INDEX

TESTIMONY of

DANIEL R. YOKOTA, JEFFREY S. HURT, MARGARET E. PEDERSEN MAINZER,

DERRICK L. PLEGER, and PETER B. STIFFLER

Witnesses for Bonneville Power Administration

SUBJECT: TRANSFER SERVICE **Page**

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Witnesses for Bonneville Power Administration

SUBJECT: TRANSFER SERVICE

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Daniel R. Yokota, and my qualifications are in BP-16-Q-BPA-43.

A. My name is Jeffrey S. Hurt, and my qualifications are in BP-16-Q-BPA-18.

A. My name is Margaret E. Pedersen Mainzer, and my qualifications are in BP-16-Q-BPA-27.

A. My name is Derrick L. Pleger, and my qualifications are in BP-16-Q-BPA-34.

A. My name is Peter B. Stiffler, and my qualifications are in BP-16-Q-BPA-37.

Q. What is the purpose of this testimony?

A. This testimony has five purposes. The first is to describe the General Transfer Agreement (GTA) Delivery Charge, how it was developed, and the proposed methodology for establishing the charge for the rate period, fiscal years (FY) 2016-2017.

The second purpose is to describe the Supplemental Guidelines for Direct Assignment and how they will apply during FY 2016-2017.

The third purpose is to describe the Transfer Service Operating Reserve Charge, how it was developed, and the proposed methodology for establishing the rate for FY 2016-2017.

The fourth purpose is to describe the WECC and Peak Charges, how they were developed, and the proposed methodology for establishing the charges for FY 2016-2017.

The fifth purpose is to describe the Southeast Idaho load service five-year market purchases and the allocation of costs to transfer service.

This testimony also sponsors section 3.6 of the Power Rates Study, BP-16-E-BPA-01, and the General Transfer Agreement Service charges set forth in the General Rate Schedule Provisions (GRSP). *See* Power Rate Schedules, BP-16-E-BPA-09, GRSP II.J.

Section 2: GTA Delivery Charge

Section 2.1: Description of the GTA Delivery Charge

Q. What is the GTA Delivery Charge?

A. Approximately half of BPA's power customers are located on the transmission systems of third parties. Under the terms of the Regional Dialogue power sales contracts, BPA is obligated to acquire transmission services from these third-party transmission providers to deliver federal power to BPA's power customers. This third-party transmission service is commonly referred to as "transfer service" and includes grandfathered contracts, Open Access Transmission Tariff (OATT) service, and other transmission arrangements. The GTA Delivery Charge recovers the costs of transmitting Federal power over third-party facilities that are at voltages below 34.5 kilovolts (kV). The GTA Delivery Charge rate is a Power Services charge.

Q. Who pays the GTA Delivery Charge?

A. The GTA Delivery Charge applies to customers BPA serves over third-party transmission facilities when that service is at voltage below 34.5 kV. The customer pays the GTA Delivery Charge only if it receives Federal power at voltages below 34.5 kV and is not paying BPA's Utility Delivery Charge (UDC) for that particular point of delivery. (The UDC is a Transmission Services charge. *See* Transmission Rates Study and Documentation, BP-16-E-BPA-07, § 7.5.1.) In addition, some transfer service customers have been directly assigned the costs of deliveries over specific low-voltage points of delivery. In these situations, the transfer service customer does not pay the GTA Delivery Charge.

Q. *Why are you proposing to set a GTA Delivery Charge rather than directly assigning the low-voltage costs to the specific transfer customer on whose behalf BPA has incurred the cost?*

A. BPA provides transfer service to customers across 22 third-party transmission systems in the Northwest. BPA has different contractual arrangements with each of these transmission providers, with a wide variety of treatment of the costs for low-voltage deliveries. In addition, there is wide disparity in the cost of low-voltage delivery from one transfer customer to the next. While it is BPA's policy to directly assign new low-voltage costs in some situations, if BPA were to directly assign the pre-existing low-voltage costs to the individual transfer customer, there would be winners and losers, with a few transfer customers bearing significant costs. A GTA Delivery Charge that spreads BPA's existing low-voltage transfer costs evenly across the transfer customers that need the service is a more equitable rate treatment than directly assigning the costs.

Q. *Please explain briefly how you propose to calculate the GTA Delivery Charge for FY 2016–2017.*

A. The methodology will be the same as in rate period FY 2014–2015. As explained in Power Rates Study section 3.6, we propose to calculate the GTA Delivery Charge by reviewing the actual low-voltage costs Power Services incurred from FY 2013 and 2014, calculating an average of the two years, and then dividing these costs by the average of the peak amount of transfer service load served by third-party low-voltage facilities for FY 2013 and 2014.

Q. Please explain how you determined the actual transfer service low-voltage costs used as the numerator in the calculation of the GTA Delivery Charge.

A. We collected cost data for low-voltage distribution and delivery charges from FY 2013 and 2014 transmission provider invoices and contract exhibits. This data was available for all third-party transmission providers except NorthWestern. To calculate the cost of low-voltage service on NorthWestern's system, we used the average cost of low-voltage service on all other third-party transmission provider systems and then multiplied this average by the amount of low-voltage transfer service for customers on NorthWestern's system.

Q. Why is it necessary to estimate the cost for NorthWestern's transfer customers?

A. NorthWestern does not have a separate charge for low-voltage delivery; rather, NorthWestern's rate structure rolls all the cost of low-voltage service into the NorthWestern transmission rate that BPA pays for transfer service.

Q. For low-voltage delivery costs, what has changed in BP-16?

A. In July 2016, transfer service to BPA's Southeast Idaho loads will change from service under the South Idaho Exchange (SIE) and PacifiCorp GTA (PACE GTA), to service under PacifiCorp's OATT. The conversion of the SIE and PACE GTA will result in an increase in low-voltage costs on PacifiCorp's system. We incorporated the anticipated increase in low-voltage delivery costs for transfer service to Southeast Idaho loads to reflect the conversion to service under PacifiCorp's OATT. Also, we have included updates to the low-voltage rates assessed to BPA by third-party transmission providers as known by the time of the study.

Q. Please explain how you determined the denominator for the GTA Delivery Charge.

A. For the load portion of the calculation, we used customer system peak data at low-voltage delivery points from FY 2013 and 2014 customer bills and calculated the average of the two years. Customer System Peak is the customer's maximum Actual Hourly Load (measured in kilowatts) during the Heavy Load Hours of each month.

Q. How has the low-voltage delivery load forecast changed for the BP-16 rate period?

A. Our forecast of Transfer loads has decreased for the BP-16 rate period due to the elimination of low-voltage points of delivery by our customers through construction of their own substations or permanent customer load shifts to higher-voltage points of delivery on their electrical systems.

Q. Do you plan to update or refine your studies for the Final Proposal?

A. Yes. Arrangements for low-voltage transfer service change from time to time. If such changes occur between the Initial Proposal and the time of the development of the final studies, we will reflect those changes in the Final Proposal.

Section 2.2: Revenue Forecast for GTA Delivery Charge

Q. What is the revenue forecast for the GTA Delivery Charge?

A. The forecast revenue associated with the GTA Delivery Charge is $2.2 million in FY 2016 and $2.2 million in FY 2017. *See* Power Rates Study, BP-16-E-BPA-01, § 3.6.1. This forecast was determined by observing historical revenues from the current GTA Delivery Charge and escalating for anticipated growth in the GTA Delivery Charge billing determinant of Monthly Customer System Peak Load.

Section 3: Supplemental Direct Assignment Guidelines

Q. What are the Supplemental Direct Assignment Guidelines?

A. The Supplemental Direct Assignment Guidelines were created by Power Services for use in combination with the Transmission Services' Guidelines for Direct Assignment Facilities to determine whether to recover the costs of Direct Assignment Facilities from transfer service customers. *See* 2016 Power Rate Schedules, BP-16-E-BPA-09, GRSP I.E. The purpose of the Supplemental Direct Assignment Guidelines is to provide guidance in specific cases that Power Services anticipates may occur but may not be sufficiently addressed in the Transmission Services' Guidelines. Some of the Supplemental Direct Assignment Guidelines were developed as a result of past circumstances where the Transmission Services' Guidelines did not adequately address the costs of Direct Assignment of Facilities incurred when providing transfer service.

Q. Are you proposing any changes from the BP-14 Supplemental Direct Assignment Guidelines?

A. Yes. As explained in Tenney *et al.*, BP-16-E-BPA-16, section 9, in a separate process, Transmission Services is proposing a number of changes to its Direct Assignment Guidelines. The primary change relates to the facilities subject to direct assignment. Neither the Direct Assignment Guidelines nor the new proposed version, referred to as the "Facility Ownership and Cost Assignment Guidelines", contain a bright-line voltage level. We have made changes to the Supplemental Direct Assignment Guidelines to reflect this. The revisions we propose are provided in Attachment 1 to our testimony.

Q. Is there any forecast revenue associated with the Supplemental Direct Assignment Guidelines?

A. No. At this time there is no anticipated revenue from the Supplemental Direct Assignment Guidelines. Should the Supplemental Direct Assignment Guidelines allow recovery of costs from transfer customers, that revenue would be used to offset other costs, so that net revenue would equal zero.

Section 4: Transfer Service Operating Reserve Charge

Section 4.1: Description of the Transfer Service Operating Reserve Charge

Q. What is the Transfer Service Operating Reserve Charge?

A. The Transfer Service Operating Reserve Charge is a charge designed to compensate BPA for the cost of Operating Reserves assessed by third-party transmission providers and non-BPA balancing authorities for service to transfer loads.

Q. Who will pay the Transfer Service Operating Reserve Charge?

A. The Transfer Service Operating Reserve Charge applies to customers that meet the following criteria: (1) the power customer is a Power Services transfer service customer; and (2) the power customer is not already paying BPA Transmission Services for Operating Reserves (based on reliability standard BAL-002-WECC-2) for the load. If these criteria are met, the customer will be assessed a Transfer Service Operating Reserve Charge.

Q. Why is the Transfer Service Operating Reserve Charge being proposed?

A. The Transfer Service Operating Reserve Charge is being proposed to recover additional ancillary service costs Power Services will experience as a result of regional reliability standard BAL-002-WECC-2, which was approved by the Federal Energy Regulatory Commission (Commission) on November 21, 2013, and became effective October 1, 2014. Under the previous standard, the balancing authority area (BAA) in which a customer's generation resource was located carried the full responsibility for providing Operating Reserves. The new standard shares this responsibility equally between the generation resource balancing authority and the load serving balancing authority, 3 percent and 3 percent. Prior to the new Operating Reserve standard, BPA did not acquire Operating Reserves from third-party transmission providers associated with load service for the transmission of Federal power to transfer service customers. Instead, transfer service customers met their Operating Reserves obligation by acquiring Operating Reserve services from BPA Transmission Services. However, BPA is now required to acquire (pay for) Operating Reserves to serve transfer service customers' load. This will result in an increase to the ancillary service costs BPA incurs when providing transfer service. At the same time, transfer service customers will experience a reduction in ancillary service costs as a portion of the Operating Reserves obligations shifts to Power Services to acquire Operating Reserves from third-party transmission providers. The Transfer Service Operating Reserve Charge is designed to allow BPA to recover these new costs while keeping transfer customers and directly connected customers on equal footing.

Q. Does the Transfer Service Operating Reserve charge apply to all transfer service customers?

A. No. It will apply only to transfer service customer loads that are not in the BPA BAA. Some transfer service customers are served over third-party facilities, but their loads are in the BPA BAA. These transfer service customers will continue to pay BPA Transmission Services for all of the Operating Reserve obligation, and Power Services will not be acquiring Operating Reserves from third-party providers for these transfer service loads.

Section 4.2: Transfer Service Operating Reserve Charge Proposal

Q. What is your proposal for the Transfer Service Operating Reserve Charge for the FY 2016-2017 rate period?

A. We propose that the Transfer Service Operating Reserve Charge mirror the proposed ACS-16 Operating Reserve rates. We also propose that for the FY 2016-2017 rate period, the Transfer Service Operating Reserve Charge consist of two rates, one that mirrors the Operating Reserve – Spinning Reserve Service rate, and one that mirrors the Operating Reserve – Supplemental Reserve Service rate. *See* Transmission, Ancillary and Control Area Service Rate Schedule, BP-16-E-BPA-10, ACS-16, II.E and F. The Transfer Service Operating Reserve Charge will be applied to customers in the same manner as the ACS-16 Operating Reserve rates, except that BPA will assess the charge only to the customer's load and not the portion based on generation.

Q. Why do you propose that the Transfer Service Operating Reserve Charge mirror the proposed ACS-16 rates for Operating Reserve services?

A. We propose that the Transfer Service Operating Reserve Charge mirror the proposed ACS-16 Operating Reserve rates for two reasons. First, it has been BPA's general policy objective, where reasonable, to treat transfer service customers in the same manner as non-transfer service customers. The proposed Transfer Service Operating Reserve Charge implements this policy by charging eligible transfer service customers the same rates for Operating Reserves as charged to non-transfer service customers.

Second, we believe assessing Transmission Services' rates represents a reasonable proxy for recovering the increased Operating Reserve costs we expect Power Services to pay over the rate period. At this point, few third-party transmission providers have changed their Operating Reserve rates to reflect the new reliability standard. Nevertheless, we expect that third-party providers will be changing the rates they charge for Operating Reserves throughout the rate period. Rather than speculating on what each of the transmission providers may do to determine its new Operating Reserves rates, we believe a more reasonable approach is to use as a proxy the Operating Reserve rates established by Transmission Services. Thus, in our view, using the Transmission Services' rates for this rate period represents a more reasonable and simpler method for estimating the costs of carrying out the new standard.

Q. What is the billing determinant for the Transfer Service Operating Reserve Charge?

A. The monthly billing determinant for the Transfer Service Spinning Operating Reserve Charge will be the metered load of the customer served by transfer (non-BPA BAA load). The monthly billing determinant for the Transfer Service Supplemental Operating Reserve Charge will be the metered load of the customer served by transfer (non-BPA BAA load).

Q. Will the implementation of the Transfer Service Operating Reserve Charge increase net revenue for Power Services?

A. We expect that the increased revenue from the Transfer Service Operating Reserve Charge will be offset by the increased ancillary service costs Power Services will pay to third-party transmission providers.

Q. Are you proposing any changes to the criteria used to determine who pays the Transfer Service Operating Reserve Charge?

A. Yes. We are proposing to eliminate one criterion for determining whether a Transfer Customer pays the Transfer Service Operating Reserve Charge that was applied in the last rate case. Specifically, we have eliminated the third criterion, which required that Power Services be assessed the Operating Reserve charges from a third-party transmission provider to transfer Federal power to the power customer's loads. This criterion is in the current GTA-14 rate schedule.

Q. Why are you proposing to eliminate this criterion?

A. The criterion we used to determine whether to assess the Transfer Service Operating Reserve Charge in the BP-14 rate case was too narrow. It excluded customers that were served under grandfathered transfer arrangements (where BPA was not being separately assessed Operating Reserves), thereby placing the full cost responsibility of obtaining operating reserves on transfer service customers that received OATT service.

With the activation of the WECC reliability standard regarding operating reserves, we have taken another look at the criteria used to determine eligibility for the Transfer Service Operating Reserve Charge, and have concluded that elimination of the third criterion is appropriate. Prior to the WECC reliability change, customers directly connected to BPA's transmission system and transfer service customers were held in a comparable position from a cost perspective because both sets of customers paid BPA Transmission Services for Operating Reserve costs. With the WECC change, 3 percent of the Operating Reserve obligation will be shifted to the BAAs where BPA's transfer customers' loads are located. For those transfer service customers served under grandfathered contracts, no explicit Operating Reserve charge is assessed to Power Services, thereby effectively exempting some transfer service customers from paying for half of their Operating Reserve obligation.

We do not believe that as a matter of policy it would be equitable to provide a cost discount to some transfer customers (who no longer have to pay for 3 percent of their Operating Reserve for load) while directly connected preference customers and transfer service customers served by OATT bear the full cost responsibility of obtaining Operating Reserves. BPA's longstanding policy on transfer-related costs is to place transfer service customers on a comparable cost footing when compared to each other and directly connected customers. This means, from a cost perspective, transfer customers are placed in neither a worse position nor a better position than other preference customers. Assessing the Transfer Service Operating Reserve Charge to all transfer customers (provided they do not already pay Operating Reserves for their loads) helps maintain this parity between directly connected customers and other transfer customers.

Section 4.3: Revenue Forecast for Transfer Service Operating Reserve Charge

Q. What is the revenue forecast for the Transfer Service Operating Reserve Charge?

A. The forecast revenue associated with the Transfer Service Operating Reserve Charge – Spinning Reserve Service is $1.5 million for FY 2016 and $1.5 million for FY 2017. The forecast revenue associated with the Transfer Service Operating Reserve Charge – Supplemental Reserve Service is $1.4 million for FY 2016 and $1.4 million for FY 2017. The forecast was determined by observing historical loads subject to Operating Reserve charges under the previous WECC standard, computing the reserve obligation amount (1.5 percent for Spinning Reserve Service and 1.5 percent for Supplemental Reserve Service) and applying the proposed ACS-16 rates for Spinning and Supplemental Reserve Service.

As noted above, at this point, we do not have an explicit forecast of costs from the various third-party transmission providers because most of these providers have yet to develop rates for the new standard. We expect many of the providers will begin changing their rates during the rate period and that BPA's cost of providing transfer service will increase as a result of the change. We believe the revenue we project from the Transfer Service Operating Reserve Charge will largely be offset by the increased ancillary service costs Power Services will pay to third-party transmission providers.

Section 5: Transfer Service WECC and Peak Charges

Section 5.1: Background on WECC and Peak Charges

Q. How have the charges associated with WECC been recovered historically?

A. As described in Bliven and Fredrickson, BP-16-BPA-11, § 4, WECC assesses its charges to each BAA based on the BAA's Net Energy Load (NEL) data. The extent to which the NEL data submitted to WECC is disaggregated determines whether WECC invoices individual loads for its assessments. Some BAAs send one aggregated quantity representing all of the NEL in its BAA, including both native and non-native load. In these cases, WECC assesses these charges to the BAA in one bill for the total NEL amount. Other BAAs choose to identify NEL quantities for each load customer, specifically identifying both their native load and non-native load. In this case, WECC sends an invoice to the BAA for its native load and separate invoices to the specific entities serving the non-native load.

Q. Under the current treatment, how are transfer service customers charged for WECC charges?

A. As described above, the information the BAA includes in its NEL submission to WECC determines how transfer customers are billed. For those transfer customers located in a BAA that does not explicitly identify non-native load in its NEL submittal to WECC, bills are not sent to the transfer customers from WECC. Instead, the BAA recovers the WECC costs through its general transmission rates. For transfer customers located in a BAA that does explicitly identify non-native load in its NEL submittal to WECC, bills are sent to the customer identified in the NEL submission. If the transfer customer is listed, then WECC sends its invoice to the specific customer.

Q. How are transfer service customers currently charged for Peak Reliability (Peak) assessments?

A. Peak assesses its charges in the same manner as WECC. Thus, whether a transfer service customer receives a specific invoice for its share of Peak's assessment depends on how the local BAA prepares the NEL submitted to Peak.

Section 5.2: BPA's WECC and Peak Charge Proposal

Q. How is BPA proposing to recover the costs for the WECC and Peak charges that apply to transfer services customers?

A. As described in Bliven and Fredrickson, BP-16-E-BPA-11, § 7, BPA is proposing to pay all WECC and Peak charges associated with transfer service customer loads located outside of the BPA BAA. BPA is proposing to establish two new rates to recover these costs. Specifically, instead of a transfer customer receiving an individual invoice from WECC and Peak, it will now have two charges on its monthly power bill: one for the WECC transfer service rate and another for the Peak transfer service rate. *See* 2016 Power Rate Schedules, BP-16-E-BPA-09, GRSP II.J.

Q. How is BPA Transmission Services proposing to address WECC and Peak charges in the BP-16 rate proceeding?

A. BPA Transmission Services is proposing to pay all WECC and Peak assessments for all BPA customer load located within BPA's BAA and establish rates to recover these costs from customers with load in the BPA BAA. Transmission Services will create two separate charges, one for WECC assessments and one for Peak assessments. *See* Frederickson *et al.*, BP-16-E-BPA-14, § 8.

Q. *How did you calculate the revenue requirement for the Transfer Services Customers' WECC and Peak charges?*

A. The revenue requirement is based on an estimate of the charges that BPA expects to be charged by WECC and Peak in 2016 and 2017. Specifically, BPA's transfer service customers' load located in a BAA other than BPA's is added together, and then multiplied by the rates that WECC and Peak have submitted to the Commission. Only those BPA transfer service customer load amounts that are expected to be charged to BPA are included. For the transmission providers that simply roll all WECC and Peak costs into their rate base (*i.e.,* that do not differentiate between native and non-native loads in their NEL submission to WECC), the NEL quantities are not included in the calculation of the revenue requirements since BPA does not anticipate that there will be separately identifiable charges for our customers' load in these BAAs. Load quantities are taken from the NEL values submitted by WECC to the Commission for the 2015 assessment. These NEL values are based on actual loads for 2013 and include losses.

Q. *Why did you use the 2015 NEL amounts to determine the revenue requirement?*

A. The 2015 NEL amounts provided by WECC and Peak were used to determine the revenue requirements since this load information is the most current data available.

Q. *Why didn't you apply an adder for load growth to the 2015 NEL amounts?*

A. No load growth factors were used because in the calculation of the transfer services customer WECC and Peak rates, NEL amounts are included in both the divisor and the numerator, resulting in a ratio where the load growth factors would cancel each other out (*i.e.*, the same factors would be in the numerator and divisor).

Q. *Why did you apply an adder for inflation?*

A. While the WECC revenue requirement has increased each year, and Peak's charge is being assessed for the first time in 2015, there is no way to predict future increases. In order to capture at least one predictable increase, an adder for inflation was used to increase the WECC and Peak revenue requirements. The inflation factors for 2016 and 2017 are 1.68 percent and 1.60 percent, respectively.

Q. *How did you calculate the divisor for the Transfer Services WECC and Peak charges?*

A. The divisor consists of all Transfer Services Customer load located outside of BPA's BAA, including Transfer Service Customer load that is not explicitly identified in the NEL submission reported by the transmission provider BAA to WECC.

Q. *Is the load used to calculate the revenue requirement (the numerator) different from that in the divisor?*

A. Yes, the load in the divisor is different from that used to calculate the revenue requirement. Included in the divisor are transfer service customer loads located in BAAs that roll all WECC and Peak costs into their rate base and do not differentiate between native and non-native loads in their NEL submissions to WECC. The divisor load also has all losses removed in order to avoid under-recovery since the billing determinant also excludes losses.

Q. *What is the billing determinant for the transfer service customer WECC and Peak charges?*

A. The billing determinant will be the total monthly MWh amounts of non-BPA BAA transfer service customer load as shown on each customer's monthly power bill. These values do not include losses and are readily available on each customer's bill.

Q. *Why does the billing determinant only apply to transfer customer points of delivery that are not in the BPA BAA?*

A. The transfer service customer WECC and Peak rates apply only to BPA customers with load outside of the BPA BAA. BPA customers with load located in the BPA BAA will be charged WECC and Peak rates established by Transmission Services on their transmission bills. The rate assessed to BPA customer load located inside the BPA BAA will be different from the rate assessed to BPA transfer service customer load located outside the BPA BAA.

Q. *Why will the proposed transfer service WECC and Peak rates differ from the proposed BPA Transmission Services rates?*

A. The proposed transfer service customer WECC and Peak rates will be lower than the proposed BPA Transmission Services charges because the transfer service customer WECC and Peak charges recover a slightly lesser amount of costs. As we explained earlier, this is because of the way various BAAs submit their NEL information to WECC and Peak. If all transfer customers were assessed WECC and Peak charges by their respective BAAs, then the BPA Power Services and the BPA Transmission Services rates would match. However, not all BAAs separately charge individual loads for the WECC and Peak charges, but instead roll in some costs to their general rates. Thus, the rate that Power Services charges transfer service customers will be lower than the rate that Transmission Services will charge directly connected customers. This is because the amount of NEL load in the numerator and the divisor of Transmission Services' rates will be approximately the same. However, WECC and Peak will bill Transmission Services for all load located in the BPA BAA, and Transmission Services will in turn assess charges to these same customers for these charges.

Q. *What is the net revenue impact of the proposed transfer services customer WECC and Peak rates?*

A. We estimate the net revenue impact of the proposed Transfer Services WECC and Peak Charges to be approximately zero. We have used the best information we have to estimate what WECC and Peak will charge us in FY 2016 and 2017 to calculate the revenue requirement for the Transfer Service WECC and Peak rates. We anticipate that

WECC's and Peak's actual revenue requirements will change over the rate period from year-to-year, so Power Services may experience a small net positive or negative revenue. However, we expect any such amounts to be minimal.

Section 6: Southeast Idaho Load Service Cost Allocation

Section 6.1: Background

Q. Please explain BPA's obligation to obtain transfer service for customers in Southeast Idaho.

A. BPA has been obtaining transfer service for preference customers in Southeast Idaho since the 1960s. Through the Agreement Regarding Transfer Service and the Regional Dialogue contract, BPA is obligated to obtain and pay for transfer service for these customers and all transfer customers, with some limitations on transferring non-Federal power over third-party facilities. The Agreement Regarding Transfer Service also commits BPA to propose to roll the cost of transfer service into power rates in its initial rate proposal.

Q. Please describe the Southeast Idaho loads.

A. There are six preference customers located in what BPA refers to as Southeast Idaho. The actual load is physically located across three states (Idaho, Montana and Wyoming) with the majority being in Idaho. All these loads are located within the PacifiCorp East Balancing Authority. Together, these loads represent about 250 aMW of load, with a peak load of 450 MW. Coincident peak usage for these customers occurs in the winter. The customers in Southeast Idaho include customers purchasing requirements power under both Load Following and Slice/Block contracts.

Q. How are the loads in Southeast Idaho currently served?

A. Since 1989, BPA has used an exchange agreement with PacifiCorp called the South Idaho Exchange (SIE), and a transmission wheeling agreement with PacifiCorp called the General Transfer Agreement (GTA) to deliver power to these customers. Under the SIE, PacifiCorp serves BPA's loads in the PacifiCorp East BAA based on a forecast BPA provides PacifiCorp. Simultaneously, BPA returns the same amount of forecasted power to the PacifiCorp West BAA. The GTA is used to deliver this power from Goshen to BPA's customer loads over intervening PacifiCorp facilities, where needed.

Q. What is changing during the FY 2016–2017 rate period?

A. The termination provision for the GTA and SIE allows PacifiCorp to provide a notice of termination, which will take effect five years following receipt. In June of 2011, PacifiCorp issued this notice of termination. As a result, these contracts will terminate on June 30, 2016. The SIE and GTA have provided an efficient and cost-effective plan of service for serving these loads for more than 25 years. Starting July 1, 2016, BPA will have to serve these loads with a new plan of service.

Q. What are BPA's obligations to the Southeast Idaho Load Service (SILS) customers?

A. BPA has signed requirements power sales contracts, Network Integration Transmission Agreements, and the Agreement Regarding Transfer Service with these six customers. These agreements obligate BPA to deliver specified amounts of federal power over the Federal Columbia River Transmission System (FCRTS) and the adjoining transmission systems to the customers' points of delivery identified in their Regional Dialogue power sales contracts.

Q. *How is BPA planning to meet its obligation to the Southeast Idaho Load Service customers starting in 2016?*

A. BPA is working with regional parties on a number of fronts to obtain the best and most cost-efficient means of meeting BPA's long-term obligations to its Southeast Idaho loads. Until these plans are completed, BPA's interim plan of service, which will begin in July 2016, requires BPA to obtain Network OATT service on the PacifiCorp system. To this end, BPA has secured Network transmission agreements with PacifiCorp. Since there is not sufficient transmission capacity available between the BPA system and the PacifiCorp East BAA to meet the Southeast Idaho loads, BPA's interim strategy calls for a combination of (1) transmission acquisitions to move Federal Columbia River Power System (FCRPS) generation to load and (2) market purchases made within the PacifiCorp East BAA. BPA's strategy also calls for obtaining direct access from its system to the PacifiCorp East BAA on appropriate transmission paths. Consistent with this strategy, BPA has made two long-term market purchases (SILS long-term market purchases), with delivery to the PacifiCorp East BAA beginning in 2016. BPA has requested that these purchases be designated as network resources in its Network transmission agreement with PacifiCorp.

Q. *Please briefly explain BPA's overall policy for interim Southeast Idaho load service.*

A. BPA's policy is to ensure that transfer customers have reliable service at the lowest cost based on sound business principles. BPA will endeavor to secure energy contracts and transmission access for the FCRPS that qualifies as designated network resources for the forecast peak load.

Q. *What aspect of BPA's Southeast Idaho load service is addressed in this rate proceeding?*

A. The allocation of costs associated with the long-term market purchases and transmission acquisitions made in the PacifiCorp East BAA for purposes of serving the Southeast

Idaho loads are considered rate case issues, and are addressed in this testimony. BPA's obligation to obtain transfer service and the details of how BPA plans to respond to the changing transmission landscape in Southeast Idaho are not rate case issues.

Section 6.2: Transfer Services Budget and TRM Cost Pool Assignment

Q. How will the conversion of the South Idaho Exchange and GTA to an OATT service arrangement impact transfer service costs in the FY 2016–2017 rate period?

A. The conversion to OATT does not occur until July 1, 2016, so the impact on cost in 2016 is for only a quarter of the year. In 2017, the first full year of interim service, the transfer cost BPA incurs for serving Southeast Idaho will double compared to the cost BPA has been paying for the SIE and GTA. This represents an increase of roughly $10 million in FY 2017.

Q. Are there other changes that are putting upward pressure on the transfer services budget?

A. Yes. The current transfer services budget is $54 million annually. In general, the cost of service on most third-party transmission systems is increasing. PacifiCorp, Idaho Power Company, and Puget Sound Energy all have formula rates in place that adjust every year to account for new facilities and increased costs. BPA is also anticipating rate increases from at least two non-jurisdictional transfer providers before the start of the BP-16 rate period. BPA's forecast of these other increases will increase the transfer service budget by an additional $7 million by FY 2017. BPA intervenes in investor-owned utility Commission rate proceedings and negotiates with non-jurisdiction utilities to ensure that rates for transfer service are just and reasonable, but additions are being made on several transmission systems and costs are increasing for these services.

Q. How are transfer service costs generally treated in BPA ratemaking?

A. Transfer service is a contractual obligation and the costs associated with providing it are categorized as non-discretionary costs. Since 1996, transfer service costs have been rolled into power rates. Under the TRM, these costs go into the Composite Rate Pool, and all preference customers share the cost of transfer service. *See* Tiered Rate Methodology, BP-12-A-03, Table 2.

Q. What is the rationale for rolling the transfer service costs into the Composite Rate Pool for power rates?

A. BPA is obligated by statute to serve preference loads regardless of whether or not they can be interconnected to the BPA transmission system. Over the years, as customers requested service from BPA, it was much more cost-effective to enter into transfer service contracts rather than to expand the BPA transmission system where third-party transmission facilities already existed. Using transfer service rather than building out the FCRTS has been a significant savings for all BPA customers. Thus, rolling the transfer service costs into a broad BPA rate base has been a generally accepted practice.

Section 6.3: Proposed Cost Allocation for SILS Market Purchases

Q. Please explain how transfer service costs impact different rate pools.

A. The transfer service costs are included in the Composite Cost Pool, which is the basis for the Composite Customer Charge paid by all preference customers. This allocation follows general ratemaking principles and recognizes that the benefits of transfer service flow through to both Slice and non-Slice customers.

Q. What categories of costs will be included in the transfer service budget during the BP-16 rate period?

A. Beginning in 2016, BPA will generally incur three categories of costs in order to meet BPA's transfer service SILS obligations. One category is the cost of Network OATT service purchased from PacifiCorp. This is consistent with the traditional method of service BPA has obtained for most transfer service load located within an investor-owned utility's BAA.

Second, BPA will purchase Point-to-Point transmission from Idaho Power and potentially other transmission providers to deliver power from the FCRPS to the PacifiCorp East BAA. There is limited interconnection between BPA and the PacifiCorp East BAA so for BPA to move FCRPS energy to the Southeast Idaho loads, a wheel across an intervening system, like Idaho Power, is necessary.

The third category includes the costs associated with the long-term market purchases made by BPA in or around the PacifiCorp East BAA. (As discussed in the following sections, we are proposing that only a portion of these costs be included in the transfer service budget and allocated to the Composite Cost Pool.) These purchases are being made because there is not adequate transmission capacity available between BPA and the PacifiCorp East BAA to meet the Southeast Idaho loads with energy generated from the FCRPS, especially in the summer months. While these power costs are not transmission costs like the previous two categories, BPA is incurring the power costs for the same purpose as the transmission costs—to reliably serve BPA's Southeast Idaho loads. If not for BPA's obligation to serve Southeast Idaho loads, BPA would not make these specific power purchases. Allocating a portion of the market purchase costs to the Composite Cost Pool through the transfer service budget will ensure that costs associated with BPA's obligation to serve all preference customers in a reliable manner is shared broadly among power customers.

Q. How are you proposing to allocate the costs associated with the SILS long-term market purchases in the FY 2016–2017 rate proceeding?

A. We begin by calculating the difference between the SILS long-term market purchases valued at the contract prices and the same purchase quantities valued at the forecast Mid-C price as reported on the Intercontinental Exchange (ICE) on the day of each transaction. ICE is a commodity clearing house for a wide range of energy products including Mid-C daily and forward monthly power products. We then propose to allocate this cost differential to the transfer services budget so that it flows into the Composite Cost Pool. Finally, we propose to allocate the remaining cost associated with the SILS long-term market purchases to the Non-Slice Cost Pool as a balancing purchase cost.

Q. Why are you proposing to determine a market differential for the SILS market purchase?

A. As noted above, the SILS market purchases are being made as a component of BPA's interim strategy to serve its Southeast Idaho loads following expiration of the SIE and GTA. BPA intends to use these purchases as designated network resources in the PacifiCorp East BAA for OATT service to our network loads. As BPA has sought sellers for these purchases through its Request for Offers (RFO), BPA has found that selling entities place a risk premium on their products to meet the requirement of BPA's RFO. Because this premium is associated with BPA's need to meet its load service obligations to Southeast Idaho customers, we believe it is reasonable to allocate the market differential to the Composite Cost Pool so that all customers pay for this premium.

Q. *If the SILS market purchases are being acquired to serve Southeast Idaho loads, why are you proposing to allocate only a "market differential" to the transfer service budget and not the entire cost of the SILS market purchases?*

A. Allocating the entire cost of the SILS market purchase to the Composite Cost Pool would not be equitable. Prior to reflecting these purchases in the load/resource balance, BPA has sufficient resources to serve these loads; it just can't be assured it can get the power to the load. With these purchases BPA will have additional FCRPS capability that will enable BPA to earn additional secondary revenue or avoid balancing purchases, both of which will benefit customers purchasing non-Slice products. If BPA included the total cost of the SILS market purchases in the Composite Cost Pool, customers taking the Slice product would be charged the costs of these purchases, but receive neither a share of the power nor the anticipated net revenues associated with these purchases under their Slice product.

A more equitable allocation is to assign the market differential associated with these purchases to the transfer service budget, which is assigned to the Composite Cost Pool, and the remaining purchase cost to the Non-Slice Cost Pool as a balancing purchase. This allocation recognizes that the SILS market purchases include a premium associated with the load-service nature of the sales, which should be shared by all preference customers, but balances the costs of these purchases against the associated benefits non-Slice customers will receive through additional FCRPS capability.

Section 6.4: Methodology for Calculating the Market Differential

Q. Please generally explain the methodology you used for calculating the differential between the SILS market purchases and the Mid-C Forward Market.

A. BPA held two separate RFO processes requesting offers from counterparties with the ability to serve BPA's loads in Southeast Idaho. This process resulted in two long-term market purchases that were entered into a few months apart. To determine the market differential, we compared the contract prices associated with each offer against a Mid-C forward curve. A forward curve in this case is a single series of monthly power prices that start with the prompt month and continue through June 2021. These forward curves were taken from ICE at the time each contract was executed. The differential for each market purchase contract was determined by comparing the difference between the monthly weighted average market price using the ICE forward curves and the contract price. We then established a fixed differential, which we propose to use as the market differential between the SILS market purchases and the Mid-C forward market for the duration of the market purchases.

Q. How was the monthly weighted average market price determined?

A. The monthly weighted average market price was calculated in two steps. First, we summed the product of the ICE heavy load hour (HLH) and light load hour (LLH) prices and the applicable contract megawatthours. We then divided this result by the sum of the HLH and LLH megawatthours in the corresponding month to yield a monthly weighted average forward Mid-C market price. Once a weighted average forward market price has been established, each weighted monthly value is then subtracted from the contract price for each of the months contained in the contract, resulting in the monthly differential between the SILS contract price and the Mid-C forward market price. *See* Power Rates Study, BP-16-BPA-01,§ 3.6.4.

Q. Why did you use the ICE market price data for setting the differential price?

A. The ICE offers the trading community better price transparency, more efficiency, and greater liquidity. ICE is currently the predominant third-party provider of a forward power price index available to the market.

Q. Why did you use forward market price data available at the time each purchase was executed to determine the price differential?

A. On two dates of execution, BPA entered agreements to purchase location-specific power products for the purposes of transfer load service. The first market purchase was finalized on May 9, 2014, and the second on September 30, 2014. At each time, BPA obligated itself to the purchase of power at a known price, contingent on the purchases being confirmed by PacifiCorp as a designated Network Resource. In order to hold Slice customers harmless from any potential variation in price that would occur between the contract execution dates and the rate proceeding, BPA determined the price differential at the time the purchase was made.

To determine the price differential at the time of the market purchases, BPA could have completed both sides of a locational exchange by simultaneously selling the same amount of power on the West side of the system. This would have "locked in" the true transfer cost differential to be allocated to the Composite Cost Pool. BPA chose not to do so; instead of locking in the locational exchange, BPA chose to use a methodological approach, which was to remove the value of the transaction using the Mid-C forward price on each day of transaction.

Q. Why is fixing this differential important to holding Slice customers harmless from future price variation?

A. The SILS market purchases are five-year purchases. In determining how the differential price is calculated, we propose to fix the differential price based on market prices at the time the purchases were made, and use this fixed differential for allocating costs for this rate period (and the next two rate proceedings). We propose this approach because market prices for power change from day to day in the marketplace, reflecting changes in exogenous factors impacting the value of power. Market prices also change based on the duration of a forward purchase of power. As we move through time and certainty grows, some of those risks start to dissipate and the forward price curves reflect increased certainty. In essence, the view of the forward market is different than when we initially entered into the long-term contracts. This decoupling between certain risk factors, either known or unknown, from the time when the contract was signed and at the start of a new rate case two years later causes an apples-to-oranges comparison if we revisit these amounts in each rate case. Therefore, fixing the market price differential now accurately reflects the market views that existed at the time the contract prices were set, and provides assurance in the BP-16 rate case, and future rate cases, as to the cost to BPA for these five-year market purchases.

Q. Did you have to make any adjustments to the ICE forward market price data?

A. Yes. The ICE forward light load hour Mid-C market price did not go out past December of 2020, falling short of the last six months of the five-year market purchases that are in effect through June 2021. In order to extrapolate light load hour prices for 2021, the ratio of heavy to light load hour prices in 2020 are applied to the forward heavy load hour prices in 2021.

Section 6.5: Proposed SILS Market Purchase Price Differential Results

Q. What is the proposed calculated price differential for the SILS market purchases for FY 2016 and 2017?

A. The price differential is $6.01 per MWh. Since the SIE does not expire until June 30, 2016, there will be only three months of the market purchase price differential allocated to the transfer service budget in FY 2016. For these three months the total cost of the differential is $1,219,038. In FY 2017 the differential will be allocated for the entire year and will amount to $5,424,358. *See* Power Rate Study Documentation, BP-16-E-BPA-01A, Table 3.25.

Q. Does this conclude your testimony?

A. Yes.

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Attachment 1

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ATTACHMENT 1

E. Supplemental Guidelines for Direct Assignment of Facilities Costs Incurred Under Transfer Agreements

BPA will use this set of Supplemental Guidelines to assign costs to Transfer Service Customers. Such costs are comparable to the costs purchasers of Transfer Services would incur if such purchasers were directly connected to the BPA transmission system.

This set of Supplemental Guidelines augments the BPA Transmission Services "~~Direct Assignment Facilities Guidelines~~Facility Ownership and Cost Assignment Guidelines," as amended or superseded (Transmission Services Guidelines), currently posted at:
http://transmission.bpa.gov/ts_business_practices/

In determining whether to directly assign to a Transfer Customer costs incurred by BPA in providing transfer service to the Customer, BPA will apply the current Transmission Services Guidelines and these Supplemental Guidelines. The Supplemental Guidelines apply only to transfer service acquired by BPA from third-party transmission providers for service to Preference Customers. The Supplemental Guidelines use some terms defined in the 20-year Agreement Regarding Transfer Service (ARTS). Also, Direct Assignment Facilities, as defined in most pro forma Open-Access Transmission Tariffs (OATT), are:

> Facilities or portions of facilities that are constructed by the Transmission Provider for the sole use/benefit of a particular Transmission Customer requesting service under the Tariff. Direct Assignment Facilities shall be specified in the Service Agreement that governs service to the Transmission Customer….

These Supplemental Guidelines are designed to supplement, not replace, the Transmission Service Guidelines and to assist in predicting how BPA, as the default transmission Customer for transfer arrangements, will recover costs for Direct Assignment Facilities assessed by third-party transmission providers. Unless otherwise specifically excluded in the Transmission Services Guidelines or below, the cost of Direct Assignment Facilities will be passed through to the Customer.

Supplemental Guideline Regarding ~~Voltages below 34.5 kV~~ Directly-Assigned Facilities

For new facilities or new service over existing third-party transmission provider facilities ~~at voltages below 34.5 kV~~ that meet the definition of Direct Assignment Facilities, metered quantities for Customer deliveries will be adjusted for losses ~~to the point where the voltage is at or above 34.5 kV,~~ such that BPA is not responsible for losses across such directly-assigned facilities. Loss calculations should be similar whether the Customer or the transmission provider owns the ~~delivery~~ directly-assigned facilities. ~~*Note*: The cut-off voltage of 34.5 kV is used in the Transmission Services Guidelines. If this voltage level is changed in the Transmission Services Guidelines, these Supplemental Guidelines will be deemed modified.~~

ATTACHMENT 1

Supplemental Guidelines Regarding Replacement with Higher Capacity Facility or Addition of a Transformer in Parallel

Pursuant to the Transmission Services Guidelines, for a new transmission provider-owned facility that also adds capacity, the costs that exceed the cost of replacing the previous capacity may be directly assigned to the benefiting Customer. Alternatively, BPA and the Customer may agree to full direct assignment in lieu of payment of the GTA Delivery Charge. Similarly, when a parallel transformer is added, BPA and the Customer may agree to a simplified direct assignment of all delivery costs in lieu of some combination of Delivery Charge and direct assignment.

Supplemental Guidelines Regarding Construction Option

The Customer may work directly with the third-party transmission provider to develop and select among options regarding construction, cost sharing, and ownership. BPA will work with the Customer and the transmission provider to arrive at the best one-utility plan, workable cost-sharing options, equitable ownership, and interconnection arrangements. Due to regulatory issues, it is Power Services' policy not to own facilities.

Additional Guidelines:

Rolled-in Rate Treatment by Transmission Provider

If a Customer receives new Transfer Service over new or pre-existing facilities ~~below 34.5 kV~~ offered by the transmission provider under a rolled-in rate or revenue requirement, BPA reserves the right to assess the GTA Delivery Charge. BPA will not assess the GTA Delivery Charge for a new point of delivery (POD) if specific facilities' costs are not rolled in but are directly assigned to BPA and in turn passed through to the Customer.

Wholesale Distribution Facilities Beyond the Step-Down Substation

On any new arrangement for directly-assigned facility ~~delivery below 34.5 kV~~ (new or pre-existing facilities), the incremental cost for use of any facilities (other than potential transformers or current transformers for revenue metering) beyond the fence of the corresponding step-down transformer substation (or beyond a 20-foot radius of the step-down, for pole-top substations) shall be passed through to the Customer, whether such costs are directly assigned to BPA or are imposed pursuant to a discrete wholesale distribution rate or Load Ratio Share of a discrete wholesale distribution revenue requirement.

Customer Arrangements Directly with the Third-Party Transmission Provider

A Customer may, in lieu of paying the GTA Delivery Charge, choose to contract directly with the third-party transmission provider for delivery service ~~below 34.5 kV~~ ~~for~~ at an existing POD, but must then do so for all similar PODs with that transmission provider. The Customer must take transmission service ~~delivery~~ from BPA ~~at or above~~

ATTACHMENT 1

~~34.5 kV for~~ at these PODs such that the Customer is responsible for costs of and losses through the delivering facilities. A Customer contracting with the third party for a new POD does not create a requirement that the Customer contract with the third party for its pre-existing low-voltage PODs.