

**COMMENTS OF  
WESTERN PUBLIC AGENCIES GROUP  
ON BPA’S PROPOSED TRANSMISSION SEGMENTATION PRINCIPLES**

**Submitted: February 11, 2014**

**A. Introduction.**

In defense of the Bonneville Power Administration’s 75 plus year legacy to the businesses, farms and families located in the communities across the Pacific Northwest, the utilities that comprise the Western Public Agencies Group (“WPAG”) submit these comments on BPA’s Proposed Segmentation Principles.

WPAG consists of 21 consumer owned utilities, all of which receive the power supply relied upon by their customers over the BPA transmission system. The WPAG utilities are a microcosm of BPA’s transmission customers, as they include utilities that take NT and PTP transmission service, as well as being served under general transfer agreements. They also include utilities that are essentially urban in character located in the I-5 corridor, as well as utilities that are located in rural, geographically remote locations. These comments therefore provide BPA with a unique perspective on the current BPA segmentation methodology and proposals to radically change it.

BPA’s current segmentation and uniform rate policies have historically and presently meet the following principles proposed by BPA to guide the upcoming segmentation workshops:

1. The policies ensure full and timely cost recovery.
2. The policies encourage the widest possible diversified use at the lowest possible rates to consumers consistent with sound business principles (the “widest use standard”).
3. The policies achieve equitable cost allocation between Federal and non-Federal uses of the transmission system.
4. The policies consider a regional perspective.
5. The policies are consistent with cost causation.
6. The policies are simple, understandable, publicly accepted, and feasible in their application.
7. The policies produce rate stability from rate period to rate period.

By realizing the above criteria, BPA’s current segmentation and uniform rate policies have become a source of progress for the entire Northwest, providing a rare foundation of equal economic opportunity for every community within the region regardless of their size or

geographic location. This is as it should be, and is as intended by Congress when it originally established BPA. We therefore support BPA's proposal to use these principles for the upcoming segmentation discussions.

Despite the success of BPA's longstanding segmentation and uniform rate methodologies in meeting the above principles, a narrow subset of BPA's customers now want BPA to abandon those methodologies with the objective of marginally lowering the transmission rates they pay to BPA, but at the expense of significantly increasing the transmission rates paid by BPA's smaller and more rural customers. This collection of customers seeks to reward some utilities, communities, and power marketers who due to geography and providence have the good fortune of being on the right side of some yet to be determined technical or engineering criteria. Making such a change will result in many Northwest communities being set adrift from the promise of mutual opportunity that they have come to rely on and expect from BPA. This would be an indefensible outcome under BPA's proposed principles.

The WPAG utilities believe that if BPA is to satisfy the above criteria, it has no real alternative but to retain its current segmentation and uniform rate policies. These policies have benefitted not only the communities and families served by the WPAG utilities, but a great many other communities and families served by other utilities throughout the great Northwest. There is no other methodology of which we are aware that would be as beneficial to as many people in the region as the present one. We cannot fathom any policy or other basis that would justify the adoption of an alternative methodology that produces a less evenhanded or less favorable result for the entire region.

For the above reasons, BPA's current segmentation and uniform rate methodologies must be the yardstick by which all proposed alternatives are measured in the segmentation workshops. To that end, we provide Attachment No. 1 hereto restating the principles that we believe should be used in the upcoming segmentation discussions and the following comments further discussing the same.

**B. Alternative proposals must include a cost allocation and recovery component.**

Rate and cost allocation outcomes matter. Any alternative segmentation proposal must be accompanied with a proposal on how costs would be allocated and recovered. This will allow BPA and the region to make side by side comparisons of the rates and rate impacts to customers under BPA's current segmentation, cost allocation and rate methodologies vis-à-vis alternative proposals. A segmentation proposal that does not address these factors should be deemed incomplete and unworthy of consideration by the region's stakeholders.

**C. The rate result under the current segmentation and uniform rate policies is the baseline to determine whether the widest use standard and a regional perspective are met.**

Alternative proposals must be evaluated to determine whether they meet the widest use standard as well as the objective that BPA's segmentation policy retains a regional perspective. This principle will encourage proponents of alternatives to present technical proposals that meet the region's policy objectives, rather than technical offerings that by their operation establish contrary policy outcomes. The technical baseline for such determinations must be the rate results to each customer of BPA's Network segment under BPA's current segmentation and uniform rate construct. Alternative proposals must do as good as or better than the status quo in ensuring that all customers pay the lowest possible rate for the same transmission service that they presently receive over the Network or such proposals should be rejected out of hand. Alternative proposals that produce lower rates for some customers, but at the expense of higher rates for other customers are unlikely to clear this threshold.

**D. The ability of preference customers to use non-Federal power to serve their loads must be considered in applying the equitable cost allocation rate directive.**

At the January 28<sup>th</sup> Kick-Off Meeting, BPA staff provided some background material on the history of BPA's segmentation of its transmission system. Specifically, staff discussed the former Fringe segment that existed from 1979 until it was rolled into the Network in 1996. The former Fringe segment was comprised of higher voltage facilities that were deemed, at that time, to be used only by Federal power. Before being rolled into the Network in 1996, the costs of the former Fringe segment were allocated fully to power customers in their bundled power rates. The basis for this treatment was purportedly the requirement that BPA equitably allocate the costs of its transmission system between Federal and non-Federal power utilizing the system.<sup>1</sup>

The WPAG utilities agree that one of the principles in the segmentation discussions must be that BPA meet its statutory obligation to equitably allocate the costs of the Federal transmission system between Federal and non-Federal power using that system. However, the application of this principle must take into account that, unlike during the period when the Fringe was in place, transmission facilities that serve preference customers today can be used by both Federal and non-Federal power in accordance with Open Access and the Regional Dialogue Policy and Contracts. Therefore, the historic justification for separate treatment of the former Fringe facilities (for example), i.e., that they are only used by Federal power, is no longer relevant or determinative in applying the equitable allocation standard. Rather, in applying the equitable allocation standard today, the relevant consideration is that both Federal and non-Federal power can use all of the transmission facilities currently in the Network; therefore, under said standard, both Federal and non-Federal power should pay for all such facilities in Network transmission rates.

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<sup>1</sup> See, BPA Segmentation Review – Industry Practices Scan, 3-4 (Jan. 2014). In short, since only Federal power could historically use the Fringe, only Federal power customers paid for the Fringe in their rates.

**E. Alternative proposals must honor historic planning decisions made by BPA and utilities.**

Northwest utilities have planned and built their transmission and distribution systems based on plans of service developed jointly with BPA over the last 75 plus years, and in reliance on BPA's longstanding postage stamp transmission rate and segmentation policies. It would be fundamentally unfair to these utilities, and the communities they serve, for BPA to adopt a new segmentation and cost allocation approach that penalizes them for relying on, and acting in accordance with, these prior decisions and policies. Therefore, a principle of these workshops must be that any alternative proposal must demonstrate that it honors historic BPA and utility planning decisions by not harming those utilities that relied or acted upon them. This may mean, for example, that alternative segmentation proposals will need to include a framework and mechanism that financially compensates utilities that relied on BPA's historic transmission planning and rate practices to their detriment.

**F. Conclusion.**

By directing BPA to encourage the widest possible diversified use of electric energy at the lowest possible rate to consumers, Congress was instructing BPA to provide transmission in a manner that levels the playing field between the urban and rural communities of the Northwest. This was in recognition that the promise of prosperity created by the Federal system belongs to all of the people the region, not just those advantaged by location and good fortune. BPA's current segmentation and uniform rate policies have proven that they meet this objective as well as the other proposed segmentation principles. Those policies and their results are therefore the standard against which all proposed alternatives must be measured in the segmentation workshops.

**ATTACHMENT NO. 1**  
**WPAG Proposed Segmentation Principles**

1. Full and timely cost recovery.
2. Encourage the widest possible diversified use at the lowest possible rates to consumers consistent with sound business principles.
  - a. The rate results to all current Network customers under BPA's current segmentation and uniform rate policies are the technical baseline for determining whether this principle is met.
3. Equitable cost allocation between Federal and non-Federal uses of the transmission system.
  - a. Considering Open Access and Regional Dialogue Policy and Contracts.
4. Considers a regional perspective.
  - a. Alternative proposals must include how costs are allocated and recovered.
  - b. Proponents of alternatives must demonstrate how the region benefits from the proposed alternative compared to the status quo.
  - c. The rate results to all current Network customers under BPA's current segmentation and uniform rate policies are the technical baseline for determining whether a regional perspective is met.
5. Cost causation.
6. Simplicity, understandability, public acceptance, and feasibility of application.
7. Rate stability from rate period to rate period.
8. Must honor historic planning and financing decisions made by BPA and utilities.