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TACOMA PUBLIC UTILITIES

Bonneville Power Administration  
RE: Tacoma Power Network Cost Allocation Proposal  
Via e-mail: [techforum@bpa.gov](mailto:techforum@bpa.gov)

July 9, 2014

We would like to thank BPA for allowing Tacoma Power to present a cost allocation proposal during the June 25<sup>th</sup> pre-rate case workshop. BPA's consideration of the merits of this proposal and its cooperation in providing foundational data for Tacoma Power's presentation is appreciated.

We believe that BPA's decision to adopt FERC pro forma cost allocation prior to the BP-14 rate case produces inequitable results for BPA's Network segment customers. Our presentation, which offers alternative cost allocation methodologies, should not be viewed as an attempt to re-litigate the BP-14 issues. Rather, it should be seen as part of a broader effort to encourage BPA and stakeholders to consider the full set of information which, we believe, should result in a fairer decision with respect to the Network segment cost allocation<sup>1</sup>.

When presenting slide 4 at the June 25<sup>th</sup> workshop we stated that FERC adopted its simplistic transmission rate formula as an "administrative convenience." This formula, which incorporates contract path pricing for PTP in conjunction with a usage based allocation to NT<sup>2</sup>, offered FERC a convenient method of establishing open access. FERC fully acknowledged this to be the case in Order 888.

*"In the NOPR, the Commission discussed the procedures to be used in establishing Stage One rates. These Stage One rates were proposed as an administrative convenience. The proposal merely followed the long-established practice of establishing rates on the basis of contract path pricing. The Commission made no determination with respect to the appropriateness of flow-based pricing or contracting for other purposes." (p92)<sup>3</sup>*

Even if BPA were jurisdictional, and obliged to follow this prescription for cost allocation, FERC left the door open for jurisdictional transmission providers to adopt other allocation and rate designs that better suit their particular circumstances.

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<sup>1</sup> Cost allocation in this context refers to the allocation of Network segment costs to class of transmission service (i.e. PTP, FPT, IR, and NT service)

<sup>2</sup> FERC's adoption of a usage based allocator to NT service was to assure comparability between NT wholesale and retail rates of IOU transmission providers.

<sup>3</sup> Prior to Order 888 BPA's practice was to allocate costs to the Network reservation based and NT classes based upon each class' contribution to system peaks (i.e. 12CP).

*"We wish to emphasize further that in taking this approach we are not endorsing the traditional contract path approach as the only available approach. We continue to approve contract path pricing because it is the long-established pricing methodology that comes to us in rate filings by the electric industry, it is administratively convenient and feasible, and thus is a practical way to move forward now." (p97)*

FERC clearly saw a tradeoff between true cost causation, simplicity, and past industry practice when it issued Order 888. It acknowledged the merit and more balanced approach offered by flow-based pricing. However, FERC was unable to come up with a single simple framework to apply flow-based pricing on an industry-wide basis. Jurisdictional utilities were given latitude to adopt rate methodologies that more accurately reflected true cost causation and use on their transmission systems.

*"As we explained in our Transmission Pricing Policy Statement, we are receptive to proposals for alternative rate methodologies, such as distance-sensitive and flow-based pricing, as long as the proposals are well supported. However, we have yet to receive a formal rate application for a flow-based pricing methodology that has been tested enough that it can be required on a generic basis. Thus we have decided to go forward to achieve open access and more competitive wholesale bulk power markets without waiting for the development of a generic flow-based pricing methodology." (p97)*

*"In addition, we believe it is premature for the Commission to impose generically a new pricing regime without the benefit of any experience with such pricing. We welcome new and innovative proposals, but we will not impose them in this rule.*

*While we are not requiring the use of any form of flow-based pricing, we recognize that some version of flow-based pricing could have benefits. For example, some versions of flow-based pricing could more accurately reflect and price the actual power flows on transmission systems and thus could produce efficiency gains, better generator siting decisions, and benefits for customers and utilities alike. Other versions could more accurately assign capacity rights in accordance with a party's contribution to capacity costs." (p96, emphasis added)*

Our presentation highlighted the inequity under FERC's pro forma as applied to BPA's wholesale Network transmission segment. For this reason, we propose that BPA adopt a 2CP (contribution to peak equivalent) allocation methodology. It is simple, reflects cost causation, appropriately recognizes and assigns diversity benefits, and "more accurately assigns capacity rights in accordance with a party's contribution to capacity costs."

Early in this pre-rate case process Tacoma Power submitted a series of data requests to BPA. BPA has been very helpful in providing responses to some of our requests. Some requests do remain outstanding and we look forward to further discussion with BPA and stakeholders after additional insight once these responses have been provided.

Sincerely,



Nicolas Garcia  
Assistant Power Manager