

February 11, 2014

Elliot Mainzer, Administrator
Bonneville Power Administration
RE: Transmission Segmentation Discussion and Proposed Principles
Via email: techforum@bpa.gov

Dear Administrator Mainzer:

Northwest Requirements Utilities (NRU) appreciates this opportunity to comment on the Bonneville Power Administration's (BPA) segmentation process and proposed segmentation principles. We also offer comments on the *BPA Segmentation Review: Industry Practices Scan*. NRU is a non-profit trade association of 53 public utilities that rely upon BPA as their primary or exclusive supplier of wholesale electric energy. These utilities account for nearly 25% of BPA's wholesale public power sales in the Northwest. NRU's members are all BPA Network Integration Transmission (NT) Service customers.

Segmentation Principles

NRU generally agrees with BPA's proposed set of principles that will guide the segmentation process. However, a few modifications and additions are critical to ensure BPA and its customers appropriately prioritize these principles if alternative proposals are considered. A revised set of segmentation principles is attached, which NRU urges BPA to adopt. A detailed explanation of these revisions is provided below.

First, NRU proposes that BPA's principle number two (lowest possible rates consistent with sound business principles) be merged with principle number nine (encourage widest possible diversified use or "the Widest Use Standard"). Section 9 of the Transmission System Act requires the Administrator to set rates "with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." 16 U.S.C. 838g. This is a single requirement, and each component must be considered in conjunction with the rest. To consider "lowest possible rates to consumers" as separate and distinct from the Widest Use Standard would be contrary to the intent of Congress. When considering whether BPA is providing power at the lowest possible rates to consumers consistent with sound business principles, BPA must consider consumers *throughout the entire*

Northwest, not just in select locations. BPA’s principles need to reflect the intent of the Transmission System Act, which makes clear that widest use, lowest cost, and sound business principles are a single obligation BPA must meet when designing transmission rates.

Second, this principle should acknowledge that the baseline for whether a proposal meets the Widest Use Standard is a uniform rate. The Bonneville Project Act and the Transmission System Act specifically provide for a uniform rate, and BPA has used a uniform rate since its establishment 77 years ago. A uniform rate has been essential in ensuring that all of BPA’s customers receive transmission service at the same affordable price without regard to location or size, which achieves the Widest Use Standard. In order to also meet the Widest Use Standard, any alternative proposal must result in rates to consumers in all corners of the Northwest that are equal to or lower than those rates would have been under a uniform rates methodology.

Third, the Widest Use Standard, along with BPA’s other statutory requirements, should be prioritized above the other segmentation principles. To that end, BPA may want to consider a tiered approach that recognizes some principles are in fact obligations derived from BPA’s enabling statutes that BPA *must* achieve while others are important considerations but not obligatory. The first three principles as proposed by NRU – (1) full and timely cost recovery, (2) widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles and (3) equitable allocation between federal and non-federal uses of the transmission system – are statutory obligations BPA must take into account when designing transmission rates. The other principles deserve substantial consideration, but they do not rise to the same level of consequence as BPA’s statutory obligations.

Correspondingly, NRU proposes to move and modify BPA’s principle number eight, “Considers a regional perspective.” The purpose of the Widest Use Standard is that the entire region should benefit from affordable electricity. BPA’s statutes dictate that it must consider how the entire Northwest region would be impacted by a change to its segmentation policy and longstanding uniform rate construct. Therefore, this principle should directly follow the principles dictated by BPA’s statutory obligations because it is essential to meeting one of those obligations. NRU also urges BPA to strengthen the language of this principle to inform proponents of alternative segmentation proposals that they *must* demonstrate how the entire region benefits from their proposals.

Fifth, NRU strongly urges BPA to include a principle that any alternative proposal must, “Honor BPA and utility planning and financial decisions based on longstanding segmentation policies.” The relationship and development of the transmission facilities in the Integrated Network Segment are an outgrowth of policies and rate designs that date back decades. BPA’s customers have built their systems around this longstanding uniform rates construct, and it would be punitive and financially difficult for many of NRU’s members to adopt a completely different

cost recovery mechanism that runs counter to how BPA and its customers originally planned and built the transmission grid.

Finally, BPA transmission planning and financing policies (e.g., Network Open Season rolled-in-rates determinations) must align with any alternative segmentation proposals. BPA plans, operates, and finances its transmission as an integrated whole. If BPA's segmentation policy is modified in a way that this is no longer the case, then BPA's transmission planning financing policies should also be modified to reflect the change in segmentation and the underlying rationale for making such a change.

BPA Segmentation Review: Industry Practices Scan

NRU appreciates the work that BPA staff put into developing its report entitled, *BPA Segmentation Review: Industry Practices Scan*. BPA employed a large sample size of 102 Transmission Providers that are similar to BPA in terms of size as measured by total transmission line miles. NRU believes the *Industry Practices Scan* is both robust and thorough. At its most fundamental level, the *Industry Practices Scan* supports BPA's current segmentation policy from a technical and policy perspective.

BPA's *Industry Practices Scan* reinforces that BPA's use of 34.5kV as the bright line threshold is consistent with the industry benchmark for demarcating Network and Delivery segments. For example, the report found the median threshold for segmenting transmission from distribution is 35kV. Page 2. The report also found that 99% of the sampled Transmission Providers consider 115kV facilities to be part of the Network segment, and 92% consider 69kV facilities to be part of the Network segment. Page 8. Clearly, BPA's use of 34.5kV as the threshold to delineate between the Network and Delivery segment is consistent with the industry standard.

While it is highly illustrative to know that 35kV is the median line of demarcation between transmission and distribution, BPA's industry scan also makes clear that there is not a 'one size fits all' approach to segmentation. Said differently, Transmission Providers tend to base segmentation thresholds on longstanding cost recovery policies and unique system attributes (e.g., historic voltage levels used in particular regions) rather than an industry standard. To this point, every Transmission Provider listed under *Part 7: Treatment of Radial Lines* in BPA's *Industry Practices Scan* treated the direct assignment of radial facilities in a different manner.

The *Industry Practices Scan* also highlights that **direct assignment of transmission facilities is considered on a prospective basis only**. For example, Duke Energy is revising its treatment of radial lines to directly assign *new* radial lines to its customers, but according to BPA's report, "the policy was not retroactive—Duke did not remove its radials from its Network rates." Page 19. BPA's own policy is in line with this prevailing industry standard. BPA's *Guidelines for Direct Assignment Facilities* do not allow for BPA to directly assign facilities to an end user *after* the facilities have been built, rolled into the Network, and paid for by all Network users. This also is consistent with the

Network Integration Transmission Contracts that all NRU members hold that provide for direct assignment of facilities *upon execution of the contract* on a mutual consent basis. To this end, it is inconsistent with sound business principles to build and recover costs for its existing transmission system under consistent, long-standing rate design and then propose deploying a completely different cost recovery mechanism that runs counter to how the transmission grid was originally planned and built.

While the *Industry Practices Scan* provides an exhaustive study of FERC jurisdictional Transmission Providers, including the Tennessee Valley Authority (TVA) and the other Power Marketing Administrations (PMAs) in the comparison may also be valuable. In comparison to FERC jurisdictional Transmission Providers, BPA has a unique history, service territory, and statutory obligations, and TVA and the PMAs operate with a similar mission and values. TVA and the PMAs also operate large transmission networks that serve both urban and rural areas. Indeed, BPA notes in the *Industry Practices Scan*, including TVA and the PMAs would move BPA from fourth to sixth in terms of transmission line miles. Page 1. Therefore, while the industry scan of FERC jurisdictional Transmission Providers is valuable and demonstrates that BPA's current segmentation policies are in line with industry practices, including TVA and the PMAs in the analysis may provide a closer "apples to apples" comparison with utilities operating under similar circumstances.

Conclusion

NRU is encouraged by BPA's findings in its *Industry Practices Scan*. The report is thorough, and its findings only reinforce BPA's use of its existing segmentation policies. The inclusion of TVA and other PMAs may bolster the report, and NRU hopes that BPA can include these Transmission Providers in any future updates.

NRU urges BPA to incorporate the proposed segmentation principles attached to this document. It is imperative that BPA's statutory obligations are the primary benchmark used to measure any proposed segmentation alternatives. Prioritizing BPA's statutory obligations ensures that the segmentation workshop process, leading to the Administrator's decision in the FY 2016 – FY 2017 Transmission rate case, will be consistent with BPA's mission, values, and legal obligations.

BPA must also consider its customers have built their electrical systems around the longstanding uniform rates construct. Adopting a completely different cost recovery mechanism to the current transmission infrastructure would run counter not only to BPA's statutory obligations, but would also run counter to prevailing industry practices. Such a mechanism could also have an extremely negative financial consequence for many of our more rural or remotely located communities.

Thank you for this opportunity to comment. We look forward to working with your staff and other customer representatives to bring this topic to a fair and reasonable conclusion.

Best Regards,

A handwritten signature in black ink that reads "John D. Saven". The signature is written in a cursive style with a long, sweeping underline that extends to the left.

John D. Saven

Chief Executive Officer

Attachment

CC: Members of NRU

Northwest Requirements Utilities Proposed Segmentation Principles

Date: February 11, 2014

1. Full and timely cost recovery
2. Any segmentation policy must encourage the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles.
 - The baseline for whether a proposal achieves this “Widest Use Standard” is a uniform rate.
3. Equitable cost allocation between federal and non-federal uses of the Transmission system
4. Emphasizes a regional perspective
 - Alternatives must consider how costs are allocated and recovered.
 - Proponents of alternatives must demonstrate how the region benefits from the alternative compared to status quo.
 - Helps facilitate customers working together with BPA on complex matters
5. Honor BPA and utility planning and financial decisions based on longstanding segmentation policies
6. Simplicity, understandability, public acceptance, and feasibility of application
7. Avoidance of rate shock
8. Rate stability from rate period to rate period
9. Cost causation
10. Must align with BPA’s planning and financing policies
11. Is not disruptive or delaying to BPA’s IPR and CIR processes