

**DRAFT SEGMENTATION PROPOSAL
BASED ON FUNCTION**

Perform an Analysis of the Functions Performed by BPA's Facilities

A. Description of Segmentation of BPA's Facilities Based on Function

1. Identify intertie, generation integration, ancillary service, and direct assignment facilities. (Any changes to BPA's methodologies for identifying facilities in these segments are beyond the scope of this particular proposal.)
2. Network segment facilities and delivery facilities are those remaining transmission facilities not falling into the segments in item 1 above.
3. Segment remaining transmission or delivery facilities using an analysis of the functions performed by BPA's facilities.
 - a. As discussed below, BPA's system seems relatively unique insofar as BPA's lower-voltage Network facilities are used predominately to serve a subset of BPA's transmission customers, while other BPA transmission customers—investor-owned utilities and larger preference agencies—provide their own lower-voltage facilities. Because of this fact, segmenting BPA's system using the FERC seven-factor test or similar functional test is particularly appropriate.
 - b. This approach
 - (i) more closely aligns with cost causation because it should result in rates based on the function or usage of the various BPA facilities, and
 - (ii) should not be unduly complicated to implement.

B. Analyze Proposed Change in Network Segment Rate and Distribution Rate for BPA Transmission Customers.

After segmentation and to the extent practicable, limit the proposed average increase in the Network segment rate and the distribution segment rate for any rate period ((for example, the average rate increase in each rate is to be no more than 20%). Spread the cost of such limit pro rata to the Network segment rate and the distribution segment rate,

so that to the extent practicable neither rate experiences an average rate increase greater than 20% (for example) for any rate period. This limit mitigates any “rate shock” that may otherwise occur.

C. Discussion of Segmentation of BPA’s Facilities Based on Function in the Context of BPA’s “Proposed Segmentation Principles”

BPA has developed “BPA’s Final Segmentation Principles” dated March 20, 2014.¹ These BPA principles are set forth below, together with some observations set forth in italics regarding segmentation of BPA’s facilities based on function in the context of those proposed principles.²

1. Consistent with statutory requirements

a. Full and timely cost recovery

The issue is not whether BPA will fully and timely recover its costs. The issue is which customers will pay for which facilities. This proposal attempts to provide a methodology that is relatively easy to implement while at the same time more closely aligning BPA’s rates with cost causation.

b. BPA’s rates are based on total system costs

Under the proposal for segmentation of BPA’s facilities based on function, all of BPA’s Network and delivery segment costs are allocated to rates for users of such segments. BPA should achieve cost recovery of its total Network and delivery segment costs.

c. Equitable cost allocation between federal and non-federal uses of the Transmission system

Under the proposal for segmentation of BPA’s facilities based on function, Network and delivery segment rates are more closely aligned with cost causation than an arbitrary 34.5kV segmentation test because such segmentation should result in rates based on the function of facilities used by BPA to provide various services. This is particularly appropriate in light of the fact that BPA’s lower-voltage

¹ These proposed principles are similar to the BPA proposed principles commented on in “Comments of Avista Corporation, Iberdrola Renewables, LLC, PacifiCorp, Portland General Electric Company, Public Utility District No. 1 of Benton County, Washington, and Puget Sound Energy, Inc. on January 28, 2014 BPA Segmentation Materials.”

² However, this discussion of BPA’s principles is not intended as an endorsement of such principles. See footnote 1 above. Further, such principles cannot and should not be applied in a BPA rate case itself, so as to supplant statutory requirements. For instance, “principles” cannot shift the burden of supporting BPA rates in a BPA rate proceeding to a BPA customer or require that a BPA customer presents in a BPA rate proceeding a comprehensive proposal in order to assert that certain costs should not be allocated to the rate for a particular BPA service. In this regard, for example, the Northwest Power Act section 7(i)(5) requires that the Administrator’s decision establishing rates “shall include a full and complete justification of the final rates”

Network facilities are used predominately to serve a subset of BPA's transmission customers. The segmentation of BPA's facilities based on function would apply regardless of whether Federal or non-Federal power is being transmitted, yet should be equitable insofar as it would better reflect cost causation and result in rates based on segmentation of facilities reflecting the function of those facilities.

- d. Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

Under the proposal for segmentation of BPA's facilities based on function, Network and delivery segment rates are more closely aligned with cost causation because they include different charges based on the function of facilities used by BPA to provide various services. Such rates send a better price signal than an arbitrary 34.5kV segmentation test and are limited to collecting the Network and delivery segment revenue requirements—therefore, they should promote efficient transmission facility decisions and be consistent with this principle.

2. Consistent with rate making principles

- a. Cost causation

Under the proposal for segmentation of BPA's facilities based on function, Network and delivery segment rates are more closely aligned with cost causation because they include different charges based on the function of facilities used by BPA to provide various services.

- b. Simplicity, understandability, public acceptance and feasibility of application

Under the proposal for segmentation of BPA's facilities based on function, BPA's Network and delivery segment rate structures would remain unchanged (but would likely reflect the transfer of facilities from one segment to another).

- c. Avoidance of rate shock

Under the proposal for segmentation of BPA's facilities based on function, mitigation of potential "rate shock" is addressed as discussed above.

- d. Rate stability from rate period to rate period

Under the proposal for segmentation of BPA's facilities based on function, the function performed by various BPA facilities should be

relatively stable, and the proposal for segmentation of BPA's facilities based on function should result in Network and delivery segment rates that are relatively stable from rate period to rate period.

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

Under proposal for segmentation of BPA's facilities based on function, all Network and delivery segment costs are allocated to BPA Network or delivery segment rates and should therefore be recovered.

The proposal for segmentation of BPA's facilities based on function is superior to the status quo because the proposal should result in rates based on the function of facilities used by BPA to provide various services and should result in rates that are more closely aligned with cost causation than an arbitrary 34.5kV segmentation test.

BPA has not always applied uniform rates,³ nor has it shown that uniform rates achieve the widest possible diversified use consistent with sound business principles.

The proposal for segmentation of BPA's facilities based on function is superior to BPA's practice "[h]istorically," which was based on an arbitrary 34.5kV segmentation test that arose in a 1996 transmission rate case settlement. As discussed above, the proposal should result in rates based on the function of facilities used by BPA to provide various services and should result in rates that are more closely aligned with cost causation and more consistent with sound business principles than an arbitrary 34.5kV segmentation test.

³ See, e.g., BP-14-B-JP06-01, pp. 16-18.