8.0 TRANSMISSION AND INTER-BUSINESS LINE ISSUES

8.1 <u>Introduction</u>

PBL has forecasted the inter-business line revenues and expenses that it will incur during the FY 2002-2006 rate period. These expenses include the Transmission Expense Forecast, GTA Expense Issues, Delivery Segment Costs, and Generation Inputs for Ancillary Services. These forecasts were used in developing the power revenue requirement. Forecasted transmission expenses do not constitute a transmission rate proposal and will not be binding on any transmission rate case or settlement. *See* 64 Fed. Reg. 44,318, 44,323 (1999) (stating that transmission rates will be developed in a separate transmission rate case).

PBL has forecasted the transmission expenses that it will incur in its marketing efforts. Cherry and Metcalf, WP-02-E-BPA-10, at 8. PBL incurs transmission expenses from four source categories: (1) PF sales; (2) "grandfathered" contracts; (3) market sales; and (4) other transmission expenses. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 91. *See also* Pedersen and McRae, WP-02-E-BPA-28, at 1. The DSIs, Alcoa, and Vanalco challenged various aspects of this forecast. *See* DSI Brief, WP-02-B-DS-01, at 54-56; DSI Ex. Brief, WP-02-R-DS-01, at 22; Alcoa/Vanalco Brief, WP-02-B-AL/VN-01, at 64; Alcoa/Vanalco Ex. Brief, WP-02-R-AL/VN-02, at 35.

BPA proposed to continue existing GTA service to current loads for delivery of Federal power through the FY 2002-2006 rate period. 64 Fed. Reg. 44,318, 44,328 (1999). For GTAs that expire during the rate period, BPA proposed to obtain comparable transfer service under the transmitting utility's open access transmission tariff. Pedersen and McRae, WP-02-E-BPA-28, at 8. BPA proposed that the costs of transfer service for delivery of Federal power will be spread over all BPA power sales; these costs are estimated to be around $52 million per year through the rate period. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 96; Wholesale Power Rate Development Study Documentation, WP-02-E-BPA-05A, at 49-54. Also, BPA proposed that GTA service for delivery of Federal power would not be available to new preference customers. Pedersen and McRae, WP-02-E-BPA-28, at 8. Additionally, BPA proposed that GTA service for delivery of Federal power would not be available for preference customers' annexed load. *Id*.

BPA proposed that PBL will continue to pay for delivery segment costs only when PBL is the transmission customer using those facilities. Cherry and Metcalf, WP-02-E-BPA-10, at 7.

PPLM proposed that BPA should establish in the power rate case a minimum percentage of generation inputs for ancillary services that the TBL would be required to purchase from the open market through a competitive bid process, or, in the alternative, establish a market price cap for PBL-supplied generation inputs. PPLM Brief, WP-02-B-PM-01, at 1-10.

BPA proposed an allocation method for the costs of generation inputs for the reactive supply and voltage control from generation sources ancillary service, based on reactive capability under normal operating conditions. *See* DeClerck *et al.*, WP-02-E-BPA-26. BPA proposed to set a fixed inter-business line charge for these generation inputs. Cherry and Metcalf, WP-02-E-BPA-10, at 5. This charge will be used in developing the portion of the transmission revenue requirement associated with the reactive power ancillary service in the transmission rate case. *Id.* TBL would be required to purchase these reactive power generation inputs from PBL at the fixed inter-business line charge. *Id.*

BPA proposed to allocate costs to the operating reserves generation input by using an embedded cost methodology based on the cost of the hydro projects used to meet operating reserve obligations on the system. DeClerck *et al.*, WP-02-E-BPA-26, at 9. BPA proposed to allocate costs to the regulating reserves generation input by using an embedded cost methodology based on the cost of the hydro projects used to meet the regulating reserve obligations of the system; these consist of the 10 hydro projects that are equipped with automatic generation control (AGC). *Id.* at 13. BPA proposed that both of these methodologies would exclude the costs of the non-performing assets (including WNP-1, -3, and Trojan decommissioning), and conservation. *Id.* at 10, 13.

For operating reserves and regulating reserves, BPA proposed cost-based caps for the per-unit inter-business line charge for capacity-based generation inputs to the regulation service and operating reserves ancillary services. Cherry and Metcalf, WP-02-E-BPA-10, at 4. PBL used these unit costs and an estimate of unit sales to TBL to forecast revenue from sales of these products. *Id.* at 4-5. TBL would not be required to purchase these generation inputs from the PBL, and PBL may discount the unit charge for these products. *Id.* at 4. PGE proposed that BPA adopt the High Load Factor Group's (HLFG) recommendation that the CRAC apply to the inter-business line charge for the operating reserves generation input. PGE Brief, WP-02-B-GE-01, at 12.

BPA proposed to assess TBL an annual inter-business line charge for Generation Dropping provided by PBL. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 84-87. *See also*, DeClerck *et al.*, WP-02-E-BPA-26, at 16-17. BPA proposed to assess TBL an annual inter-business line charge for Station Service provided by PBL. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 87-88. *See also* DeClerck *et al.*, WP-02-E-BPA-26, at 18-19.

8.2 Transmission Expense Forecast

Introduction

PBL has forecasted the transmission expenses that it will incur in its marketing efforts. Cherry and Metcalf, WP-02-E-BPA-10, at 8. This forecast was used in developing the power revenue requirement. *Id.* This forecast does not constitute a transmission rate proposal and will not be binding on any transmission rate case or settlement. *Id.* *See also,* 64 Fed. Reg. 44,318, 44,323 (1999) (stating that transmission rates will be developed in a separate transmission rate case). PBL incurs transmission expenses from four source categories: (1) PF sales; (2) "grandfathered" contracts; (3) market sales; and (4) other transmission expenses. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 91; Pedersen and McRae, WP-02-E-BPA-28, at 1.

Issue 1

Whether BPA should modify the transmission expense forecast presented in the initial proposal to reflect the PBL policy decision to abandon its plan to be the transmission contract holder for many full and partial requirements customers who choose network service from the TBL.

Parties' Positions

No party raised this as an issue in an initial brief or brief on exceptions.

BPA's Position

BPA proposed modifying for the 2002 final rates the transmission expense forecast presented in the initial proposal by removing the PF sales transmission expense line item and the PF sales transmission revenue line item from the Wholesale Power Rate Development Study Documentation. Pedersen and McRae, WP-02-E-BPA-28, at 2.

Evaluation of Positions

At the time the initial rate proposal was published, PBL planned to be the transmission contract holder for many full and partial requirements customers who choose network service from the TBL. Pedersen and McRae, WP-02-E-BPA-28, at 2. By the time BPA's direct testimony was filed, PBL abandoned that plan and instead will offer to be a designated agent for PF customers with loads of 20 average annual megawatts or below. *Id.* This will not affect the rate calculation, because transmission expenses forecasted by PBL for PF sales had equivalent associated revenue for PBL under the transmission contract holder arrangement, resulting in a net expense of zero. *Id.* As a designated agent, PBL will not be billed by TBL on behalf of the PF customer; nor will PBL bill the customer for transmission service. *Id.* Under the designated agent agreement, the customer will be billed directly by TBL. *Id.* Thus, the PF sales transmission expense line item and the PF sales transmission revenue line item will be removed from the Wholesale Power Rate Development Study Documentation for the 2002 final rates.

Decision

BPA has modified the transmission expense forecast presented in the initial proposal by removing the PF sales transmission expense line item and the PF sales transmission revenue line item from the Wholesale Power Rate Development Study Documentation for the 2002 final rates.

Issue 2

Whether BPA should modify the transmission expense forecast presented in the initial proposal to reflect an assumption that BPA would have to procure additional transmission services for only 57 percent of HLH sales and 47 percent of LLH sales, thus reducing the forecast for transmission expenses from short-term sales by $18 million annually.

Parties' Positions

The DSIs argue that "BPA should revise its transmission cost estimates to include greater 'sheltering,' based upon the 1996 [rate case] analysis . . ." such that transmission expenses from short-term sales are reduced by $18 million annually, based on an assumption that "BPA would have to procure additional transmission services for only 57 percent of HLH sales and 47 percent of LLH sales." DSI Brief, WP-02-B-DS-01, at 55-56. The DSIs state that PBL's assumption that PBL will have to procure additional transmission services for 85 percent of HLH and 75 percent of LLH sales is unreasonable. *Id.* Further, the DSIs state that "[a]bsent evidence that such 'sheltering' is unavailable, BPA cannot offer substantial evidence for departing from the much lower percentages used in 1996." DSI Ex. Brief, WP-02-R-DS-01, at 22. The DSIs argue that "The Draft ROD's refusal to reduce transmission expenses associated with short-term sales is arbitrary and capricious . . ." *Id.*

Alcoa and Vanalco argue that "BPA has overstated the cost of obtaining transmission capacity necessary for export sales to the Southwest by $32 million per year for the rate period." Alcoa/Vanalco Brief, WP-02-B-AL/VN-01, at 64 (citing direct testimony of the Joint DSIs, Shoenbeck and Bliven, WP-02-E-DS/AL/VN-03, and Shoenbeck and Bliven, WP-02-E-DS/AL/VN-06); *see also* Alcoa/Vanalco Ex. Brief, WP-02-R-AL/VN-02, at 35.

BPA's Position

PBL's assumption that it will have to procure transmission for 85 percent of HLH and 75 percent of LLH sales levels is based on internal discussions with power traders and forecasters. Pedersen and McRae, WP-02-E-BPA-52, at 5. PBL compiled the best available data on FY 1999 sales made in the short-term and within-month markets. *Id.* The data indicated that presently nearly 100 percent of the HLH sales and 96 percent of LLH sales are made with a delivery clause. *Id.* Transmission customers are becoming more sophisticated in the procurement and utilization of transmission capacity and therefore, BPA expects to see some reduction in delivered sales. *Id.* Thus, PBL believes the forecasted need to procure transmission for 85 percent of HLH sales and 75 percent of LLH sales is a reasonable expectation for the post-2002 period. *Id.*

Evaluation of Positions

With respect to forecasted additional transmission service for short-term transactions, the DSIs criticize PBL for basing its assumptions on "nothing more than 'internal discussions with power traders and forecasters.'" DSI Brief, WP-02-B-DS-01, at 56. The DSIs propose an alternative forecast based on 1996 rate case data. *Id.* The PBL assumptions are based on the best available data; that data looks forward into the rate period for which rates are being set in this rate case. Pedersen and McRae, WP-02-E-BPA-52, at 5. PBL based its forecasted need to procure transmission for 85 percent of HLH sales and 75 percent of LLH sales for the post-2002 period on the data indicating that presently nearly 100 percent of the HLH sales and 96 percent of LLH sales are made with a delivery clause. Pedersen and McRae, WP-02-E-BPA-52, at 5. PBL reduced the delivery data by forecasted available sheltering to reach the forecasted procurement needs. *See* Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 93. In light of this data, a conclusion that only 57 percent and 47 percent respectively of such sales would require procurement of additional transmission service for delivery is unreasonable. PBL's forecast is superior to the backward-looking DSI proposal; PBL's forecast accounts for available sheltering. With regard to the DSIs' assertion that "[t]he Draft ROD's refusal to reduce transmission expenses associated with short-term sales is arbitrary and capricious . . . ," DSI Ex. Brief, WP-02-R-DS-01, at 22, BPA's rate determinations are judicially reviewed for substantial evidence in the 7(i) record, *see* section 1.4, *supra*. Substantial record evidence is cited and explained above.

In their initial brief, Alcoa and Vanalco argued that "BPA has overstated the cost of obtaining transmission capacity necessary for export sales to the Southwest by $32 million per year for the rate period." Alcoa/Vanalco Brief, WP-02-B-AL/VN-01, at 64 (citing without page references two volumes of direct testimony of the Joint DSIs, Shoenbeck and Bliven, WP-02-E-DS/AL/VN-03, and Shoenbeck and Bliven, WP-02-E-DS/AL/VN-06); *see also* Alcoa/Vanalco Ex. Brief, WP-02-R-AL/VN-02, at 35. Alcoa and Vanalco do not provide an explicit rationale for this claim. *See* WP-02-B-AL/VN-01, at 64; *see also* Alcoa/Vanalco Ex. Brief, WP-02-R-AL/VN-02, at 35. In their brief on exceptions, Alcoa and Vanalco specify that it is pages 12 through 18 of the cited DSI testimony that supports their position. Alcoa/Vanalco Ex. Brief, WP-02-R-AL/VN-02, at 35. The Joint DSI direct testimony Alcoa and Vanalco cite does contain a $32 million figure. Shoenbeck and Bliven, WP-02-E-DS/AL/VN-03, at 12. In the Joint DSI testimony cited, this amount reflected the sum of the DSIs' various proposed adjustments to the PBL transmission expense forecast, including suggested reductions from utilizing prepurchased Intertie transmission rights for grandfathered contract deliveries, maximizing "sheltering," and removal of a forecasted increase in Hourly Non-Firm (HNF) transmission service rates based on a shift from 1 Non-coincidental Demand (NCD) to 12 CP cost recovery. *Id.* at 12-13. Notably, the DSIs reduced this summary amount in their initial brief to an $18 million figure related solely to a suggested revision based on increased sheltering. DSI Brief, WP-02-B-DS-01, at 54-55. To the extent that the DSIs raised in their initial brief issues stemming from the testimony Alcoa and Vanalco cite, those issues are addressed under this issue and in the issues that follow in this section.

Decision

BPA has not modified the transmission expense forecast proposed in the initial proposal to reflect an assumption that BPA would have to procure additional transmission services for only 57 percent of HLH sales and 47 percent of LLH sales; instead, for the final rates BPA includes the elements of the initial proposal relevant to this issue.

Issue 3

Whether PBL should assume for purposes of the transmission expense forecast that unused prepurchased intertie capacity can be used to serve grandfathered contracts.

Parties' Positions

The DSIs state that "[t]he DSI's witnesses testified that staff's transmission expense forecasts were flawed [because, among other things, PBL] was not maximizing use of prepurchased intertie rights . . . ." DSI Brief, WP-02-B-DS-01, at 55; *see also* Schoenbeck and Bliven, WP-02-E-DS/AL/VN-03, at 12-13. The DSIs do not elaborate further or take a position on this issue in their initial brief. DSI Brief, WP-02-B-DS-01, at 55. In their direct testimony, the Joint DSIs asserted that using prepurchased Intertie capacity first to meet the needs of long-term obligations, including an average 459 MW of grandfathered contracts, would reduce transmission expenses by $25.4 million over the rate period. Schoenbeck and Bliven, WP-02-E-DS/AL/VN-03, at 14-15.

BPA's Position

BPA cannot assume that unused prepurchased Intertie capacity can meet the transmission needs of the grandfathered contracts. Pedersen and McRae, WP-02-E-BPA-52, at 3. For grandfathered contracts, which are usually "delivered" contracts, PBL must have a secure path during the term of the contract. *Id.* During the spring months, PBL does not forecast any available surplus Point-to-Point (PTP) transmission. *Id.* Further, the majority of the grandfathered contracts with transmission requirements specify delivery at Nevada-Oregon Border (NOB). *Id.* at 4. Currently, PBL has only 50 MW of surplus PTP on the direct current (DC) Intertie for NOB deliveries in the months of June through October for FY 2003 through 2006--the remainder of the PBL surplus being on the alternating current (AC) Intertie for deliveries at California-Oregon Border (COB). *Id.* This 50 MW part-year surplus is not sufficient to cover the grandfathered contracts. *Id.*

Evaluation of Positions

While the DSIs note that their witnesses testified regarding this issue, they have failed to state and fully develop a position on it in their initial brief. DSI Brief, WP-02-B-DS-01, at 55; *see* Schoenbeck and Bliven, WP-02-E-DS/AL/VN-03 at 12-13. No other party raised this issue in its initial brief.

The position taken by the DSIs in their direct testimony is inconsistent with the facts demonstrated by BPA witnesses Pedersen and McRae.

Decision

PBL will not assume for purposes of the transmission expense forecast that unused prepurchased Intertie capacity can be used to serve grandfathered contracts.

Issue 4

Whether the transmission expense forecast should reflect a predicted increase in the HNF rate based upon a shift from 1 NCD to 12 CP cost recovery.

Parties' Positions

The DSIs note that "BPA . . . agreed to recalculate costs 'without any upward pressure associated with the shift from 1 NCD to 12 CP cost recovery' . . . which should reduce transmission expense by roughly $1.4 million a year, or $7 million over the rate period." DSI Brief, WP-02-B-DS-01, at 55, citing Pedersen and McRae, WP-02-E-BPA-52, at 6.

BPA's Position

The forecasted HNF rate should not include costs associated with the forecasted shift from 1 NCD to 12 CP cost recovery, because the HNF load is not affected by shifting from 1 NCD to 12 CP. Pedersen and McRae, WP-02-E-BPA-52, at 6. Thus, PBL proposed to recalculate the forecasted HNF rate increase without any upward rate pressure associated with the forecasted shift from 1 NCD to 12 CP cost recovery. *Id.*

Evaluation of Positions

PBL agrees with the party's testimony on the methodology for the calculation of the forecasted HNF rate increase. Pedersen and McRae, WP-02-E-BPA-52, at 6. The DSIs accept the decision BPA proposed on this issue in the Draft ROD. DSI Ex. Brief, WP-02-R-DS-01, at 22.

Decision

The forecasted HNF rate increase has been recalculated without any upward rate pressure associated with the forecasted shift from 1 NCD to 12 CP cost recovery.

Issue 5

Whether BPA should modify the transmission expense forecast to reflect reduced levels of prepurchased Intertie capacity due to unfulfilled transmission requests and data base discrepancies.

Parties' Positions

The DSIs note that "In rebuttal, BPA staff indicated that it was 'modifying the level of prepurchased Intertie capacity included in the transmission expense forecast to account for the most current data on the level of prepurchased Intertie capacity available.'" DSI Brief, WP-02-B-DS-01, at 55 (quoting Pedersen and McRae, WP-02-E-BPA-52, at 5). However, the DSIs did not take a position on this issue in their initial brief. *Id.*

BPA's Position

PBL proposed to modify the level of prepurchased Intertie transmission capacity included in the transmission expense forecast to account for the most current data on the level of prepurchased Intertie capacity available. Pedersen and McRae, WP-02-E-BPA-52, at 5. When the initial proposal was developed, PBL had pending transmission requests totaling 600 MW that were counted as prepurchased Intertie transmission. *Id.* The requests totaling 600 MW were not fulfilled, so PBL proposed that they be removed from the transmission expense forecast. *Id.* In conjunction with the transmission requests that were not fulfilled, PBL found discrepancies in the post-2001 period in the data base that tracks the prepurchased transmission inventory compared with what was actually acquired for the same time period; these discrepancies should be corrected. *Id.*

Evaluation of Positions

BPA's proposed modification attempts to reflect costs of prepurchased transmission capacity more accurately by accounting for unfulfilled requests and data base discrepancies. This modification is consistent with the DSIs' stated objective of reducing the PBL transmission expense forecast. *See* DSI Brief, WP-02-B-DS-01, at 55. The DSIs accept the decision BPA proposed on this issue in the Draft ROD. DSI Ex. Brief, WP-02-R-DS-01, at 22.

Decision

BPA has modified the transmission expense forecast presented in the initial proposal to include in the final rates the following amounts of prepurchased Intertie transmission: October 2001 to March 2002--1,610 MW; April 2002 to August 2002--2,005 MW; September 2002 to December 2002--1,605 MW; January 2003 to June 2003--1,405 MW; July 2003 to December 2003--1,305 MW; and from January 2004 through September 2006--1,150 MW.

8.3 General Transfer Agreement (GTA) Expense Issues

Issue 1

Whether BPA should continue existing GTA service to current loads for Federal power deliveries and whether those costs should be borne by BPA's power customers.

Parties' Positions

PPC states, "BPA proposes that its power business line continue existing service under the General Transfer Agreements to preference customer loads currently served through GTAs." PPC Brief, WP-02-B-PP-01, at 42. "PPC supports each of BPA's GTA proposals in this rate proceeding." *Id.* "NRU supports BPA's initial proposal to recover the cost of GTA service for Federal power deliveries through power rates in the 2002-2006 rate period." NRU Brief, WP-02-B-NI-02, at 14.

PPLM states, "To the extent possible . . . the costs associated with GTAs should be directly assigned to the customers who are benefited by the GTAs. When such assignment is not possible, the costs of GTAs associated with the delivery of Federal power should be included in BPA's power rates." PPLM Brief, WP-02-B-PM-01, at 11.

BPA's Position

BPA proposed to continue existing GTA service to current loads for delivery of Federal power through the FY 2002-2006 rate period. 64 Fed. Reg. at 44,328. For GTAs that expire during the rate period, BPA proposed to obtain comparable transfer service under the transmitting utility's open access transmission tariff. Pedersen and McRae, WP-02-E-BPA-28, at 8. BPA proposed that the costs of transfer service for delivery of Federal power will be spread over all PBL power sales; these costs are estimated to be around $52 million per year through the rate period. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 96; Wholesale Power Rate Development Study Documentation, WP-02-E-BPA-05A, at 49-54.

Evaluation of Positions

In the Subscription ROD, the Administrator decided that, "BPA's initial proposal for the Power Rate Case will include a proposal that GTA costs for Federal deliveries be allocated to the PBL . . . " Subscription ROD, at 135. This commitment was reflected in the power rate case Federal Register Notice, 64 Fed. Reg. 44,318, 44,328 (1999); the Wholesale Power Rate Development Study, WP-02-E-BPA-05; Cherry and Metcalf, WP-02-E-BPA-10, at 7; and Pedersen and McRae, WP-02-E-BPA-28, at 7-8. At the suggestion of customers, BPA agreed to address all GTA-related costs in the power rate case. Cherry and Metcalf, WP-02-E-BPA-10, at 7. As PPC and NRU both note, no party has taken issue squarely with BPA's general proposal to continue providing GTA service for Federal deliveries. PPC Brief, WP-02-B-PP-01, at 42; NRU Brief, WP-02-B-NI-02, at 15. However, PPLM has described BPA's proposal as "the next best solution" to directly assigning the costs of GTA service to the customers that benefit from it. Brooks, WP-02-E-PM-01; PPLM Brief, WP-02-B-PM-01, at 11.

PPLM states, "To the extent possible . . . the costs associated with GTAs should be directly assigned to the customers who are benefited by the GTAs." PPLM Brief, WP-02-B-PM-01, at 11. PPLM's suggestion that GTA costs be directly assigned is tantamount to a suggestion that BPA discontinue providing GTA service altogether. Notably, PPLM has not argued or provided any evidence to demonstrate whether direct assignment of GTA costs is possible. This implies that PPLM is satisfied with what it characterizes as the next best solution: "the costs of GTAs associated with the delivery of Federal power should be included in BPA's power rates." PPLM Brief, WP-02-B-PM-01, at 11.

PPLM cites *Northern States*, 64 FERC ¶ 61,234, 63,379 (1993), for the statement that cost-causation is the fundamental theory of ratemaking at FERC. *Id.* In *Northern States*, the Commission was analyzing whether the service agreements filed by Northern States were just and reasonable under Federal Power Act standards. *See* 64 FERC ¶ 61,234, 63,377. While the FPA does not supply the standards upon which FERC will review BPA's decision with respect to whether the cost of certain Federal power deliveries may be included in power rates, because BPA is not a public utility regulated under the FPA, cost causation has always been an important consideration in BPA ratemaking; but it is not the only consideration. (The applicable standards of review at FERC are provided by the Northwest Power Act. FERC reviews BPA power rates to ensure that power rates "are sufficient to assure repayment of the Federal investment in the [FCRPS] over a reasonable number of years . . . ," and "are based upon . . . total system costs."

16 U.S.C. §7(a)(2). Neither of these standards inherently precludes spreading the cost of GTA service amongst all power customers; FERC has previously approved BPA power rates which included the cost of GTA service under these standards. *See United States Department of Energy--Bonneville Power Admin.*, 80 FERC ¶ 61,118 (1997). PPLM has not argued or provided evidence that BPA's GTA proposal for Federal power deliveries will jeopardize approval under the applicable repayment and total system cost standards.)

Cost-causation is a factor in BPA's GTA proposal. Metcalf and Furst, WP-02-E-BPA-35, at 2. When BPA built the Federal transmission system to deliver Federal power to its preference and DSI customers, BPA chose not to build transmission facilities where it was cost-effective to utilize existing facilities owned by other utilities. *Id.* BPA entered into GTAs to serve preference and DSI customers over these third-party facilities. *Id.* These decisions benefited all BPA customers. *Id.* Therefore, cost-causation principles suggest that it is appropriate for all power customers to share in the costs of GTA service.

The Bonneville Project Act gives the agency additional ratesetting guidance by commanding that BPA rates "shall be established with a view to encouraging the widest possible diversified use of electric energy." 16 U.S.C. §832e. Continuation of GTA service for Federal power deliveries is consistent with BPA's historical practice and helps promote the widespread use of Federal power. 64 Fed. Reg. 44,318, at 44,328 (1999); Pedersen and McRae, WP-02-E-BPA-28, at 7-8; Cherry and Metcalf, WP-02-E-BPA-10, at 7. NRU agrees, stating that, "This practice is both consistent with historical BPA practice and meets BPA's legal obligation to promote widespread use of Federal power." NRU Brief, WP-02-B-NI-02, at 14. Provision of GTA service is grounded in an affirmative obligation to serve BPA's historical preference load and to assist such customers in avoiding unexpected cost shifts during the transition to a competitive market. Pedersen and McRae, WP-02-E-BPA-28, at 8. Thus, the GTAs provide a means of ensuring that these customers receive requirements power service that is comparable to directly served preference customers. *Id.* By putting these customers on comparable terms, BPA encourages the widespread and diversified use of electricity.

<u>Decision</u>

BPA will continue existing GTA service to current loads for Federal power deliveries, and the associated costs, including the costs of open-access transmission service to replace expiring GTAs, will be borne by BPA's power customers. Provisions dealing with GTAs can be found in the Power Subscription Strategy Administrator's Supplemental ROD.

<u>Issue 2</u>

Whether BPA should provide GTA service to new preference customers for deliveries of Federal power.

<u>Parties' Positions</u>

NRU states that it "does not propose to reopen in this rate case the decision in the Subscription ROD not to include in the PBL revenue requirement the cost of GTA service to serve . . . a new public agency. In this regard, NRU also opposes the proposal by witness Ed Sheets that a new tribal utility formed by the Yakamas after the close of the Subscription window be eligible for GTA service." NRU Brief, WP-02-B-NI-02, at 14-15.

UCUT takes the position that unless the revenue requirement includes an amount "sufficient to pay for new preference customers' General Transfer Agreements, or similar power delivery provisions," the BPA proposal would be contrary to law because it includes similar funding for existing preference customers. UCUT Brief, WP-02-B-UC-01, at 10-11. Further, "UCUT considers it more equitable that the Administrator would provide GTA service for new customers but not for existing customers . . ." *Id.* at 17.

"CRITFC and the Yakama Nation recommend that Bonneville increase its revenue requirements by approximately $5 million per year to cover the cost of paying for the General Transfer Agreements of new public utilities, including new tribal utilities." CRITFC/Yakama Brief, WP-02-B-CR/YA-01, at 53. CRITFC/Yakama "do not support the alternative remedy . . . that all GTA costs be eliminated from Bonneville's revenue requirements." *Id.*

BPA's Position

Under BPA's initial proposal, GTA service for delivery of Federal power would not be available to new preference customers. Pedersen and McRae, WP-02-E-BPA-28, at 8.

Evaluation of Positions

In the Subscription ROD, the Administrator determined that "Service under GTAs will not be available to new preference customers . . ." Subscription ROD, at 130. NRU suggests that this Subscription ROD decision precludes revisiting this issue in the power rate case. NRU Brief, WP-02-B-NI-02, at 15. The limited scope of the 2002 power rate case generally does not allow for rearguing decisions made in the Subscription ROD. 64 Fed. Reg. 44,318, 44,322. However, the scope of the 2002 power rate case specifically does include issues pertaining to "all GTAs and GTA replacement costs for Federal power deliveries . . ." *Id.* at 44,323, 44,328. As manifested above in Issue 1, the over-arching issue of whether or not to continue providing GTA service for Federal deliveries is within the scope of this rate case. Therefore, the scope of this rate case logically includes the subissue of whether new Federal deliveries will be eligible for GTA service or whether this benefit will be reserved for existing preference customers. NRU's reliance on the Subscription ROD is misplaced.

Under BPA's initial proposal, GTA service for delivery of Federal power would not be available to new preference customers. Pedersen and McRae, WP-02-E-BPA-28, at 8. BPA stated that, "Provision of GTA service is grounded in an affirmative obligation to serve BPA's historic preference load and to assist such customers in avoiding unexpected cost shifts during the transition to a competitive market. Thus, the GTAs provide a means of ensuring that these customers receive requirements power service that is comparable to directly served preference customers. The rationale to continue this treatment is not compelling with respect to new load coming into service under FERC's current regulatory regime, which envisions transmission service being provided under open access tariffs." *Id.* Thus, the rationale for BPA's initial proposal to deny new preference customers GTA service for Federal deliveries was based primarily on possible inconsistency with FERC's vision of how transmission service should be provided. BPA's testimony did not attempt to evaluate the impact of this proposal on potential new preference customers.

UCUT and CRITFC/Yakama have addressed the impact of BPA's initial proposal on new preference customers. "Requiring new preference customers to pay costs not paid by existing customers, as well as to subsidize existing customer costs, reduces and may eliminate the benefits of their preference status and places them at an economic disadvantage." UCUT Brief, WP-02-B-UC-01, at 15; *see also* UCUT Ex. Brief, WP-02-R-UC-01, at 3. BPA's initial proposal "act[s] as a disincentive for formation of new preference entities . . . ." UCUT Brief, WP-02-B-UC-01, at 11. "The Yakama Nation's utility's pancaked costs and control area costs would range from $1.75 million to $2.75 million, and these costs have the potential to erase any real cost benefits that would accrue to ratepayers of the Yakama Nation utility . . . ," CRITFC/Yakama Brief, WP-02-B-CR/YA-01, at 48-49, and "may make formation of a tribal utility uneconomic and infeasible." *Id.* at 53. The Yakama Nation may save only about $900,000 on its power bill by purchasing power from BPA instead of PacifiCorp. Sheets, WP-02-E-CR/YA-01, at 8. Formation of a tribal utility could help the Yakama Nation protect and maintain its sovereignty; create employment opportunities for tribal members; foster economic development on tribal lands; and help the Nation protect itself from uncertain price and service quality in the face of deregulation. *Id.* at 7.

UCUT and CRITFC/Yakama argue that BPA's initial proposal for GTA delivery of Federal power "is contrary to the following laws: (1) they are not 'uniform' or 'equitable' as required by sections 5(a) and 6 of the Bonneville Project Act, Section 6 of the Preference Act, and sections 9 and 10 of the Transmission System Act; (2) they act as a disincentive for formation of new preference entities as contravenes the intention and history of section 5(a) of the Northwest Power Act; and (3) they contravene the requirement of section 6(k) of the Northwest Power Act requiring the Administrator to insure that benefits shall be distributed equitably consistent with the obligations to particular customer classes." UCUT Brief, WP-02-B-UC-01, at 11; CRITFC/Yakama Brief, WP-02-CR/YA-01, at 48. *See also* UCUT Ex. Brief, WP-02-R-UC-01, at 3; CRTFC/Yakama Ex. Brief, WP-02-R-CR/YA-01, at 30. The arguments these parties have presented in support of their position do not compel the conclusion that BPA's initial proposal was contrary to law.

UCUT and CRITFC/Yakama cite sections 5(a) and 6 of the Bonneville Project Act, section 6 of the Preference Act, and sections 9 and 10 of the Transmission System Act for the proposition that BPA rates must be uniform and equitable. UCUT Brief, WP-02-B-UC-01, at 12-15; CRITFC/Yakama Brief, WP-02-CR/YA-01, at 50. "UCUT . . . asserts that based on their plain language, . . . BPA organic acts prohibit power rates from being purposely designed to apply differently to similarly situated preference customers." UCUT Ex. Brief, WP-02-R-UC-01, at 3. Essentially, these parties point to the occurrence of the words "uniform" and "equitable" in these statutory subsections and conclude, without substantial analysis of the issue at hand, that the BPA initial proposal violates the statute. Furthermore, while UCUT and CRITFC/Yakama have demonstrated that BPA's initial proposal will have a cost impact on their utility customers, they have not demonstrated that the decision in question amounts to a "rate" as contemplated by the statutory subsections cited. These customers would pay rates from the same applicable rate schedules as any other eligible customer. Nevertheless, UCUT and CRITFC/Yakama have demonstrated that BPA organic statutes do require fairness.

UCUT and CRITFC/Yakama cite section 5(a) of the Northwest Power Act, section 2(b) of the Bonneville Project Act, and section 9 of the Transmission Act for the principle that BPA rates should not provide a disincentive for formation of new preference customers. UCUT Brief, WP-02-B-UC-01, at 15-16; CRITFC/Yakama Brief, WP-02-B-CR/YA-01, at 51-52. Congress could have distinguished between new and existing preference customers in enacting the Northwest Power Act, but Congress did not. UCUT Brief, WP-02-B-UC-01, at 15; CRITFC/Yakama Brief, WP-02-B-CR/YA-01, at 51. Imposing costs on new customers but not on existing customers is contrary to section 2(b) of the Bonneville Project Act, which requires BPA to "encourage the widest possible use of all electric energy that can be generated and marketed and to provide reasonable outlets, thereof, and to prevent the monopolization thereof by limited groups." UCUT Brief, WP-02-B-UC-01, at 15-16; CRITFC/Yakama Brief, WP-02-B-CR/YA-01, at 51. Section 9 of the Transmission Act requires BPA to encourage "the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." UCUT Brief, WP-02-B-UC-01, at 16; CRITFC/Yakama Brief, WP-02-B-CR/YA-01, at 52. The parties point to general statutory guidance without applying it to the matter at issue and then conclude that the initial proposal is contrary to the statute.

UCUT and CRITFC/Yakama state that "discriminatory treatment of new preference customers in favor of existing preference customers with regard to GTA service," is inconsistent with the Northwest Power Act section 6(k) mandate that "the Administrator insures that benefits shall be distributed equitably consistent with the obligations to particular customer classes." UCUT Brief, WP-02-B-UC-01, at 16; CRITFC/Yakama Brief, WP-02-B-CR/YA-01, at 52. The parties fail to note that section 6(k) of the Northwest Power Act applies only to conservation and acquisition of resources; section 6(k) prohibits geographical discrimination in allocating the benefits of conservation and resource acquisition. H.R. Rep. No. 96-976, pt. 2, at 293 (1980). The parties do not explain how this section is applicable to the matter in question.

UCUT and CRITFC/Yakama have asserted that BPA's initial proposal would violate several of BPA's organic acts. While these parties have not supported this allegation with the most convincing legal arguments, the parties have pointed to sections of BPA's organic acts that would permit BPA to provide new preference customers with GTA service comparable to that enjoyed by existing preference customers. Furthermore, these parties have provided ample evidence suggesting that fairness dictates that GTA service should be available to new preference customers. These fairness concerns outweigh any perceived inconsistency with FERC's new regulatory requirements for jurisdictional utilities. Moreover, offering GTA service to new preference customers may further FERC's objectives. GTA service "lessens distortions in the market and helps achieve FERC's goal of a freely moving, open-to-all, power market over a large geographic area." CRITFC/Yakama Brief, WP-02-B-CR/YA-01, at 52 (quoting Scott and Scher, WP-02-E-PN-12, at 12). Making GTA service available to new preference customers will encourage formation of new public agency utilities. In their briefs on exceptions, UCUT and CRITFC/Yakama express support for this decision, as it was proposed in the Draft ROD.

UCUT Ex. Brief, WP-02-R-UC-01, at 3; CRITFC/Yakama Ex. Brief, WP-02-R-CR/YA-01, at 30.

BPA actively considered supporting the formation of new small public preference customers in the Subscription process. In the Power Subscription Strategy Administrator's Supplemental ROD, BPA determined that it can cover the cost of GTA service or comparable transfer service under open access tariffs for a limited amount of load for new preference customers, within BPA's current GTA budget forecast. Therefore, GTA service will be made available to new preference customers, up to 75 aMW Subscription Supplemental ROD, at 32.

<u>Decision</u>

BPA will provide a limited amount of GTA service or comparable transfer service under an open access tariff for deliveries of Federal power to certain new preference customers, consistent with the Power Subscription Strategy Administrator's Supplemental ROD.

<u>Issue 3</u>

Whether BPA should provide GTA service to preference customers for deliveries of Federal power to annexed load.

<u>Parties' Positions</u>

No party addressed this issue in an initial brief or brief on exceptions.

<u>BPA's Position</u>

Under BPA's initial proposal, GTA service for delivery of Federal power would not be available for preference customers' annexed load. Pedersen and McRae, WP-02-E-BPA-28, at 8.

<u>Evaluation of Positions</u>

Provision of GTA service is grounded in an affirmative obligation to serve BPA's historical preference load and to assist such customers in avoiding unexpected cost shifts during the transition to a competitive market. Pedersen and McRae, WP-02-E-BPA-28, at 8. Thus, the GTAs provide a means of ensuring that these customers receive requirements power service that is comparable to directly served preference customers. *Id.* The rationale to continue this treatment is not compelling with respect to new load coming into service under FERC's current regulatory regime, which envisions transmission service being provided under open access tariffs. *Id.* Therefore, BPA will not provide GTA service to preference customers for deliveries of Federal power to annexed load.

<u>Decision</u>

BPA will not provide GTA service to preference customers for deliveries of Federal power to annexed load.

8.4 Delivery Segment Costs

Issue

Whether any delivery segment costs should be included in the power revenue requirement.

Parties' Positions

PNGC argues that $6 million of delivery segment costs must be retained in power rates on a rolled-in basis. PNGC Brief, WP-02-B-PN-01, at 27.

BPA's Position

In its initial proposal, BPA proposed that PBL would continue to pay for delivery segment costs only when PBL is the transmission customer using those facilities. Cherry and Metcalf, WP-02-E-BPA-10, at 7. The portion of delivery segment costs included in power rates upon settlement of the 1996 rate case would not be included in power rates for the 2002-2006 rate period. *Id.*

Evaluation of Positions

BPA stated that, "[t]he decision to assign a portion of the delivery segment costs to the power rates in 1996 was a condition of the settlement of the 1996 transmission rate case. This decision represented a phasing-in of the new segmentation and transmission rate design methodologies. It also gave customers time to purchase delivery facilities under the sale of facilities policy." Cherry and Metcalf, WP-02-E-BPA-10, at 7. BPA described its decision to decide delivery segment issues such as "which facilities are in the segment and how the delivery charge is designed" in the transmission rate case, as an attempt to comply with FERC unbundling principles. Pedersen and McRae, WP-02-E-BPA-52, at 6-7. BPA stated that retaining delivery segment costs in the power revenue requirement is not consistent with cost/price linking or functional unbundling. *Id.* at 7. BPA acknowledged that unbundling may affect some customers more than others, but pointed out several areas where BPA has already attempted to mitigate the effects of unbundling, including caps on the Demand Charge and the Load Variance Charge, continuation of the Low Density Discount (LDD), and relief for customers with high irrigation loads. *Id.*

PNGC notes that some customers will see dramatic cost increases under BPA's initial proposal. PNGC Brief, WP-02-B-PN-01, at 27. For example, PNGC testified that Lane Electric could expect a 4-6 percent increase in its overall revenue requirement based on this single issue. *Id.;* Crincklaw and Wiedl, WP-02-E-PN-05, at 3. PNGC stated that it has not always been practical to mitigate delivery segment cost increases by purchasing substations. *Id*. at 2. PNGC does not view BPA's mitigation efforts, such as caps on the Demand Charge and the Load Variance Charge and continuation of the LDD, as sufficient. PNGC Brief, WP-02-B-PN-01, at 27-28. PNGC believes that, "It is fair to have power customers continue to pay for part of these costs because, in this rate case, BPA is melding the costs of system augmentation needed to serve IOU customers and DSI customers with the cost of serving Preference Customers," and customers who pay the delivery charge are paying for this augmentation. *Id.*

PNGC has demonstrated the substantial impact the initial proposal could have on particular customers. The $6 million of annual delivery costs included in the 1996 power revenue requirement significantly mitigated rate shock for delivery segment users. Crincklaw and Wiedl, WP-02-E-PN-05, at 1-2. However, BPA's interest in offering unbundled rates and linking costs to causation is consistent with FERC efforts to promote competitive wholesale power markets, and therefore is substantial. In an effort to balance these competing principles, BPA will continue to include $2 million of delivery costs per year in the power revenue requirement for the first two years of the 2002-2006 power rate period.

The costs associated with the delivery facilities used by GTA customers were included in the delivery segment in the 1996 transmission rates. 1996 ROD, WP-96-A-02, at 409, 422. Definition of the delivery segment is reserved for the transmission rate case. Cherry and Metcalf, WP-02-E-BPA-10, at 7. However, the initial transmission rate case proposal does not include low voltage GTA facilities in the Delivery segment. *See* Transmission Rate Study, TR-02-E-BPA-03, at 16, C1-C4 (not including GTA PODs as subject to the Utility Delivery Charge). Thus, PBL cannot expect to receive credit from TBL in the 2002-2006 rate period for these costs. Instead, PBL intends to develop a rate to collect these costs from the customers that utilize these facilities. While all GTA issues were intended to be addressed in the power rate case, Cherry and Metcalf, WP-02-E-BPA-10, at 7, PBL did not learn of the TBL proposal in time to develop and propose a specific rate to recover these costs within the normal course of this proceeding. Therefore, BPA will conduct a separate rate proceeding for this purpose.

Decision

For the first two years of the FY 2002-2006 rate period, BPA includes $2 million annually in the power revenue requirement to be used to mitigate the effects of unbundling on delivery segment customers. The power revenue requirement does not include any other costs of delivery facilities. More specifically, the costs of low voltage delivery facilities used by GTA customers are not included in the power revenue requirement; BPA will conduct a separate rate proceeding to develop a rate to collect these costs from the GTA customers that utilize these facilities.

8.5 Generation Inputs for Ancillary Services

Issue 1

Whether BPA should establish in the power rate case a minimum percentage of generation inputs for ancillary services that the TBL would be required to purchase from the open market through a competitive bid process, or, in the alternative, establish a market price cap for PBL-supplied generation inputs.

Parties' Positions

PPLM states that BPA should "establish a minimum percentage of [generation inputs for] ancillary services that the TBL would be required to purchase from the open market through a competitive bid process, to the extent that the rates for such [generation inputs for] ancillary services do not exceed the PBL's cost-based rates for the same services." PPLM Brief, WP-02-B-PM-01, at 1. Alternatively, PPLM proposes that "if BPA declines to implement PPLM's proposed auction approach, BPA should now establish a market price cap for PBL-supplied generation inputs and prohibit the PBL from recovering from the TBL any related shortfall." *Id.* at 10.

BPA's Position

BPA proposed to set a fixed inter-business line charge for the generation input to the generation supplied reactive power ancillary service. Cherry and Metcalf, WP-02-E-BPA-10, at 5. This charge will be used in developing the portion of the transmission revenue requirement associated with the reactive power ancillary service in the transmission rate case. *Id.* Under the initial proposal, TBL would be required to purchase this reactive power generation input from PBL at the fixed inter-business line charge. *Id.*

BPA proposed cost-based caps for the per-unit inter-business line charge for capacity-based generation inputs to the regulation service and operating reserves ancillary services. *Id.* at 4. PBL used these unit costs and an estimate of unit sales to TBL to forecast revenue from sales of these products. *Id.* at 4-5. Under the initial proposal, TBL would not be required to purchase these generation inputs from the PBL, and PBL may discount the unit charge for these products. *Id.* at 4.

BPA proposed a market-based per-unit inter-business line charge for energy used as a generation input to the energy imbalance ancillary service and for energy utilized when operating reserves are called upon. DeClerck *et al.*, WP-02-E-BPA-26, at 11, 15. BPA had insufficient information to forecast revenue from these sources. *Id.* Under the initial proposal, TBL would not be required to purchase these services from PBL, but TBL will be charged the specified market-based rate if and when it does make such purchases. *Id.*

Evaluation of Positions

With the exception of the generation input to the generation-supplied reactive power ancillary service, BPA proposed methodologies to determine the unit cost of energy and capacity supplied by the PBL to the TBL as generation inputs for ancillary services. Cherry and Metcalf, WP-02-E-BPA-10, at 5. With the same exception of the generation input to the generation supplied reactive power ancillary service, BPA did not propose to require TBL to purchase any particular amount of generation inputs for ancillary services from the TBL. *Id.* at 4-5. With respect to all other generation inputs for ancillary services, PBL has forecasted the amount of particular generation inputs for ancillary services it expects to sell to TBL, and has used these estimates as credits in the power revenue requirement. *Id.* PPLM argues that by forecasting particular amounts of PBL revenue from these sales, and because of past practice, BPA has indicated an intent that PBL will continue to be TBL's sole supplier of generation inputs for ancillary services. PPLM Brief, WP-02-B-PM-01, at 2-3. This assertion is contrary to clear statements in BPA testimony. TBL is free to purchase from other suppliers generation inputs for the generation-supplied reactive power ancillary service in excess of those proposed to be supplied by PBL. TBL is free to acquire generation inputs for other ancillary services from any supplier TBL chooses in any amounts meeting TBL's requirements.

BPA's initial proposal sought to establish parameters governing the price PBL would charge TBL for generation inputs. In contrast, PPLM states that BPA should "establish a minimum percentage of [generation inputs for] ancillary services that the TBL would be required to purchase from the open market through a competitive bid process . . ." PPLM Brief, WP-02-B-PM-01, at 1. Thus, PPLM's proposal attempts to define the method of sourcing TBL will use to procure generation inputs. As such, PPLM's auction proposal addresses matters well beyond the scope of the power rate case. "[T]he scope of the power rate case does not include . . . BPA's rates for transmission and ancillary services that will be marketed by the [TBL]." 64 Fed. Reg. at 44,323. PPLM's proposal would be more appropriately raised in the transmission rate case.

Alternatively, PPLM proposes that if BPA "continues to require that the TBL purchase all of its generation inputs for ancillary services from the PBL," PPLM Brief, WP-02-B-PM-01, at 9, "BPA should now establish a market price cap for PBL-supplied generation inputs and prohibit the PBL from recovering from the TBL any related shortfall." *Id.* at 10. As noted above, BPA is not requiring TBL to purchase all of its generation inputs for ancillary services from the PBL. Moreover, PPLM fails to explain how BPA would satisfy cost recovery requirements, should BPA adopt its proposal and find that costs exceed market prices. *See* 16 U.S.C. §839e(a)(2)(B) (requiring BPA rates to be based upon total system costs).

Decision

BPA did not establish in the power rate case a minimum percentage of generation inputs for ancillary services that the TBL would be required to purchase from the open market through a competitive bid process. PBL sales of generation inputs for ancillary services to TBL will be governed by the criteria BPA proposed, as summarized above; BPA will not impose a market-based cap on the per-unit inter-business line charges for generation inputs for ancillary services.

Issue 2

Whether BPA must develop an inter-business line charge for the reactive power generation input by strictly adhering to either a capability method or an actual use method, as proposed by the IOUs, or whether BPA may develop that charge based upon a capability methodology, but still take into account the normal operation of FCRPS generators, as BPA has proposed.

Party’s Positions

“BPA has inappropriately mixed an ‘actual use’ approach and ‘capability’ approach in determining that 19 percent of the electrical plant should be allocated to the Transmission Business Line (“TBL”) for reactive power.” Schlect and Banaghan, WP-02-E-AC/GE/IP/MP/PL/PS/EN-08, at 2; IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 80; IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 60.

BPA's Position

BPA has proposed a capability method, with certain elements of that methodology accounting for the normal operation of FCRPS hydro generation units. DeClerck *et al.*, WP-02-E-BPA-51, at 2.

Evaluation of Positions

The IOUs have argued that BPA must choose between: (1) an actual use method; or (2) a capability method “based upon the real and reactive power capabilities of electrical generation components . . . ” Schlect and Banaghan, WP-02-E-AC/GE/IP/MP/PL/PS/EN-08, at 3. The IOUs describe the “actual use” method as one “based upon either real data or upon a comprehensive set of reasonable assumptions to estimate the actual use of such components.” *Id.* The IOUs argue that BPA has inappropriately mixed the actual use and capability methods to determine the ratio used to allocate the costs of electrical generation components between real and reactive power production. *Id.* at 4. The IOUs argue that, once a “capability method” is chosen, “[a]llowing one or two assumptions based upon actual use principles to be applied . . .,such as using the available reactive *capability* when a hydro unit is operated near peak efficiency, simply provides for the ‘cherry picking’ of assumptions to produce an arbitrarily higher or lower allocation factor.” *Id.* at 5 (emphasis added). The IOUs state that, “It would be appropriate for BPA to consider peak efficiency operations when taking a comprehensive cost causation approach based upon normal operations or *actual use* of electrical generation components.” *Id.* at 7. But to be consistent with the choice of a capability method, the IOUs conclude that BPA must ignore the effects of peak efficiency operations and instead use the rated power factor, based on the nameplate rating, to allocate costs. *Id.* at 5.

Both BPA and the IOUs accept using the allocation ratio that results from the relationship between apparent, real, and reactive power to determine the allocation of costs of electrical generation components between real and reactive power production. *See* Schlect and Banaghan, WP-02-E-AC/GE/IP/MP/PL/PS/EN-08, at 3-4. BPA takes the position that it has not inappropriately mixed capability and actual use methods to arrive at that ratio. DeClerck *et al.*, WP-02-E-BPA-51, at 2. The IOUs insist that there is a stark distinction between capability and actual use methodologies and that an appropriate allocation will result only from rigid application of either methodology, but not from a methodology that makes use of principles from both. Schlect and Banaghan, WP-02-E-AC/GE/IP/MP/PL/PS/EN-08, at 3; IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 80; IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 60. BPA has taken a capability methodology approved by the Commission for application to a thermal system, *see Southern Company*

Services, Inc., 80 FERC ¶ 61,318 (1997); *see also* IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 60, and adapted it to the operational realities of the FCRPS in order to obtain a fair allocation of costs, based upon the capability of the FCRPS hydro generation under normal operating conditions, DeClerck *et al.*, WP-02-E-BPA-51, at 2. Thus, BPA should not be confined to blind application of a methodology the Commission approved for use with regard to a thermal system, without taking into account hydrosystem idiosyncrasies, when to ignore those differences would yield unfair results.

Decision

BPA will develop an inter-business line charge for the reactive power generation input based upon a capability methodology, but will take into account the normal operation of FCRPS generators, where to do so is necessary to achieve a fair result.

Issue 3

Whether PBL should develop a charge for the reactive power generation input based on power factors corresponding to nameplate ratings instead of normal operations.

Parties' Positions

Should BPA choose to use a capability method to develop the inter-business line charge for the reactive power generation input, the IOUs propose to allocate the percentage of electrical generation equipment used in the production of reactive power and voltage control through the use of a weighted average system power factor, based on the machines' nameplate ratings. IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 80 (arguing for use of the 8 percent hydro unit allocation factor developed from the rated power factor (nameplate) analysis); Schlect and Banaghan, WP-02-E-AC/GE/IP/MP/PL/PS/EN-08, at 5; IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 60 (clarifying that the IOUs' proposal to use power factors based upon nameplate ratings is proposed as a remedy to perceived deficiencies in BPA's proposal, which the IOUs argue inappropriately mixes elements of actual use and capability methodologies).

BPA's Position

Maintaining that it has chosen a capability method to develop the inter-business line charge for the reactive power generation input, WP-02-E-BPA-51, at 2, BPA has selected a power factor defined at a point near peak efficiency of the hydro generator units, corresponding to their normal operating point. DeClerck *et al.*, WP-02-E-BPA-26, at 5-6. BPA agrees that the power factor associated with operation of WNP-2 should be the rated power factor of the nuclear units. DeClerck *et al.*, WP-02-E-BPA-51, at 9.

Evaluation of Positions

The focal point of disagreement between BPA and the IOUs is whether, once a capability method has been chosen, the allocation ratio must be developed from a power factor based upon machine nameplate ratings, or whether the allocation ratio can be developed from a power factor corresponding to normal operations of the machine instead. The IOUs imply that nameplate power factors necessarily identify the correct reactive capability of the machine to base such an allocation on. BPA has chosen a power factor corresponding to actual operations because BPA believes this power factor results in a fair allocation of costs. The IOUs argue that such an allocation is arbitrary; thus, BPA must use the only available non-arbitrary power factor, which, the IOUs argue, is the nameplate power factor. As discussed below, BPA has presented credible evidence that its choice of power factor is not arbitrary and that use of the nameplate power factor suggested by the IOUs would not fairly allocate costs between real and reactive power production.

Should BPA choose to use a capability method to develop the inter-business line charge for the reactive power generation input, the IOUs propose to allocate the percentage of electrical generation equipment used in the production of reactive power and voltage control through the use of a weighted average system power factor, based on the machine's nameplate ratings. IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 80 (arguing for use of the 8 percent hydro unit allocation factor developed from the rated power factor (nameplate) analysis); Schlect and Banaghan, WP-02-E-AC/GE/IP/MP/PL/PS/EN-08, at 5; IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 60 (clarifying that the IOUs' proposal to use power factors based upon nameplate ratings is proposed as a remedy to perceived deficiencies in BPA's proposal, which the IOUs argue inappropriately mixes elements of actual use and capability methodologies). The IOUs argue that the allocation factor resulting from this methodology should be no higher than 8 percent for hydro units and 5 percent for WNP-2. IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 80. The IOUs note that BPA has defined reactive capability by way of the operating range it selects based on real power production considerations, and then BPA allocates reactive costs based on 100 percent of this reactive capability. IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 80, n. 215. Thus, the IOUs claim that BPA has "inappropriately mixed 'actual use' and a 'capability'" in calculating the cost of generation-supplied reactive power. *Id.* at 79-80. The IOUs argue that this "inconsistent approach results in overstating the cost of generation-supplied reactive power" by about $16 million. *Id.* at 80.

BPA has not mixed capability and actual-use methods in allocating the costs of hydro generation electrical facilities to generation inputs for generation-supplied reactive power and voltage control. DeClerck *et al*., WP-02-E-BPA-51, at 2. BPA's approach to calculate the weighted average system power factor is based on a capability method rather than an actual-use method. *Id.* While BPA is using a capability method, elements of BPA's proposed methodology do account for the normal operation of the hydro generation units. *Id.* Hydro generation units are normally constrained to operate below nameplate ratings due to a limited water supply, plant operating restrictions, and fish passage limitations. *Id.* Therefore, BPA is defining the capability of the hydro generation units to provide reactive power using points on the generator capability curves corresponding to normal operations, rather than nameplate ratings. *Id.* This methodology yields a capacity-weighted average power factor of 0.90 for the FCRPS hydro units, DeClerck *et al.*, WP-02-E-BPA-26, at 5, with a corresponding allocation factor of 19 percent, *Id.* at 6.

The general reactive power cost allocation methodology at issue here was approved by the Commission in *Southern Company Services, Inc.*, 80 FERC ¶ 61,318 (1997). As the IOUs point out, the system at issue in *Southern Company* consisted primarily of thermal generation which is usually operated near nameplate ratings. IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 63. Thus, using a nameplate rating to define the allocation factor for thermal units may be appropriate for a thermal system. The Commission has accepted that "a generator nameplate rating specifies the maximum rate that power can be generated by the unit, on a continuous basis without overheating." City of Seattle, Washington, Project No. 2144-012, 53 FERC ¶ 63,015 at 65,153 (1990). Unlike thermal generation, FCRPS machines are constrained such that they rarely operate outside of the peak efficiency band, which, as the IOUs point out, "is at a point below the nameplate rating resulting in higher reactive capability than at the nameplate rating." IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 64. While arguing for a contrary result, the IOUs appear to admit that the reactive power capability of FCRPS hydro generation is increased because it operates within the peak efficiency band.

Many FCRPS machines that provide significant reactive power support have a rated power factor of, or approaching, unity. DeClerck *et al.*, WP-02-E-BPA-51, at 5. Machine nameplate ratings of unity correspond to allocations of costs to reactive power production equaling zero. *Id.* Thus, allocations based on the IOUs' proposal would not capture the full value of the reactive capability the FCRPS hydro units provide for transmission reliability. Indeed, for some machines, the IOUs' proposal would not capture any of that value. The BPA proposal will result in a fair cost allocation because the BPA proposal more accurately reflects the reactive capability of the hydro units during normal operations.

BPA and the IOUs agree on the methodology for choosing the WNP-2 power factor and allocation percentage. WNP-2 is primarily a base-loaded plant. DeClerck *et al.*, WP-02-E-BPA-51, at 9. BPA agrees that the power factor associated with operation of WNP-2 should be the rated power factor of the nuclear units. *Id.* Because nuclear plants are normally base-loaded near their nameplate ratings, the rated power factor most accurately describes the capability of the nuclear units to provide reactive power during normal operation. *Id.*

Decision

The inter-business line charge for the generation-supplied reactive power generation input is based upon power factors and allocation percentages corresponding to normal operations.

Issue 4

Whether PBL should charge TBL for the generation-supplied reactive power generation input based on the entire reactive capability of the FCRPS hydro projects.

Parties' Positions

The IOUs argue that "because BPA chose to develop the generation inputs based on an inconsistent methodology using actual use to derive the real power inputs . . ., BPA should not allocate the costs of 100 percent of the reactive capability of the FCRPS [to the inter-business line charge for the reactive power generation input]." IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 63.

BPA's Position

BPA proposed to charge TBL for the generation-supplied reactive power generation input based on the entire reactive capability of the FCRPS hydro projects, because all of that capability is required at some point in time to support transmission system reliability. DeClerck *et al.*, WP-02-E-BPA-51, at 7-9; DeClerck *et al.*, WP-02-E-BPA-26, at 3-4.

Evaluation of Positions

The IOUs state that, "Because of the relationship between real and reactive power and the method chosen by BPA to determine the percentage of costs allocated to TBL, the result of BPA's methodology is to allocate an arbitrarily high percentage of costs to transmission customers." IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 64. Thus, the IOUs state that "BPA proposes to allocate costs for reactive power to be based on reactive capability even though this reactive power support is not needed or used by TBL." IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 81. Further, "BPA proposes to charge TBL for all . . . of the reactive power capability of the Federal power system, 100 percent of the time." *Id.* The IOUs conclude that, "BPA does not require the reactive capability for which it proposes to charge TBL," based in part upon admissions by BPA witness DeClerck on cross examination that the "times and places where a hundred percent of the reactive capability is needed are limited both in time and in particular locations." *Id.* at 81-82, quoting Tr. 219. Further, the IOUs state that TBL's Reactive Power Margin Criteria do not require "such an allocation." IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 82. In their brief on exceptions, the IOUs clarify that "because BPA chose to develop the generation inputs based on an inconsistent methodology using actual use to derive the real power inputs . . . , BPA should not allocate the costs of 100 percent of the reactive capability of the FCRPS [to the inter-business line charge for the reactive power generation input]." IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 63.

BPA has determined that the transmission system is usually curtailed due to reactive power demands on the transmission system. DeClerck *et al.*, WP-02-E-BPA-51, at 7. Hydroplant operators are routinely instructed by BPA dispatchers to put more hydro generating units online to provide additional reactive power to support transmission reliability, or to adhere to voltage schedules that are provided by TBL dispatchers. *Id.* TBL has a reactive power monitoring system to maintain reactive power margins (determined by TBL's Reactive Margin Criteria) and has stated in their rate case workshops that there are times when 100 percent of the reactive power available from BPA hydro generating units at a particular location is needed. *Id.*

BPA has made reasonable assumptions for the amount of reactive power actually needed to support transmission system reliability. DeClerck *et al.*, WP-02-E-BPA-51, at 7. BPA considered the fact that the available reactive capability of the hydro generating units is often greater than the required reactive power needed to support transmission system reliability at particular locations and points in time. *Id.* at 8. However, a transmission system operator must plan for and meet the maximum reactive needs of the transmission system during a disturbance.

Id. It is essential for sufficient reactive power capability to be available, even if it is needed for only short periods of time. *Id.* This demonstrates that FCRPS reactive demands exceed FCRPS hydro reactive capability on at least some occasions. Therefore, all of the reactive capability of the FCRPS hydro projects is required to support transmission system reliability, because that capability must stand ready to provide reactive support when contingencies arise without warning. DeClerck *et al*., WP-02-E-BPA-51, at 7-9; DeClerck *et al*., WP-02-E-BPA-26, at 3-4.

Decision

PBL will charge TBL for the generation-supplied reactive power generation input based on the entire reactive capability of the FCRPS hydro projects.

Issue 5

Whether BPA should adopt in this proceeding a unit charge for the generation inputs to the generation-supplied reactive power ancillary service and a corresponding revenue forecast, instead of a fixed charge for reactive power generation inputs.

Parties' Positions

The IOUs "argue that it is inappropriate for PBL to determine, in the power rate case, a fixed cost for generation-supplied reactive power." IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 64. "Instead, . . . BPA should in this proceeding adopt only a unit charge for generation-supplied reactive power." *Id.* at 65.

BPA's Position

BPA has chosen an allocation method based on reactive capability under normal operating conditions. DeClerck *et al.*, WP-02-E-BPA-51, at 2. A core assumption of BPA's methodology is that all of the reactive capability of FCRPS hydro facilities is necessary to support the transmission system. *Id.* at 7-8. Thus, BPA did not find it necessary or worthwhile to perform the rigorous analysis required to determine the exact reactive power requirements imposed by transmission system reliability. *Id.* Development of a per-unit charge is unnecessary, because BPA proposes that PBL will charge TBL a fixed charge for all of the reactive capability of the FCRPS.

Evaluation of Positions

The IOUs suggest that "BPA should in this proceeding adopt only a unit charge for generation-supplied reactive power," and suggest that PBL forecast revenues from TBL based upon this unit charge. IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 83. The IOUs have argued that BPA must choose between: (1) an actual use method, or (2) a capability method "based upon the real and reactive power capabilities of electrical generation components . . . " Schlect and Banaghan, WP-02-E-AC/GE/IP/MP/PL/PS/EN-08, at 3. The IOUs describe the "actual use" method as one "based upon either real data or upon a comprehensive set of reasonable assumptions to estimate the actual use of such components." *Id.* However, the IOUs' proposal that BPA develop a unit charge for generation-supplied reactive power first appears in the IOUs' initial brief. IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 83. While the IOUs have argued that BPA inappropriately mixes elements of actual use and capability methods, the IOUs did not advocate that BPA choose an actual use method until filing their initial brief. In fact, the IOUs have acknowledged that because BPA does not track reactive power usage, it is not possible "to determine the extent to which generators are dispatched to provide reactive support." Schlect and Banaghan, WP-02-E-AC/GE/IP/MP/PL/PS/EN-08, at 13. Thus, the IOUs have not supported their proposal with an explanation of how it could be implemented.

In their brief on exceptions, the IOUs "argue that it is inappropriate for PBL to determine, in the power rate case, a fixed cost for generation-supplied reactive power, because to do so predetermines the amount of such reactive power TBL will purchase from PBL for transmission operations." IOU Ex. Brief, WP-02-R-AC/GE/IP/MP/PL/PS/EN-01, at 64. "Rather, TBL, not PBL, should determine how much reactive it needs and from where the reactive should be purchased." *Id.* (citing IOU Brief, WP-02-B-AC/GE/IP/MP/PL/PS-01, at 82). This proposal, originating in the IOUs' briefs, assumes that it is practicable to develop a per-unit inter-business line charge for the reactive power generation input. There is no record evidence to support this proposal. Furthermore, it is important to note that "[t]he initial proposal was developed with input from both business lines . . . The proposals and recommended decisions are made by BPA, not by either business line." Cherry and Metcalf, WP-02-E-BPA-10, at 6. In the power rate case, BPA is determining the amount of an inter-business line charge to account for the annual cost of generator-supplied reactive power capability, as a generation input provided by the PBL to the TBL. *Id.* at 5. In the transmission rate case, TBL will develop a unit-cost rate for the generation-supplied reactive power ancillary service. *Id.*

Decision

BPA has adopted in this proceeding a fixed inter-business line charge to TBL for the reactive power generation input.

Issue 6

Whether the per-unit charge for the operating reserves generation input should be subject to the CRAC.

Parties' Positions

The HLFG argued that the per-unit charges for operating reserves generation inputs should be subject to CRAC. Koehler *et al.*, WP-02-E-HL-01, at 36.

In its initial brief, PGE states that, "Adopting the HLF Group recommendations will better effectuate both of the competing policy goals of sending appropriate market price signals and mitigating rate impacts." PGE Brief, WP-02-B-GE-01, at 12. PGE notes that the HLFG recommendations included application of the CRAC to the operating reserves generation input. *Id.* at 11, n. 12.

WPAG stated that "BPA should exclude CRAC from the internal transfer price of operating reserves . . . " Cross *et al.*, WP-02-E-WA-02, at 5, 59-60.

In its brief on exceptions, PGP states that "PGP takes exception to the Administrator's draft decision not to adopt Bonneville's suggested proposal with respect to the per unit charge for operating reserves generation input." PGP Ex. Brief, WP-02-R-PG-01, at 13. PGP states that, "Bonneville has offered an alternative that would increase the per unit cost for operating reserves generation input to account for the forecasted probability that CRAC will trigger [in] the upcoming rate period." *Id.* at 14.

BPA's Position

Applying CRAC to an inter-business line charge such as the operating reserves generation inputs is inappropriate. DeClerck *et al.*, WP-02-E-BPA-51, at 10.

Evaluation of Positions

HLFG argued that, because the allocated costs and revenue credits for operating reserves generation inputs are based on the same forecasted costs and revenue credits that go into BPA's power rates, the per-unit charges for operating reserves generation inputs should be subject to the CRAC. Koehler *et al.*, WP-02-E-HL-01, at 36. Otherwise, the result may be: "(1) an understatement of the pricing of TBL-supplied Operating Reserves over time, which could cause; or (2) an inequity between the wheeling of Federal and non-Federal power." *Id.* However, it would be inadequate simply to "apply the percentage increase resulting from the CRAC to the internal transfer price, [because] this could overstate the appropriate increase in the internal transfer price . . . " *Id.* at 39. Thus, HLFG proposed "that BPA track the actual net costs associated with the generation assigned to Operating Reserves and increase the internal transfer price proportionately whenever the CRAC triggers." *Id.* HLFG asserts that BPA's new accounting system should be able to track the "actual net costs of generation." *Id.*

In theory, applying the CRAC to the inter-business line charge for operating reserves could promote parity between BPA's posted rates and the charge to the TBL for generation inputs to operating reserves, as HLFG suggested. *See* Koehler *et al.*, WP-02-E-HL-01, at 36-39; DeClerck *et al.*, WP-02-E-BPA-51, at 10. However, under HLFG's proposal, proper application of the CRAC to achieve this parity would require tracking actual net costs of generation. Koehler *et al.*, WP-02-E-HL-01, at 39. HLFG suggested that BPA's new accounting system should be able to track these costs. *Id.* However, BPA states that its systems will not be capable of tracking actual net costs of generation. DeClerck *et al.*, WP-02-E-BPA-51, at 10. In addition, inserting a CRAC charge into TBL's risk portfolio via the inter-business line charge for generation inputs to operating reserves seems to add unnecessary complexity to the overall BPA risk management program. *Id.*

In rebuttal testimony, BPA mentioned an alternative method of adding forecasted CRAC costs to the operating reserves generation input and noted that BPA staff members had discussed this alternative. DeClerck, *et al.*, WP-02-E-BPA-51, at 11. This alternative involved attaching an adder to the per-unit cost of operating reserves that would compensate PBL based on the probability that CRAC will trigger during the rate period, and a forecast of the CRAC increase. *Id.* BPA did not offer support for this alternative because, while this alternative mitigated an implementation problem, it does not alleviate certain inter-business line cost recovery issues. *Id.* BPA made clear that it was not BPA's intent to include a CRAC recovery component in the inter-business line charge for operating reserves generation inputs. *Id.* In its brief on exceptions, PGP characterizes this alternative as "Bonneville's proposal" and argues that the alternative should be adopted because "[t]here is no evidence on the record that Bonneville's alternative . . . is unworkable or has other fatal flaws." PGP Ex. Brief, WP-02-R-PG-01, at 13, 15. No party advocated this alternative in testimony or in their initial briefs; this alternative was not part of BPA's proposal. Moreover, BPA made clear that this alternative mitigated only some of the problems associated with assessing CRAC to the inter-business line charge for operating reserves generation inputs. DeClerck *et al.*, WP-02-E-BPA-51, at 11. Therefore, BPA will not utilize this alternative method.

Decision

BPA will not subject the per-unit charge for the operating reserves generation input to the CRAC. BPA will not attach an adder to the per-unit charge for the operating reserves generation input to recover forecasted CRAC costs.

Issue 7

Whether the inter-business line charges for generation inputs to ancillary services should include the costs of renewables and conservation programs, the costs of nonperforming assets, or Trojan decommissioning costs.

Parties' Positions

PPLM states that, "No costs of nonperforming assets should be included in the pool of costs from which the costs of ancillary services are derived." PPLM Brief, WP-02-B-PM-01, at 13.

WPAG asserted that "BPA has erred by excluding certain costs from the pool of costs assigned to ancillary services." These costs are "the costs of nonperforming assets (WNP-1 and WNP-3), decommissioning costs for the Trojan plant and conservation and renewable resource programs . . . " Cross *et al.*, WP-02-E-WA-01, at 24.

BPA's Position

BPA proposed to allocate costs to the Operating Reserves generation input by using an embedded cost methodology based on the cost of the hydro projects used to meet operating reserve obligations on the system. DeClerck *et al.*, WP-02-E-BPA-26, at 9. BPA proposed to allocate costs to the regulating reserves generation input by using an embedded cost methodology based on the cost of the hydro projects used to meet the regulating reserve obligations of the system; these consist of the 10 hydro projects that are equipped with AGC. *Id.* at 13. BPA proposed that both of these methodologies would exclude the costs of the nonperforming assets (including WNP-1, -3, and Trojan decommissioning), and conservation. *Id.* at 10, 13.

Evaluation of Positions

BPA stated that the costs of nonperforming assets and conservation should be excluded from the cost of the operating reserves and regulating reserves generation inputs, because these assets and programs do not directly contribute to meeting the BPA Control Area operating reserves and regulating reserves obligations. DeClerck *et al.*, WP-02-E-BPA-26, at 10, 13. WPAG acknowledged "that the costs of nonperforming assets and Trojan decommissioning do not contribute directly to the costs of providing ancillary services." Cross *et al.*, WP-02-E-WA-01, at 25. However, WPAG argued that "these costs do not contribute directly to the production of real power . . . " or to "any of the products that the power system produces." *Id.* WPAG compared these costs to administrative and general costs, such that all power system users should share in them. *Id.* WPAG argued that conservation and renewables programs reduce the need for additional generation, which reduces the need for ancillary services, such that a portion of the cost of these programs should be included in the ancillary services generation inputs costs. *Id.* at 26.

PPLM states that "BPA does not dispatch its base-loaded plants to provide operating or regulating reserves." PPLM Brief, WP-02-B-PM-01, at 13. "If they were operating, it is likely that both WNP-1 and WNP-3 (BPA's 'nonperforming assets') would be dispatched as base-loaded plants. Therefore, their costs should not be used as generation inputs for spinning reserve, supplemental reserve, or load regulation services." *Id.* at 13-14. Because Trojan is located outside the BPA control area, and because it would probably be base-loaded were it still operating, Trojan decommissioning costs are not properly included in the costs of ancillary services generation inputs. *Id.* at 14. With respect to including the cost of conservation and renewables, PPLM states that reductions in transmission demand incidental to conservation or renewable programs are very location-specific. *Id.* at 12, 14. PPLM states that attempting to determine what percentage could be assigned to transmission would need to be done on a resource-by-resource basis. Brooks, WP-02-E-PM-09, at 2. The costs of performing this analysis "would likely exceed the benefits of doing so." *Id.*

In its testimony, WPAG raised the issues discussed above. Cross *et al.*, WP-02-E-WA-01, at 24-26. However, WPAG failed to raise these issues in its initial brief. WPAG Brief, WP-02-B-WA-01.

Decision

The inter-business line charges for generation inputs to ancillary services do not include the costs of renewables and conservation programs, the costs of nonperforming assets, or Trojan decommissioning costs.

Issue 8

Whether BPA should assess TBL an annual inter-business line charge for generation dropping provided by PBL.

Parties' Positions

No party raised this issue in an initial brief or brief on exceptions.

BPA's Position

BPA proposed to assess TBL an annual inter-business line charge for generation dropping provided by PBL. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 84-87. *See also* DeClerck *et al.*, WP-02-E-BPA-26, at 16-17.

Evaluation of Positions

Generation dropping is a Remedial Action Scheme (RAS) that the PBL provides to the TBL for purposes of transmission system reliability. DeClerck *et al.*, WP-02-E-BPA-26, at 16-17. PBL provides this service by dropping large increments of generation (600 MW and greater), virtually instantaneously, from the transmission grid. *Id.* Generation dropping is severe duty that imparts wear and tear on equipment, which will incrementally decrease the life of and increase the maintenance required by the unit. *Id.* In addition to these costs, decreased unit life and increased maintenance reduce revenues during replacement or overhaul of the equipment. *Id.* BPA estimated the cost of the generation dropping RAS based on consultations with manufacturers and designers, and lost revenue from increased downtime. *Id.* Because these costs are incurred to promote transmission system reliability, these costs will be assigned to TBL.

Decision

BPA will assess TBL an annual inter-business line charge for generation dropping provided by PBL.

Issue 9

Whether BPA should assess TBL an annual inter-business line charge for station service provided by PBL.

Parties' Positions

No party raised this issue in an initial brief or brief on exceptions.

BPA's Position

BPA proposed to assess TBL an annual inter-business line charge for Station Service provided by PBL. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 87-88. *See also* DeClerck *et al.*, WP-02-E-BPA-26, at 18-19.

Evaluation of Positions

Station service is real power taken directly off the BPA power system for use by TBL at substations, Celilo, and the Ross Complex. DeClerck *et al.*, WP-02-E-BPA-26, at 18. The proposed inter-business line charge for station service does not include station service that is being purchased by the TBL from any other utility. *Id.* There are very few locations on the BPA system where station service is metered, so BPA developed a methodology to estimate this usage. Wholesale Power Rate Development Study, WP-02-E-BPA-05, at 88. Because station service power is used to operate the transmission system, BPA will assess TBL an annual inter-business line charge for station service provided by PBL based upon this methodology.

Decision

BPA will assess TBL an annual inter-business line charge for station service provided by PBL.