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TESTIMONY OF

DANIEL R. YOKOTA, BRIAN T. GALBRAITH,
JEFFREY S. HURT, AND DERRICK L. PLEGER

Witnesses for Bonneville Power Administration

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5

6 **SUBJECT: TRANSFER SERVICE**

7 **Section 1: Introduction and Purpose of Testimony**

8 *Q. Please state your names and qualifications.*

9 A. My name is Daniel R. Yokota, and my qualifications are in BP-18-Q-BPA-43.

10 A. My name is Brian T. Galbraith, and my qualifications are in BP-18-Q-BPA-10.

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

12 A. My name is Derrick L. Pleger, and my qualifications are in BP-18-Q-BPA-30.

13 *Q. What is Transfer Service?*

14 A. More than half of BPA's power customers are located on the transmission systems of
15 third parties. Under the terms of the Regional Dialogue power sales contracts, BPA is
16 obligated to acquire transmission services from these third-party transmission providers
17 to deliver Federal power to BPA's power customers. This third-party transmission
18 service is commonly referred to as "transfer service" and includes grandfathered
19 contracts, Open Access Transmission Tariff (OATT) service, and other transmission
20 arrangements.

21 *Q. What is the purpose of this testimony?*

22 A. This testimony has five purposes. The first is to describe the Supplemental Guidelines
23 for Direct Assignment and how they will apply during fiscal year (FY) 2018–2019.

24 The second purpose is to describe the Transfer Service Delivery Charge,
25 including how it was developed, and the proposed methodology for establishing the
26 charge for the rate period, FY 2018–2019.

1 The third purpose is to describe the Transfer Service Operating Reserve Charge,
2 including how it was developed, and the proposed methodology for establishing the rate
3 for FY 2018–2019.

4 The fourth purpose is to describe the WECC Charge, including how it was
5 developed, and the proposed methodology for establishing the charge for FY 2018–2019.

6 The fifth purpose is to describe the Southeast Idaho Load Service (SILS) five-year
7 market purchases and the allocation of costs to transfer service.

8 This testimony supports Chapter 6 of the Power Rates Study, BP-18-E-BPA-01,
9 and the General Transfer Agreement Service charges set forth in the General Rate
10 Schedule Provisions (GRSP), GRSP II.L.

11
12 **Section 2: Supplemental Direct Assignment Guidelines**

13 *Q. What are the Supplemental Guidelines for Direct Assignment of Facilities Costs Incurred*
14 *Under Transfer Agreements?*

15 A. The Supplemental Direct Assignment Guidelines were created by Power Services for use
16 in combination with the Transmission Services' Facility Ownership and Cost Assignment
17 Guidelines to determine whether to recover the costs of Direct Assignment Facilities
18 from transfer service customers. *See* GRSP I.E. The purpose of the Supplemental Direct
19 Assignment Guidelines is to provide guidance in specific cases that Power Services
20 anticipates may occur but may not be sufficiently addressed in the Transmission Services
21 Guidelines. Some of the Supplemental Direct Assignment Guidelines were developed as
22 a result of past circumstances where the Transmission Services Guidelines did not
23 adequately address the costs of Direct Assignment of Facilities incurred when providing
24 transfer service.

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

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

7
8 **Section 3: Transfer Service Delivery Charge**

9 **Section 3.1: Description of the Transfer Service Delivery Charge**

10 *Q. What is the Transfer Service Delivery Charge?*

11 A. The Transfer Service Delivery Charge recovers the costs of transmitting Federal power
12 over third-party facilities that are at voltages below 34.5 kilovolts (kV). The Transfer
13 Service Delivery Charge rate is a Power Services charge.

14 *Q: Please explain why BPA changed the name of the GTA Delivery Charge to the Transfer*
15 *Service Delivery Charge.*

16 A: The Transfer Service Delivery Charge is the successor rate to the GTA Delivery Charge.
17 In previous rate cases, the charge was referred to as the GTA Delivery Charge because
18 third-party wheeling arrangements were made under General Transfer Agreements
19 (GTA). For BP-18, BPA has updated the name of the charge to the more general Transfer
20 Service Delivery Charge to reflect that most, but not all, agreements for third-party
21 wheeling are under OATT agreements. Continuing to refer to the charge as the GTA
22 Delivery Charge could be confusing when applied to charges assessed to transfer
23 customers under OATT agreements.

24 *Q. Who pays the Transfer Service Delivery Charge?*

25 A. The Transfer Service Delivery Charge applies to customers BPA serves over third-party
26 transmission facilities when that service is at voltage below 34.5 kV. The customer pays

1 The third purpose is to describe the Transfer Service Operating Reserve Charge,
2 including how it was developed, and the proposed methodology for establishing the rate
3 for FY 2018–2019.

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20 Service Delivery Charge to reflect that most, but not all, agreements for third-party
21 wheeling are under OATT agreements. Continuing to refer to the charge as the GTA
22 Delivery Charge could be confusing when applied to charges assessed to transfer
23 customers under OATT agreements.

24 *Q. Who pays the Transfer Service Delivery Charge?*

25 A. The Transfer Service Delivery Charge applies to customers BPA serves over third-party
26 transmission facilities when that service is at voltage below 34.5 kV. The customer pays

1 the Transfer Service Delivery Charge only if it receives Federal power at voltages below
2 34.5 kV and is not paying BPA's Utility Delivery Charge (UDC) for that particular point
3 of delivery. The UDC is a Transmission Services charge. *See* Transmission Rates Study
4 and Documentation, BP-18-E-BPA-08, § 7.6.1. However, some transfer service
5 customers have been directly assigned the cost of deliveries over specific low-voltage
6 points of delivery. In these situations, the transfer service customer does not pay the
7 Transfer Service Delivery Charge.

8 *Q. Please explain briefly how you propose to calculate the Transfer Service Delivery*
9 *Charge for FY 2018–2019.*

10 A. The methodology will be the same as in the BP-16 rate period, FY 2016–2017. As
11 explained in Chapter 6 of the Power Rates Study, we propose to calculate the Transfer
12 Service Delivery Charge by reviewing the actual low-voltage costs Power Services
13 incurred from FY 2014 and FY 2015, calculating an average of the two years, and then
14 dividing those costs by the average of the peak amount of transfer service load served by
15 third-party low-voltage facilities for FY 2014 and FY 2015.

16 *Q. Please explain how you determined the actual transfer service low-voltage costs used as*
17 *the numerator in the calculation of the Transfer Service Delivery Charge.*

18 A. We collected cost data for low-voltage distribution and delivery charges from FY 2014
19 and FY 2015 transmission provider invoices and contract exhibits. This data was
20 available for all third-party transmission providers except NorthWestern Energy. Instead
21 of having a separate charge for low-voltage delivery, NorthWestern rolls the cost of low-
22 voltage service into the transmission rate that BPA pays for transfer service. To calculate
23 NorthWestern's cost of low-voltage service, we used the average cost of low-voltage
24 service on all other third-party transmission provider systems and then multiplied this
25 average by the amount of low-voltage transfer service for customers on NorthWestern's
26 system.

1 Q. *For low-voltage delivery costs, what has changed in BP-18?*

2 A. The most significant change to costs is due to Avista Energy's increased low-voltage
3 delivery costs, which it had not updated since 1998. The increase for BP-18 is
4 approximately \$720,000 per year. Also, we have included updates to the low-voltage
5 rates assessed to BPA by third-party transmission providers as known by the time of the
6 study.

7 Q. *Please explain how you determined the denominator for the Transfer Service Delivery*
8 *Charge.*

9 A. For the load portion of the calculation, we used Customer System Peak data at low-
10 voltage delivery points from FY 2014 and FY 2015 customer bills and calculated the
11 average of the two years. Customer System Peak is the customer's maximum Actual
12 Hourly Load (measured in kilowatts) during the Heavy Load Hours of each month.

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

14 A. Yes. For the BP-18 Final Proposal, FY 2015 and FY 2016 load data and costs will be
15 used. In addition, arrangements for low-voltage transfer service change from time to
16 time. If such changes occur between the Initial Proposal and the time of the development
17 of the final studies, we will reflect those changes in the Final Proposal.

18

19 **Section 4: Transfer Service Operating Reserve Charge**

20 **Section 4.1: Description of the Transfer Service Operating Reserve Charge**

21 Q. *What is the Transfer Service Operating Reserve Charge?*

22 A. The Transfer Service Operating Reserve Charge recovers the costs of Operating Reserves
23 assessed by third-party transmission providers and non-BPA balancing authorities to
24 BPA for service to BPA's transfer customers' loads. The Transfer Service Operating
25 Reserve Charge applies to only transfer service customer loads that are not in the BPA
26 balancing authority area. Transfer service customers loads that are served over third-

1 party facilities that are in BPA’s balancing authority area will continue to pay BPA
2 Transmission Services for the entire Operating Reserve obligation.

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

4 A. The Transfer Service Operating Reserve Charge applies to customers that meet the
5 following criteria: (1) the power customer is a Power Services transfer service customer;
6 and (2) the power customer is not already paying BPA Transmission Services for
7 Operating Reserves (based on reliability standard BAL-002-WECC-2) for the customer’s
8 load.

9
10 **Section 4.2: Transfer Service Operating Reserve Charge Proposal**

11 *Q. What is your proposal for the Transfer Service Operating Reserve Charge for the BP-18*
12 *rate period?*

13 A. We propose that for the BP-18 rate period the Transfer Service Operating Reserve
14 Charge mirror the proposed ACS-18 Operating Reserve rates, which consist of two rates.
15 One mirrors the Operating Reserve – Spinning Reserve Service rate, and one mirrors the
16 Operating Reserve – Supplemental Reserve Service rate. *See* ACS-18 rate schedule
17 sections II.E and F. The Transfer Service Operating Reserve Charge will be applied to
18 customers in the same manner as the ACS-18 Operating Reserve rates except that BPA
19 will assess the charge to the customer’s load only and not the portion based on
20 generation.

21 *Q. Why do you propose that the Transfer Service Operating Reserve Charge mirror the*
22 *proposed ACS-18 rates for Operating Reserve services?*

23 A. We propose that the Transfer Service Operating Reserve Charge continue to mirror the
24 proposed ACS-18 Operating Reserve rates because it has been BPA’s general policy to
25 treat transfer service customers in the same manner as non-transfer service customers.
26 The proposed Transfer Service Operating Reserve Charge implements this policy by

1 charging eligible transfer service customers the same rates for Operating Reserves as
2 charged to non-transfer service customers.

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

4 A. The monthly billing determinant for the Transfer Service Spinning Operating Reserve
5 Charge is the metered load of the customer served by transfer (non-BPA balancing
6 authority area load). The monthly billing determinant for the Transfer Service
7 Supplemental Operating Reserve Charge is the metered load of the customer served by
8 transfer (non-BPA balancing authority area load).

9 *Q. Are there exceptions to the billing determinant for the Transfer Service Operating
10 Reserve Charge?*

11 A. Yes. One customer, Idaho Falls Power, is unique in that it is a Slice/Block customer and
12 it procures load following services from a separate entity. Because of this arrangement,
13 BPA does not use the metered load of the customer, but rather uses the total scheduled
14 Slice and Block amounts for Idaho Falls Power as the billing determinant. This is the
15 only customer for which an exception exists. The Transfer Service Operating Reserve
16 Charge billing determinant language in GRSP section II.L.2(b) has been slightly revised
17 to accommodate this arrangement and for any other customer that may need a similar
18 accommodation.

19
20 **Section 4.3: Revenue Forecast for Transfer Service Operating Reserve Charge**

21 *Q. How is the revenue forecast for the Transfer Service Operating Reserve Charge
22 determined?*

23 A. The forecast is determined by observing historical loads subject to Operating Reserve
24 charges under the previous WECC standard, computing the reserve obligation amount
25 (1.5 percent for Spinning Reserve Service and 1.5 percent for Supplemental Reserve

1 Service) and applying the proposed ACS-18 rates for Spinning and Supplemental
2 Reserve Service.

3
4 **Section 5: Transfer Service WECC Charge**

5 **Section 5.1: Background on WECC Charge**

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

7 A. WECC assesses its charges to each balancing authority area based on the balancing
8 authority's Net Energy Load (NEL) data. The extent to which the NEL data submitted to
9 WECC is disaggregated determines whether WECC invoices individual customers for its
10 assessments. Some balancing authorities send one aggregated quantity representing all of
11 the NEL in its balancing authority area, including both native and non-native load. In
12 these cases, WECC assesses its charges to the balancing authority in one bill for the total
13 NEL amount. Other balancing authorities choose to identify NEL quantities for each
14 load customer, specifically identifying both their native load and non-native load. In this
15 case, WECC sends an invoice to the balancing authority for its native load and separate
16 invoices to the specific entities serving the non-native load.

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

19 A. As described above, the information the balancing authority includes in its NEL
20 submission to WECC determines how transfer customers are billed. For those transfer
21 customers located in a balancing authority area that does not explicitly identify non-
22 native load in its NEL submittal to WECC, bills are not sent to the transfer customers
23 from WECC. Instead, the balancing authority recovers the WECC costs through its
24 general transmission rates. For transfer customers located in a balancing authority area
25 that explicitly identifies non-native load in its NEL submittal to WECC, bills are sent to

1 the customers identified in the NEL submission. If the transfer customer is listed, then
2 WECC sends its invoice to the specific customer.
3

4 **Section 5.2: BPA's WECC Charge Proposal**

5 *Q. How is BPA proposing to recover the costs for the WECC charges that apply to transfer*
6 *service customers?*

7 A. BPA is proposing to pay all WECC charges associated with transfer service customer
8 loads located outside of the BPA balancing authority area and recover these costs from its
9 transfer customers through the Transfer Service WECC Charge. See GRSP II.L.3.

10 *Q. How did you calculate the Transfer Service WECC charge?*

11 A. The Transfer Service WECC Charge is based on an estimate of the amounts BPA expects
12 to be charged by WECC in FY 2018 and FY 2019. Specifically, BPA's transfer service
13 customers' NEL assessment dollar amounts, as calculated by WECC for load located in a
14 balancing authority area other than BPA's, are summed. Only those BPA transfer service
15 customer load amounts that are expected to be charged to BPA are included. For the
16 transmission providers that roll all WECC costs into their rate bases (*i.e.*, that do not
17 differentiate between native and non-native loads in their NEL submissions to WECC),
18 BPA does not include the NEL quantities in the calculation of the revenue requirement
19 because BPA will not be charged for this load by WECC. Load quantities are taken from
20 the NEL values submitted by WECC to the Federal Energy Regulatory Commission for
21 the 2017 assessment. These NEL values are based on actual loads for 2015 and include
22 losses.

23 *Q. Why did you use the 2017 NEL amounts to determine the revenue requirement?*

24 A. The 2017 NEL amounts provided by WECC and their associated assessment dollar
25 amounts were used to determine the revenue requirement because this information is the
26 most current data available.

1 Q. *How did you calculate the divisor for the Transfer Service WECC Charge?*

2 A. The divisor consists of all transfer service customer load located outside of BPA's
3 balancing authority area, including transfer service customer load that is not explicitly
4 identified in the NEL submission reported to WECC by the transmission provider
5 balancing authority.

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

8 A. Yes, the load in the divisor is different from that used to calculate the revenue
9 requirement. Included in the divisor are transfer service customer loads located in
10 balancing authority areas that roll all WECC costs into their rate base and do not
11 differentiate between native and non-native loads in their NEL submissions to WECC.
12 The divisor load also has all losses removed to avoid under-recovery, because the billing
13 determinant also excludes losses.

14 Q. *What is the billing determinant for the Transfer Service WECC charge?*

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

19 Q. *Why does the billing determinant apply only to transfer customer points of delivery that
20 are not in the BPA balancing authority area?*

21 A. The Transfer Service WECC Charge applies only to BPA customers with load outside of
22 the BPA balancing authority area because the transmission bills for load located in the
23 BPA balancing authority area will include a WECC rate established by Transmission
24 Services. The rate assessed to BPA customer load located inside the BPA balancing
25 authority area will be different from the rate assessed to BPA transfer service customer
26 load located outside the BPA balancing authority area.

1 *Q. What is the net revenue impact of the proposed Transfer Services WECC Charge?*

2 A. We estimate the net revenue impact of the proposed Transfer Services WECC Charge to
3 be approximately zero. In calculating the cost for the Transfer Service WECC rate, we
4 have used the best information we have to estimate what WECC will charge BPA in
5 FY 2016 and FY 2017. We anticipate that WECC's actual cost will change over the rate
6 period from year to year, so Power Services may experience minimal net positive or
7 negative revenue. However, we expect any such amounts to be insignificant.

8
9 **Section 6: Transfer Service Peak Charge**

10 *Q. Please describe Peak Reliability.*

11 A. Peak Reliability (Peak) formed as an independent Reliability Coordinator (RC) for
12 WECC in 2014. Prior to that time the reliability coordinator function was contained and
13 administered within WECC.

14 *Q. How does Peak currently recover costs to support its operating budget?*

15 A. Peak has signed separate funding agreements with each balancing authority within the
16 Western Interconnection that authorize Peak to charge each balancing authority a
17 proportional amount based on each balancing authority area's net load amount.

18 *Q. Will BPA transfer customers be assessed a Peak Dues Charge for this rate case?*

19 A. No. BPA has not assessed any charges under the BP-16 Transfer Service Peak Charge
20 since its inception because the Peak RC has not assessed any charges to BPA for transfer
21 service customer loads outside the BPA balancing authority area. Each balancing
22 authority is responsible for paying Peak charges for the entire load in its balancing
23 authority area and, to date, each has rolled these costs into its general transmission rates.
24 Because Power Services currently is not directly paying the Peak charge for its transfer
25 customers, and we do not anticipate that this practice will change in the BP-18 rate
26 period, BPA Staff proposes to remove this charge.

1 *Q. Why are transfer customers charged a Transfer Service WECC Charge and not a*
2 *Transfer Service Peak Charge?*

3 A. WECC bills BPA for the dues associated with transfer customer load in balancing
4 authority areas other than BPA's. Because Power Services is assessed this charge, Power
5 Services assesses a WECC charge from all transfer customers to cover this expense. In
6 contrast, Power Services is not billed by Peak for any transfer customer load located in
7 others' balancing authority areas; therefore, BPA does not need to collect a charge from
8 transfer customers.

9
10 **Section 7: Southeast Idaho Load Service Cost Allocation**

11 **Section 7.1: SILS Implementation**

12 *Q. Please briefly explain BPA's historical service to its customers located in Southeast*
13 *Idaho.*

14 A. The Power Rates Study describes BPA's historical service to its customers in Southeast
15 Idaho. Power Rates Study, BP-18-E-BPA-01, § 6.6.

16 *Q. How is BPA meeting its obligation to the SILS customers?*

17 A. BPA is continuing to work with regional parties on a number of fronts to obtain the best
18 and most cost-efficient means of meeting BPA's long-term obligations to its Southeast
19 Idaho customers. Until these plans are completed, BPA's interim plan of service, which
20 began in July 2016, requires BPA to obtain Network OATT service on the PacifiCorp
21 system. To this end, BPA secured Network transmission agreements with PacifiCorp.

22 Since there is not sufficient transmission capacity available between the BPA
23 system and the PacifiCorp East balancing authority area to meet the Southeast Idaho
24 loads, BPA's interim strategy calls for a combination of (1) transmission acquisitions to
25 move Federal Columbia River Power System (FCRPS) generation to load, and (2) market
26 purchases deliverable to the PacifiCorp East balancing authority area. Consistent with

1 this strategy, BPA has made two long-term market purchases (referred to as the SILS
2 Market Purchases) with delivery to the PacifiCorp East balancing authority area.
3

4 **Section 7.2: TRM Cost Pool Assignment and Cost Allocation for SILS Market Purchases**

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

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

11 *Q. What is the rationale for rolling the transfer service costs into the Composite cost pool?*

12 A. BPA is obligated by statute to serve preference loads whenever requested by such
13 customers. Over the years, many preference customers not directly connected to the
14 Federal Columbia River Transmission System (FCRTS) requested service from BPA. In
15 many instances, BPA determined that it was more cost-effective to deliver Federal power
16 to these customers over existing, non-Federal transmission facilities than to build entirely
17 new, duplicative Federal facilities. Using existing facilities rather than building out the
18 FCRTS has resulted in significant savings for all BPA customers. Thus, rolling the
19 transfer service costs into the BPA rate base has been a generally accepted practice.

20 *Q. Are the SILS Market Purchases a cost of providing transfer service?*

21 A. Yes. As described above, BPA has incurred these power costs for the same reason BPA
22 has incurred other transfer-related costs—to reliably serve BPA’s transfer loads. If not
23 for BPA’s obligation to serve Southeast Idaho customers, BPA would not have made
24 these specific power purchases.
25
26

1 Q. Did BPA previously decide how to allocate the costs of the SILS Market purchase
2 between Slice and Non-Slice customers?

3 A. Yes. During the BP-16 rate proceeding, BPA proposed allocating a portion of the costs
4 associated with the SILS Market Purchases to the Composite cost pool. BPA did not
5 propose to allocate the entire cost of the SILS Market Purchases to the Composite cost
6 pool because the market purchase augmented generation from the FCRPS, resulting in
7 either increasing BPA's net surplus or reducing deficits throughout the year. Any
8 additional revenue generated by surplus power sales flows back to the non-Slice
9 customers as a secondary revenue credit.

10 Slice customers, however, do not receive the secondary revenue credit. BPA
11 determined that it would be inequitable for Slice customers to bear the full cost of the
12 SILS Market Purchase (by BPA including the entire market purchase in the Composite
13 cost pool) but then not share in any of the additional revenue created by the purchase. To
14 address this issue, BPA proposed to allocate to the Composite cost pool only a "market
15 differential," which reflected the net cost to BPA of the purchase. This net cost was
16 determined by deducting from the price of the SILS Market Purchase the Intercontinental
17 Exchange (ICE) forward Mid-Columbia (Mid-C) market price at the time each contract
18 was signed and multiplying this differential by the purchase quantities. BPA set the
19 market differential in the BP-16 rate case at \$6.01/MWh and proposed to use that same
20 market differential for the duration of the market purchases, which is until 2021. The
21 remainder of the SILS Market Purchase cost is allocated to Non-Slice customers. *See*
22 *Power Rates Study, BP-16-FS-BPA-01 § 3.6.4; Yokota et al., BP-16-E-BPA-21.* No
23 party took issue with BPA's proposal, and it was adopted in the BP-16 Final ROD,
24 BP-16-A-02, § 2.5.1, item #14.

1 *Q What is the proposed calculated price differential for the SILS Market Purchases for*
2 *FY 2018 and FY 2019?*

3 A. The price differential remains \$6.01 per MWh. For FY 2018 and FY 2019 the
4 differentials BPA will allocate to the Composite cost pool are \$5,416,212 and
5 \$5,423,424, respectively. See Power Rates Study Documentation, BP-18-E-BPA-01A,
6 Table 3.25.

7 *Q. Does this conclude your testimony?*

8 A. Yes.

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