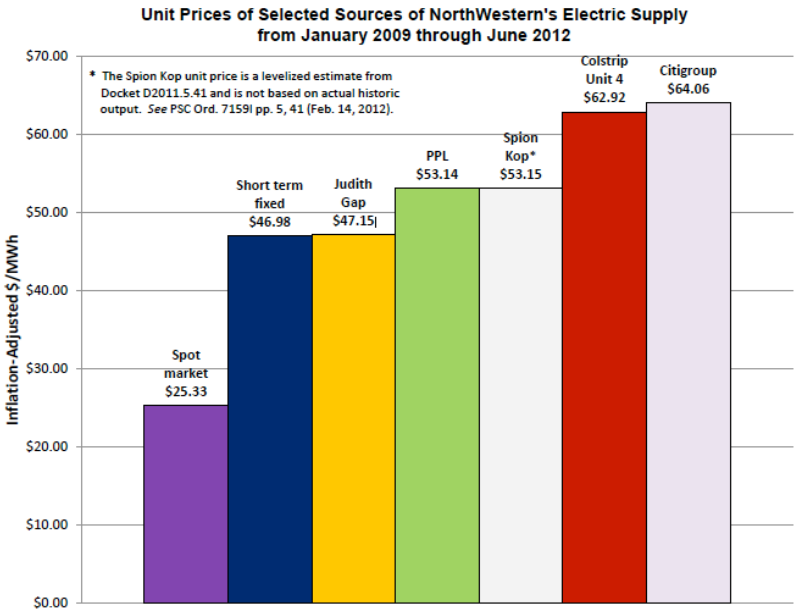
In the context of these segmentation discussions, our position in the BP-12 and BP-14 rate cases—which was to eliminate the IM Rate pancake—would translate into the "de-segmentation" of the 200 MW of BPA capacity on the Eastern Intertie. This means that BPA would no longer charge the IM Rate pancake for service over that "segment" and would instead charge a single Network Rate for service over BPA's 200 MW of capacity from Townsend to Garrison and any point beyond on BPA's Network. Eliminating this uniquely segmented portion of BPA's Network is consistent with BPA's segmentation and ratemaking principles as well as with applicable statutes:

1. BPA's portion of the Eastern Intertie is operated as part of BPA's interconnected Network and provides service at the 500 kV level under the terms and conditions of BPA's OATT.
2. Eliminating the IM Rate would promote the widest possible diversified use of BPA's transmission system.
3. Eliminating the IM Rate is consistent with sound business principles and utility practice.
4. There are no unique operating criteria for this Townsend-to-Garrison "segment" separate from the rest of the Path 8 cutplane.
5. BPA's portion of the Eastern Intertie is a contiguous part of the 500 kV network of the Pacific Northwest that is committed to serving the major load centers and maintaining reliability in the region.
6. There is no change in ownership, no change in access to electricity markets, no change in state or federal jurisdiction, and no change in voltage or transmission operations across this Townsend-to-Garrison "segment."
7. Eliminating the IM Rate would not change the boundary definitions of BPA's balancing area.
8. Eliminating the IM Rate would not create any precedent for de-segmenting the Southern Intertie, which is not similarly situated.
9. Eliminating the IM Rate would not cause rate shock.
10. Full and timely cost recovery is assured.

The cost recovery issues associated with this proposal are somewhat unique but ultimately are de minimus and will likely lead to more revenue for BPA. Currently, only 16 MW of BPA's 200 MW of capacity on this segment are actually utilized and pay the IM Rate pancake. The rest of the 184 MW earns *no revenue*. Eliminating the IM Rate would result in an immediate 0.02% increase in the Network Rate—a de minimus near-term increase. However, as more of the 184 MW is subscribed, the Network Rate Segment would also receive a greater amount of revenue, compared to the cost, through the increased Network Rate sales. From a cost recovery perspective, this segmentation proposal leaves BPA and its customers in a better position than the status quo of earning zero revenue for 184 MW of capacity.

The segmentation, rates, and revenue recovery for the rest of the capacity on the Eastern Intertie would be unaffected by this proposal and would continue to be governed by the Montana Intertie Agreement, as mutually agreed to by BPA and the other parties to that agreement (the Colstrip partners).

Eliminating the IM Rate is likely to result in increased transmission revenue over BPA's portion of the Eastern Intertie because it will facilitate the development of new renewable resources in Montana that require this transmission capacity to access markets on the West Coast. The cost of wind resources in Montana are already competitive with other resources within the state—with prices from the Judith Gap and Spion Kop wind projects ranging from approximately $47/MWh to $53/MWh, as shown in the chart below. However, the IM Rate Pancake decreases the competiveness of Montana wind in the West Coast markets. The IM Rate ($0.598/kw-mo) amounts to over $2/MWh of additional costs for a 40% capacity factor resource; this rate pancake is enough to change the competitiveness of the Montana wind with the "short-term fixed" and "PPL" resources shown below.



See Montana Public Service Commission, Electric Supply and Residential Rates of Northwestern Energy at 11, (Oct. 23, 2012), *available at* http://psc.mt.gov/Consumers/energy/pdf/NorthWesternElectricRateGraphs.pdf.

As discussed above and in our previous rate case filings, the IM Rate stands as a deterrent to greater use of BPA's unsubscribed Eastern Intertie capacity. The consequences of retaining the IM Rate are that Network Rates are higher than they would be if the pancake were removed; high-quality, carbon-free renewable resources are unable to access West Coast markets; and the state of Montana is deprived of an economic development opportunity. BPA should encourage wider, more efficient, and more diverse use of its existing unsubscribed transmission capacity and eliminate the IM Rate pancake.

If you have any questions, please do not hesitate to contact us. Thank you for the opportunity to comment.

/s/
Cameron Yourkowski
Senior Policy Manager

Salmon River
Electric Cooperative, Inc.
SERVICE • ELECTRICITY • PROPANE

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Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

June 10, 2014

Introduction

Salmon River Electric Cooperative (SREC) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

SREC is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, SREC has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. SREC is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

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As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
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- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV

and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
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Impacts on SREC

In the following section we describe the rate impacts for SREC as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

The financial impact of Alternative #4 is an increase in annual transmission costs to SREC by $509,000. This is unconscionable.

The financial impact of Alternative #5 is a decrease in annual transmission costs to SREC of $5,000. Despite this alternative causing SREC's annual transmission charges to decrease, SREC does not support this alternative as we support the current definition of the network segment with small modifications for the Utility Delivery Segment.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Ken Dizes
General Manager

CC: Northwest Requirements Utilities

Some customers cited two specific functional analyses that have resulted from Commission orders. These customers suggested that such tests should be used to define what facilities should be included in BPA's Integrated Network segment. The first test referenced was the Seven Factor Test, which the Commission introduced in Order No. 888. This test is used by jurisdictional utilities to determine whether a facility is performing a transmission function (subject to Commission jurisdiction) or distribution function (subject to state jurisdiction). If a facility meets the criteria (see appendix) it is deemed to be a local distribution facility; thus, it is subject to state jurisdiction, not Commission jurisdiction. If a facility meets some factors but not all, the factors must be weighed against each other to determine the function of the facility. Other customers pointed out that the Commission premised the Seven Factor Test on the lack of any wholesale activity using a facility; if there was wholesale activity, the Commission retained jurisdiction. Staff noted that all uses of BPA's Integrated Network transmission facilities are used for wholesale activities.

The other functional test that customers referenced in their argument after the evidentiary phase of the BP-14 proceeding closed is the *Mansfield* Test (see appendix for detail). This test was developed in a Commission case, *Mansfield v. New England ISO*. The *Mansfield* test presumes integration and, therefore, facility costs should be rolled into network rates unless all five factors of the test are met which results in direct assignment of those costs to the customer necessitating those costs. BPA's current methodology for deciding between rolling costs into its Integrated Network or directly assigning them uses a comparable test but is not exactly the same as the *Mansfield* test, but relies on some of the same principles (the *Mansfield* and subsequent Commission decisions are considered in directly assigning costs). This issue was not explored in testimony, so the arguments made in BP-14 concerning potential application of the *Mansfield* test to BPA facilities were not based on any evidence in the record.

In BP-14, some customers cited the North American Electric Reliability Corporation's (NERC) Bulk Electric System (BES) definition of transmission and local distribution and argued that BPA should make its definition of the Integrated Network segment consistent with the BES definition. NERC currently defines the BES as any facilities operated at or above 100kV with exclusions for facilities used in local distribution, radial systems, local networks, generating units on the customer's side of a retail meter, and reactive power devices owned and operated by a retail customer for their own use. (FERC's approval of ~~T~~this definition ~~continues to undergo Commission and NERC review.~~ was appealed and is pending before the Second Circuit Court of Appeals) NERC's purpose for defining the BES is to determine which facilities are critical to the reliability of the grid. NERC developed extensive reliability standards and reporting requirements for BES facilities, and they monitor compliance. Customers arguing for the use of the BES definition also argued that the BPA application of the threshold should be raised to 116kV. No Commission cases have been found to indicate the use of the 100kV BES definition as a method for setting rates. Instead, excluding a high number of facilities using this method seems at odds with the Commission's demonstrated "roll in" preference. ~~Furthermore, the BES definition has no mention of state versus Federal jurisdiction, nor does it mention wholesale activity; the BES definition was developed to determine operational jurisdiction, not ratemaking or contractual jurisdiction.~~

There were four main reasons staff gave for not performing a detailed functional analysis of BPA's transmission facilities for BP-14 rates. First, there were unanswered questions regarding cost recovery (*e.g.*, direct assignment, a new segment and rate, etc.) had BPA adopted a functional test that were not addressed in parties' testimony and staff did not have sufficient time within the timeframes of

Comment [FJ1]: We are unaware of any ongoing NERC or FERC processes or proceedings further reviewing the BES definition that will become effective on July 1st. The definition was appealed and is pending court review in Case No. 13-2316 at the Second Circuit Court of Appeals. The New York Public Service Commission is arguing that the definition sweeps in local distribution facilities even though the definition and Sections 201 and 215 of the Federal Power Act exclude them.

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Comment [FJ2]: The point that the BES definition should not be used seems already made without this sentence.

The definition does distinguish between facilities that are and are not FERC-jurisdictional. The definition specifically states that "This does not include facilities used in the local distribution of electric energy." Jurisdiction over local distribution facilities is reserved for the states under Sections 201(b) and 215 of the Federal Power Act. FERC stated in Order No. 773 (P 71), that it will use the 7-factor test to determine whether a facility is local distribution within the context of the BES definition.

Also, neither FERC nor the Federal Power Act distinguish between operational and ratemaking jurisdiction. FERC will apply the 7-factor test uniformly to "local distribution" per Order No. 773.

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the BP-14 case to adequately develop and analyze a cost recovery mechanism consistent with a functional test. Second, staff reviewed the composition of facilities in the Network and Delivery segments, as modified since 1996, and determined that the 34.5kV threshold was still appropriate to recognize facilities performing a transmission rather than delivery function. Additionally, staff noted that if it were to perform a functional analysis, it was not clear which functional criteria should be used and how it should be weighted. Staff was also uncertain if the Commission tests were appropriate for BPA ratemaking purposes. Staff was not sure whether using a functional analysis would promote the widest possible diversified use of BPA's transmission consistent -with BPA's statutory directives and historical ratemaking policy. Staff also noted that it was uncertain whether the use of the tests as advocated by certain customers was consistent with the Commission's strong preference for rolling in facilities,

In staff's benchmarking analysis (performed after the BP-14 case—see Industry Scan below), only two non-RTO/ISO entities have been identified as having a "sub-transmission" segment and one of those rates is being challenged before the Commission. In that case, the transmission owner is defending their sub-transmission rate, in part, by specifying that the cost of the "sub-transmission" is rolled in – it is just rolled into a different rate than the high voltage network facilities. In addition, most utilities included in the scan have only looked at changing policies going forward and do not redefine assets previously included in definition of the Integrated Network or other segments unless there are physical modifications of those facilities.

BPA's historical mandate to help with rural electrification is consistent with BPA rolling lower voltage facilities into the Network. A review of most of the 34.5 kV facilities indicated that all of these lower voltage facilities are performing a transmission function, but doing so in rural areas where lower loads lead to using lower voltage infrastructure to keep costs down. Charging customers an additional sub-transmission rate may be inconsistent with BPA's mandate to facilitate widest possible diversified use and rural electrification. In BP-14, BPA argued that the proposed change would punish some rural customers for being located in areas where lower voltages are sufficient to support transmission to their service territories.

BPA stood behind these reasons to justify maintaining the 34.5 kV threshold in BP-14, but did include language in its ROD that "[b]efore the next rate proceeding BPA will engage the region regarding segmentation policy. Staff and interested stakeholders should work together at the outset of these discussions to identify the framework and agenda for these discussions." This white paper is the result of those discussions.

Regional Discussion Prior to BP-16

To meet the commitment set forth in the BP-14 ROD, BPA staff initiated a regional discussion on segmentation in January 2014. In the initial public meetings, staff educated customers (at the management and staff level) about segmentation and its history in BPA ratemaking. This effort included sharing information on BPA's current segmentation and direct assignment practices as well as BPA's findings from an industry scan conducted of jurisdictional transmission providers throughout the United States.

Industry Scan

After sharing this preliminary information, BPA asked participants to develop proposals for alternative Segmentation methodologies for analysis. BPA has performed analysis on 6 proposals received (5 for Network alternatives and 1 for Montana Intertie) as well as the status quo. These proposals and associated analyses are discussed in Section III of this paper.

BPA's Segmentation Principles:

BPA developed principles for the segmentation analysis which will be used to evaluate each of the proposals. These principles were shared with customers and reflect customer input.

1. Consistent with statutory requirements
a. Full and timely cost recovery
b. BPA's rates are based on total system costs
c. Equitable cost allocation between Federal and non-Federal uses of the transmission system
d. Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

2. Consistent with rate making principles
a. Cost causation
b. Simplicity, understandability, public acceptance and feasibility of application
c. Avoidance of rate shock
d. Rate stability from rate period to rate period

3. Considers a regional perspective
a. Alternatives include how costs are allocated and recovered
b. BPA asks that proponents of alternatives explain how the region benefits from the alternative compared to the status quo
c. Historically BPA has applied uniform rates to achieve widest possible diversified use

III. Proposed Alternatives and Analysis

Using the status quo as a benchmark, BPA staff evaluated the proposed alternatives. Participants were asked to include in their segmentation alternatives how transmission system costs would be allocated and recovered under their segmentation. This required customers to identify in their proposals not only the guidelines for changing the segmentation of facilities, but also outlining a rate design for how the segment costs would be recovered from customers. Recognizing that a change in segmentation could introduce rate shock to some customers, participants were asked to identify any rate mitigation strategies that might be appropriate.

All analysis shown in this paper is based on BP-14 Final Proposal revenue requirement and forecast sales and is "decision quality" analysis. When BPA performs the segmentation analysis for ~~the~~ its initial proposal for the BP-16 case, the best data available for FY 2016 and FY 2017 will be used. In addition, for alternatives where BPA simplified data for discussion purposes (i.e., the Revenue Requirement "Rule of Thumb"), BPA will use the actual data based on its repayment, revenue requirement, and rates models for the Initial Proposal. Thus, for the alternative chosen for the initial

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proposal in BP-16, the results will likely differ somewhat from the analysis of that alternative contained in this paper.

Network Segment Alternatives

Network Alternative 1 – Status Quo

BPA's transmission rates currently identify and allocate~~s~~ costs to seven segments: Generation Integration, Integrated Network, Southern Intertie, Eastern Intertie, Utility Delivery, Direct Service Industry (DSI) Delivery, and Ancillary Services. The BP-14 Final Proposal documentation contains information on how these numbers were developed. Facilities are divided between the Integrated Network and the Utility Delivery segment based on a 34.5kV bright-line threshold; all transmission facilities not in other segments that are 34.5kV or higher are placed in the Integrated Network segment.

The status quo is offered as an alternative for consideration in this process. The fact that BPA is undertaking a review of its segmentation alternative does not mean that BPA must or should change its segmentation methodology. However, because the status quo alternative was generated from a non-precedential rate settlement, the status quo should not be considered the presumptive alternative where other alternatives must demonstrate conditions necessitating a change in segmentation. The status quo is offered as another alternative being considered. However, in the analysis of the various alternatives, the status quo is used as a measure of cost shift because it is the basis for rates today.

Status Quo Justification

The status quo use of a bright-line voltage threshold at 34.5kV appears to be solidly in the center of the practice that jurisdictional utilities across the country use to distinguish between transmission and distribution. The Commission's preference is to roll transmission facilities into network rates unless cause is shown to separately recover costs from ratepayers; the status quo alternative is aligned with the Commission's preference. ~~Because the facilities currently in the Utility Delivery segment are transmission facilities, they could be rolled into the Integrated Network segment under the Commission's preference. However, there may be good policy reasons to retain the Utility Delivery segment. This policy is examined in more detail in the discussion on Alternative 1 and Alternative 2.~~

Comment [FJ3]: This language is confusing because it does not justify the status quo. Our understanding of this section was to justify the current use the 34.5kV bright line in the network segment. If the Utility Delivery segment will be addressed here, there should be arguments as to why it's status quo should not change. This section should also then address why the other segments should remain the same.

Also, this line of justification (i.e., transmission = roll-in) could open a can of worms in the sense that it calls into question performing a segmentation analysis. All facilities on BPA's system are transmission facilities.

Network Alternative 2 – Roll In Utility Delivery Segment - Proposed by PNGC

Roll all facilities currently in the Utility Delivery (UD) segment into the Network segment. The UD rate would be eliminated and costs associated with former UD facilities are recovered through the Network rates.

PNGC Justification

BPA instituted the UD Charge (UDC) in 1997 in part to incent customers to purchase the wholesale substations that BPA had previously provided. When the UDC was put in place, it was recognized that at some point the UDC would become unsustainable. We have now reached the point of unsustainability, given the number of UD facilities that have been sold, and the costs, billing determinants, and the "unpurchaseable" nature of the remaining UD facilities.

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Definition of "Radially-Operated Facilities"

Snohomish defines "Radially-Operated Facilities" as Radial systems and Radial Open Loops.[1] Radial Systems are a group of contiguous transmission elements that emanate from a single point of connection; power flows in one direction from the substation to the load. Radial Open Loops are two or more Radial Systems that are connected by a Normally Open Switch (in effect, creating a gap between the Radial Systems). Radial Open Loops are, operationally, almost identical to Radial Systems. Based on feedback from BPA, analysis limited to Radial Systems is more technically manageable.

Criteria for Identifying Radial Facilities

BPA staff and Snohomish worked together to clarify what criteria would be used to identify radial facilities for removal from the Integrated Network segment (see appendix xx for more detail). Facilities not identified as radial facilities that are currently in the Integrated Network segment will remain in that segment.

The criteria for identifying radial facilities are listed below:

1. Radial facilities:
    a. Radial line where BPA owns connected station
    b. Radial line where customer owns connected station
    c. Looped service with a normally open switch
    d. Facilities connected by a common bus that serve looped lines (lines originate on the same bus and deliver to the same bus where power only flows to the load and not back out to the BPA system)

2. Exception for radial facilities with generation:
    a. Generation that exists on a radial line that is either wheeled or scheduled across BPA's system or flows back to BPA's system may be excluded. BPA will consider these on a case by case basis.

This analysis of radial facilities is a strictly functional analysis; voltage is not considered in radial identification.

Snohomish, as a separate proposal, also suggests a revision of BPA's Direct Assignment Policy for clarity and to assure equitable allocation of future costs. Revising the Direct Assignment Policy will ensure equitable allocation of new transmission projects.

~~Add finalized rate design and rate mitigation proposal as developed.~~

Snohomish Evaluation based on BPA Principles

1. Consistent with statutory requirements

a. Full and timely cost recovery

[1] Snohomish believes that local networks are non-integrated. However, Snohomish has decided not to include local networks in its proposal.

Snohomish's proposal will allow BPA to fully and timely collect its revenue requirement.

b. BPA's rates are based on total system costs

BPA's rates will continue to be based on total system costs.

c. Equitable cost allocation between federal and non-federal uses of the Transmission system

This proposal equitably allocates costs to users of the Transmission system, regardless of whether federal or non-federal power is being transmitted. This proposal should result in equitable rates because it reflects cost causation.

d. Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

The Snohomish proposal does not affect actual deliveries of power, therefore the use of electric power does not change. The proposal will provide lower rates to all transmission customers for use of the Integrated Network segment by removing radially-operated facilities from the Integrated Network segment. The creation of a new segment consisting of only radially-operated facilities will provide the lowest possible rates for those customers who receive transmission service over those facilities. Non-radially-operated facilities will be excluded. Snohomish's proposal is consistent with sound business principles because it is based on cost causation and thus provides a better price signal than an arbitrary 34.5kV test that will promote efficient transmission facility decisions.

2. Consistent with rate making principles

a. Cost causation

The core of the Snohomish proposal is cost causation; the costs of radially-operated transmission facilities are separated and assigned to those who benefit from those facilities.

b. Simplicity, understandability, public acceptance and feasibility of application

This proposal would result in either a new segment or a separate charge for radial facilities. Such a charge, based on a straightforward radial test, should be simple, understandable, and feasible to apply.

c. Avoidance of rate shock

~~*As stated as part of the Segmentation public process, any complete proposal will include a mitigation plan to avoid rate shock. This mitigation plan will depend upon the final rate effects of Snohomish's proposal, which are still to be determined.*~~

Rate Mitigation

Throughout the Segmentation workshops, Snohomish has stated that its primary goal is a transparent, technically justified approach to segmenting the BPA Transmission System. While Snohomish recognizes that a change in the Segmentation method will result in a new allocation of

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costs, it is not Snohomish's intent to cause rate shock among BPA's transmission customers. Snohomish recognizes the need for rate mitigation as a result of the Radial Service proposal and submits two possible alternatives:

Mitigation Plan 1: Phased-in Approach

- *Phases-in costs of radial service over ten rate periods; 10% of the overall revenue requirement would be applied in each successive rate period*
- *Results in the full identified $33M Radial Service Revenue Requirement being collected at the end of the phase-in*

Mitigation Plan 2: Phased-in Approach with Revenue Requirement Cap

- *Phases-in costs of radial service over ten rate periods; 5% of the overall revenue requirement would be applied in each successive rate period*
- *Results in only 50% of the total identified Radial Service Revenue Requirement being collected at the end of the phase-in*

As stated previously, Snohomish is primarily interested in achieving an engineering-based, technically-justified and transparent Segmentation methodology. If BPA decides to adopt the Radial Service proposal, Snohomish is open to a range of potential alternatives to mitigate rate shock. The options outlined above are simply two out of many possibilities available for consideration.

Between these two options, Snohomish prefers Mitigation Plan 1, which results in fully recovering the Radial Service Revenue Requirement at the end of the phase-in. However, if BPA sees the need for further mitigation beyond what is outlined in Mitigation Plan 1 in order to successfully adopt the Radial Service proposal, Snohomish is also receptive to further mitigation as described in Mitigation Plan 2.

d. Rate stability from rate period to rate period

Because of the radial nature of facilities on BPA's system, rates should be relatively stable from rate period to rate period.

3. Considers a regional perspective

a. Alternatives include how costs are allocated and recovered

This proposal addresses how costs are allocated and recovered.

b. BPA asks that proponents of alternatives explain how the region benefits from the alternative compared to the status quo

This proposal should be superior to the status quo because the proposal should result in rates based on the function of facilities used by BPA to provide various services and should result in rates that are more closely aligned with cost causation than an arbitrary 34.5kV threshold test.

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c. Historically BPA has applied uniform rates to achieve widest possible diversified use

> *This proposal should not affect the diversified use of electricity in the region. This proposal, which is based on a functional (radial versus non-radial) analysis, is based on principles of cost causation and provides uniform rates within the proposed segments across BPA's Transmission system.*

~~Rate Mitigation~~

~~Throughout the Segmentation workshops, Snohomish has stated that its primary goal is a transparent, technically justified approach to segmenting the BPA Transmission System. While Snohomish recognizes that a change in the Segmentation method will result in a new allocation of costs, it is not Snohomish's intent to cause rate shock among BPA's transmission customers. Snohomish recognizes the need for rate mitigation as a result of the Radial Service proposal and submits two possible alternatives:~~

~~Mitigation Plan 1: Phased-in Approach~~

- ~~Phases-in costs of radial service over ten rate periods; 10% of the overall revenue requirement would be applied in each successive rate period~~
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~~Mitigation Plan 2: Phased-in Approach with Revenue Requirement Cap~~

- ~~Phases-in costs of radial service over ten rate periods; 5% of the overall revenue requirement would be applied in each successive rate period~~
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Network Alternative 5 – Develop transformation charge – Proposed by IOU/Large public coalition: Puget, Seattle City Light, Pacificorp, PGE, Powerex, Tacoma, Avista, Ibedrola, Benton County PUD

The coalition proposes that BPA develop a rate associated with transformation through the following process:

Snohomish Comments on BPA's Segmentation White Paper
6-18-14

Network Alternative 1 – Status Quo

Snohomish's objective in this process is for BPA to develop a technically based Segmentation methodology that is rooted in an engineering analysis. Because the Status Quo is an arbitrary bright line construct, resulting from an agreed-upon settlement, Snohomish does not support the Status Quo as an alternative.

The rationale provided in the White Paper in favor of maintaining the Status Quo is not adequate, as identified below:

First, the appearance that 34.5kV is the median breaking point between transmission and distribution should not be relied upon. It is our understanding that many of the facilities categorized as transmission or distribution in the Form 1s did not undergo an objective review under FERC's transmission/distribution test. Many of the classifications may have been made by accounting departments at utilities and have simply never been challenged or have never been proposed to be changed since the test was established in 1996. We note that FERC does not recognize accounting determinations when determining whether a facility serves a transmission or distribution function. Also, the voltages on facilities in the West tend to be higher because of the long distances between generation and load. Therefore, comparing median voltages for transmission facilities from data of utilities across the country is not an apples-to-apples comparison.

Second, the status quo is not aligned with FERC's roll-in preference. FERC's integration test is neither based on a bright line voltage line, much less a 34.5kV bright line, nor does it allow for the roll-in of facility costs that simply perform a transmission function – the facility providing transmission service must be integrated. We also note that the Industry Scan does not indicate that all the facilities recognized as transmission underwent an objective review under FERC's integration test.

Further, Snohomish has made many still-valid points in the previous Rate Case and forums which, while we will not duplicate them here, should be taken into consideration when assessing the Status Quo.

Network Alternative 2 and 3 – Roll-in Utility Delivery Segment (PNGC); Roll-in UDC but Maintain Adjusted Utility Delivery Charge (NRU)

For purposes of brevity, Snohomish's comments will address both PNGC and NRU's Segmentation proposals together, drawing distinctions where necessary.

Background

PNGC and NRU have proposed rolling certain facilities below 34.5kV, known as Utility Delivery Segment (UDS) facilities, into the Network Segment. These facilities are used for

delivering power to certain BPA preference customers. All Network customers would then share the current and future cost of these facilities. In the case of NRU's proposal, these costs would be somewhat offset via a utility delivery charge. This charge is being proposed to be set based on what UDS customers pay today.

UDS facilities were built specifically for service to the subset of BPA customers using those facilities. The UDS charge was implemented by BPA to incent customers to purchase these facilities as well as collect the costs of service from those benefitting from that service. BPA recognized that customers should pay the costs for these facilities as they are the only customers that benefit. BPA's incentive was in some cases successful, resulting in many UDS facilities being sold to customers.

Potential Cost Impacts

While the roll-in proposals advocate that Network costs would be relatively de minimis (78 Network customers would see at least 1% rate increase from the PNGC proposal), the future costs of facility replacement, refurbishment, or environmental mitigation for UDS facilities will grow substantially, causing significantly higher Network rates. The cost impacts of this proposal must be considered on a long-term basis, not just for the next rate period.

BPA should not roll the Utility Deliver Segment into the Network Segment

Rolling UDS facilities into the Network does not fulfill BPA's statutory responsibility to set power and transmission rates that encourage "the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles," and in fact violates this requirement. The UDS charge is intended to incent customers to purchase the associated facilities, removing them from BPA's cost base. In the event the customer does not make this purchase, the charge results in cost recovery from those taking service from the UDS facilities. For those customers, BPA is providing electric power at the lowest possible rate; that rate simply takes into account the cost of Utility Delivery segment service. To permanently roll these costs into the network would violate the lowest possible rate statute for all other Network customers.

Additionally, this action results in inequitable treatment for those customers who decided to purchase UDS facilities. Network customers who bought their UDS facilities would be double charged; they would be paying the full cost of facilities acquired from BPA and then paying again for the facilities of other customers who chose not to make that purchase.

Network Alternative 4 – Develop a "Radial" Segment

In preparing the Radial Facilities charge, Snohomish offers the following in response to several arguments heard throughout the segmentation workshops.

A Radial Segment does not "Charge More for Worse Service"

The concept that a radial charge will result in “charging more for worse service” is a mischaracterization of the concepts being applied. Changing the cost allocation for transmission facilities is an attempt to base BPA’s Segmentation methodology on a technical justification rather than an arbitrary bright-line construct. No customer will have a higher incidence of outage or lower reliability as a result of this Segmentation proposal. Customers receiving service from radially-operated facilities will not be paying more for worse service; they will be paying the actual costs of the service they receive.

A Radial Segment Creates Appropriate Price Signals for Radial Customers

By implementing a radial charge for customers taking service through radially-operated facilities, customers are paying rates based on the cost to serve them. Customers would need to undertake a cost/benefit economic analysis to determine whether the cost of the radial charge would outweigh the investment necessary to modify those facilities to meet the criteria for inclusion into the Integrated Network.

Demand Response Does Not Impact a Radial Classification

Demand Response was raised by some parties as providing a reliability benefit that would cause transmission facilities that otherwise are radially-operated to be considered integrated. This is not the case. The reliability benefit of Demand Response is derived by load, regardless of the topology of the transmission system.

Demand Response is a way to reduce load with reliability benefit derived by the load, not from the configuration of transmission elements serving that load. Radially-operated transmission facilities are classified as such due to how they are operated and the characteristics and functions they serve (e.g. power flowing in only one direction). A loss of load or load reduction at the end of a line does not change the physical nature of the transmission line serving that load.

Beneficial Cost Impacts of Radial Alternative

After examination of the Customer Impacts Study developed as part of the Segmentation process, Snohomish believes that the Radial Alternative, with proper rate mitigation, provides the greatest region wide benefit through lower customer billings while maintaining the concept of cost causation based on function.

The Radial Alternative benefits 96 out of a total 164 customers through lower transmission billings. In terms of magnitude, 91 out of those 96 would see a rate reduction of at least 3%. This demonstrates a clear benefit to a majority of transmission customers without compromising a functional approach to cost causation.

Network Alternative 5 – Develop Transformation Charge

Through BP-14 and this Segmentation process, Snohomish has only supported a Segmentation methodology that can be justified based on the function of a transmission facility. The

Transformation Charge is not functionally-based, nor does it adhere to several Segmentation principles. Therefore, Snohomish does not support its adoption.

For purposes of addressing the Transformation Charge, it is assumed that BPA is considering only a "Single Step" Transformation Charge. Snohomish would like to be clear that it opposes any Transformation Charge, regardless of the number of steps.

The Transformation Charge is Not Based on a Functional Analysis

The methodology used to determine and establish the level of a Transformation Charge is not based on a functional analysis. Instead, it relies on a bright line transmission voltage level (161 kV) across which transformation incurs additional costs. This assumption ignores any other value or function provided by the equipment and systems in question.

Without an examination of functionality of transmission facilities, it is impossible to determine the value provided to customers or where costs should be allocated. Any proposal relying on a brightline (or equivalent) attempts to broadly lump transmission elements into a cost pool based on a single variable: voltage. Voltage, however, does not determine function and is a poor indicator for customer value or how costs should be allocated.

The Transformation Charge violates Principle 2a."Cost Causation"

In order to be subject to the Transformation Charge, a transmission customer must have a contract Point of Delivery (POD) below 161 kV. Similarly, when computing the Cost Determination methodology, the costs of all transformers whose low side is below 161 kV are grouped.

The implicit assumption in this proposal is that any and all transformation facilities below 161 kV provide no benefit to those customers taking service above 161 kV, and that the costs of those facilities should be borne exclusively by the lower voltage customers. This is a fundamental violation of cost causation. The BPA transmission system is comprised of a network of interconnected transmission facilities and equipment. Much of this equipment supports the fundamental operation and reliability of the rest of the network; there are substantial 115 kV facilities that provide reliability and support to higher voltage transmission elements. These benefits are not accounted for in the Transformation Charge proposal. Customers taking service at voltages above 161 kV enjoy the benefits of the function and reliability provided by facilities below 161 kV but are not allocated their share of those costs.

The basis of the transmission system is that it is interconnected to provide as many customers as possible with reliable service. Establishing a charge based on transformation ignores much of the benefit of having an interconnected transmission system and incorrectly allocates costs based simply on a voltage threshold.

The Transformation Charge does not meet Principle 3b. "Regional benefit"

An important principle in the Segmentation process is that the region as a whole must see some kind of benefit in the shift away from the status quo. The Transformation Charge cannot claim a conceptual or accuracy benefit to the region as the proposal does not capture the actual function of transmission facilities, nor can it claim a cost causation benefit as it violates the cost causation principle. Finally, as shown in the Customer Impacts Study 2, the proposal only monetarily benefits a select few transmission customers while shifting costs to a disproportionate number of other customers.

In the Customer Impact Study, BPA examined the effect of each proposal on the actual billings of all 166 transmission customers. On a customer basis, the Transformation Charge only benefits 34 transmission customers compared to FY2013 actual billings, while negatively impacting the remaining 132 customers. The 34 customers who benefit collectively reduce their bills by $17.4M; of this reduction, 75% ($13M) is shared by the top 7 benefitting customers.

These rate impacts are not consistent with a “regional benefit.” Few transmission customers benefit from this proposal, while the region as a whole is disadvantaged. By way of comparison, the Radial Segment proposal reduces rates for 97 customers, resulting in almost 60% of transmission customers seeing lower bills – 91 of which will see at least a 3% reduction. The Radial Segment proposal exemplifies a methodology that benefits the region both in concept and through customer billings.

Conclusion

Snohomish supports a functional analysis for the purpose of segmenting the BPA transmission system and rejects Network Alternative 5 on the basis that it does not accurately establish a link between transmission facility function and cost causation, nor does it provide regional benefit beyond a few select transmission customers.

Network Alternative 7 - Establish Sub-Transmission Segment at 145kV Brightline

The bright-line proposal contains no technical analysis, nor any examination of the function served by transmission facilities. For this reason, Snohomish does not support this alternative.

TACOMA POWER

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TACOMA PUBLIC UTILITIES

June 18, 2014

VIA EMail
Tech Forum
Bonneville Power Administration
PO Box 491
Vancouver, WA 98666
techforum@bpa.gov

Re: Tacoma Power's comments regarding transmission rates for BP-16

Tacoma Power appreciates the opportunity to submit comments to the Bonneville Power Administration ("BPA"). Tacoma Power has been an active participant in regional discussions surrounding transmission segmentation and cost allocation during the prior BP-14 rate case and as part of the current BP-16 pre-rate case workshops. Tacoma Power believes that the decisions reached in the BP-14 rate case on these two issues did not produce equitable results for the region. Accordingly, we urge BPA to find a more equitable solution for the BP-16 rate period.

One such solution to these thorny issues was found in the 1996 transmission rate settlement. That equitable solution provided a regional framework that fostered rate settlements for the following 16 years. BPA dismantled this balanced framework in BP-14 when it adopted a new 12-non coincident peak (12-NCP) cost allocation methodology but left in place the 1996 segmentation policy. The resulting one-sided change significantly reallocated the costs and benefits of the federal transmission system. As such, it is not surprising that regional discord was the result.

With regard to the segmentation alternatives, we oppose PNGC's proposal to eliminate the Utility Delivery segment. PNGC's proposal is especially unfair to utilities that opted to purchase such facilities from BPA in the past. We otherwise find merit to the segmentation proposals offered by the rate case parties.

Sincerely,

Nicolas Garcia
Assistant Power Manager

Tillamook
People's Utility District

Directors
Harry E. Hewitt
Edwin L. Jenkins
Doug Olson
Ken R. Phillips
Barbara A. Trout

A Customer-Owned Electric Utility Office: 503 842-2535 • Toll-free: 800 422-2535 • Fax: 503 842-4161 www.tpud.org

Raymon D. Sieler
GENERAL MANAGER

Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

June 13, 2014

Introduction

Tillamook People's Utility District (TPUD) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

TPUD is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, TPUD has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. TPUD is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV

and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.

- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation

policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Raymon D. Sieler

Raymon D. Sieler
General Manager
Tillamook People's Utility District

CC: Northwest Requirements Utilities

"Owned By Those We Serve"

UNITED ELECTRIC
CO-OP, INC.

1330 21ST Street – Heyburn, ID 83336 - Office (208) 679-2222 - Fax (208) 679-3333 – www.unitedelectric.coop

June 13, 2014

VIA EMAIL
Tech Forum
Bonneville Power Administration
911 NE 11th Ave.
Portland, Oregon 97232
techforum@bpa.gov

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Introduction

Thank you for the opportunity to provide written comments on the Bonneville Power Administration (BPA) "*Regional White Paper – Segmentation Methodology Alternatives*". United Electric Co-op, Inc. (United Electric) is prepared to meet with BPA to directly convey our views regarding this important topic.

United Electric is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, have a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. United Electric is also a member of Northwest Requirements Utilities (NRU) and supports the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,"* is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo*: The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)*: BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)*: BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)*: This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)*: This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)*: Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission

facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.

- *Montana Intertie – Status Quo (Public Power Council)*: We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)*: We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal*: – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Specific Financial Impacts on United Electric

Below are direct rate impacts for United Electric on Alternative 4 and Alternative 5 as identified in the BPA rate analysis model. We believe a more accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

Alternative 4 – Develop a Radial Segment (Snohomish PUD): This proposal increases the cost of transmission service to the ratepayers of United Electric from $968,000 annually to $1,148,000 annually. This is an increase of 18.7% *in addition* to the BPA projected increase of 6.1% for transmission service in FY16-17.

Alternative 5 - Develop Transformation Charge (IOUs/Large Publics): This proposal increases the cost of transmission service to the ratepayers of United Electric from $968,000 annually to $1,029,000 annually. This is an increase of 6.3% *in addition* to the BPA projected increase of 6.1% for transmission service in FY16-17.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues.

Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Sincerely,

Jo Elg
General Manager

cc: Northwest Requirements Utilities

Proudly serving
Spokane Valley since 1908

Bonneville Power Administration

RE: BPA Regional White Paper: Segmentation Methodology Alternatives

Via email: techforum@bpa.gov

Date: June 12, 2014

Introduction

Vera Water and Power (Vera) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives."* We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Vera is a Load Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, Vera has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. Vera is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for doing an exemplary job of preparing the White Paper, undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,"* is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Discussion of Network Segment Alternatives

- *Alternative 1 - Status Quo* The segmentation process has failed to provide an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- *Alternative 2 – Roll in Utility Delivery Segment (PNGC)* BPA should consider this option and determine whether it is supportable in light of the Agency's Segmentation Principles.
- *Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU)* BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise commensurate with future general increases for the Network segment.
- *Alternative 4 – Develop a Radial Segment (Snohomish PUD)* This proposal flies in the face of BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for fully impacted customers (if all of their service lines are radial.) Our understanding is that BPA previously estimated an increase of 125%, and is now projecting 89%, but more information is required for customers to understand it. In any event, this proposal is extremely complicated and grossly unfair.
- *Alternative 5 - Develop Transformation Charge (IOUs/Large Publics)* This proposal to pay a pancaked transformation charge (or perhaps two pancakes) for service at 160 kV and below is nothing more than a major transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. Again, for a nominal 5% reduction in rates, the NT rates for service below 161 (all NRU members) would go up 11% or 56% depending on one or two transformations.
- *Alternative 6 Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics)* Our understanding is that this alternative was only a fallback for the IOUs/ large publics in the event they discarded alternative #5. In any event, we note that the White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.

- *Montana Intertie – Status Quo (Public Power Council)* We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- *Montana Intertie – Roll IM Rate into the Network (Gaelectric)* We oppose rolling the Eastern Intertie into the Network and note that Gaelectric did not propose a specific methodology for how this would be accomplished.
- *Seattle Staff Proposal* – We understand that Seattle City Light staff made a last minute verbal request at the end of segmentation process for BPA to run another scenario but did not provide a written proposal with sufficient time for other customers to review. While BPA chose to quantify the impact of this proposal, given the pervasively negative impact it would have on public power, we strongly oppose this option but have no specific comment to offer regarding utility impact. We support the comments of NRU.

Impacts on Vera Water and Power

We believe the most accurate and equitable comparison is to focus on the changes to the NT and PTP rates, as BPA provided at a summary level in the May 29th Segmentation Workshop, rather than diluting the impacts by including other transmission related costs such as ancillary services.

The most negative impact on Vera is realized by the Seattle proposal and would certainly create an increase that is well outside of the principle of avoiding outrageous rate increases for an individual utility. The direct impact of the other proposals on Vera varies up and down, but in no case do the changes to the groups as a whole justify the radical realignment of a process that meets the principles of BPA and the industry as a whole.

Impacts on NT Transmission Customers as a Whole

Individual NT customers are impacted differently under the radial or transformation charge proposal, depending upon the configuration of their transmission service from BPA and whether such segments are formed or if costs are directly assigned. The amount of complexity involved with such proposals, the need for their likely constant attention and revision, and the opportunities for protracted disagreements between BPA and its customers and between customers are indeed compelling arguments on their face for rejecting them, before even addressing the policy and equity issues. Regardless of whether there are individual NT customers that would not be faced with the radial or transformation charge, we believe these customers will stand united in opposing such charges on a principle basis and due to the adverse financial impact it would have on other customers.

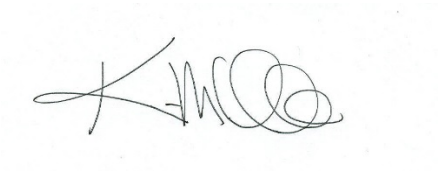
Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing

segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,



General Manager

CC: Northwest Requirements Utilities

Vigilante Electric Cooperative

A Touchstone Energy® Cooperative

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June 12, 2014

Tech Forum
Bonneville Power Administration
911 NE 11th Ave.
Portland, Oregon 97232
techforum@bpa.gov

Re: RE: BPA Regional White Paper: Segmentation Methodology Alternatives
[Submitted Electronically to techforum@bpa.gov]

Vigilante Electric Cooperative, Inc. (VEC) is pleased to provide comments on the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" VEC is a Load Following contract customer of BPA and depends on Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs passed on to retail customers. Thus, VEC has a significant financial, as well as policy interest, in the approach BPA takes for meeting the revenue requirement of the Network. VEC is also a member of Northwest Requirements Utilities (NRU) and we support the comments of NRU and its participation in the BPA segmentation workshops on our behalf.

We would like to thank BPA staff for their efforts on the White Paper and the studies of transmission segmentation approaches used in other regions. We also appreciate the principles used to guide decision making, as well as the open and deliberative workshops and analysis of rate impacts of various proposals. This information will be a solid foundation for the Administrator to make a decision regarding segmentation in the BP-16 Rate Case.

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but stated that BPA would engage the region regarding segmentation policy. As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

The core purpose of BPA, to provide electricity to the rural Northwest, is still valid today. BPA as our transmission provider helps VEC serve retail customers in low density and difficult-to-serve geographical areas throughout southwestern Montana and Northern Idaho. We support BPA's "*Segmentation Principles,*" *which were shared with customers and used to evaluate the proposals. We note that principles 1(a)* through 1(d) are statutory requirements that BPA must meet, and 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to*

consumers consistent with sound business principles," is particularly germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while being consistent with the other segmentation principles.

Comments on Network Segment Alternatives

- **Alternative 1 - Status Quo:** The segmentation process has not provided an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- **Alternative 2 – Roll in Utility Delivery Segment (PNGC)**: BPA should consider this option and determine whether it is advisable under its Segmentation Principles.
- **Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU):** BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise according to future general increases for the Network segment.
- **Alternative 4 – Develop a Radial Segment (Snohomish PUD):** This proposal does not comport with BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for many customers. This self-serving proposal would create winners and losers within public power and pits BPA customers against each other based on past system configuration decisions. This proposal is extremely complicated, grossly unfair and should be rejected.
- **Alternative 5 - Develop Transformation Charge (IOUs/Large Publics):** This proposal to pay an additional transformation charge (or multiple additional charges) for service at 160 kV and below is nothing more than a massive transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. The small 5% reduction in rates for IOUs and a few large public utilities would come at the expense of small, rural customers who would all see unnecessary rate increases. This proposal should be rejected.
- **Alternative 6 - Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics):** We understand that this alternative was just a fallback position for the IOUs and large publics if their self-serving proposal #5 was rejected. The White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- **Montana Intertie – Status Quo (Public Power Council):** We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- **Montana Intertie – Roll IM Rate into the Network (Gaelectric):** We oppose rolling the Eastern Intertie into the Network and would add that Gaelectric did not propose a specific methodology for how this would be accomplished.
- **Seattle Staff Proposal:** Seattle City Light apparently made a last minute request at the end of a segmentation workshop for BPA to run another scenario but did not provide a written proposal with sufficient time for review by other customers. While BPA chose to quantify the impact of this proposal, given the dramatic negative rate impacts and obvious rate shock to so many customers we strongly oppose this option and it should be summarily rejected.

Summary

Impacts to individual NT customers differ under the radial or transformation proposals, depending upon the configuration of their transmission service from BPA. The amount of complexity involved with these self-serving proposals designed to benefit the few at the expense of the many are likely to require constant attention and revision. This misguided approach would also create protracted disagreement between BPA and its customers and also among customers as massive cost shifts take place. This alone is a valid reason for rejecting these segmentation changes.

Regardless of whether individual NT customers would be faced with the radial or transformation charge, public power should stand united in opposing these changes on a principled basis due to the extreme impacts it would have on many customers. Utilities making these self-serving proposals should think about how such a process would work for their retail customers at their utility. Imagine a cost of service study and proposed retail rate design where residential customers now had to face additional transformation or distribution charges based on their delivery voltage while watching other large customer classes get rate reductions. Would that process be sustainable or consistent with sound business principles? What would happen to the utility management, commissions or councils that supported such an inequitable process?

The region needs to stand together to support BPA's existing definition of the Network segment and consider modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thank you for the opportunity to comment on the segmentation proposals. Please feel free to contact me with any questions you have about these comments.

Sincerely,

Rollie R. Miller
General Manager

WELLS RURAL ELEC. CO.
"owned by those we serve"
Your Touchstone Energy® Cooperative

WELLS RURAL ELECTRIC COMPANY

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Carlin, Nevada 89822 • (775) 754-6362 x1633
West Wendover, Nevada 89883 (775) 664-2204 x1633

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

June 17, 2014

RE: BPA Regional White Paper: Segmentation Methodology Alternatives
Via email: techforum@bpa.gov

Introduction

Wells Rural Electric Co. (Wells Rural) submits the following comments regarding the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" We appreciate BPA providing the opportunity for written comments and are prepared, if needed, to meet with BPA to directly convey our views regarding this important topic.

Wells Rural is a Load-Following contract customer of BPA that relies on the Agency for Network Transmission (NT) service and Transfer Service for power deliveries. The cost of NT service is an important component of the costs we pass on to our retail customers. Thus, Wells Rural has a significant financial, as well as policy interest, in the approach the Agency takes to assigning costs of the Network. Wells Rural is also a member of Northwest Requirements Utilities (NRU). We support the more detailed comments of NRU who has directly participated in the BPA segmentation workshops on our behalf.

We would like to thank the BPA staff for undertaking in-depth studies of transmission segmentation approaches used in other regions, proposing principles to help guide decision making, conducting open and deliberative workshops, and finally, completing extensive analysis of rate impacts of various proposals for all customers to review. This information greatly assists us in preparing these comments and will be a solid foundation for the Administrator to make a final decision regarding segmentation in the BP-16 Rate Case.

General Comments Regarding Regional White Paper

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but included language stating that BPA would engage the region regarding segmentation policy.

As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

We fully support BPA's "*Segmentation Principles,*" which BPA staff shared with customers and have been used to evaluate each of the proposals. We note that principles 1(a) through 1(d) are statutory requirements that

WELLS RURAL ELEC. CO.
"owned by those we serve"
Your Touchstone Energy® Cooperative

WELLS RURAL ELECTRIC COMPANY

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BPA must meet, and of those principles, 1(d) "*Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles,*" is the most germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while also realizing the other segmentation principles.

Network Segment Alternatives

Wells Rural supports the Alternatives 1 – Status Quo; 2 – Roll in Utility Delivery Segment (PNGC); and 3 – Maintain Adjusted Utility Delivery Charge (NRU). We feel these proposed alternatives meet BPA's Segmentation Principles.

Wells Rural does not support Alternatives 4 – Develop a Radial Segment (Snohomish PUD); 5 – Develop Transformation Charge (IOUs/Large Publics); 6 – Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics). Wells Rural feels these proposals result in unacceptable cost shifts, are extremely complicated and grossly unfair to NT customers.

Regarding the Montana Intertie, Wells Rural supports the Status Quo for retention of the current rates for recovery of Eastern Intertie costs.

Conclusion

The region needs to stand together to support BPA's existing definition of the Network segment and small modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thanks again for this opportunity to comment.

Respectfully Submitted,

Clay R. Fitch, Chief Executive Officer
Wells Rural Electric Company

CC: Northwest Requirements Utilities

West Oregon Electric Cooperative, Inc.

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Elliot Mainzer, Administrator
Bonneville Power Administration
Portland, OR

Via: techforum@bpa.gov

RE: Regional White Paper Segmentation Methodology Alternatives

June 18, 2014

Dear Elliot:

I had the opportunity to attend all but the last of the Segmentation Workshops conducted by your staff this year. I was tremendously impressed by their ability to be as accommodating as possible to all participants and provide thorough explanations and analysis. They successfully produced a White Paper that collects and provides the perspective and details of all the ideas and efforts presented.

West Oregon has the mission to bring electricity to our members, no matter where they are located, at affordable prices. BPA's mission is similar: to facilitate the widest possible use at the lowest possible cost to consumers consistent with sound business principles. I offer the following observations from that shared perspective.

Rural Reality

On page 6 to the White Paper, in the middle of the discussion of ***Positions in BP-14*** concerning the importance of rolled in rates, the observation is made that, "The larger customers responded that rural areas are now, and have been for a long time, electrified and, therefore, BPA's policies should recognize this and begin to move towards more rational cost assignments." That observation is not refuted in the White Paper, but the reality is key to understanding and appreciating the smaller, member owned cooperative perspective. Rural, largely unincorporated area, electrification may have commenced a long time ago but it is far from complete. The areas served by smaller, member owned coops are a consequence of no service reasonably available from larger, greater economy of scale utilities. As a result they are also the areas resulting in the highest regional rates for electric service. Any and all possible contributions to the unfavorable economics of these low meter density, high cost per meter areas perpetuate if not aggravate that situation.

Network Alternative 1 – Status Quo

Although the status quo segmentation methodology has many positive aspects, its treatment of utility delivery facilities, if not addressed, will violate the principles BPA and its customers set forth at the beginning of this segmentation process and create significant hardship for those utilities that take delivery under 34.5 kV. BPA's past policies provided utilities, especially smaller utilities, with delivery points at lower voltages. BPA often provided delivery voltages based on considerations such

as proximity to existing Federal facilities, and BPA's own policies. Consequently, many utilities simply took the delivery voltage that BPA provided. In 1996, the Utility Delivery Charge (UDC) was implemented as one result of a rate case settlement. Now however, the UDC has become a rate pancake and threatens to act as a doubling on network rates under the status quo. If the Status Quo alternative means another 25% rate increase in UDC on top of the 25% in the last rate case, then this alternative can no longer be considered to provide the "widest possible use at the lowest possible cost to consumers consistent with sound business principles." The anticipated rate increase to UDC will instead cause rate shock, create a permanent underclass of transmission users who pay the equivalent of two times the NT base rate, and will adversely impact rural electrification economies.

Network Alternative 2 - PNGC - Roll in of Utility Delivery Segment into Network Segment

PNGC's alternative recognizes that the vast majority of delivery substations that are able to be purchased from a utility point of view, have already been purchased. The remaining stations are extremely unlikely to be purchased no matter how high the delivery charge goes. Instead of implementing a punishing UDC increase I urge you to acknowledge that the UDC is at the end of its useful life. BPA acknowledges that facilities in the Utility Delivery segment are wholesale transmission facilities. Rolling them in to the Network Segment would provide significant relief from the pancaked UDC to 50 utilities, while having a very minimal rate effect to all other customers.

Network Alternative 3 - NRU - Maintain Adjusted Utility Delivery Charge

NRU's proposal also addresses the rate shock that utilities subject to the UDC will pay if the status quo is kept. Because it addresses rate shock and rate stability, it is worthy of consideration as an alternative, second choice after the PNGC preferred solution.

Network Alternative 4 - Snohomish – Develop a Radial Segment Charge

Snohomish's proposal to segment radial facilities away from the Network segment runs counter to the history of BPA and the region and violates the principles set forth in this segmentation process. If implemented, this proposal would have a considerably negative impact on most of public power. This proposal would provide three transmission charges to the 100+ customers who also pay the Utility or the GTA Delivery Charge: 1) NT Base charge, 2) Radial segment charge, and 3) Utility or GTA Delivery Charge. BPA made it possible for the farms and rural communities of this region to be electrified. It did this by building transmission out to where no IOU would build, and then charging a single, uniform network rate for use of that transmission, no matter where a utility was located. In accomplishing these aims, BPA planned its transmission network as a single utility system, meaning some utilities were served radially, although they would have strongly preferred looped service.

Further, Snohomish's proposal results in an additional rate pancake and in large rate increases (31% on average) to 69 customers who are served across radial facilities to produce a small rate decrease (4% on average) for 97 customers. The Snohomish proposal's impact on WOEC would be detrimental 21% increase in WOEC's overall transmission and power bill.

This proposal would make utilities served by radial lines permanent second class citizens and would provide three transmission charges to the 65 customers who also pay the UDC: Network Charge, Radial segment charge, and UDC. I urge you to soundly reject this proposal for segmentation.

Network Alternative 5 – IOU/Large public coalition: Develop transformation charge

Because this proposal would retain the UDC, this proposal could result in 4 rate pancakes: NT Base Charge, 1-2 transformation charges, and UDC. This IOU/Large Customer coalition proposal is also

contrary to BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles." This proposal penalizes all the customers for whom BPA provided points of delivery at less than 230 kV. It ignores BPA's crucial role in rural electrification and its past policies of single utility planning. It would provide an average 4% rate reduction for 35 of the largest transmission customers (the large PUDs, the IOUs, and some wind developers) at the expense of 131 preference customers who would bear a rate increase on average of 7 percent.

Network Alternative 7 – Seattle City Light (SCL) – Sub-transmission segment and rate based on voltage threshold.

SCL's proposal also creates potentially three transmission rate pancakes for those impacted by it: NT Base charge, sub-transmission segment charge, and UDC. Under this proposal, 36 of the largest customers (the large PUDs, the IOUs, and some wind developers) get a 23% rate decrease on average, while 130 preference utilities bear a 44% rate increase on average. The WOEC rate increase would be an unacceptable 47%.

It is also clear that this proposal violates BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles," causes rate shock, and is harmful to the region in general. I urge you to soundly reject this proposal for segmentation.

Summary

In summary, West Oregon strongly recommends the PNGC proposal as the best way to forward BPA's mission of "widest possible use at the lowest possible cost to consumers consistent with sound business principles", especially to avoid serious impacts to your rural utility customers. The proposals submitted by Snohomish, the IOUs/Large public coalition, and Seattle City Light result in rate decreases for the few at the expense of the many and should be rejected. Finally, the Status Quo proposal should address the impending 25% rate increase to the UDC which will cause rate shock and will act as a rate pancake to those subject to the UDC. The PNGC proposal addresses this problem in the most efficient manner, but the NRU proposal also addresses this issue and is worthy of your alternate consideration.

Sincerely,

Bob Paleck

Copy to: John Prescott, PNGC (JPrescott@pngcpower.com)

WESTERN **M**ONTANA ELECTRIC
GENERATING **&** **T**RANSMISSION COOPERATIVE, INC.
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June 12, 2014

Tech Forum
Bonneville Power Administration
911 NE 11th Ave.
Portland, Oregon 97232
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Re: BPA Regional White Paper: Segmentation Methodology Alternatives
[Submitted Electronically to techforum@bpa.gov]

Western Montana Electric Generating and Transmission Cooperative, Inc. (WMGT) is pleased to provide comments on the Bonneville Power Administration (BPA) "*Regional White Paper Segmentation Methodology Alternatives.*" WMGT's members include Flathead, Glacier, Missoula, Ravalli and Vigilante Electric Cooperatives and Mission Valley Power which are all Load Following contract customers of BPA that depend on Network Transmission (NT) service for power deliveries. The cost of NT service is an important component of the costs passed on to retail customers. Thus, WMGT and its members have a significant financial, as well as policy interest, in the approach BPA takes for meeting the revenue requirement of the Network. WMGT and its members are also members of Northwest Requirements Utilities (NRU) and we support the comments of NRU and its participation in the BPA segmentation workshops on our behalf.

We would like to thank BPA staff for their efforts on the White Paper and the studies of transmission segmentation approaches used in other regions. We also appreciate the principles used to guide decision making, as well as the open and deliberative workshops and analysis of rate impacts of various proposals. This information will be a solid foundation for the Administrator to make a decision regarding segmentation in the BP-16 Rate Case.

In the BP-14 Final Record of Decision, the BPA Administrator maintained the 34.5 kV threshold for defining facilities that are part of the Network but stated that BPA would engage the region regarding segmentation policy. As part of this effort, BPA undertook a comprehensive "Industry Scan" to compare BPA to other utilities' transmission facilities in size and voltage. The study shows that BPA's voltage threshold for dividing Network facilities from Delivery facilities is consistent with the industry norm.

The core purpose of BPA, to provide electricity to the rural Northwest, is still valid today. BPA is our transmission provider and the utilities of WMGT serve retail customers in low density and difficult-to-serve geographical areas throughout western Montana. We support BPA's "*Segmentation Principles,*" *which were shared with customers and used to evaluate the proposals. We note that principles 1(a)* through 1(d) are statutory requirements that BPA must meet, and 1(d) "*Encourages the widest possible*

diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles," is particularly germane for this segmentation process. Historically, BPA has used a postage stamp rate construct to accomplish this principle. This process has not provided an alternative that better achieves this goal, while being consistent with the other segmentation principles.

Comments on Network Segment Alternatives

- **Alternative 1 - Status Quo:** The segmentation process has not provided an alternative to the Status Quo that meets BPA's Segmentation Principles. With the exception of the Delivery segment, BPA should retain the status quo.
- **Alternative 2 – Roll in Utility Delivery Segment (PNGC)**: BPA should consider this option and determine whether it is advisable under its Segmentation Principles.
- **Alternative 3 – Maintain Adjusted Utility Delivery Charge (NRU):** BPA needs to undertake a fundamental revision in the methodology for determining the Utility Delivery Charge (UDC) based on cost causation and to preclude excessive increases in this charge in future rate periods. The UDC would essentially be capped at the current rate and then rise according to future general increases for the Network segment.
- **Alternative 4 – Develop a Radial Segment (Snohomish PUD):** This proposal does not comport with BPA's Segmentation Principles. For only a 5% general reduction in PTP and NT rates, there would be a nearly doubling in rates for many customers. This self-serving proposal would create winners and losers within public power and pits BPA customers against each other based on past system configuration decisions. This proposal is extremely complicated, grossly unfair and should be rejected.
- **Alternative 5 - Develop Transformation Charge (IOUs/Large Publics):** This proposal to pay an additional transformation charge (or multiple additional charges) for service at 160 kV and below is nothing more than a massive transfer of costs from the IOUs, large publics, and other big wheelers to BPA's smaller and more rural customers. The small 5% reduction in rates for IOUs and a few large public utilities would come at the expense of small, rural customers who would all see unnecessary rate increases. This proposal should be rejected.
- **Alternative 6 - Apply Seven Factor Test to Create a Segment Based on Function (IOUs/Large Publics):** We understand that this alternative was just a fallback position for the IOUs and large publics if their self-serving proposal #5 was rejected. The White Paper states that Network transmission facilities are used for "wholesale activities." Therefore, BPA facilities never reach the second part of the test, which is application of the seven factors. This means all of BPA's facilities would be considered part of the Network. Spending more time on such an alternative would be counterproductive.
- **Montana Intertie – Status Quo (Public Power Council):** We agree with the PPC proposal for retention of the current rates for recovery of Eastern Intertie costs. It is consistent with BPA's statutory requirements, rate directives, and the Segmentation Principles.
- **Montana Intertie – Roll IM Rate into the Network (Gaelectric):** We oppose rolling the Eastern Intertie into the Network and would add that Gaelectric did not propose a specific methodology for how this would be accomplished.
- **Seattle Staff Proposal:** Seattle City Light apparently made a last minute request at the end of a segmentation workshop for BPA to run another scenario but did not provide a written proposal with sufficient time for review by other customers. While BPA chose to quantify the impact of this proposal, given the dramatic negative rate impacts and obvious rate shock to so many customers we strongly oppose this option and it should be summarily rejected.

Summary

Impacts to individual NT customers differ under the radial or transformation proposals, depending upon the configuration of their transmission service from BPA. The amount of complexity involved with these self-serving proposals designed to benefit the few at the expense of the many are likely to require constant attention and revision. This misguided approach would also create protracted disagreement between BPA and its customers and also among customers as massive cost shifts take place. This alone is a valid reason for rejecting these segmentation changes.

Regardless of whether individual NT customers would be faced with the radial or transformation charge, public power should stand united in opposing these changes on a principled basis due to the extreme impacts it would have on many customers. Utilities making these self-serving proposals should think about how such a process would work for their retail customers at their utility. Imagine a cost of service study and proposed retail rate design where residential customers now had to face additional transformation or distribution charges based on their delivery voltage while watching other large customer classes get rate reductions. Would that process be sustainable or consistent with sound business principles? What would happen to the utility management, commissions or councils that supported such an inequitable process?

The region needs to stand together to support BPA's existing definition of the Network segment and consider modifications for the Utility Delivery Segment. Retroactively changing segmentation policy and cost recovery for the benefit of a few violates BPA Segmentation Principles, is inconsistent with BPA's Industry Scan, ignores the history of how BPA and its customers developed the Network, and hinders regional cooperation to address the truly important issues we face.

Thank you for the opportunity to comment on the segmentation proposals. Please feel free to contact me with any questions you have about these comments.

Sincerely,

Joe Lukas
General Manager

Regional White Paper
Segmentation Methodology Alternatives

June 11, 2014

WPAG Redline of June 17, 2014

Pre-decisional. For discussion purposes only.

proposal in BP-16, the results will likely differ somewhat from the analysis of that alternative contained in this paper.

Network Segment Alternatives

Network Alternative 1 – Status Quo

BPA's transmission rates currently identify and allocates costs to seven segments: Generation Integration, Integrated Network, Southern Intertie, Eastern Intertie, Utility Delivery, Direct Service Industry (DSI) Delivery, and Ancillary Services. The BP-14 Final Proposal documentation contains information on how these numbers were developed. Facilities are divided between the Integrated Network and the Utility Delivery segment based on a 34.5kV bright-line threshold; all transmission facilities not in other segments that are 34.5kV or higher are placed in the Integrated Network segment.

The status quo is offered as an alternative for consideration in this process. The fact that BPA is undertaking a review of its segmentation alternative does not mean that BPA must or should change its segmentation methodology. However, because the status quo alternative was generated from a non-precedential rate settlement, the status quo should not be considered the presumptive alternative where other alternatives must demonstrate conditions necessitating a change in segmentation. The status quo is offered as another alternative being considered. However, in the analysis of the various alternatives, the status quo is used as a measure of cost shift because it is the basis for rates today.

Status Quo Justification

The status quo use of a bright-line voltage threshold at 34.5kV appears to be solidly in the center of the practice that jurisdictional utilities across the country use to distinguish between transmission and distribution. The Commission's preference is to roll transmission facilities into network rates unless cause is shown to separately recover costs from ratepayers; the status quo alternative is aligned with the Commission's preference. Because the facilities currently in the Utility Delivery segment are transmission facilities, they could be rolled into the Integrated Network segment under the Commission's preference. However, there may be good policy reasons to retain the Utility Delivery segment. This policy is examined in more detail in the discussion on Alternative 1 and Alternative 2.

WPAG Comments on Network Alternative 1 - Status Quo

WPAG Recommendation: BPA should maintain the current uniform Network rates under the status quo segmentation approach.

A. The Status Quo Segmentation Approach Ensures the Widest Possible Use at the Lowest Possible Rates for the Region as a Whole and Maintains a Regional Perspective.

BPA is obligated to establish rates with a view towards encouraging the widest possible diversified use of electricity at the lowest possible rates to consumers consistent with sound business principles.[1] This directive applies to both power and transmission rates. The obligation's public policy objectives of spreading the benefits of the Federal system as broadly as possible within the region are well

[1] 16 U.S.C. § 838g.

chronicled, as is BPA's historic use of a uniform or postage stamp transmission rate to meet it.[2] Since BPA's inception it has recognized that a uniform rate best meets the widest possible use rate directive because it provides the lowest rate possible for the most people in the region. As stated by the Administrator, "the uniform rate policy, which began 75 years ago, distributes Federal power throughout the Pacific Northwest region utilizing rates that do not distinguish among customers by size and location . . . ***Today, the purpose of the policy is to promote the widest possible diversified use of electric power at the lowest possible rates throughout the region***."[3]

Subject to the caveats below regarding the UDC, WPAG supports the status quo segmentation approach because, without question, it produces the lowest possible Network rates for the entire region. This is easily determined quantitatively by placing the effective rates under the status quo segmentation approach next to the effective rates for the customers who would pay the rate pancakes proposed under Network Alternatives 4-7.[4]

Network Tx. Service	Alt. 1 – Status Quo ($/kW-Mo.)	Alt. 4 – Radial Proposal Rate Pancake ($/kW-Mo.)	Alt. 5 – Vltg. Trans. Proposal (1 Step – 2 Step) Rate Pancakes ($/kW-Mo.)	Alt. 6 – 7 Factor Test Rate Pancake	Alt. 7 – 145 kV Brightline Rate Pancake ($/kW-Mo.)
PTP	1.479	3.035	1.700 – 2.471	No Analysis	2.949
NT	1.741	3.283	1.937 – 2.719	No Analysis	3.127

As shown in the table above, the status quo segmentation approach results in lowest effective transmission rates for both NT and Point to Point ("PTP") Network transmission customers irrespective of their size or location. By definition this means that the uniform Network rates under the status quo segmentation approach promote the widest possible diversified use of electric power in the Pacific Northwest. We see nothing in the alternative proposals that suggests that any of those proposals would better meet this objective either quantitatively or qualitatively. If anything, the rate pancakes and higher effective rates to some customers forecasted under Network Alternatives 4-7 reinforce the wisdom of using the uniform Network rates under the status quo segmentation approach to achieve the widest possible diversified use, as they clearly illustrate that BPA's uniform rate methodology for the Network does in fact result in the lowest possible rates to the most people in the region.

B. The Status Quo Segmentation Approach Maintains Equitable Allocation Between Federal and Non-Federal Uses.

Since both Federal and Non-Federal uses of the Network pay the same uniform PTP or NT transmission rates for each increment of use, the status quo segmentation approach equitably allocates the costs of the Network between both Federal and Non-Federal uses. The Federal Energy Regulatory Commission ("FERC") agrees with this assessment. In April it approved BPA's BP-14 transmission rates, something it cannot do unless it determines those rates equitably allocate the costs of the Federal system between Federal and non-Federal uses.[5]

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[2] *See generally*, BP-14 Final Record of Decision, BP-14-A-02, at 99-103 (July 25, 2013)("BP-14 ROD"); BPA's Rebuttal Testimony on Segmentation, BP-14-E-BPA-42; WPAG's Rebuttal Testimony Regarding Segmentation, BP-14-E-WG-03; Joint Party 3 (NRU/PNGC) Transmission Rebuttal Testimony, BP-14-E-JP03-03.

[3] BP-14 ROD, BP-14-A-02, at 99 (emphasis added).

[4] Under Network Alternatives 4 and 5, customers who would *not* be subject to the proposed rate pancakes would see an approximate 5% rate decrease from the status quo. Customers *not* subject to the rate pancake proposed under Alternative 7 would see a 32% decrease.

[5] Order Confirming and Approving Rates on a Final Basis, 147 FERC ¶ 61,053 (April 16, 2014).

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C. The Status Quo Segmentation Approach Has Proven to Ensure Full and Timely Cost Recovery and Is Based on System Costs.

FERC also held that the status quo segmentation approach ensures full and timely cost recovery and is based on BPA's system costs when it recently approved BPA's BP-14 transmission rates.[6]

D. Cost Causation for Integrated Systems Such As BPA's Network Calls for a Uniform Rate.

Under the status quo segmentation approach, all customers pay their share of the cost of the entire Network through uniform or rolled-in Network rates. In contrast, under each of Network Alternatives 4-7, some customers pay for the entire Network through multiple or pancake rates while other customers pay for only a portion of the Network through a single, less than rolled-in, rate. However, BPA operates its Network as a single machine to move power in bulk from resources to load centers.[7] It is well accepted under cost causation principles that where a transmission network operates as an integrated whole, such as the Network, each customer should pay its share of the costs of the entire system through rolled-in rates. As more fully described below in WPAG's analysis concerning Network Alternatives 4-7, the status quo segmentation approach's use of uniform or rolled-in Network rates for moving power from resources to load irrespective of their relative locations on the Network is more consistent with this standard practice, and thus better aligned with cost causation, than Network Alternatives 4-7. This and the other cost causation arguments made by WPAG regarding Network Alternatives 4-7 below are expressly incorporated into this section.

E. A Uniform Rate Has Provided Rate Stability to the Region for 75 Plus Years and Will Not Result in Rate Shock.

Since BPA's inception it has adopted many rates, rate changes and rate combinations (including the unbundling of power and transmission rates), but with few exceptions the postage stamp rate has been used irrespective of size or location. This has provided the region with rate stability for more than 75 years. Continuing BPA's current uniform Network rates under the status quo segmentation approach would ensure further rate stability into the future.

An interesting case study demonstrating the inherent stability provided by a uniform rate is the aftermath of BPA's decision in 1996 to deviate from a uniform rate by creating the Utility Delivery Segment and the UDC. As demonstrated in WPAG's comments concerning Network Alternatives 2 and 3 below, that decision has resulted in a substantial amount of instability for both BPA and UDC customers who cannot respond to the UDC price signal. BPA should learn from this lesson and rightly expect that exchanging the current uniform Network rates under the status quo segmentation approach for one of the other proposed Network alternatives will likely result in similar rate volatility over one or more rate periods. This is particularly likely to come to pass as customers respond to the new price signals sent by the alternative methodology in both expected and unexpected ways.

F. The Status Quo Segmentation Approach has Wide Public Acceptance and is Well Within the Industry Norm.

The industry scan prepared by BPA staff clearly shows that BPA's 34.5 kV demarcation for the Network is well within the norm of industry segmentation standards. Indeed, the scan shows that the

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[6] *Id.*
[7] BP-14-E-BPA-42 at 24.

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median for segmenting between distribution and transmission facilities is 35 kV.[8] This is consistent with the findings made by FERC in Order No. 888 that utilities generally "account for facilities operated at greater than 30 kV as transmission and that distribution facilities are usually less than 40 kV."[9] Accordingly, despite claims from some customers to the contrary, BPA's segmentation methodology is directly within the range of accepted segmentation outcomes found across the industry.

Network Alternative 2 – Roll In Utility Delivery Segment - Proposed by PNGC

Roll all facilities currently in the Utility Delivery (UD) segment into the Network segment. The UD rate would be eliminated and costs associated with former UD facilities are recovered through the Network rates.

PNGC Justification

BPA instituted the UD Charge (UDC) in 1997 in part to incent customers to purchase the wholesale substations that BPA had previously provided. When the UDC was put in place, it was recognized that at some point the UDC would become unsustainable. We have now reached the point of unsustainability, given the number of UD facilities that have been sold, and the costs, billing determinants, and the "unpurchaseable" nature of the remaining UD facilities.

Rolling the UD facilities into the Network segment is consistent with BPA's statutory responsibility to set power and transmission rates that encourage "the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." (Federal Columbia River Transmission System Act at 16 U.S.C. § 838g).

Doing so will result in minimal rate impact to Network segment transmission rates (approximately 0.6% for the PTP rate and 0.3% for the NT rate), while avoiding an unnecessarily severe impact on transmission rates for those who would otherwise pay the UDC.

Further, the UDC has outlived its original purpose of incenting utilities to purchase the UD facilities. Since the implementation of the UDC, BPA has sold 158 out of 203 of the UD facilities. The remaining 45 substation are not likely to be sold, even if BPA follows through with plans to increase the UD rate 84% over the next several rate cases. There are several reasons that many of the remaining substations are "unpurchaseable" from the utilities' point of view:

- The remaining transformers are very old (average age 58.2 years, with 17 transformers over 70 years old) and customers are wary of purchasing such old equipment, particularly given the possible reliability consequences and costs associated with equipment failure;
- 16 facilities are not segmented 100% to the UD segment, which significantly complicates a possible sale (BPA typically would not sell elements of a multi-segmented substation);

[8] *Scan of Industry Segmentation-Related Practices*, at 2 (Jan. 2014).
[9] *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036, 61 Fed. Reg. 21540 (1996) ("Order No. 888"), Appendix G, at n.100.

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- 14 facilities are shared by multiple customers, which significantly complicates a possible sale;
- Acquisitions of high voltage equipment have potential staffing, training, and reliability implications well beyond the price of the delivery substation; and
- At a time when many small utilities are deregistering from ERO compliance obligations, adding high voltage equipment to their systems could unnecessarily endanger those efforts.

Of the remaining 45 UD substations, 39 face at least one of the above challenges. Many face more than one of these challenges. In short, the vast majority of the remaining substations are "unpurchaseable" no matter how high the UDC goes. Consequently, retaining the UD segment, and increasing the UDC by 25% in the next rate case, will not result in substantial sales of the UD facilities. It will, however, result in a UD rate higher than the current NT transmission rate. At that point, customers subject to the UDC would essentially pay a pancaked transmission rate that amounts to two times the NT rate. We have arrived at the point where the most logical action is to roll the remaining UD facilities into the Network segment.

PNGC Evaluation based on BPA Principles

1. Consistent with Statutory Requirements
   - Roll in would ensure widest possible use at lowest possible rates to consumers consistent with sound business principles
   - Would ensure full and timely cost recovery
   - Rates would be based on system costs
   - Would maintain equitable allocation between federal and non-federal uses

2. Consistent with Ratemaking Principles
   - Cost causation – these facilities were put in as wholesale points of delivery, and are part of system needed to transmit wholesale power to wholesale customers
   - It's simple, understandable, easy to apply, and would be acceptable to many customers
   - Avoids rate shock to all parties
   - Does provide stability, especially vis-à-vis alternatives (scheduled rate increases)

3. Considers a Regional Perspective
   - By fulfilling BPA's statutory directive to provide the widest possible use at the lowest possible cost to consumers, the roll-in alternative promotes an economically healthy rural segment of our region
   - Without a roll-in of the UD segment into the Network segment, many rural areas will pay approximately double for transmission service, thereby negatively impacting economic well-being in these areas; alternatively, rolling-in the UD segment will have minimal impact on the Network segment while avoiding rate shock for the current UD customers
   - Provides level playing field to all sellers of power
   - Retains uniform rates
   - Respects past BPA policies which provided these substations

WPAG Comments on Network Alternative 2

See WPAG comments on Network Alternative 3.

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cases, the transmission rate case should be less contentious between BPA and the customer groups, as well as the potential GTA related issues for the power rate cases. Second, BPA can avoid imposing a disproportionately high increase in the UDC that has a questionable analytical foundation of cost recovery, and can do so without adversely impacting other customer groups. Third, the proposed UDC maintains an incentive for utilities to purchase these facilities, while simultaneously not imposing steep cost increases for those utilities that may not be in a position to acquire these facilities to avoid the charge.

c. Historically BPA has applied uniform rates to achieve widest possible diversified use
The NRU proposal does not change BPA's application of uniform rates for transmission service.

WPAG Comments on Network Alternative 3

WPAG Recommendation: BPA and its customers should further explore the NRU proposal for the UDC.

A. Something Must be Done About the UDC Death Spiral.

The UDC currently recovers 56% or $3.6 million of the Utility Delivery ("UD") segment's $6.4 million revenue requirement. This under-recovery is an outgrowth of eighteen years of transmission rate case settlements and the massive decrease in billing determinants for the segment as utilities purchased the UD facilities they take service over. BPA raised the UDC by 25% in the last rate case, from $1.119 kW/Mo. to $1.399 kW/Mo, closing the amount of the under-recovery. BPA also implied in the last rate case that the UDC may increase by another 25% in BP-16. If so, it will essentially equal the current NT rate of $1.741 kW/Mo. This means that UD customers could very soon be paying a rate pancake, resulting in them paying effectively twice the NT rate. In contrast, GTA Delivery customers pay a GTA UDC for non-federal facilities below 34.5 kV of $0.820 kW/Mo. This raises significant questions as to why the cost of service for BPA owned facilities below 34.5 kV is so much higher than similar non-federal facilities.

The remaining UD customers would certainly escape the punitive UDC rate if they could. The price signal is substantial. But as NRU and PNGC pointed out in their proposals, there are any number of reasons why a customer cannot or will not purchase UD facilities, e.g., where multiple customers use the same facility, the age of facilities, concerns over compliance obligations, and potential training and reliability implications. Other reasons include unreasonable positions taken by BPA in negotiations as to the true value of facilities and uncertainty as to the continued existence of the UD segment. BPA needs a new long term plan for treatment of the UD segment. For the reasons stated below, we believe that the place to start is with further exploration of NRU's UDC proposal.

B. The NRU UDC Proposal is Worthy of Further Exploration.

NRU's proposal to retain the UDC, but to reduce the revenue requirement to be recovered through the UDC based on various adjustments to the O&M and UD Net Plant assumptions used in calculating the rate, is worthy of further exploration. It balances the interests of those utilities who, for whatever reason, continue to take service over UD facilities with those utilities who responded to the UDC price signal by purchasing UD facilities or building their own. It also provides a rationale for keeping the UDC at a level ($1.399 kW/Mo.) that appears to better reflect the true cost of providing the service (*cf.* GTA UDC of $0.820 kW/Mo) than the rates that would ensue from the forecasted UDC increases, while preserving a price signal to encourage utilities to purchase the remaining UD facilities if

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possible. One question, however, and there are likely others, is whether placing the UD segment into the Network to effectuate NRU's proposal is necessary or whether the segment should be kept separate. We recommend that this and other issues related to the NRU proposal be discussed in future rate case workshops.

Network Alternative 4 – Develop a "Radial" Segment – Proposed by Snohomish

Proposal Overview

Snohomish proposes identifying radial facilities on BPA's system and recovering the costs associated with those facilities from customers who utilize the identified radial facilities. There are two ways these costs could be recovered: 1) create a new segment comprised of the identified radial facilities and create a rate to recover costs associated with this segment, to be charged to customers using the identified facilities or 2) the radial facilities would remain in the Network segment, and BPA could then identify costs associated with the radial facilities and develop a charge for customers using those facilities.

Snohomish's proposal seeks to achieve a segmentation methodology that is both durable and technically justifiable. By only identifying radially-operated facilities based on a discrete set of criteria, the proposal satisfies a robust engineering and functional analysis, keeps to a limited scope and makes "radial" facilities easier to identify, allowing the function of facilities to be determined simply.

Definition of "Radially-Operated Facilities"

Snohomish defines "Radially-Operated Facilities" as Radial systems and Radial Open Loops.[10] Radial Systems are a group of contiguous transmission elements that emanate from a single point of connection; power flows in one direction from the substation to the load. Radial Open Loops are two or more Radial Systems that are connected by a Normally Open Switch (in effect, creating a gap between the Radial Systems). Radial Open Loops are, operationally, almost identical to Radial Systems. Based on feedback from BPA, analysis limited to Radial Systems is more technically manageable.

Criteria for Identifying Radial Facilities

BPA staff and Snohomish worked together to clarify what criteria would be used to identify radial facilities for removal from the Integrated Network segment (see appendix xx for more detail). Facilities not identified as radial facilities that are currently in the Integrated Network segment will remain in that segment.

The criteria for identifying radial facilities are listed below:

1. Radial facilities:
    a. Radial line where BPA owns connected station
    b. Radial line where customer owns connected station
    c. Looped service with a normally open switch

[10] -Snohomish believes that local networks are non-integrated. However, Snohomish has decided not to include local networks in its proposal.

intent to cause rate shock among BPA's transmission customers. Snohomish recognizes the need for rate mitigation as a result of the Radial Service proposal and submits two possible alternatives:

Mitigation Plan 1: Phased-in Approach

- Phases-in costs of radial service over ten rate periods; 10% of the overall revenue requirement would be applied in each successive rate period
- Results in the full identified $33M Radial Service Revenue Requirement being collected at the end of the phase-in

Mitigation Plan 2: Phased-in Approach with Revenue Requirement Cap

- Phases-in costs of radial service over ten rate periods; 5% of the overall revenue requirement would be applied in each successive rate period
- Results in only 50% of the total identified Radial Service Revenue Requirement being collected at the end of the phase-in

As stated previously, Snohomish is primarily interested in achieving an engineering-based, technically-justified and transparent Segmentation methodology. If BPA decides to adopt the Radial Service proposal, Snohomish is open to a range of potential alternatives to mitigate rate shock. The options outlined above are simply two out of many possibilities available for consideration.

Between these two options, Snohomish prefers Mitigation Plan 1, which results in fully recovering the Radial Service Revenue Requirement at the end of the phase-in. However, if BPA sees the need for further mitigation beyond what is outlined in Mitigation Plan 1 in order to successfully adopt the Radial Service proposal, Snohomish is also receptive to further mitigation as described in Mitigation Plan 2.

WPAG Comments on Network Alternative 4.

WPAG Recommendation: BPA should reject Snohomish's "Radial" Segment proposal and instead retain the status quo segmentation approach.

A. Snohomish's Proposal Would Put BPA at Odds with its Statutory Rate Directives and Will Harm the Entire Region.

BPA's historic use of uniform transmission rates to meet its widest use rate directive is well established. One need only put BPA's current uniform Network rates under the status quo segmentation approach against the rates that would follow from Snohomish's radial proposal to determine that the proposal would not result in the lowest possible rates throughout the region. Snohomish's proposal will instead increase the transmission rates paid by customers who take service over radial facilities by approximately 89% for NT customers and 105% for PTP customers. Meanwhile, those customers who do not take service over radial lines would see an approximate 5% rate decrease. So the upshot of Snohomish's proposal is radically higher rates for some, modestly lower rates for others, but not the lowest possible rate for the region as a whole— that would be the uniform Network rates under the status quo segmentation approach.

The net effect of the rate increases to radial customers will place BPA at odds with the widest possible diversified use rate directive. For instance, if Snohomish's proposal is adopted, 55 customers will see their transmission costs increase by 10% or more, 34 customers will see a 30% or higher increase, and 18 customers will pay 50% to 90% more than they do now. These increases will not encourage the widest possible use of electric power in the region as a whole.

It will likely do the exact opposite, by encouraging commerce and industry to either not locate in, or flee, service areas subject to the radial rate in favor of areas not impacted by the radial rate, such as Snohomish's service area. On the other hand, another potential scenario is that Snohomish's proposal would cause customers to locate outside the region altogether. This is because while the rate increase to some utilities under the proposal is substantial enough to drive customers away, the corresponding decrease to other regional utilities is likely too small to attract them into their service areas. The entire region then would be at a disadvantage under the Snohomish proposal.

Many of the customers who would be impacted by Snohomish's proposal (and the communities they serve) are among BPA's smallest and most rural customers. BPA has a rate setting obligation to these rural utilities, and the region, under its widest use mandate. Given its punitive rate impacts to rural utilities, it is doubtful that Snohomish's proposal would satisfy this obligation as a matter of law. This is particularly so when, as in this instance, there is such a clear showing that the uniform Network rates under the status quo segmentation approach would provide a lower possible rate to those rural utilities and the region as a whole. BPA should not adopt Snohomish's proposal on this basis alone.

B. Claims that Snohomish's Proposal is Consistent with Cost Causation are Greatly Exaggerated.

Despite statutory challenges identified above, Snohomish has marched forward with its proposal by wrapping it in the flag of cost causation, stating that the principle is at the "core of the . . . proposal."[11] However, BPA has an obligation to provide transmission service to the Administrator's customers and to serve them at the lowest possible rates consistent with sound business principles regardless of where they are located. Accordingly, a customer's increased cost exposure under Snohomish's proposal is a function of a single arbitrary fact—i.e., that BPA, often one or more generations ago, determined that construction of a radial transmission line to serve that customer's particular locality was more cost-effective than construction of a looped transmission line.

The purpose of this determination was to lower the overall cost of BPA's transmission system to be recovered from all customers, including Snohomish, under BPA's historic uniform transmission rate. It was not, as Snohomish appears to believe, for purposes of providing an additional service or benefit to such customers.[12] Snohomish's proposal to now charge customers an additional rate or charge based on the very decision made by BPA to save costs to all customers (i.e., the decision to construct radial facilities to serve certain geographic areas) is disingenuous, as it ignores the economic, geographic, engineering, and statutory context within which such decisions were made. Disregarding such relevant factors is at best a myopic application of cost causation principles, which in any event must give way to BPA's statutory obligation to encourage the widespread use of electric power at the lowest possible rate.

[11] Network Alternative 4, Snohomish Evaluation based on BPA Principles, § 2.a.

[12] Indeed, under Snohomish's proposal customers who receive service over radial facilities will pay a much higher transmission rate for a less reliable service than customers who receive service over more expensive looped facilities. If the objective is to partition the Network to precisely allocate costs to those who benefit, then customers with looped service should pay more for the added reliability.

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C. The Fallout if Snohomish's Proposal is Adopted will be Another Rate Death Spiral.

If Snohomish's proposal is adopted, at least some preference customers who take service over radial facilities will likely respond to the malignant price signal by trying to either purchase the BPA owned radial facilities they take service over or building their own facilities to a point of delivery on BPA's Network that would not be subject to the radial rate. BPA will need to prepare for this likelihood by adopting policies for the purchase and sale of radial facilities and bracing to slog through new interconnection requests.

The probable fallout is sadly predictable. BPA had been playing out this same scenario since 1996 when it instituted the Utility Delivery Charge ("UDC"). Just like with the Utility Delivery segment, if Snohomish's proposal is adopted, some radial facilities will be purchased where a reasonable business case can be made, and other radial facilities will be replaced by facilities built and owned by customers. As billing determinants leave the new radial segment, the costs of that segment (which in all likelihood will not diminish as fast as the amount of billing determinants) will be spread over fewer and fewer customers (i.e., those customers who do not have the means or wherewithal to escape) causing a rate death spiral a la UDC-2.0. For the remaining customers in the radial segment, BPA's transmission rates will completely shift from being a catalyst for sharing in the region's prosperity to a barrier.

Furthermore, at least some of the customers who will be impacted by Snohomish's proposal are either (i) currently paying the UDC or (ii) purchased or built facilities to avoid the UDC. For the former group, a new radial rate will be pancaked with the UDC and the Network rate. With the UDC currently projected to increase by 25% in the next rate period, such customers would be paying exorbitant amounts for BPA transmission service. The latter group, on the other hand, will be in the position of having taken steps to avoid the UDC price signal to now find BPA imposing a new price signal based on a determination BPA made decades ago that it could serve them more economically with a radial rather than a looped transmission line.

D. Adoption of Snohomish's Proposal Would Be the Genesis of a New Cycle of Litigation and the End of the Line for Rate Stability.

Snohomish claims to seek with its proposal a segmentation methodology that is both durable and technically justifiable. It is neither. Snohomish's offering would remove all radial facilities from the Network, except where generation exists on a radial line that is either wheeled or scheduled across, or flows back to BPA's system. The technical conclusions that this test is supposed to produce, however, are unknown. For instance, is this a test for integration? If so, it is a poor one for which Snohomish has produced no industry guidance or precedent in support.

This is remarkable because in Joint Party 12's[13] Initial Brief in the BP-14 rate case it cited to the *Mansfield* five factor integration test.[14] The *Mansfield* test is one of the tests that FERC uses to determine whether transmission facilities are sufficiently integrated for rolled-in rate purposes under the Federal Power Act ("FPA"). While FERC precedent under the FPA is not controlling over BPA, it is noteworthy that, in addition to situations where generation is located on a radial line, under FERC's integration test radial facilities are considered integrated and available for rolled in rate treatment where they are used to

[13] Joint Party 12 included Benton PUD, Iberdrola Renewables, LLC, Tacoma Power, City of Seattle, and Snohomish PUD.
[14] Initial Brief of Joint Party 12, BP-14-B-JP12-01, p. 11 (May 1, 2013), citing favorably *Mainsfield Mun. Elec. Dep't v. New England Power Co.*, 94 FERC ¶ 63,023 (2001), *aff'd*, 97 FERC ¶ 61,134 (2001) ("*Mainsfield*").

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serve more than one customer, provide benefits to the Network in terms of capability or reliability, or where an outage on the facilities would affect the transmission system.[15]

Each of these absentee integration factors would serve as a basis to keep additional radial facilities in the Network if BPA were to adopt Snohomish's proposal. For example, numerous radial lines that would otherwise be removed from the Network under Snohomish's proposal serve more than one customer. The reliability benefits provided by radial facilities to the greater Network are also not accounted for in the proposal. Now, and even more so into the future, BPA's radial facilities (and the loads thereon) can and will provide reliability benefits to the remaining Network by being available for actions such as under frequency load shedding, NT Redispatch, and providing balancing or other reserves via demand response programs[16].

It is unclear why Snohomish would craft a test that uses some but not all of the integration factors it identified in its prior JP-12 filing. While the WPAG utilities *do not* believe that integration necessarily is or should be a touchstone for rolled-in rate treatment under BPA's statutory rate directives, we do think that if BPA were to adopt Snohomish's proposal (and it should not) that BPA must consider all factors that demonstrate integration for rolled-in rate treatment (including, but not necessarily limited to, the *Mansfield* factors), rather than just the one factor (*i.e.*, generation located on the radial line) identified by Snohomish. In all likelihood this will require additional integration analyses on a facility by facility basis; be the subject of considerable testimony and briefing in the BP-16 and future rate cases; winnow the size of the proposed radial segment over time; and provide few if any tangible benefits over the status quo segmentation approach to BPA, its customers or the region.

E. Snohomish's Rate Mitigation Plan Would Provide No Peace.

Snohomish proposes a rate mitigation plan to stave off the dire financial consequences to rural utilities under its proposal. The end result is the same though: Many of BPA's smallest and most rural customers will end up paying substantially more (as much as 89% more) for use of the same transmission facilities they have always taken service over, while BPA's larger and more urban customers will see modest decreases in the rates they pay. Snohomish's proposal will still be less consistent with cost causation principles than the status quo segmentation approach. UDC customers subject to the new radial rate will see the number of rate pancakes they pay, and the effects thereof, continue to escalate (albeit at a slower pace). BPA will find itself in conflict with its widest possible diversified use rate directive. The region will be mired in continual litigation concerning what it all means, and worse off than if BPA had retained the status quo segmentation approach. For these reasons, Snohomish's rate mitigation plan provide no basis for adopting its radial segmentation proposal.

Network Alternative 5 – Develop transformation charge – Proposed by IOU/Large public coalition: Puget, Seattle City Light, Pacificorp, PGE, Powerex, Tacoma, Avista, Ibedrola, Benton County PUD

The coalition proposes that BPA develop a rate associated with transformation through the following process:

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[15] *Mainsfield Mun. Elec. Dep't v. New England Power Co.*, 94 FERC ¶ 63,023 (2001), *aff'd*, 97 FERC ¶ 61,134 (2001).
[16] *See* U.S. Dept. of Energy, Benefits of Demand Response in Electricity Markets and Recommendations for Achieving Them, at 80 Demand Response Briefing (2006) *available at* http://energy.gov/sites/prod/files/oeprod/DocumentsandMedia/DOE_Benefits_of_Demand_Response_in_Electricity_Markets_and_Recommendations_for_Achieving_Them_Report_to_Congress.pdf;
see also BPA, Demand Response Briefing, at 8-12 (June 12, 2014) available at http://www.bpa.gov/transmission/CustomerInvolvement/NTService/Documents/demand-response.pdf.

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BPA has not always applied uniform rates,[18] *nor has it shown that uniform rates achieve the widest possible diversified use consistent with sound business principles.*

WPAG Comments on Network Alternative 5

WPAG Recommendation: BPA should not adopt the Coalition's transformation charge proposal and instead retain the status quo segmentation approach.

A. The Coalition's Proposal Would Place BPA in Conflict with Its Statutory Rate Directives.

BPA's historic use of uniform transmission rates to meet its widest use rate directive is well established. Similar to Snohomish's proposal, a side by side of the rates under the Coalition's voltage transformation proposal with the uniform Network rates under the current segmentation approach demonstrates that the Coalition's proposal would not result in the lowest possible rates throughout the region, and thus not meet the widest possible diversified use rate directive.

Under the Coalition's one-step transformation proposal, NT and PTP customers subject to the transformation charge would respectively pay 12% and 15% higher rates than the current uniform Network rates under the status quo segmentation approach. Under the two-step transformation proposal, NT and PTP customers subject to both steps would respectively see 56% and 67% rate increases. Customers who are not subject to any transformation charges would see a 5% rate decrease under either the one-step or two-step proposals. Similar to the Snohomish proposal, the outcome under either of the Coalition's proposals would be higher rates for some, modestly lower rates for others, but not the lowest possible rate for the region as a whole— that would still be the uniform Network rates under the status quo segmentation approach. The Coalition's proposal may therefore be unsustainable as a matter of law under BPA's widest possible use rate directive. This alone is sufficient reason for BPA to reject the proposal.

B. The Coalition's Proposal Fails to Meet Cost Causation Principles.

BPA should reject the Coalition's voltage transformation proposal because, as demonstrated above, it fails to meet the widespread use rate directive as well as BPA's current uniform Network rates. Nonetheless, the Coalition justifies its proposal by laying a claim that the proposal more closely aligns with cost causation principles than the status quo segmentation approach. For the reasons identified below, this assertion is erroneous and misleading. Indeed, under any standard metric, BPA's use of a uniform, or rolled-in, rate for its Network under the current segmentation approach is more consistent with cost causation.

A customer's cost exposure under the Coalition's voltage transformation proposal is a function of a single arbitrary fact—*i.e.*, that BPA determined that construction of lower voltage transmission facilities (*e.g.*, below 161 kV) in the customer's locality was more cost-effective than construction of higher voltage facilities. The purpose of this determination was to lower the overall cost of BPA's transmission system to be recovered from all customers under BPA's historic uniform transmission rate.[19] It was not, as the Coalition appears to believe, for purposes of providing an additional service or benefit to those customers who take service over lower voltage facilities. The proposal to now charge customers who

[18] *See, e.g.*, BP-14-B-JP06-01, pp. 16-18.

[19] The least-cost solution for transmission facilities are a chiefly a function of the distance from the resource to load and their size. Irrespective of length, it seems fundamental that BPA would size transmission facilities using the least-cost (lowest voltage and capacity) facilities that can deliver power in the required amounts under the expected range of normal operating conditions and contingencies.

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take service over lower voltage Network facilities an additional rate or charge due to the very decision BPA made to save costs to all customers (*i.e.*, the decision to construct lower voltage facilities) is disingenuous, as it ignores the economic, geographic, engineering, and statutory considerations that drove that decision.

The Coalition's proposal also overlooks that BPA's transmission customers receive the same transmission service under BPA's Open Access Transmission Tariff ("OATT") regardless of whether they receive service below 161 kV or at 161 kV or higher. The voltage of the Network at the point where a customer interconnects reveals little about how the customer "uses" the Network. For instance, a NT customer interconnected at 115 kV is not using all of the 115 kV facilities in the Network, nor is a NT customer interconnected at 230 kV using all of the 230 kV or higher-voltage facilities. Rather, for both customers, BPA operates its Network as a single machine to move power in bulk from resources to load centers.[20] The customer served at 230 kV receives the same level of benefit as the customer for whom BPA elected to serve more economically at 115 kV. These customers are using BPA's Network for the same purpose, taking the same transmission service under BPA's OATT, and therefore are similarly situated. There is no justification under these circumstances for differentiated rate treatment, whether on the basis of cost causation or otherwise.

It is well accepted that where a transmission network operates as an integrated whole (such as how BPA operates its Network[21]), cost allocation should treat each customer as using the entire transmission system rather than a single transmission path.[22] "In other words, all of the individual facilities used to transmit electricity are treated as if they were part of a single machine."[23] Under this "rolled-in" pricing methodology, each customer pays its share of the costs of the entire system. "This principle has a strong basis in the physics of electrical transmission for there is no way to determine what path electricity actually takes between two points or indeed whether the electricity at the point of delivery was ever at the point of origin."[24]

The fact of the matter is that customers who interconnect at voltages of 161 kV and above benefit from facilities below 161 kV. This is because lower voltage facilities improve the reliability of BPA's Network by providing alternative paths for power to flow when a higher voltage transmission line is abruptly removed from service. It is well recognized that the increased reliability under such circumstances is a benefit to all customers on the system and for this reason the costs of such reliability should be shared by all customers on the system.[25] BPA's rolled in rate methodology for all facilities at 34.5 kV and above meets this basic principle; the Coalition's voltage-differentiated rate proposal tacitly disregards it by allowing those customers who interconnect at or above 161 kV a "free ride" on the reliability benefits provided by lower voltage Network facilities.

Increased reliability from lower voltage facilities without having to share in their costs is only one of free rides for those customers interconnected at higher voltages arising from the Coalition's proposal. Another free ticket proffered is to allow customers to redirect without any additional cost regardless of the voltage at the redirected point of delivery ("POD"). This means that a PTP customer with a contract point of receipt ("POR") at 230 kV and a contract POD at 161 kV or above would not pay any voltage transformation charge related to a redirect even if the redirected POD is less than 161 kV. On the other hand, a PTP customer with the same contract POR but a contract POD below 161 kV would continue to pay the Network rate plus one to two transformation charges even if their redirected POD is more than

[20] *See* BP-14-E-BPA-42 at 24.
[21] *Id.*
[22] *See N. States Power Co. (Minn.) v. FERC*, 30 F.3d 177, 179 (D.C. Cir. 1994).
[23] *Id.*
[24] *Id.*
[25] *See, e.g.*, *Niagara Mohawk Power Corp.*, 42 FERC ¶ 61,143, at 61,532 (1988).

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161 kV. To impose such disparate rate treatment on two similarly situated customers based solely on the voltage of the transmission facilities BPA elected to build in the locality of their contract POD is discriminatory, and contrary to the open access policies contained in BPA's OATT. Further, it is inconsistent with cost causation principles, as PTP customers with high voltage contract PORs and PODs will have the advantage of being able redirect to anywhere on BPA's system, and the indecorous privilege of only having to pay for part of the same.[26]

Finally, the Coalition's proposal will likely encourage future economic inefficiencies rather than diminish them. This is because customers will be incentivized to press BPA to oversize facilities to avoid the transformation charges and spread the higher costs of those facilities more broadly across all Network customers. This will not result in least cost solutions to transmission development in the region, and it is another sound business reason for not adopting the Coalition's proposal.

C. The Coalition's Proposal Would Exacerbate the Punitive Impacts of the Forecasted Increases to the Utility Delivery Charge (UDC).

Just like under the Snohomish proposal, some of the customers who will be impacted by the Coalition's proposal are either (i) currently paying the UDC, or (ii) purchased or built facilities to avoid the UDC. For the former group, the new voltage differentiated rates will add one to two more transformation rate pancakes to the current UDC and Network rates (for a total of three to four rate pancakes for transmission service). With the UDC currently projected to increase by 25% in the next rate period, such customers, who are among BPA's smallest and most rural, would pay an effective transmission rate that is substantially higher than the effective rate of the large urban utility and power marketing customers who will benefit if the Coalition's proposal is adopted. The latter group, on the other hand, will be in the objectionable position of having taken steps to avoid the UDC price signal only to have BPA impose a new price signal based on BPA's historic decision that it could more economically serve them with lower voltage transmission facilities.

D. BPA's Scan of Industry Segmentation Practices Does Not Bolster the Coalition's Proposal.

The Coalition attempts to buttress their proposal by citing to BPA's scan of industry segmentation practices, asserting that the document shows "that about a third of the roughly 100 utility systems analyzed have voltage-differentiated rates."[27] Most of the 35 utilities that have voltage differentiated rates are members of ISO/RTOs and they differentiate based on the requirements of the ISO/RTOs to which they belong.[28] However, the voltage differentiated rate designs for ISO/RTOs are meant to primarily encourage the development of new transmission facilities benefiting multiple transmission owners, they are not intended to recover the costs of old facilities owned by individual transmission owners like BPA in this instance.[29] For this reason, the examples of ISO/RTOs with voltage differentiated rate designs have little value in evaluating BPA's segmentation methodology. When this is taken into account, the industry scan overwhelmingly shows that a single rolled-in transmission rate is the predominant rate design among other individual transmission owners like BPA.

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[26] The Coalition attempts to sidestep this issue by suggesting that perhaps there should be different rate treatment for long-term redirects. While this may diminish the scope of the discriminatory effects of the Coalition's proposal, it does not eliminate such effects completely. This is because PTP customers with high voltage PODs would be able to use, but not required to pay for, low voltage facilities for any short-term redirects that they request to low voltage PODs.

[27] *See*, Network Alternative 5, Coalition's Evaluation Using BPA Principles, § 2.a.

[28] *Scan of Industry Segmentation-Related Practices*, at 9 and Table 2 (Jan. 2014).

[29] *See Buckeye Power, Inc. v. American Transmission Systems, Inc.*, 142 FERC ¶ 63007, P. 593 (2013).

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3. Considers a regional perspective

a. Alternatives include how costs are allocated and recovered

Under proposal for segmentation of BPA's facilities based on function, all Network and delivery segment costs are allocated to BPA Network or delivery segment rates and should therefore be recovered.

b. BPA asks that proponents of alternatives explain how the region benefits from the alternative compared to status quo

The proposal for segmentation of BPA's facilities based on function is superior to the status quo because the proposal should result in rates based on the function of facilities used by BPA to provide various services and should result in rates that are more closely aligned with cost causation than an arbitrary 34.5kV segmentation test.

c. Historically BPA has applied uniform rates to achieve widest possible diversified use

BPA has not always applied uniform rates,[31] *nor has it shown that uniform rates achieve the widest possible diversified use consistent with sound business principles.*

The proposal for segmentation of BPA's facilities based on function is superior to BPA's practice "[h]istorically," which was based on an arbitrary 34.5kV segmentation test that arose in a 1996 transmission rate case settlement. As discussed above, the proposal should result in rates based on the function of facilities used by BPA to provide various services and should result in rates that are more closely aligned with cost causation and more consistent with sound business principles than an arbitrary 34.5kV segmentation test.

WPAG Comments on Network Alternative 6

WPAG Recommendation: BPA should reject the Coalition's proposal to apply the seven factor test to create a new segment and instead retain the status quo segmentation approach.

A. Use of the Seven Factor Test Will Likely Not Result in the Lowest Possible Rates.

BPA did not perform a rate impact analysis for the Coalition's proposal to use the seven factor test to create a new transmission segment. Nonetheless, it is a fair supposition that the effective rates of at least some transmission customers would be substantially higher under the Coalition's proposal than the current uniform Network rates under the status quo segmentation approach. If so, such rates would not be the lowest possible rate for the region as a whole. This likely means that the Coalition's proposal would not be sustainable as a matter of law under BPA's widest possible use rate directive.

B. The Coalition Misconstrues and Misapplies the Seven Factor Test.

The seven factor test is the second half of a functional/technical test used by FERC to determine whether it has jurisdiction over a jurisdictional utility's transmission facilities. The first question posed by the jurisdictional test is purely a functional inquiry. If the transmission facilities are used for unbundled wholesale wheeling (i.e., the electric energy being transmitted is to be sold for resale) then FERC has jurisdiction. The second part of the test only comes into play when the facilities are used for unbundled *retail* wheeling, and it is here that FERC uses the seven factor test to determine which facilities are

[31] *See, e.g.*, BP-14-B-JP06-01, pp. 16-18.

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"transmission facilities," subject to the Commission's jurisdiction, and which facilities are "local distribution facilities," subject exclusively to state jurisdiction.[32]

BPA is not subject to FERC jurisdiction under Order No. 888. Even if it were, the Coalition's proposal to use the seven factor test to redefine its Network is misplaced. Facilities in the Network are used for unbundled wholesale wheeling. So even if it applied to BPA, the seven factor test would never be used to determine jurisdiction over BPA facilities because the bright-line wholesale transmission screen would have already ascertained FERC's jurisdiction over the Network.

C. The Seven Factor Test Is Not Consistent With Cost Causation for an Integrated Transmission System Like BPA's Network.

BPA operates its Network as a single machine to move power in bulk from resources to load centers. As discussed in WPAG's comments concerning Network Alternatives 4-5, it is well accepted under cost causation principles that where a transmission network operates as an integrated whole, each customer should pay its share of the costs of the entire system via a rolled-in rate. The Coalition's proposal to use the seven factor test to divide BPA's integrated system is directly contrary to this accepted practice, and for this reason the proposal is not consistent with cost causation principles.

D. The Subjectivity of the Seven Factor Test Will Invite Litigation and Undermine Rate Stability.

Using the seven factor test to carve up BPA's Network will create a rich billing environment for attorneys and consultants in both the BP-16 and future rate cases. This is due to two factors. First, the test readily lends itself to varying subjective interpretations. Second, the size of BPA's Network provides no shortage of facilities to fight over. Together these elements guaranty years of contentious litigation and rate instability as parties will attempt to push and pull facilities in and out of the Network based on their own interpretations and proposed applications of the seven factor test. Given that the proposal to use this jurisdictional test for rolled-in rate purposes is a misapplication of the test in the first instance, we recommend that BPA elect to forgo the inevitable fights by maintaining the status quo segmentation approach and the uniform rate methodology that has provided rate stability for the region for over three quarters of a century.

Network Alternative 7 – Establish a Sub-Transmission Segment and Rate Based on Voltage Threshold – Proposed by Seattle City Light

Seattle City Light requests that BPA review BPA's transmission facilities in the Network segment as of BP-14 and establish a new Sub-Transmission Segment based on the following:

1. Retain transmission facilities above 145 kV in the Network.

   Transmission facilities at 145 kV and above are most likely to facilitate system-to-system transactions of bulk power, used for marketing transactions, and support regional transfers. These uses are most akin to network services

[32] *See* Order No. 888, 61 Fed. Reg. at 21626-21627, 21731-21732; *see also Transmission Access Policy Study Group v. Federal Energy Regulatory Commission*, 225 F.3d 667, 696 (D.C. Cir., 2000) ("[t]he seven factor test applies only to unbundled retail sales"); *Order on Standardization of Small Generator Interconnection Agreements and Procedures*, 113 FERC ¶ 61195, P 96 (2005) quoting *Ameren Services Co.*, 103 FERC ¶ 61,121, P 26 (2003) (affirming that "the seven factor test does not apply to circumstances in which the wholesale sale may trigger Commission jurisdiction over an interconnection").

- The new alternative recognizes differences in service and subsequent cost causation. The alternative more closely aligns service, cost, and subsequent rates, and as such is an improvement, compared to the status quo.

b. Simplicity, understandability, public acceptance and feasibility of application
   - The new alternative adds one segment based on voltage level. BPA already established the Delivery Segment based on voltage, so an additional voltage-based segment should be similarly understandable. The new segment will have more customers than the Delivery Segment although less than the Network segment, so it is feasible to apply. A sub-Transmission Segment is used by other utilities in the region and country. BPA's customers will understand the new segment.

c. Avoidance of rate shock
   - This is a newly proposed alternative. As of June 1, 2104 BPA has not yet estimated revenue requirements and rates so rate shock is unknown. If BPA chooses to implement the alternative, tools to lessen rate increases, such as a phase in, may be applied if needed.

d. Rate stability from rate period to rate period
   - If adopted, the new alternative would be a change to one rate period. After adoption, the segment itself should be stable.

3. Considers a regional perspective
   a. Alternatives include how costs are allocated and recovered
      - The alternative is specifically intended to ensure that costs are allocated and recovered according to the service provided.

   b. BPA asks that proponents of alternatives explain how the region benefits from the alternative compared to status quo
      - The alternative is a change in cost allocation, and as such the region is no better or worse off.

   c. Historically BPA has applied uniform rates to achieve widest possible diversified use
      - Uniform rates typically are called "postage stamp" rates meaning the distance from generation to load is not a factor in determining the rate, and the new alternative does not change this practice. If necessary rate shocks will be mitigated, so the new alternative should have no effect on the use of power.

WPAG Comments on Network Alternative 7

WPAG Recommendation: BPA should reject Seattle's 145 kV proposal and instead retain the uniform Network rates under the status quo segmentation approach.

A. Seattle's Proposal will Not Achieve the Lowest Possible Rate.

A side by side of the rates under the Seattle's proposal to create a new segment for facilities below 145 kV with the uniform Network rates under the status quo segmentation approach demonstrates that Seattle's proposal would not result in the lowest possible rates throughout the region. Under Seattle's proposal, NT and PTP customers subject to the proposed sub-transmission segment would respectively

see 80% and 99% increases over current uniform rates. Customers who are not subject to any transformation charges would see a 32% rate decrease. So the consequence of Seattle's proposal would be much higher rates for some, lower rates for others, but not the lowest possible rate for the region as a whole— once again, that would be the uniform Network rates under the status quo segmentation approach. Accordingly, because Seattle's proposal would not produce the lowest possible rates for the region as whole, it is likely unsustainable as a matter of law under BPA's widest possible use rate directive and should be rejected.

B. Seattle's Proposal Does Not Meet Cost Causation Principles.

Seattle's 145kV brightline proposal does not meet cost causation principles due to the same failings as Alternative 5 above (Coalition's voltage transformation proposal). That discussion is expressly incorporated here.

C. Seattle's Proposal will Further Exacerbate the Punitive Impacts of the Forecasted Increases to the UDC.

Seattle's 145kV brightline proposal will have similar castigatory impacts to UDC customers as those under Alternative 5 above (Coalition's voltage-differentiated proposal). That discussion is expressly incorporated here.

Montana Intertie Alternatives

IM Alternative 1 – Status Quo – Proposed by PPC

Currently services supported by the Eastern Intertie segment (including TGT, IM, and IE) are charged a rate separate from Network service. For TGT and IM this rate is developed based on $12.5M of costs identified in the Montana Intertie Agreement recovered on a pro rata share of Long Term sales over the Eastern Intertie (currently 1,746 MW). The Eastern Intertie Hourly rate is based on the Eastern Intertie segmented costs ($9.9M in BP-14) over possible Eastern Intertie sales (1,930 MW).

PPC Justification

Retention of the current rates for recovery of Eastern Intertie costs is consistent with BPA's statutory requirements and rate directives. Conversely, elimination of the IM firm transmission rate and inclusion of Eastern Intertie costs in the Network segment face broad opposition and create significant legal and policy risks for the agency. These include, without limitation:

- Creation of a precedential rate treatment for intertie facilities that is contrary to the current segmentation and recovery of intertie facility costs from users;
- Treatment of a radial transmission facility used exclusively for generation interconnection in a manner inconsistent with treatment of other similar facilities;
- Unduly discriminatory treatment of Eastern Intertie users who currently pay the TGT rate for the same services on the same facilities;
- Imposition of existing and future costs on Network customers without commensurate offsetting benefits to those customers in contravention of well-established rate-making principles.

PPC Evaluation Using BPA Principles

Pre-decisional. For discussion purposes only.

D. Considers a regional perspective

PPC proposes that BPA continue to allocate its share of Eastern Intertie costs to users of the Eastern Intertie facilities. The proposal does not affect cost allocation in regard to any other part of the FCRTS.

Lastly, were BPA to roll-in the Eastern Intertie costs as proposed by some parties, it would risk creating a precedent that could be used by other parties to argue for rolling into the Network the costs of other, currently segmented transmission facilities. Rolling in the Eastern Intertie costs could be seen as an invitation to roll-in the costs of generation interconnection facilities which are even more closely co-located with the network. It would be imprudent to believe that other, future rate case parties would not look for similarities between the Eastern and Southern Interties to argue for BPA to roll-in its Southern Intertie facilities. PPC does not support such proposals but the risk that they could be made should be a key consideration in BPA's decision on this issue.

WPAG Comments on IM Alternative 1

In the BP-12 and BP-14 rate cases we advocated for maintaining a separate IM rate. We continue to believe that is the correct approach, and support PPC's position and reasoning to that effect in this forum.

IM Alternative 2 – Roll IM Rate into the Network – Proposed by Gaelectric

Gaelectric proposes that the IM rate associated with Montana Intertie service over the Eastern Intertie be rolled into Network rates. Gaelectric did not propose a specific method for rolling in the IM-rate so BPA identified two methods to achieve IM roll in:

Method 1: The Eastern Intertie remains a separate segment. TGT revenues continue to be collected and credited to the Eastern Intertie segment. Over/under collection of costs associated with the Eastern Intertie are allocated to all segments based on Net Plant Investment. BPA will serve the current 16 MW subscription, and if sold the additional 184 MW it has rights to, over the Montana Intertie as part of the Network. Costs associated with IM service (defined as the pro-rata share of use over the Eastern Intertie) will be assign to the Network Segment and recovered through Network rates.

Method 2: The facilities associated with the Eastern Intertie as rolled into the Network and recovered through Network rates. The IM rate is no longer charged to IM customers. TGT revenues continue to be collected and are credited to the Network segment. This treatment means that any under/over recovery of the current "Eastern Intertie" segment would be attributed solely to the Network.

Gaelectric Justification

The IM rate has resulted in 184 MW of capacity on the Montana Intertie being stranded for over 25 years and that, as a result of RNP calling attention to this issue in the 2012 and 2014 rate setting processes, BPA eliminated certain contract terms with the other Colstrip transmission system

years has been that the Townsend-Garrison segment was built for a single, specific purpose. As a result, a certain amount of capacity has been stranded for over 20 years. That is an egregious violation of the most basic asset management principles, not to mention this segmentation principle.

2. Consistent with rate making principles
    a. Cost causation: Again, I note that BPA's own testimony in the permitting phase of construction of the Townsend-Garrison segment noted the critical interest this segment played in system reliability. I'm long enough in the tooth to have lived through the nearly monthly splitting and islanding of the western grid during the mid-1980s that was solved with the completion of the entire 500 kV system across Montana. With the segment between Townsend and Garrison open, we would be in the same soup we were in 30 years ago.
    b. Simplicity, understandability, public acceptance and feasibility of application: Nothing could be more simple, understandable or feasible than eliminating a completely separate rate class for 90 miles of double circuit line. As for public acceptance, any reasonable party considering the entire spectrum of segmentation issues would agree that this insignificant change is acceptable.
    c. Avoidance of rate shock: Prior opponents of eliminating the MT Intertie pancake are maintaining that a 0.6% increase in rates is insignificant when it involves rolling distribution facilities into the transmission grid, but in their past opposition, they felt that the 0.2% increase associated with eliminating the MT Intertie rate pancake was egregious. That inconsistency is neither helpful nor reasonable. I simply note that for over 20 years those that oppose this change were paying the costs that we seek to eliminate, and they didn't even know it. That speaks volumes about avoidance of rate shock.
    d. Rate stability from rate period to rate period: This will have no impact one way or another on rate stability.
3. Considers a regional perspective
    a. Alternatives include how costs are allocated and recovered: This has been covered in prior points hereunder.
    b. BPA asks that proponents of alternatives explain how the region benefits from the alternative compared to the status quo: Everyone benefits from efficient management of transmission resources. Leaving 184 MW of capacity stranded for over 20 years is poor management of assets at the very least. Planning process are purportedly looking for low cost transmission increments as evidenced through BPA's own NOS processes and various sub-regional planning processes. There is no lower hanging fruit than making use of stranded capacity. It is the transmission equivalent of conservation, which is widely embraced by virtually every reasonable party.
    c. Historically BPA has applied uniform rate to achieve widest possible diversified use: The status quo violates any reasonable perspective of achieving the widest possible diversified use. The status quo is clear: this segment can never be used for any purpose other than integrating Colstrip's coal fired production.

WPAG Comments on IM Alternative 2

See WPAG comments on IM Alternative 1.

Pre-decisional. For discussion purposes only.

COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP ON SEGMENTATION METHODOLOGY ALTERNATIVES

Submitted: June 17, 2014

The Western Public Agencies Group[1] ("WPAG") appreciates this opportunity to comment on the Regional White Paper Segmentation Methodology Alternatives ("White Paper"). We thank BPA staff and the other participants in the segmentation workshops for the well run, transparent and informative process which we believe has only served to reinforce the wisdom of the current uniform rate methodology BPA uses for its Integrated Network transmission segment (the "Network").

These comments are divided into the following sections evaluating the alternative segmentation methodologies identified in the White Paper and in the segmentation workshops:

- ***Network Alternative 1 – Status Quo***
- ***Network Alternative 2 – Roll In Utility Delivery Segment – Proposed by PNGC***
- ***Network Alternative 3 – Maintain Adjusted Delivery Charge – Proposed by NRU***
- ***Network Alternative 4 – Develop a "Radial" Segment – Proposed by Snohomish***
- ***Network Alternative 5 – Develop transformation charge – Proposed by IOU/Large public coalition: Puget, Seattle City Light, Pacificorp, PGE, Powerex, Tacoma, Avista, Iberdrola, Benton County PUD (collectively, the "Coalition")***
- ***Network Alternative 6 – Apply Seven Factor Test to Create Segment Based on Function - Proposed by the Coalition***
- ***Network Alternative 7 – Create a Below 145kV Sub-transmission Segment – Proposed by the City of Seattle***

These comments do not expressly address Gaelectric's proposal to roll the IM rate into the Network or PPC's proposal to retain a separate IM rate. However, in the BP-12 and BP-14 rate cases we advocated for maintaining a separate IM rate. We continue to believe that is the correct approach, and support PPC's position and reasoning to that effect in this forum.

In summary, we recommend BPA retain the current segmentation approach for the Network due to its supremacy in meeting the principles articulated at the beginning of this process. As further discussed below, we also recognize that BPA must do something to address the punitive increases forecasted for the Utility Delivery Charge ("UDC") over the next several rate periods. If left untouched, the UDC will be higher than the Network Transmission ("NT") rate, resulting in an effective rate to UDC customers more than twice the level of the current NT

[1] The utilities that comprise WPAG are Benton Rural Electric Association, the Cities of Port Angeles, Ellensburg and Milton, Washington, the Towns of Eatonville and Steilacoom, Washington, Alder Mutual Light Company, Elmhurst Mutual Power and Light Company, Lakeview Light and Power Company, Ohop Mutual Light Company, Parkland Light and Water Company, Public Utility Districts No. 1 of Clallam, Clark, Grays Harbor, Kittitas, Lewis, Mason, Skamania and Wahkiakum Counties, Washington, Public Utility District No. 3 of Mason County, Washington and Public Utility District No. 2 of Pacific County, Washington.

rate. This trajectory is unsustainable. BPA should therefore retain the status quo for the Network and focus its efforts on remedying the predicament of the UDC.

Network Alternative 1 – Status Quo

WPAG Recommendation: BPA should maintain the current uniform Network rates under the status quo segmentation approach.

A. The Status Quo Segmentation Approach Ensures the Widest Possible Use at the Lowest Possible Rates for the Region as a Whole and Maintains a Regional Perspective.

BPA is obligated to establish rates with a view towards encouraging the widest possible diversified use of electricity at the lowest possible rates to consumers consistent with sound business principles.[2] This directive applies to both power and transmission rates. The obligation's public policy objectives of spreading the benefits of the Federal system as broadly as possible within the region are well chronicled, as is BPA's historic use of a uniform or postage stamp transmission rate to meet it.[3] Since BPA's inception it has recognized that a uniform rate best meets the widest possible use rate directive because it provides the lowest rate possible for the most people in the region. As stated by the Administrator, "the uniform rate policy, which began 75 years ago, distributes Federal power throughout the Pacific Northwest region utilizing rates that do not distinguish among customers by size and location . . . ***Today, the purpose of the policy is to promote the widest possible diversified use of electric power at the lowest possible rates throughout the region***."[4]

Subject to the caveats below regarding the UDC, WPAG supports the status quo segmentation approach because, without question, it produces the lowest possible Network rates for the entire region. This is easily determined quantitatively by placing the effective rates under the status quo segmentation approach next to the effective rates for the customers who would pay the rate pancakes proposed under Network Alternatives 4-7.[5]

Network Tx. Service	Alt. 1 – Status Quo ($/kW-Mo.)	Alt. 4 – Radial Proposal Rate Pancake ($/kW-Mo.)	Alt. 5 – Vltg. Trans. Proposal (1 Step – 2 Step) Rate Pancakes ($/kW-Mo.)	Alt. 6 – 7 Factor Test Rate Pancake	Alt. 7 – 145 kV Brightline Rate Pancake ($/kW-Mo.)
PTP	1.479	3.035	1.700 – 2.471	No Analysis	2.949
NT	1.741	3.283	1.937 – 2.719	No Analysis	3.127

[2] *See* 16 U.S.C. § 838g.

[3] *See generally,* BP-14 Final Record of Decision, BP-14-A-02, at 99-103 (July 25, 2013)("BP-14 ROD"); BPA's Rebuttal Testimony on Segmentation, BP-14-E-BPA-42; WPAG's Rebuttal Testimony Regarding Segmentation, BP-14-E-WG-03; Joint Party 3 (NRU/PNGC) Transmission Rebuttal Testimony, BP-14-E-JP03-03.

[4] BP-14 ROD, BP-14-A-02, at 99 (emphasis added).

[5] Under Network Alternatives 4 and 5, customers who would *not* be subject to the proposed rate pancakes would see an approximate 5% rate decrease from the status quo. Customers *not* subject to the rate pancake proposed under Alternative 7 would see a 32% decrease.

As shown in the table above, the status quo segmentation approach results in lowest effective transmission rates for both NT and Point to Point ("PTP") Network transmission customers irrespective of their size or location. By definition this means that the uniform Network rates under the status quo segmentation approach promote the widest possible diversified use of electric power in the Pacific Northwest. We see nothing in the alternative proposals that suggests that any of those proposals would better meet this objective either quantitatively or qualitatively. If anything, the rate pancakes and higher effective rates to some customers forecasted under Network Alternatives 4-7 reinforce the wisdom of using the uniform Network rates under the status quo segmentation approach to achieve the widest possible diversified use, as they clearly illustrate that BPA's uniform rate methodology for the Network does in fact result in the lowest possible rates to the most people in the region.

B. The Status Quo Segmentation Approach Maintains Equitable Allocation Between Federal and Non-Federal Uses.

Since both Federal and Non-Federal uses of the Network pay the same uniform PTP or NT transmission rates for each increment of use, the status quo segmentation approach equitably allocates the costs of the Network between both Federal and Non-Federal uses. The Federal Energy Regulatory Commission ("FERC") agrees with this assessment. In April it approved BPA's BP-14 transmission rates, something it cannot do unless it determines those rates equitably allocate the costs of the Federal system between Federal and non-Federal uses.[6]

C. The Status Quo Segmentation Approach Has Proven to Ensure Full and Timely Cost Recovery and Is Based on System Costs.

FERC also held that the status quo segmentation approach ensures full and timely cost recovery and is based on BPA's system costs when it recently approved BPA's BP-14 transmission rates.[7]

D. Cost Causation for Integrated Systems Such As BPA's Network Calls for a Uniform Rate.

Under the status quo segmentation approach, all customers pay their share of the cost of the entire Network through uniform or rolled-in Network rates. In contrast, under each of Network Alternatives 4-7, some customers pay for the entire Network through multiple or pancake rates while other customers pay for only a portion of the Network through a single, less than rolled-in, rate. However, BPA operates its Network as a single machine to move power in bulk from resources to load centers.[8] It is well accepted under cost causation principles that where a transmission network operates as an integrated whole, such as the Network, each customer should pay its share of the costs of the <u>entire</u> <u>system</u> through rolled-in rates. As more fully described below in WPAG's analysis concerning Network Alternatives 4-7, the status quo segmentation approach's use of uniform or rolled-in Network rates for moving power from resources to load irrespective of their relative locations on the Network is more consistent with

[6] Order Confirming and Approving Rates on a Final Basis, 147 FERC ¶ 61,053 (April 16, 2014).
[7] *Id.*
[8] BP-14-E-BPA-42 at 24.

this standard practice, and thus better aligned with cost causation, than Network Alternatives 4-7. This and the other cost causation arguments made by WPAG regarding Network Alternatives 4-7 below are expressly incorporated into this section.

E. A Uniform Rate Has Provided Rate Stability to the Region for 75 Plus Years and Will Not Result in Rate Shock.

Since BPA's inception it has adopted many rates, rate changes and rate combinations (including the unbundling of power and transmission rates), but with few exceptions the postage stamp rate has been used irrespective of size or location. This has provided the region with rate stability for more than 75 years. Continuing BPA's current uniform Network rates under the status quo segmentation approach would ensure further rate stability into the future.

An interesting case study demonstrating the inherent stability provided by a uniform rate is the aftermath of BPA's decision in 1996 to deviate from a uniform rate by creating the Utility Delivery Segment and the UDC. As demonstrated in WPAG's comments concerning Network Alternatives 2 and 3 below, that decision has resulted in a substantial amount of instability for both BPA and UDC customers who cannot respond to the UDC price signal. BPA should learn from this lesson and rightly expect that exchanging the current uniform Network rates under the status quo segmentation approach for one of the other proposed Network alternatives will likely result in similar rate volatility over one or more rate periods. This is particularly likely to come to pass as customers respond to the new price signals sent by the alternative methodology in both expected and unexpected ways.

F. The Status Quo Segmentation Approach has Wide Public Acceptance and is Well Within the Industry Norm.

The industry scan prepared by BPA staff clearly shows that BPA's 34.5 kV demarcation for the Network is well within the norm of industry segmentation standards. Indeed, the scan shows that the median for segmenting between distribution and transmission facilities is 35 kV.[9] This is consistent with the findings made by FERC in Order No. 888 that utilities generally "account for facilities operated at greater than 30 kV as transmission and that distribution facilities are usually less than 40 kV."[10] Accordingly, despite claims from some customers to the contrary, BPA's segmentation methodology is directly within the range of accepted segmentation outcomes found across the industry.

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[9] *Scan of Industry Segmentation-Related Practices*, at 2 (Jan. 2014).

[10] *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036, 61 Fed. Reg. 21540 (1996) ("Order No. 888"), Appendix G, at n.100.

Network Alternative 2 – Roll In Utility Delivery Segment – Proposed by PNGC
Network Alternative 3 – Maintain Adjusted Delivery Charge – Proposed by NRU

WPAG Recommendation: BPA and its customers should further explore the NRU proposal for the UDC.

A. Something Must be Done About the UDC Death Spiral.

The UDC currently recovers 56% or $3.6 million of the Utility Delivery ("UD") segment's $6.4 million revenue requirement. This under-recovery is an outgrowth of eighteen years of transmission rate case settlements and the massive decrease in billing determinants for the segment as utilities purchased the UD facilities they take service over. BPA raised the UDC by 25% in the last rate case, from $1.119 kW/Mo. to $1.399 kW/Mo, closing the amount of the under-recovery. BPA also implied in the last rate case that the UDC may increase by another 25% in BP-16. If so, it will essentially equal the current NT rate of $1.741 kW/Mo. This means that UD customers could very soon be paying a rate pancake, resulting in them paying effectively twice the NT rate. In contrast, GTA Delivery customers pay a GTA UDC for non-federal facilities below 34.5 kV of $0.820 kW/Mo. This raises significant questions as to why the cost of service for BPA owned facilities below 34.5 kV is so much higher than similar non-federal facilities.

The remaining UD customers would certainly escape the punitive UDC rate if they could. The price signal is substantial. But as NRU and PNGC pointed out in their proposals, there are any number of reasons why a customer cannot or will not purchase UD facilities, e.g., where multiple customers use the same facility, the age of facilities, concerns over compliance obligations, and potential training and reliability implications. Other reasons include unreasonable positions taken by BPA in negotiations as to the true value of facilities and uncertainty as to the continued existence of the UD segment. BPA needs a new long term plan for treatment of the UD segment. For the reasons stated below, we believe that the place to start is with further exploration of NRU's UDC proposal.

B. The NRU UDC Proposal is Worthy of Further Exploration.

NRU's proposal to retain the UDC, but to reduce the revenue requirement to be recovered through the UDC based on various adjustments to the O&M and UD Net Plant assumptions used in calculating the rate, is worthy of further exploration. It balances the interests of those utilities who, for whatever reason, continue to take service over UD facilities with those utilities who responded to the UDC price signal by purchasing UD facilities or building their own. It also provides a rationale for keeping the UDC at a level ($1.399 kW/Mo.) that appears to better reflect the true cost of providing the service (*cf.* GTA UDC of $0.820 kW/Mo) than the rates that would ensue from the forecasted UDC increases, while preserving a price signal to encourage utilities to purchase the remaining UD facilities if possible. One question, however, and there are likely others, is whether placing the UD segment into the Network to effectuate NRU's proposal is necessary or whether the segment should be kept separate. We recommend that this and other issues related to the NRU proposal be discussed in future rate case workshops.

Network Alternative 4 – Develop a "Radial" Segment – Proposed by Snohomish

WPAG Recommendation: BPA should reject Snohomish's "Radial" Segment proposal and instead retain the status quo segmentation approach.

A. Snohomish's Proposal Would Put BPA at Odds with its Statutory Rate Directives and Will Harm the Entire Region.

BPA's historic use of uniform transmission rates to meet its widest use rate directive is well established. One need only put BPA's current uniform Network rates under the status quo segmentation approach against the rates that would follow from Snohomish's radial proposal to determine that the proposal would not result in the lowest possible rates throughout the region. Snohomish's proposal will instead increase the transmission rates paid by customers who take service over radial facilities by approximately 89% for NT customers and 105% for PTP customers. Meanwhile, those customers who do not take service over radial lines would see an approximate 5% rate decrease. So the upshot of Snohomish's proposal is radically higher rates for some, modestly lower rates for others, but not the lowest possible rate for the region as a whole— that would be the uniform Network rates under the status quo segmentation approach.

The net effect of the rate increases to radial customers will place BPA at odds with the widest possible diversified use rate directive. For instance, if Snohomish's proposal is adopted, 55 customers will see their transmission costs increase by 10% or more, 34 customers will see a 30% or higher increase, and 18 customers will pay 50% to 90% more than they do now. These increases will not encourage the widest possible use of electric power in the region as a whole.

It will likely do the exact opposite, by encouraging commerce and industry to either not locate in, or flee, service areas subject to the radial rate in favor of areas not impacted by the radial rate, such as Snohomish's service area. On the other hand, another potential scenario is that Snohomish's proposal would cause customers to locate outside the region altogether. This is because while the rate increase to some utilities under the proposal is substantial enough to drive customers away, the corresponding decrease to other regional utilities is likely too small to attract them into their service areas. The entire region then would be at a disadvantage under the Snohomish proposal.

Many of the customers who would be impacted by Snohomish's proposal (and the communities they serve) are among BPA's smallest and most rural customers. BPA has a rate setting obligation to these rural utilities, and the region, under its widest use mandate. Given its punitive rate impacts to rural utilities, it is doubtful that Snohomish's proposal would satisfy this obligation as a matter of law. This is particularly so when, as in this instance, there is such a clear showing that the uniform Network rates under the status quo segmentation approach would provide a lower possible rate to those rural utilities and the region as a whole. BPA should not adopt Snohomish's proposal on this basis alone.

B. Claims that Snohomish's Proposal is Consistent with Cost Causation are Greatly Exaggerated.

Despite statutory challenges identified above, Snohomish has marched forward with its proposal by wrapping it in the flag of cost causation, stating that the principle is at the "core of the . . . proposal."[11] However, BPA has an obligation to provide transmission service to the Administrator's customers and to serve them at the lowest possible rates consistent with sound business principles regardless of where they are located. Accordingly, a customer's increased cost exposure under Snohomish's proposal is a function of a single arbitrary fact—*i.e.*, that BPA, often one or more generations ago, determined that construction of a radial transmission line to serve that customer's particular locality was more cost-effective than construction of a looped transmission line.

The purpose of this determination was to lower the overall cost of BPA's transmission system to be recovered from all customers, including Snohomish, under BPA's historic uniform transmission rate. It was not, as Snohomish appears to believe, for purposes of providing an additional service or benefit to such customers.[12] Snohomish's proposal to now charge customers an additional rate or charge based on the very decision made by BPA to save costs to all customers (*i.e.*, the decision to construct radial facilities to serve certain geographic areas) is disingenuous, as it ignores the economic, geographic, engineering, and statutory context within which such decisions were made. Disregarding such relevant factors is at best a myopic application of cost causation principles, which in any event must give way to BPA's statutory obligation to encourage the widespread use of electric power at the lowest possible rate.

C. The Fallout if Snohomish's Proposal is Adopted will be Another Rate Death Spiral.

If Snohomish's proposal is adopted, at least some preference customers who take service over radial facilities will likely respond to the malignant price signal by trying to either purchase the BPA owned radial facilities they take service over or building their own facilities to a point of delivery on BPA's Network that would not be subject to the radial rate. BPA will need to prepare for this likelihood by adopting policies for the purchase and sale of radial facilities and bracing to slog through new interconnection requests.

The probable fallout is sadly predictable. BPA had been playing out this same scenario since 1996 when it instituted the Utility Delivery Charge ("UDC"). Just like with the Utility Delivery segment, if Snohomish's proposal is adopted, some radial facilities will be purchased where a reasonable business case can be made, and other radial facilities will be replaced by facilities built and owned by customers. As billing determinants leave the new radial segment, the costs of that segment (which in all likelihood will not diminish as fast as the amount of

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[11] Network Alternative 4, Snohomish Evaluation based on BPA Principles, § 2.a.

[12] Indeed, under Snohomish's proposal customers who receive service over radial facilities will pay a much higher transmission rate for a less reliable service than customers who receive service over more expensive looped facilities. If the objective is to partition the Network to precisely allocate costs to those who benefit, then customers with looped service should pay more for the added reliability.

billing determinants) will be spread over fewer and fewer customers (*i.e.*, those customers who do not have the means or wherewithal to escape) causing a rate death spiral a la UDC-2.0. For the remaining customers in the radial segment, BPA's transmission rates will completely shift from being a catalyst for sharing in the region's prosperity to a barrier.

Furthermore, at least some of the customers who will be impacted by Snohomish's proposal are either (i) currently paying the UDC or (ii) purchased or built facilities to avoid the UDC. For the former group, a new radial rate will be pancaked with the UDC and the Network rate. With the UDC currently projected to increase by 25% in the next rate period, such customers would be paying exorbitant amounts for BPA transmission service. The latter group, on the other hand, will be in the position of having taken steps to avoid the UDC price signal to now find BPA imposing a new price signal based on a determination BPA made decades ago that it could serve them more economically with a radial rather than a looped transmission line.

D. Adoption of Snohomish's Proposal Would Be the Genesis of a New Cycle of Litigation and the End of the Line for Rate Stability.

Snohomish claims to seek with its proposal a segmentation methodology that is both durable and technically justifiable. It is neither. Snohomish's offering would remove all radial facilities from the Network, except where generation exists on a radial line that is either wheeled or scheduled across, or flows back to BPA's system. The technical conclusions that this test is supposed to produce, however, are unknown. For instance, is this a test for integration? If so, it is a poor one for which Snohomish has produced no industry guidance or precedent in support.

This is remarkable because in Joint Party 12's[13] Initial Brief in the BP-14 rate case it cited to the *Mansfield* five factor integration test.[14] The *Mansfield* test is one of the tests that FERC uses to determine whether transmission facilities are sufficiently integrated for rolled-in rate purposes under the Federal Power Act ("FPA"). While FERC precedent under the FPA is not controlling over BPA, it is noteworthy that, in addition to situations where generation is located on a radial line, under FERC's integration test radial facilities are considered integrated and available for rolled in rate treatment where they are used to serve more than one customer, provide benefits to the Network in terms of capability or reliability, <u>or</u> where an outage on the facilities would affect the transmission system.[15]

Each of these absentee integration factors would serve as a basis to keep additional radial facilities in the Network if BPA were to adopt Snohomish's proposal. For example, numerous radial lines that would otherwise be removed from the Network under Snohomish's proposal serve more than one customer. The reliability benefits provided by radial facilities to the greater

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[13] Joint Party 12 included Benton PUD, Iberdrola Renewables, LLC, Tacoma Power, City of Seattle, and Snohomish PUD.

[14] *See* Initial Brief of Joint Party 12, BP-14-B-JP12-01, p. 11 (May 1, 2013), citing favorably *Mainsfield Mun. Elec. Dep't v. New England Power Co.*, 94 FERC ¶ 63,023 (2001), *aff'd*, 97 FERC ¶ 61,134 (2001) ("*Mainsfield*").

[15] *Mainsfield Mun. Elec. Dep't v. New England Power Co.*, 94 FERC ¶ 63,023 (2001), *aff'd*, 97 FERC ¶ 61,134 (2001).

Network are also not accounted for in the proposal. Now, and even more so into the future, BPA's radial facilities (and the loads thereon) can and will provide reliability benefits to the remaining Network by being available for actions such as under frequency load shedding, NT Redispatch, and providing balancing or other reserves via demand response programs[16].

It is unclear why Snohomish would craft a test that uses some but not all of the integration factors it identified in its prior JP-12 filing. While the WPAG utilities *do not* believe that integration necessarily is or should be a touchstone for rolled-in rate treatment under BPA's statutory rate directives, we do think that if BPA were to adopt Snohomish's proposal (and it should not) that BPA must consider all factors that demonstrate integration for rolled-in rate treatment (including, but not necessarily limited to, the *Mansfield* factors), rather than just the one factor (*i.e.*, generation located on the radial line) identified by Snohomish. In all likelihood this will require additional integration analyses on a facility by facility basis; be the subject of considerable testimony and briefing in the BP-16 and future rate cases; winnow the size of the proposed radial segment over time; and provide few if any tangible benefits over the status quo segmentation approach to BPA, its customers or the region.

E. Snohomish's Rate Mitigation Plan Would Provide No Peace.

Snohomish proposes a rate mitigation plan to stave off the dire financial consequences to rural utilities under its proposal. The end result is the same though: Many of BPA's smallest and most rural customers will end up paying substantially more (as much as 89% more) for use of the same transmission facilities they have always taken service over, while BPA's larger and more urban customers will see modest decreases in the rates they pay. Snohomish's proposal will still be less consistent with cost causation principles than the status quo segmentation approach. UDC customers subject to the new radial rate will see the number of rate pancakes they pay, and the effects thereof, continue to escalate (albeit at a slower pace). BPA will find itself in conflict with its widest possible diversified use rate directive. The region will be mired in continual litigation concerning what it all means, and worse off than if BPA had retained the status quo segmentation approach. For these reasons, Snohomish's rate mitigation plan provide no basis for adopting its radial segmentation proposal.

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[16]*See* U.S. Dept. of Energy, Benefits of Demand Response in Electricity Markets and Recommendations for Achieving Them, at 80 Demand Response Briefing (2006) *available at* http://energy.gov/sites/prod/files/oeprod/DocumentsandMedia/DOE_Benefits_of_Demand_Response_in_Electricity_Markets_and_Recommendations_for_Achieving_Them_Report_to_Congress.pdf; *see also* BPA, Demand Response Briefing, at 8-12 (June 12, 2014) available at http://www.bpa.gov/transmission/CustomerInvolvement/NTService/Documents/demand-response.pdf.

Network Alternative 5 – Develop transformation charge – Proposed by IOU/Large public coalition: Puget, Seattle City Light, Pacificorp, PGE, Powerex, Tacoma, Avista, Iberdrola, Benton County PUD (collectively, the "Coalition")

WPAG Recommendation: BPA should not adopt the Coalition's transformation charge proposal and instead retain the status quo segmentation approach.

A. The Coalition's Proposal Would Place BPA in Conflict with Its Statutory Rate Directives.

BPA's historic use of uniform transmission rates to meet its widest use rate directive is well established. Similar to Snohomish's proposal, a side by side of the rates under the Coalition's voltage transformation proposal with the uniform Network rates under the current segmentation approach demonstrates that the Coalition's proposal would not result in the lowest possible rates throughout the region, and thus not meet the widest possible diversified use rate directive.

Under the Coalition's one-step transformation proposal, NT and PTP customers subject to the transformation charge would respectively pay 12% and 15% higher rates than the current uniform Network rates under the status quo segmentation approach. Under the two-step transformation proposal, NT and PTP customers subject to both steps would respectively see 56% and 67% rate increases. Customers who are not subject to any transformation charges would see a 5% rate decrease under either the one-step or two-step proposals. Similar to the Snohomish proposal, the outcome under either of the Coalition's proposals would be higher rates for some, modestly lower rates for others, but not the lowest possible rate for the region as a whole— that would still be the uniform Network rates under the status quo segmentation approach. The Coalition's proposal may therefore be unsustainable as a matter of law under BPA's widest possible use rate directive. This alone is sufficient reason for BPA to reject the proposal.

B. The Coalition's Proposal Fails to Meet Cost Causation Principles.

BPA should reject the Coalition's voltage transformation proposal because, as demonstrated above, it fails to meet the widespread use rate directive as well as BPA's current uniform Network rates. Nonetheless, the Coalition justifies its proposal by laying a claim that the proposal more closely aligns with cost causation principles than the status quo segmentation approach. For the reasons identified below, this assertion is erroneous and misleading. Indeed, under any standard metric, BPA's use of a uniform, or rolled-in, rate for its Network under the current segmentation approach is more consistent with cost causation.

A customer's cost exposure under the Coalition's voltage transformation proposal is a function of a single arbitrary fact—*i.e.*, that BPA determined that construction of lower voltage transmission facilities (*e.g.*, below 161 kV) in the customer's locality was more cost-effective than construction of higher voltage facilities. The purpose of this determination was to lower the overall cost of BPA's transmission system to be recovered from all customers under BPA's

historic uniform transmission rate.[17] It was not, as the Coalition appears to believe, for purposes of providing an additional service or benefit to those customers who take service over lower voltage facilities. The proposal to now charge customers who take service over lower voltage Network facilities an additional rate or charge due to the very decision BPA made to save costs to all customers (*i.e.*, the decision to construct lower voltage facilities) is disingenuous, as it ignores the economic, geographic, engineering, and statutory considerations that drove that decision.

The Coalition's proposal also overlooks that BPA's transmission customers receive the same transmission service under BPA's Open Access Transmission Tariff ("OATT") regardless of whether they receive service below 161 kV or at 161 kV or higher. The voltage of the Network at the point where a customer interconnects reveals little about how the customer "uses" the Network. For instance, a NT customer interconnected at 115 kV is not using all of the 115 kV facilities in the Network, nor is a NT customer interconnected at 230 kV using all of the 230 kV or higher-voltage facilities. Rather, for both customers, BPA operates its Network as a single machine to move power in bulk from resources to load centers.[18] The customer served at 230 kV receives the same level of benefit as the customer for whom BPA elected to serve more economically at 115 kV. These customers are using BPA's Network for the same purpose, taking the same transmission service under BPA's OATT, and therefore are similarly situated. There is no justification under these circumstances for differentiated rate treatment, whether on the basis of cost causation or otherwise.

It is well accepted that where a transmission network operates as an integrated whole (such as how BPA operates its Network[19]), cost allocation should treat each customer as using the entire transmission system rather than a single transmission path.[20] "In other words, all of the individual facilities used to transmit electricity are treated as if they were part of a single machine."[21] Under this "rolled-in" pricing methodology, each customer pays its share of the costs of the <u>entire</u> <u>system</u>. "This principle has a strong basis in the physics of electrical transmission for there is no way to determine what path electricity actually takes between two points or indeed whether the electricity at the point of delivery was ever at the point of origin."[22]

The fact of the matter is that customers who interconnect at voltages of 161 kV and above benefit from facilities below 161 kV. This is because lower voltage facilities improve the reliability of BPA's Network by providing alternative paths for power to flow when a higher voltage transmission line is abruptly removed from service. It is well recognized that the increased reliability under such circumstances is a benefit to all customers on the system and for

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[17] The least-cost solution for transmission facilities are a chiefly a function of the distance from the resource to load and their size. Irrespective of length, it seems fundamental that BPA would size transmission facilities using the least-cost (lowest voltage and capacity) facilities that can deliver power in the required amounts under the expected range of normal operating conditions and contingencies.
[18] *See* BP-14-E-BPA-42 at 24.
[19] *Id.*
[20] *See N. States Power Co. (Minn.) v. FERC*, 30 F.3d 177, 179 (D.C. Cir. 1994).
[21] *Id.*
[22] *Id.*

this reason the costs of such reliability should be shared by all customers on the system.[23] BPA's rolled in rate methodology for all facilities at 34.5 kV and above meets this basic principle; the Coalition's voltage-differentiated rate proposal tacitly disregards it by allowing those customers who interconnect at or above 161 kV a "free ride" on the reliability benefits provided by lower voltage Network facilities.

Increased reliability from lower voltage facilities without having to share in their costs is only one of free rides for those customers interconnected at higher voltages arising from the Coalition's proposal. Another free ticket proffered is to allow customers to redirect without any additional cost regardless of the voltage at the redirected point of delivery ("POD"). This means that a PTP customer with a contract point of receipt ("POR") at 230 kV and a contract POD at 161 kV or above would not pay any voltage transformation charge related to a redirect even if the redirected POD is less than 161 kV. On the other hand, a PTP customer with the same contract POR but a contract POD below 161 kV would continue to pay the Network rate plus one to two transformation charges even if their redirected POD is more than 161 kV. To impose such disparate rate treatment on two similarly situated customers based solely on the voltage of the transmission facilities BPA elected to build in the locality of their contract POD is discriminatory, and contrary to the open access policies contained in BPA's OATT. Further, it is inconsistent with cost causation principles, as PTP customers with high voltage contract PORs and PODs will have the advantage of being able redirect to anywhere on BPA's system, and the indecorous privilege of only having to pay for part of the same.[24]

Finally, the Coalition's proposal will likely encourage future economic inefficiencies rather than diminish them. This is because customers will be incentivized to press BPA to oversize facilities to avoid the transformation charges and spread the higher costs of those facilities more broadly across all Network customers. This will not result in least cost solutions to transmission development in the region, and it is another sound business reason for not adopting the Coalition's proposal.

C. The Coalition's Proposal Would Exacerbate the Punitive Impacts of the Forecasted Increases to the Utility Delivery Charge (UDC).

Just like under the Snohomish proposal, some of the customers who will be impacted by the Coalition's proposal are either (i) currently paying the UDC, or (ii) purchased or built facilities to avoid the UDC. For the former group, the new voltage differentiated rates will add one to two more transformation rate pancakes to the current UDC and Network rates (for a total of three to four rate pancakes for transmission service). With the UDC currently projected to increase by 25% in the next rate period, such customers, who are among BPA's smallest and most rural, would pay an effective transmission rate that is substantially higher than the effective rate of the large urban utility and power marketing customers who will benefit if the Coalition's

[23] *See, e.g., Niagara Mohawk Power Corp.*, 42 FERC ¶ 61,143, at 61,532 (1988).

[24] The Coalition attempts to sidestep this issue by suggesting that perhaps there should be different rate treatment for long-term redirects. While this may diminish the scope of the discriminatory effects of the Coalition's proposal, it does not eliminate such effects completely. This is because PTP customers with high voltage PODs would be able to use, but not required to pay for, low voltage facilities for any short-term redirects that they request to low voltage PODs.

proposal is adopted. The latter group, on the other hand, will be in the objectionable position of having taken steps to avoid the UDC price signal only to have BPA impose a new price signal based on BPA's historic decision that it could more economically serve them with lower voltage transmission facilities.

D. BPA's Scan of Industry Segmentation Practices Does Not Bolster the Coalition's Proposal.

The Coalition attempts to buttress their proposal by citing to BPA's scan of industry segmentation practices, asserting that the document shows "that about a third of the roughly 100 utility systems analyzed have voltage-differentiated rates."[25] Most of the 35 utilities that have voltage differentiated rates are members of ISO/RTOs and they differentiate based on the requirements of the ISO/RTOs to which they belong.[26] However, the voltage differentiated rate designs for ISO/RTOs are meant to primarily encourage the development of new transmission facilities benefiting multiple transmission owners, they are not intended to recover the costs of old facilities owned by individual transmission owners like BPA in this instance.[27] For this reason, the examples of ISO/RTOs with voltage differentiated rate designs have little value in evaluating BPA's segmentation methodology. When this is taken into account, the industry scan overwhelmingly shows that a single rolled-in transmission rate is the predominant rate design among other individual transmission owners like BPA.

[25] *See*, Network Alternative 5, Coalition's Evaluation Using BPA Principles, § 2.a.
[26] *Scan of Industry Segmentation-Related Practices*, at 9 and Table 2 (Jan. 2014).
[27] *See Buckeye Power, Inc. v. American Transmission Systems, Inc.*, 142 FERC ¶ 63007, P. 593 (2013).

Network Alternative 6 – Apply Seven Factor Test to Create Segment Based on Function - Proposed by the Coalition

WPAG Recommendation: BPA should reject the Coalition's proposal to apply the seven factor test to create a new segment and instead retain the status quo segmentation approach.

A. Use of the Seven Factor Test Will Likely Not Result in the Lowest Possible Rates.

BPA did not perform a rate impact analysis for the Coalition's proposal to use the seven factor test to create a new transmission segment. Nonetheless, it is a fair supposition that the effective rates of at least some transmission customers would be substantially higher under the Coalition's proposal than the current uniform Network rates under the status quo segmentation approach. If so, such rates would not be the lowest possible rate for the region as a whole. This likely means that the Coalition's proposal would not be sustainable as a matter of law under BPA's widest possible use rate directive.

B. The Coalition Misconstrues and Misapplies the Seven Factor Test.

The seven factor test is the second half of a functional/technical test used by FERC to determine whether it has jurisdiction over a jurisdictional utility's transmission facilities. The first question posed by the jurisdictional test is purely a functional inquiry. If the transmission facilities are used for unbundled wholesale wheeling (i.e., the electric energy being transmitted is to be sold for resale) then FERC has jurisdiction. The second part of the test only comes into play when the facilities are used for unbundled *retail* wheeling, and it is here that FERC uses the seven factor test to determine which facilities are "transmission facilities," subject to the Commission's jurisdiction, and which facilities are "local distribution facilities," subject exclusively to state jurisdiction.[28]

BPA is not subject to FERC jurisdiction under Order No. 888. Even if it were, the Coalition's proposal to use the seven factor test to redefine its Network is misplaced. Facilities in the Network are used for unbundled wholesale wheeling. So even if it applied to BPA, the seven factor test would never be used to determine jurisdiction over BPA facilities because the bright-line wholesale transmission screen would have already ascertained FERC's jurisdiction over the Network.

[28] *See* Order No. 888, 61 Fed. Reg. at 21626-21627, 21731-21732; *see also Transmission Access Policy Study Group v. Federal Energy Regulatory Commission*, 225 F.3d 667, 696 (D.C. Cir., 2000) ("[t]he seven factor test applies only to unbundled retail sales"); *Order on Standardization of Small Generator Interconnection Agreements and Procedures*, 113 FERC ¶ 61195, P 96 (2005) quoting *Ameren Services Co*., 103 FERC ¶ 61,121, P 26 (2003) (affirming that "the seven factor test does not apply to circumstances in which the wholesale sale may trigger Commission jurisdiction over an interconnection").

C. The Seven Factor Test Is Not Consistent With Cost Causation for an Integrated Transmission System Like BPA's Network.

BPA operates its Network as a single machine to move power in bulk from resources to load centers. As discussed in WPAG's comments concerning Network Alternatives 4-5, it is well accepted under cost causation principles that where a transmission network operates as an integrated whole, each customer should pay its share of the costs of the entire system via a rolled-in rate. The Coalition's proposal to use the seven factor test to divide BPA's integrated system is directly contrary to this accepted practice, and for this reason the proposal is not consistent with cost causation principles.

D. The Subjectivity of the Seven Factor Test Will Invite Litigation and Undermine Rate Stability.

Using the seven factor test to carve up BPA's Network will create a rich billing environment for attorneys and consultants in both the BP-16 and future rate cases. This is due to two factors. First, the test readily lends itself to varying subjective interpretations. Second, the size of BPA's Network provides no shortage of facilities to fight over. Together these elements guaranty years of contentious litigation and rate instability as parties will attempt to push and pull facilities in and out of the Network based on their own interpretations and proposed applications of the seven factor test. Given that the proposal to use this jurisdictional test for rolled-in rate purposes is a misapplication of the test in the first instance, we recommend that BPA elect to forgo the inevitable fights by maintaining the status quo segmentation approach and the uniform rate methodology that has provided rate stability for the region for over three quarters of a century.

Network Alternative 7 – Apply a 145 kV Brightline to Create a New Segment – Proposed by the City of Seattle

WPAG Recommendation: BPA should reject Seattle's 145 kV proposal and instead retain the uniform Network rates under the status quo segmentation approach.

A. Seattle's Proposal will Not Achieve the Lowest Possible Rate.

A side by side of the rates under the Seattle's proposal to create a new segment for facilities below 145 kV with the uniform Network rates under the status quo segmentation approach demonstrates that Seattle's proposal would not result in the lowest possible rates throughout the region. Under Seattle's proposal, NT and PTP customers subject to the proposed sub-transmission segment would respectively see 80% and 99% increases over current uniform rates. Customers who are not subject to any transformation charges would see a 32% rate decrease. So the consequence of Seattle's proposal would be much higher rates for some, lower rates for others, but not the lowest possible rate for the region as a whole— once again, that would be the uniform Network rates under the status quo segmentation approach. Accordingly, because Seattle's proposal would not produce the lowest possible rates for the region as whole, it is likely unsustainable as a matter of law under BPA's widest possible use rate directive and should be rejected.

B. Seattle's Proposal Does Not Meet Cost Causation Principles.

Seattle's 145kV brightline proposal does not meet cost causation principles due to the same failings as Alternative 5 above (Coalition's voltage transformation proposal). That discussion is expressly incorporated here.

C. Seattle's Proposal will Further Exacerbate the Punitive Impacts of the Forecasted Increases to the UDC.

Seattle's 145kV brightline proposal will have similar castigatory impacts to UDC customers as those under Alternative 5 above (Coalition's voltage-differentiated proposal). That discussion is expressly incorporated here.