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October 5, 2012

Via Email: techforum@bpa.gov

U.S. Department of Energy
Bonneville Power Administration
Transmission Services
P.O. Box 64019
Vancouver, WA 98666-1409

Re: PSE Comments on BPA's Potential Alternatives to Reduce Long-Term Network Rate Impacts Associated with Generator Interconnection

In this letter, Puget Sound Energy, Inc. ("PSE") comments on certain issues regarding the presentation entitled "Generation Interconnection: Transmission Credit Repayment," presented by Bonneville Power Administration ("BPA") on September 5, 2012 (the "Transmission Credit Repayment Presentation"). PSE thanks BPA for the opportunity to comment and to work cooperatively with BPA On these issues.

The stated purpose of the Transmission Credit Repayment Presentation is to present "potential alternatives to reduce long-term network rate impacts associated with generator interconnection." (Transmission Credit Repayment Presentation at slide 2.) According to the presentation, "BPA is holding a large transmission credit balance that is forecast to increase as more generator connections are constructed," and "[t]hese credits are effectively a cost, which increases rate pressure." (*Id.* at slide 3.) The Transmission Credit Repayment Presentation suggests that BPA seeks a method to repay credits for advance funding for Network Upgrades that achieves the following objectives:

- Minimize upward rate pressure.
- Create a method of funding Large Generation Interconnection Projects that encourages effective integration of resources through sustainable, long-term, collaborative integration solutions while ensuring reliability, equitable cost and risk allocation, and meeting legal obligations.
- Ensure interconnection costs are appropriately allocated between individual customers and the rate base.

(*Id.* at slide 5.)

The Transmission Credit Repayment Presentation erroneously suggests that transmission credits associated with Network Upgrades for generator interconnection are simply "a cost, which increases rate pressure." (Transmission Credit Repayment Presentation at slide 3.) Such credits are neither a charge nor a rate but are instead a financing vehicle:

> The Interconnection Customer's upfront payment, with the associated credits and reimbursements, serves simply as a financing mechanism that is designed to facilitate the construction of the Network Upgrades.

Standardization of Generator Interconnection Agreements and Procedures, 106 FERC ¶ 61,220 at P 582 (2004) ("Order No. 2003-A"). BPA should recognize and treat transmission credits as a financing vehicle rather than a mere cost. Therefore, BPA's provisions with respect to transmission costs should be consistent with the *pro forma* Open Access Transmission Tariff provisions.

A. Alternatives Presented in the Transmission Credit Repayment Presentation

The Transmission Credit Repayment Presentation presents the following three alternatives to repay credits for advance funding for Network Upgrades that BPA is considering in an effort to achieve the above-listed objectives:

- Alternative # 1 – Change the interest rate applicable to LGIA credits.
- Alternative # 2 – Repay transmission credits until balance is exhausted.
- Alternative # 3 – Include SCD in Transmission Credit repayment calculation.

PSE addresses each of these proposed alternatives below.

1. Alternative # 1 – Change the Interest Rate Applicable to LGIA Credits.

Under the first alternative, BPA proposes the use of a lower interest rate—based on 10-year or 30-year Treasury yields—for payment of interest on unpaid credits. (Transmission Credit Repayment Presentation at slide 11.) In Order No. 2003, the Federal Energy Regulatory Commission ("FERC") recognized that an Interconnection Customer is entitled to a refund for all of the costs of the Network Upgrades, including a reasonable estimate of the carrying costs of the amounts advanced for Network Upgrades:

> The Commission continues to believe that the Interconnection Customer is entitled to a refund for all of the costs of the Network Upgrades for which it has paid, including a reasonable estimate of the carrying costs that it incurs in making the advance payments.

Standardization of Generator Interconnection Agreements and Procedures, 104 FERC ¶ 61,103 at P 723 (2003) ("Order No. 2003"). FERC recognized the difficulty in determining an interest rate that accurately reflected the carrying cost of the Interconnection Customer and opted to use the FERC interest rate as a reasonable proxy:

> The determination of an interest rate that accurately reflects this carrying cost cannot be reduced to a completely objective calculation. Interest calculated in accordance with 18 CFR § 35.19a(a)(2)(ii) provides a reasonable proxy for this carrying cost, and because it offers an objective calculation, the Commission retains this provision in Article 11.4.1 of the Final Rule LGIA.

Id.

BPA's proposed use of interest rates based on 10-year or 30-year Treasury yields at rates of 1.65% and 2.90%, respectively, fails to accurately reflect the carrying costs of the Interconnection Customer. Indeed, such interest rates are substantially less than the current FERC annual interest rate of 3.25%. (FERC, *Interest Rates*, available at http://www.ferc.gov/legal/acct-matts/interest-rates.asp.) In Order No. 2003-A, FERC recognized that a Transmission Provider that could obtain financing at a rate more favorable than the FERC interest rate could finance Network Upgrades itself and include the associated costs in transmission rates:

> We note . . . that if the Transmission Provider believes it can obtain financing for the Network Upgrades at a more favorable rate, it always has the option to finance the Network Upgrades itself and immediately include the associated costs in rates. In so doing, the Transmission Provider avoids having to provide credits to the Interconnection Customer and can immediately seek to recover its investment costs through transmission rates.

Order No. 2003-A at P 618.

BPA should not calculate interest on unpaid transmission credits at a rate that fails to reflect the carrying costs of the Interconnection Customer accurately. If BPA were able to finance Network Upgrades at interest rates based on 10-year or 30-year Treasury yields, then BPA could, consistent with the discussion in Order No. 2003-A, self-finance Network Upgrades and immediately include its investment costs in transmission rates.

2. Alternative # 2 – Repay Transmission Credits until Balance is Exhausted.

Under the second alternative, BPA proposes to remove the "20-year deadline on transmission credit repayment." (Transmission Credit Repayment Presentation at slide 12.) Although this BPA proposal may be consistent with initial variations of Order No. 2003, it is not consistent with Order No. 2003-B, which required the Transmission Provider to reimburse the Interconnection Customer fully for financing Network Upgrades within twenty years of the Commercial Operation Date of the Interconnection Customer's Generating Facility. *Standardization of Generator Interconnection Agreements and Procedures*, 109 FERC ¶ 61,287at P 35 (2004) ("Order No. 2003-B"). FERC expressly recognized arguments on rehearing that full reimbursement by a date certain was necessary to make the crediting policy consistent with the notion that the upfront payment is primarily a mechanism for financing Network Upgrades:

> These petitioners make valid points. To address the Interconnection Customer's need for a date certain for reimbursement of its upfront payment, we are specifying what the Transmission Provider must do if it elects not to return to the Interconnection Customer any portion of its upfront payment that remains due at the end of five years. Specifically, in order to provide a definite end date for reimbursement that is not to be exceeded, we are revising *pro forma* LGIA article 11.4.1 to state that full reimbursement shall not extend beyond twenty (20) years from the Commercial Operation Date.

Id.

BPA's proposal to remove the twenty-year maximum period for repayment of the costs of the Network Upgrades directly conflicts with FERC's rationale in Order No. 2003-B and Article 11.4.1 of the *pro forma* LGIA. FERC would likely reject any such deviation from clear policy as not consistent with or superior to the pro forma language. This is particularly true given the minimal benefit that BPA projects—a 0.15% reduction in incremental rate pressure that does not occur for twenty-five years—for the second alternative.

3. Alternative # 3 – Include SCD in Transmission Credit Repayment Calculation.

Under the third alternative, BPA proposes to include Scheduling, System Control and Dispatch ("SCD") costs in the transmission credit repayment calculation to allow "[f]aster repayment of credit balances [that] would increase short term rate pressure and reduce long term rate pressure." (Transmission Credit Repayment Presentation at slide 13.) BPA notes that this Alternative #3 is the only alternative of the three presented that "could apply to current and future credit balances." (*Id.*)

Nothing in the third alternative proposed by BPA appears to violate Order No. 2003 and successive orders or any other FERC policy. Indeed, such an alternative could be considered as consistent with or superior to the *pro forma* LGIA because it more quickly returns the Interconnection Customer's advanced costs and reduces the long-term rate pressures that can be associated with the possibility of returning uncredited amounts at the end of twenty years.

B. Conclusion

PSE appreciates BPA's review of these comments and consideration of the requests and recommendations contained herein. By return e-mail, please confirm BPA's receipt of these comments.

Sincerely,

Puget Sound Energy, Inc.

By: [signature]
Title: Theresa M. Burch
Manager
Energy Delivery
Puget Sound Energy, Inc