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VIA E-MAIL to TECH FORUM

April 22, 2014

Mr. Ray Bliven
Bonneville Power Administration

Ms. Rebecca Frederickson
Bonneville Power Administration

RE: Segmentation Policy Issues

Hi Ray and Rebecca;

In both the 2012 and 2014 Bonneville rate setting processes, Renewable Northwest Project, with substantial support from Gaelectric, proposed to eliminate the Montana Intertie¹ rate associated with the 184 MW of capacity on the Montana Intertie that has been stranded for over 25 years as a result of the pancaking of rates (MT Intertie and PTP). Indeed, until October of 2012 that stranded cost was borne by all of Bonneville's transmission customers. But for RNP's intervention and attempt to make that capacity available at a just and reasonable rate (PTP), that would still be true. As a result of RNP calling attention to the stranded cost and capacity resulting from the internally pancaked rates on its system, however, Bonneville eliminated certain contract terms with the other Colstrip transmission system owners and shifted the stranded costs to those parties while retaining the capacity and associated rate pancake. So while the costs are no longer stranded from BPA's perspective (they are now a cost of the Colstrip transmission system owners), the continuing rate pancake still leaves the remaining capacity stranded.

Despite Bonneville staff analysis showing negligible rate impacts (~0.2%) by eliminating the rate pancake on the 184 MW of stranded capacity, in the Record of Decision on the 2012 rate case, the Administrator indicated that while he was inclined to eliminate the rate pancake given the facts of the case, he was compelled by opposing parties' arguments that such action might set a precedent with regard to future elimination of the Southern Intertie rate. He asked that the opposing parties on this issue meet in the interim period before the next rate case to resolve the precedent question.

During the interim period before the 2014 rate case, RNP and BPA attempted unsuccessfully to engage the opposition on the question of precedent. Rather the

¹ The term "Montana Intertie" as used extensively in this paper, numerous rate case documents, as well as virtually all discussions related to this matter is more accurately defined in the Montana Intertie Agreement among BPA and the Colstrip transmission owners as the "Eastern Intertie" and is made up of the double circuit 500 kV transmission facilities owned by BPA between Garrison and Townsend where it interconnects to the Colstrip transmission system. "Montana Intertie" has evolved into a term of art especially since BPA eliminated the "exchange" arrangements in the Montana Intertie Agreement.

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opposition brought up the same old stale arguments, and again the BPA staff supported the elimination of the rate pancake since it would have negligible impact on rates. In the Record of Decision on the 2014 rate case, the Interim Administrator elected again to postpone eliminating the rate pancake since during this next interim period there was going to be a rehash of the Segmentation Policy and Principles, and this matter was really a segmentation issue.

I have listened in on several of the segmentation meetings during this current interim as the parties discuss the intricate details of low voltage facilities used to move power from the bulk grid to end use customers, and whether such facilities should be included in the bulk transmission rates. At least one party that argued in the 2012 rate case that a 0.2% impact on rates resulting from the elimination of the MT Intertie rate impact would be egregious, has recently argued that a 0.6% impact on rates by rolling in low voltage delivery facilities would be negligible. It is at that point that I could no longer refrain from identifying the elephant in the room that was obvious even remotely to a phone participant. When I spoke up, you asked that I formally introduce the MT Intertie rate pancake issue. It is for that reason, I am writing.

More Recent Developments

In the intervening 25+ years, Montana Power, and its successor NorthWestern Energy, has upgraded its underlying (<500 kV) transmission system through multiple investments as a routine part of operating its system. When NWE offered to make its underlying capacity available to Gaelectric in response to TSRs made by Gaelectric on the NWE system, Bonneville protested claiming that NWE was attempting to sell BPAs stranded capacity, siting 25+ year old capacity studies and associated contracts. This dispute has been going on now for more than two years and has resulted in NWE being unable to offer more than a fraction of its available firm capacity to Gaelectric in response to its TSRs.

Is the Third Time a Charm?

Rather than restate the case made by RNP on this matter in the 2014 rate case (which looked a lot like the 2012 rate case), I will refer you to the 2014 documents. Most compelling is that during the permitting of the MT Intertie facilities, BPA made extensive arguments in Montana that the need for these facilities for regional reliability was at least as great as the need to integrate the Colstrip facilities identified in the then-current NWPP regional plan as “regional supply”. Despite that, the opposition continued to argue that the MT Intertie facilities serve only one purpose and that is to integrate extra-regional facilities and that such is still the case.

Now we have the dispute discussed above in the section called “More Recent Developments”. There is no indication that dispute will be resolved any time soon. While hopefully not the intention, the continuing dispute with NorthWestern is just another

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case of Bonneville pursuing an action or an inaction that disrupts Gaelectric's efforts to get its product to market. In addition to the arguments made by RNP in the prior rate cases, elimination of the MT Intertie rate pancake on the 184 MW of stranded capacity should resolve the continuing dispute between NWE and BPA.

Thanks for Your Consideration

Thanks for acknowledging at the meeting the other day that this issue is still on your radar. If you need anything further from me, please don't hesitate to ask, and thanks for your continuing consideration of this matter.

Sincerely;



cc: Stacy Gasvoda
Charles Shawley, PhD
Cameron Yourkowski