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TESTIMONY of

RAYMOND D. BLIVEN and REBECCA E. FREDRICKSON

Witnesses for Bonneville Power Administration

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Witnesses for Bonneville Power Administration

SUBJECT: POWER AND TRANSMISSION RATE POLICY

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Raymond D. Bliven, and my qualifications are contained in BP-16-Q-BPA-05.

A. My name is Rebecca E. Fredrickson, and my qualifications are contained in BP-16-Q-BPA-13.

Q. What is the purpose of your testimony?

A. BPA is proposing certain ratemaking changes that affect both Power Services and Transmission Services. This testimony provides an overview of the Oversupply and Western Electricity Coordinating Council (WECC) and Peak policy changes that impact both Services. In sections 2 and 3, we address the Oversupply rate. In sections 4 through 7, we address the WECC and Peak charges and where to find further discussion of the charges in the Power and Transmission testimony. In section 8, we address policy issues concerning the Priority Firm Power (PF), Industrial Firm Power (IP), and New Resources Firm Power (NR) rates.

Section 2: Oversupply Rate

Q. What costs would BPA recover under the OS-16 Oversupply rate?

A. BPA Staff is proposing the OS-16 Oversupply rate to recover the displacement costs that BPA pays under its Open Access Transmission Tariff (OATT) Attachment P, also known as the Oversupply Management Protocol (OMP), for the FY 2016-2017 rate

period. *See* 2016 Transmission, Ancillary, and Control Area Service Rate Schedules, BP-16-E-BPA-10, at OS-16. The protocol is currently effective through September 30, 2015; however, BPA intends to refile the protocol with the Federal Energy Regulatory Commission (Commission) while continuing to work with stakeholders to explore alternative long-term solutions to managing total dissolved gas levels in the Columbia River.

Q. Please explain the Oversupply Management Protocol.

A. Under the protocol, BPA displaces generators located in BPA's balancing authority area under a least-cost displacement cost curve in order to moderate total dissolved gas levels in the Columbia River. The cost curve consists of the cost of displacement submitted by generators in the BPA balancing authority area for (1) production tax credits; (2) renewable energy credits unbundled (that is, sold separately) from the sale of energy; and (3) for contracts executed prior to March 6, 2012, certain losses under bundled contracts (that is, sales of renewable energy credits and energy together) because of the generator's failure to deliver energy. BPA displaces generators from the lowest cost to the highest until it achieves the amount of displacement needed. A more substantive explanation of oversupply and the OMP can be found in Fredrickson *et al.*, OS-14-E-BPA-01, § 3.

Q. Which customers would pay the OS-16 rate?

A. The same generators that are subject to the OS-14 rate in FY 2015, that is, any generator in the BPA balancing authority area that submits a transmission schedule during the hour of an oversupply event would be allocated costs. The charge to each generator would be based on that generator's scheduled generation for the hour in proportion to the total amount of scheduled generation in the balancing authority area for the hour. For generation scheduled by BPA Power Services, BPA will bill customers that purchase under the PF, IP, or NR rate schedules using Modified Tier 1 Cost Allocators (TOCA).

TOCAs are customer-specific power rate billing determinants that are established under the Tiered Rate Methodology for PF customers. Each power customer's billing determinant is a percentage of the sum of all power customers' billing determinants. *See* 2012 Wholesale Power and Transmission Rate Adjustment Proceeding (BP-12) Tiered Rate Methodology, BP-12-A-03, at 57-58. TOCAs are typically used to allocate costs only for PF customers, but for the Oversupply rate, the TOCAs are modified to include IP and NR loads in order to allocate oversupply costs to all three customer groups.

Q. Does the proposed OS-16 rate schedule differ from the OS-14 rate schedule?

A. We made limited revisions to the OS-14 rate. First, we removed the exemption from cost allocation that applied to generators that did not submit displacement costs in 2012. The exemption was specific to FY 2012 costs because the protocol in place in 2012 assured generators they would not be charged if they did not submit displacement costs. *See* OS-14 Oversupply Rate Proceeding, Administrator's Record of Decision (OS-14 ROD), OS-14-A-02, at 46-48. Because that provision has expired, the exemption does not apply and we have removed it from the rate schedule.

Second, we deleted a billing provision that will not apply in the FY 2016-2017 rate period. The OS-14 rate was intended to recover oversupply costs dating back to April 2012. Therefore, the billing provisions provided that the charges would be calculated for each month beginning on that date. Because the OS-16 rate will recover oversupply costs incurred only during the FY 2016-2017 rate period, this provision is no longer necessary.

Finally, we updated GRSP II.I, entitled Modified TOCAs for Oversupply Rate, to reflect the current forecast of FY 2016 and 2017 TOCAs. *See* 2016 Transmission, Ancillary, and Control Area Service Rate Schedules, BP-16-E-BPA-10, GRSP II.I.

Section 3: Allocation of Oversupply Administrative Cost

Q. Please describe the administrative cost associated with oversupply.

A. Under the oversupply protocol, generators submit their costs of displacement to an independent evaluator selected by BPA. The independent evaluator audits the costs and constructs a least-cost displacement cost curve that BPA uses to determine which generators are dispatched down during oversupply events. The administrative cost is the cost of using the independent evaluator, Accion Group, Inc. (Accion).

We are proposing to recover during the BP-16 rate period the administrative costs incurred from FY 2012 through FY 2014, plus the forecast costs for FY 2015-2017. BPA is treating administrative costs incurred from FY 2012 through FY 2015 as regulatory assets, with the expectation that they will be recovered through BP-16 rates. This treatment is consistent with the Administrator's decision in the OS-14 ROD to include these costs in the revenue requirement for FY 2016-2017. *See* OS-14 ROD, OS-14-A-02, at 46.

Q. What are the administrative costs to be recovered in the BP-16 rates?

A. The administrative costs to be recovered through the BP-16 rates are:

FY 2012	$130,824
FY 2013	$199,393
FY 2014	$175,039
FY 2015	$180,000 (forecast)
FY 2016	$180,000 (forecast)
FY 2017	$180,000 (forecast)

BPA and Accion renegotiate the costs of providing the independent evaluator services every year. The costs from FY 2012 to 2014 are based on actual costs. The forecast costs for FY 2015-2017 are based on FY 2014 actual costs plus a budget for potential travel expenses, if necessary. We will update the FY 2015 cost for the Final Proposal.

The total administrative cost to be recovered in the FY 2016-2017 rate period is $1,045,256.

Q. How do you propose to recover these costs?

A. We have instructed Staff to include the costs in the transmission revenue requirement and allocate them across all transmission segments. *See* Lennox *et al.*, BP-16-E-BPA-13, § 2. The administrative costs of the OMP are a component of oversupply costs and, consistent with the determinations of the Administrator and the Commission, are transmission costs. *See* OS-14 ROD, OS-14-A-02, at 27-28; *Iberdrola v. Bonneville Power Admin.*, 149 FERC ¶ 61,044, at P 40 (2014). Under the OS-16 rate, the costs of displacement are allocated to generators in the BPA balancing authority area that submit transmission schedules during an oversupply event. However, it is not practical to allocate the administrative costs in the same way. If there are no oversupply events in a year (there were no oversupply events in FY 2013 or FY 2014), BPA would be unable to recover these costs because the OS rate billing determinants would be zero. Allocating the administrative costs to all transmission rates, and making their recovery independent of oversupply events, ensures that BPA will recover the costs every year. In addition, the modest size of the costs, expected to be about $180,000 per year on an ongoing basis, does not justify development of a separate rate to ensure recovery.

Q. Why were the administrative costs lower in FY 2012?

A. The initial contract with Accion was a one-year contract that started in April of 2012. Accion billed for services after the services were provided. Because BPA operates on a fiscal year and not a calendar year basis, only services billed prior to September 30, 2012, were booked in FY 2012. The remaining services were booked in FY 2013, resulting in lower costs for FY 2012 and higher costs for FY 2013.

Section 4: WECC/Peak

Q. What is the purpose of this portion of your testimony?

A. The purpose of this testimony is to provide a brief overview of Western Electricity Coordinating Council (WECC) and Peak Reliability (Peak) assessments that are charged to BPA, and our proposal to recover the costs through new power and transmission rates. The details of our proposal to include the costs in the revenue requirement are in Lennox *et al*., BP-16-E-BPA-13, section 2; the details of our proposal to recover costs through transmission rates are in Fredrickson *et al.*, BP-16-E-BPA-14, section 8; and the details of our proposal to recover costs through power rates are in Yokota *et al*., BP-16-E-BPA-21, section 5.

Section 5: WECC Background

Q. What are WECC assessments?

A. WECC assessments fund the reliability activities that WECC carries out on behalf of the North American Electric Reliability Corporation (NERC), which the Commission has certified as the Electric Reliability Organization under section 215 of the Federal Power Act. NERC is responsible for establishing and enforcing reliability standards for the bulk power system, subject to Commission approval. Section 215 allows NERC to delegate its authority to regional entities such as WECC. WECC assesses and collects its funding from the WECC region. The WECC region encompasses the entire Western Interconnection, which comprises the states of Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Colorado, Wyoming, portions of Montana, South Dakota, New Mexico and Texas (excluding ERCOT) in the United States; the provinces of British Columbia and Alberta in Canada; and a portion of Mexico's system in Baja California.

Q. How are WECC assessments calculated?

A. WECC first forecasts an annual revenue requirement, which consists of all costs WECC anticipates having to recover to accomplish its mission for the upcoming calendar year. Each balancing authority area provides to WECC "Net Energy for Load" quantities for the past calendar year, since Net Energy for Load is the billing determinant WECC uses for its assessments. The NERC bylaws define Net Energy for Load as:

> Net generation of an electric system plus energy received from others less energy delivered to others through interchange. It includes system losses, but excludes energy required for storage of energy at energy storage facilities.

WECC adds together all of the Net Energy for Load quantities and divides its revenue requirement by the total. This results in a per megawatthour rate that WECC submits to the Commission for approval. Once the Commission approves the rate, WECC collects the assessments.

Q. Who pays WECC assessments?

A. Balancing authorities determine who pays WECC assessments. A balancing authority can have WECC bill the balancing authority based on the entire balancing authority's Net Energy for Load, or it can have WECC bill entities serving load within the balancing authority based on those entities' Net Energy for Load. If WECC does not bill each entity serving load, the balancing authority recovers the cost of the WECC assessment through its rates.

Section 6: Peak Background

Q. What are Peak assessments?

A. Peak assessments fund the Reliability Coordinator and Interchange Authority functions that Peak assumed from WECC in 2014. The NERC Glossary defines a Reliability Coordinator as:

> The entity that is the highest level of authority who is responsible for the reliable operation of the Bulk Electric System, has the Wide Area view of the Bulk Electric System, and has the operating tools, processes and procedures, including the authority to prevent or mitigate emergency operating situations in both next-day analysis and real-time operations.

The NERC Glossary defines the Interchange Authority as:

> The entity that authorizes implementation of valid and balanced Interchange Schedules between Balancing Authority Areas, and ensures communication of Interchange information for reliability assessment purposes.

Q. How are Peak's assessments calculated?

A. Peak's assessments are calculated in the same manner as WECC's. However, because the Reliability Coordinator and Interchange Authority functions that Peak is now responsible for were previously within WECC, the assessments associated with these functions were included in WECC's revenue requirement and collected by WECC until 2014. As Peak is now an independent entity, it has computed its own revenue requirement and established a per megawatthour rate to fund its calendar year 2015 budget. We realize, however, that Peak's current funding mechanism, which is based on section 215 of the Federal Power Act, is being litigated. *See Edison Electric Institute v. Fed. Energy Regulatory Comm'n*, No. 14-1012 (D.C. Cir. filed Jan. 27, 2014). We address this uncertainty in Fredrickson *et al.*, BP-16-E-BPA-14, section 8, and Yokota *et al.*, BP-16-E-BPA-21, section 5.

Q. Who pays Peak assessments?

A. As with WECC assessments, balancing authorities determine who pays Peak assessments.

Section 7: Recovery of WECC and Peak Assessments

Q. How are BPA customers currently charged for WECC and Peak assessments and what is BPA changing?

A. In previous years, WECC and Peak directly billed each BPA within BPA's balancing authority area. This was a complicated and difficult process. To avoid difficulties during the FY 2016-2017 rate period, BPA expects to have WECC and Peak bill BPA directly and BPA will establish rates to recover the cost of the assessments from customers that serve load within BPA's balancing authority area.

Q. What is your proposal to recover the cost of the WECC and Peak assessments related to load-serving entities within BPA's balancing authority?

A. We have instructed Staff to develop separate transmission rates to recover WECC and Peak assessments. As further explained in Fredrickson *et al*., BP-16-E-BPA-14, section 8, and the Transmission Rates Study and Documentation, BP-16-E-BPA-07, section 7.1, we propose to establish two new transmission rates that will recover the forecast WECC and Peak assessments within BPA's balancing authority. To account for WECC and Peak assessments, $5.7 million is being added to the transmission revenue requirement in FY 2016 and $5.8 million in FY 2017. *See* Lennox *et al.*, BP-16-E-BPA-13, § 2.

Q. Why are you proposing separate transmission rates to recover WECC and Peak assessments?

A. The rates may not apply to the same set of customers. WECC will bill BPA for all the Net Energy for Load within BPA's balancing authority area. Therefore, the WECC rate applies to all load within BPA's balancing authority area. However, Peak may continue to directly bill some BPA customers serving load in BPA's balancing authority. BPA would exempt these customers from the Peak rate so that they do not pay twice for Peak assessments.

Q. What is your proposal to recover the cost of WECC and Peak assessments for transfer customers that serve load outside of BPA's balancing authority?

A. As with the transmission rates, we have instructed Staff to develop separate power rates to recover WECC and Peak assessments. As further explained in Yokota *et al*., BP-16-E-BPA-21, section 5, we propose that BPA pay for the WECC and Peak assessments for transfer customers that serve load outside of BPA's balancing authority. We propose to recover the costs associated with these assessments through two new power rates (WECC Charge and Peak Charge), which will be charged to these transfer customers. *See* Power Rate Schedules, BP-16-E-BPA-09; GRSP II.J.3 and 4. This proposal ensures that transfer customers and directly connected customers are treated similarly. To account for WECC and Peak assessments, $617,759 has been included in the power revenue requirement in FY 2016 and $627,643 in FY 2017. *See* Lennox *et al.*, BP-16-E-BPA-13, § 2.

Q. Why are you proposing to pay for all WECC and Peak assessments and then charge the transfer customers through new rates?

A. We are proposing this change because the current method is not equitable.

Q. Please explain.

A. The current method is not equitable because whether a transfer service customer receives an individual WECC and Peak assessment depends on the Net Energy for Load submission provided by its local balancing authority. Because regional balancing authorities have used a variety of methods to calculate Net Energy for Load, not all transfer service customers pay for the WECC and Peak charges on the same basis. For example, a balancing authority may choose to receive a single WECC and Peak assessment for all loads in its balancing area, and then bundle the costs of this assessment into its general transmission rates. Transfer customers located in this balancing authority will not receive an individual WECC or Peak assessment. Instead,

BPA will pay the other balancing authority's general transmission rates and recover these costs from all of its power customers. Therefore, all power customers pay for these assessments.

Another balancing authority, however, may ask WECC and Peak to directly bill the individual load serving entities in its balancing area. Transfer service customers in these balancing authorities must pay both their individual assessments. In addition, they must pay a portion of the charges that BPA recovers in its power rates for those balancing authorities that do not directly bill for WECC and Peak costs.

Q. Why is your proposal more equitable?

A. Under our approach all transfer customers will pay for the WECC and Peak costs on the same basis. The result will be a more equitable distribution of WECC and Peak costs among transfer customers. It will reduce the WECC and Peak costs paid by those transfer service customers that were already being billed directly (since they will no longer also pay a portion of other transfer customers' costs) and slightly increase the costs paid by transfer service customers that previously were not individually charged for WECC and Peak costs (since none of their costs will be socialized).

Our proposal also is aligned with BPA's general policy that transfer service customers should be treated similarly to directly connected customers to the extent it is reasonable. As described above, BPA will now pay WECC and Peak assessments for all customers, both directly connected customers and transfer customers, and recover the costs through separate WECC and Peak charges.

Q. Is there any uncertainty regarding the allocation of Peak charges in the future?

A. Yes, the *EEI* litigation cited above raises uncertainty regarding the allocation of Peak charges in the future. Specifically, some parties have filed objections with the Commission challenging Peak's authority to collect such charges using the Net Energy for Load allocation methodology that the Commission approved for WECC.

Q. How do you propose to address this uncertainty regarding Peak assessments in the future?

A. The risk applies only to the assessments to load outside of BPA's balancing authority area. We propose to mitigate this risk by creating a separate transfer rate for Peak assessments. The transfer rate schedule provision states that this charge is contingent upon Peak's assessing charges to BPA for transfer service customer loads outside BPA's BAA. *See* Power Rate Schedules, BP-16-E-BPA-09, GRSP II.J.4. Thus, if BPA is not being directly assessed Peak assessments for transfer customer loads, BPA will not charge transfer customers the Peak transfer service rate.

Section 8: Power Rates

Q. What direction have you given to Staff in preparing the power rates proposal?

A. There are three instances where we gave direction to Staff. These directions involve each of the three major power rate schedules: the Priority Firm Power (PF) rate, the Industrial Firm Power (IP) rate, and the New Resources Firm Power (NR) rate.

Q. What direction did you give to Staff about the PF rate?

A. During the preparation of the power revenue requirement, Staff uncovered a problem that was creating a need for Minimum Required Net Revenues for the Non-Slice Cost Pool with an offsetting net revenue surplus for the Composite Cost Pool. This apparent need was due to the BP-12 and BP-14 treatment of revenues from a settlement of the WNP-3 Exchange contract with Portland General Electric. *See* Chalier *et al.*, BP-16-E-BPA-23, § 2. After further investigation, we understood that the settlement occurred prior to 2002, and that the different treatment for Slice and non-Slice customers was unwarranted. Therefore, we directed Staff to change the treatment of the revenues so that the disparate treatment was removed from the BP-16 revenue requirement. Furthermore, we directed Staff to develop a new rate to appropriately charge Slice

customers and compensate non-Slice customers for the inadvertent allocations in the BP-12 and BP-14 rates. Based on Staff's recommendations, we are proposing the Slice Billing Adjustment. *Id.*

Q. What direction did you give to Staff about the IP rate?

A. During preparations for the BP-16 rate case, Staff asked whether it should perform an industrial margin survey, in which BPA obtains information from publicly owned utilities regarding the costs and rates they charge their industrial consumers. This information is used to develop the typical margin included in the IP rate pursuant to section 7(c) of the Northwest Power Act. 16 U.S.C. § 839e(c). The survey is conducted through the Public Power Council, which collects the needed information from applicable utilities and redacts the names of utilities to produce an anonymous survey. After consultation with Staff, we decided that the likelihood that a new survey would change the typical margin was not sufficient to undertake a new survey at this time. Therefore, we directed Staff to use the information from the survey conducted in 2011 and presented in the BP-12 rate case. Furthermore, we directed Staff to escalate the current typical margin for inflation for use in the BP-16 Initial Proposal.

Q. What direction did you give Staff about the NR rate?

A. In the NR-14 rate schedule, BPA adopted new services that were designed to assist Load Following customers in applying non-Federal resources to serve New Large Single Loads (NLSLs). *See* Bliven and Parker, BP-14-E-BPA-11, § 9.4. In the course of applying these new services during the current rate period, we discovered that additional services would be helpful to further assist Load Following customers trying to manage non-Federal resources used to serve NLSLs, especially with the capacity needed to meet peak load conditions. Thus, we directed Staff to develop new services to meet these additional needs while continuing to conform to the statutory requirements of NLSL

service using Federal resources. The resulting NR services are described in Stiffler *et al.*, BP-16-E-BPA-17, § 2.5

Q. Does this conclude your testimony?

A. Yes.