

To: BPA Tech Forum

Date: March 29, 2012

RE: Cost Allocation Alternatives

Northwest Requirements Utilities provides the following comments on the cost allocation methodology to be used in the development of BPA's cost of service studies for the FY 2014/2015 transmission rate case. NRU represents 50 load following customers of BPA, all of whom purchase transmission under the Network Integration rate schedule. The choice of an allocation methodology will directly affect our membership as a result of the rate impacts that will result.

NRU was a party to the February 29, 2012 joint comments of the NT customers and agrees with the positions taken in that document. As stated there: "The NT Customers' proposal to use a 12 CP allocation methodology in the COSA is not novel; instead it is a logical extension of BPA's decision to better align itself with FERC policy. Adoption of 12 CP would mean that the terms and conditions of BPA's transmission services and the allocation of costs between such services would both be consistent with FERC policy." In summary, now is the time to move to a 12 CP approach to cost allocation for the transmission rate case for FY 2014/2015.

For over a decade BPA's transmission rates have been fairly stable as a result of settlements that occurred over that period. From time to time, BPA and the customers have looked at different cost allocation methodologies. For example, we have attached a 2006 BPA study that suggests, based on information from 1999 to 2005, a 12 Coincident Peak approach to cost allocation was warranted. In the end, this approach was not implemented. It has been clear for many years that BPA passes the tests necessary for the agency to move to the industry standard 12 CP approach to transmission cost allocation prescribed by the FERC. However, we have stayed with the resulting "Modified 1 CP" approach due to the fact that BPA's transmission rate cases have been the result of settlement agreements since the 1996 rate case. Now is the time for change.

We are also aware that, as BPA has shown, the rate impacts of this change will not be equivalent between NT and PTP customers. All other things being equal, NT rates will go down and PTP rates will go up if BPA moves to 12 CP cost allocation. NRU is not averse to other groups proposing ways to mitigate the PTP rate increase within the context of the upcoming rate proceeding. However, any such discussion should occur during the rate case workshops or rate case proceedings and *not* part of the cost of service analysis. The COSA should be strictly a cost allocation exercise and follow the 12 CP methodology.

The Tiered Rate Methodology has resulted in more prescriptive and stable ratemaking for BPA Power Services rates. It is our hope that adoption of the industry standard 12 CP FERC approach to cost allocation for BPA transmission ratemaking, coupled with a resolution of the Utility Delivery Charge issue, will do much to bring long term stability to BPA's transmission rate making practices.



Network Cost Allocation

1996 Transmission Rate Case

BPA's rate construct was to set the PTP rate, the IR rate, and the Base Charge for the NT and NTP rates equal to each other. Given its different rate design, FPT was treated as a revenue credit to Network cost.

Network allocation factors were annual contract demands (PTP/IR) or their equivalent (NT/NTP); i.e., a 1NCD (non-coincidental demand) cost allocation method.

- The contract demand equivalent for the load-based services of NT and NTP (service under the 1981 power sales contract) was the sum of the forecasted annual noncoincidental peak demands.

The portion of the NT/NTP allocation factor that represented the difference between the classes' coincidental peak demand and their annual noncoincidental peak demands was the basis for the Load Shaping allocation factor. The remaining portion of the NT/NTP allocation factor was included in the determination of the Base Charge.

The rate case was settled at negotiated rate levels that maintained the rate construct but changed the results of the 1CP Network cost allocation.

2002, 2004 and 2006 Transmission Rate Cases

In its 2002 initial rate proposal, TBL proposed a 1CP (coincidental peak) Network cost allocation methodology. Usage patterns of the Federal transmission system would have supported using a 12CP method, consistent with FERC standards for jurisdictional utilities. (See below). Given the cost shifts among the Network services that would have resulted from the use of 12CP, TBL proposed the 1CP method. However, the 2002 final rates were based on a negotiated settlement that specified rate levels.

The 2004 transmission rates are also based on a negotiated settlement that increased most rates by a uniform percentage adder.

The 2006 transmission rates are also based on a negotiated settlement although in the 2006 rate case, rates were adjusted by segment (rather than a uniform rate increase) moving the cost allocation closer to a 1CP cost allocation.

FERC Guidance

In Order 888, FERC states:

... we will allow all firm transmission rates, including those for flexible point-to-point service, to be based on adjusted system monthly peak loads. The adjusted system monthly peak loads consist of the transmission provider's total monthly firm peak load minus the monthly coincident peaks associated with *all* firm point-to-point service customers plus the monthly contract demand reservations for *all* firm point-to-point service.



Translating this guidance for the FCRTS, the unit charge for Network service (PTP/IR) =

$$\frac{\text{Network Cost}}{\text{CP}_{\text{Network firm/nonfirm}} - \text{CP}_{\text{PTP/IR}} + \text{Contract Demands}_{\text{PTP/IR}}}$$

- PTP includes firm and nonfirm service.
- Forecasted short-term PTP converted to annual equivalents.
- FPT not included in this calculation.
- Network cost not recovered through PTP/IR would be basis for NT rate.

FERC has defined certain “tests” to determine when it is appropriate to use a 12CP method, which is used by most utilities. These tests are:

1. **Test 1:** Compare the lowest monthly peak as a percentage of the annual peak. If this ratio is **greater than 71%**, FERC has adopted 12CP.
2. **Test 2:** Compare the average of the 12 monthly peaks to the annual peak. If this ratio is **greater than 84%**, FERC has adopted 12CP.

The results of applying these tests to the Federal transmission system are shown here:

CY	(a) Lowest Monthly Tx Peak (MW)	(b) Avg of 12 Monthly Tx Peaks (MW)	(c) Annual Peak (MW)	(d) Test 1: Col (a)/ Col (c) (%)	(e) Test 2: Col (b)/ Col (c) (%)
1999	21,213	24,844	27,070	78.4	91.8
2000	19,723	23,607	27,139	72.7	87.0
2001	16,660	20,125	24,035	69.3	83.7
2002	18,587	21,362	23,463	79.2	91.0
2003	18,126	20,959	22,700	79.9	92.3
2004	18,077	20,467	22,998	78.6	89.0
2005	18,519	20,713	22,231	83.3	93.1

TBL’s transmission loading pattern would support the use of a 12CP divisor for allocating costs between the network rate classes.



Recommendation:

Though BPA would like to move towards the 12CP allocation we feel there would be a considerable cost shift in the FY08/09 rate period therefore we propose to continue with the 1CP allocation approach.

