

**Public Power Council's Proposal for
Retention of Current Eastern Intertie Rate Segment
25 April 2014**

I. Statement of Proposal

PPC proposes that BPA retain its current segmentation of the Eastern intertie facilities and costs into the IE, IM and TGT rates.

In making and supporting this proposal PPC limits its statements regarding segmentation concepts and principles to the narrow and express context of intertie segments. PPC expressly does not comment in any respect on any other segmentation within and of the Network and nothing in these comments is intended or may be construed to support or oppose any segmentation proposal with regard to BPA transmission facilities other than the current Eastern Intertie segment.

II. Background

A. Litigation of Eastern (and Southern) Intertie Segmentation in Summary

BPA has maintained a separate rate segment for the Eastern Intertie since 1983, when the line came into service and rates could be set for it.¹ The Eastern Intertie is a radial transmission facility. Its primary use is to transmit the output of Colstrip generation for five customers under the Montana Intertie Agreement. There are no requests in BPA's transmission service request queue for new service over that path. In the BP-14 rate case, the Administrator found that "[t]hese factors indicate that the Eastern Intertie should remain a separate segment" and that "other reasons to roll in BPA's Eastern Intertie capacity have not been established."²

Based on the evidence in the record in the BP-14 case, the Administrator other, more definitive findings:

- "roll-in of BPA's Eastern Intertie capacity would not encourage development of renewable generation in the Pacific Northwest."³
- "There is a significant risk of additional costs from roll-in of BPA's Eastern Intertie capacity that has not been refuted. Because of that risk, it has not been demonstrated that roll-in would be consistent with sound business principles."⁴
- "It cannot be determined on this record whether roll-in of the Eastern Intertie would be a

¹ "Staff explains that BPA's share of the Montana Intertie is actually a share of the costs of the Townsend-to-Garrison transmission segment, known as the Eastern Intertie, and that BPA's share of the costs of that segment is the ratio of the amount of BPA's firm transmission service over that segment divided by the sum of 1730 MW and the amount of BPA's firm service. Fredrickson *et al.*, BP-12-E-BPA-48, at 2-3." Administrator's Final Record of Decision, 2012 Wholesale Power and Transmission Rate Adjustment Proceeding ("BP-12 ROD"), BP-12-A-02, at 476.

² Administrator's Final Record of Decision, 2014 Wholesale Power and Transmission Rate Adjustment Proceeding ("BP-14 ROD"), BP-14-A-02, at 160-161.

³ BP-14 ROD, at 162.

⁴ *Id.* at 163.

precedent for roll-in of the Southern Intertie.”⁵

B. BPA’s Principles for Segmentation Proposals

Segmentation concerns cost-causation and equity in establishing rates. In the final record of decision for the BP-12 general rate case, BPA stated that “[f]or ratesetting purposes, BPA allocates the rate period transmission revenue requirement to the various transmission rates based on projected use of the system. Because the entire system is not needed to provide each type of service, this method of cost allocation is more equitable than one that does not segment facilities and their associated costs.”⁶ BPA staff has prescribed a set of principles for cost recovery that have been discussed with customers. These principles are as follows:

1. Consistent with statutory requirements

- a. Full and timely cost recovery
- b. BPA’s rates are based on total system costs
- c. Equitable cost allocation between federal and non-federal uses of the Transmission system
- d. Encourages the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles

2. Consistent with rate making principles

- a. Cost causation
- b. Simplicity, understandability, public acceptance and feasibility of application
- c. Avoidance of rate shock
- d. Rate stability 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 the status quo
- c. Historically BPA has applied uniform rates to achieve widest possible diversified use⁷

These principles are addressed in the following section.

III. Discussion of and Support for Proposal

A. Consistent with Statutory Requirements

Were BPA to retain the Eastern Intertie segment and continue to recover those costs from the users of the transmission system, full and timely cost recovery would be assured. BPA has been recovering the costs of those facilities for decades. BPA has asserted and FERC has

⁵ Id. at 164.

⁶ BP-12 ROD, BP-12-A-02, at 475.

⁷ BPA’s Final Segmentation Principles, March 20, 2014.

agreed that the BPA transmission rates as a whole, including the Eastern Intertie rates, are set at a level sufficient to recover BPA's costs. Only the costs of the Eastern Intertie facilities, net of costs recovered through the TGT rates, are recovered by the current IM rate and we do not propose that this change.

BPA does not use the Eastern Intertie facilities for delivery of federal power to preference customer load or to non-preference customers as part of its federal power-marketing program. Only Vigilante Electric's load is served with federal power over a line and transformer bay out of the Garrison substation but those facilities are segmented to the Network and not to the Eastern Intertie. Rather, the Eastern Intertie was built solely to import non-federal electric power from generation in eastern Montana. This is currently the sole function of the line. Were additional generation to be interconnected to the Eastern Intertie facilities and delivered to loads in the Pacific Northwest, as rate case parties have asserted, the use of the line would remain unchanged; its function would remain a non-federal power import facility that interconnects with the BPA network at Garrison.

Rolling the Eastern Intertie costs into the Network rates would not encourage the "widest possible diversified use of electric power." There is no evidence that Montana wind development is being impeded by the existence of the current rates given that Montana wind generation is already competitive with Pacific Northwest wind generation and is asserted to be of higher quality. Transmission is available on the Eastern Intertie for wind plants to request and yet none has. Also, BPA's rates for the Montana Intertie are currently based on the cost of those facilities and therefore, are the lowest reasonable rates. Rolling in these costs would impose these costs, and create the risk of the imposition of further, similar costs, in users of the Network, causing the costs that they bear to rise contrary to this statutory directive.

B. Consistent with Rate-Making Principles

Retention of the Eastern Intertie segment and rates satisfies the cost causation principle by allocating the costs of the facilities to the users of those facilities. The only foreseeable new users of the facilities would be non-federal generation and those parties should pay the costs of the facilities, as do the current customers who use the facilities to transmit Colstrip power into the Pacific Northwest. A proposal to allocate these Eastern Intertie costs to Network customers would violate cost causation by allocating costs to Network customers in the absence of any certain, meaningful economic benefit commensurate with the costs. A generalized regional benefit is not a sufficient rationale to support imposition of costs on Network customers. Moreover, sufficient evidence has not been produced demonstrating even a generalized regional benefit. Given that Montana wind energy is already competitive on price and possibly more competitive on quality with Gorge and eastern Oregon and Washington wind, this failure does not appear surprising.

The proposal requires BPA to take no action and as such is simple, understandable and feasible. No change is required from the rates that have been in effect in one form or another for more than twenty years. Given that these rates have been acceptable for that period up until the BP-12 case and that the proposals to eliminate those rates and roll the costs into the Network received strong and broad opposition, retention of the rates should be considered to have broad public acceptance.

PPC's proposal would not cause the rate levels to increase or the costs to be uncertain. The customers that currently pay that rate would continue to do so but not additional customers would pay the costs or the rate unless they requested transmission service over the Eastern Intertie. No potential for rate shock is created by the proposal.

The proposal would not cause a change in the way the rate is calculated or in the costs. The rate is stable from rate period to rate period to the same extent it has always been so. There would not be any greater unpredictability in the rate level beyond what is already experienced.

C. Considers a regional perspective

The proposal would continue to allocate BPA's share of Eastern Intertie costs to users of the Eastern Intertie facilities. It does not affect cost allocation in regard to any other part of the FCRTS. In regard to other effects that roll in of the IM rate might have, other rate case parties have argued that taking this action, without roll-in of the TGT rate, might be unduly discriminatory. Colstrip parties have raised this argument and it must be dealt with. Rolling in the TGT costs, as well as the costs of BPA's share of the Eastern Intertie, significantly increases the impact of rolling costs of non-federal uses into the Network in a manner that is inequitable.

Lastly, were BPA to roll-in the Eastern Intertie costs as proposed by some parties, it would risk creating a precedent that could be used by other parties to argue for rolling into the Network the costs of other, currently segmented transmission facilities. Rolling in the Eastern Intertie cost could be seen as an invitation to roll-in the costs of generation interconnection facilities which are even more closely co-located with the network. As a long-distance generation import facility, the Eastern Intertie could be viewed as having commercial uses similar to the Southern Intertie; it would be reckless to believe that other parties would not in the future point out similarities between the EI and SI in making arguments to roll in BPA's Southern Intertie facilities. PPC does not support such proposals but taking into account these risks is critical to any decision that BPA might make.

IV. Conclusion

For the reasons discussed above, BPA should propose in its BP-16 initial rates proposal to retain the IM rate.