

UNITED STATES OF AMERICA  
DEPARTMENT OF ENERGY  
BEFORE THE  
BONNEVILLE POWER ADMINISTRATION

2014 Rate Adjustment Proceeding            )  
  )  
  )           BPA Docket No. BP-14

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**DIRECT TESTIMONY OF**

**JOINT PARTY 14**

**Consisting of:**

**Northwest Requirements Utilities,  
Pacific Northwest Generating Cooperative Power and Members,  
Western Public Agencies Group and Members,  
Public Utility District No. 1 of Cowlitz County, Washington, and  
Eugene Water & Electric Board**

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WITNESSES:

John Saven  
John Prescott  
Patrick McGary  
Gary Huhta  
Roger Gray

SUBJECT OF TESTIMONY:

Network Segment Cost Allocation and Transmission Rate Billing Factor

January 28, 2013

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TESTIMONY OF  
John Saven  
John Prescott  
Patrick McGary  
Gary Huhta  
Roger Gray

**SUBJECT: Network Segment Cost Allocation and Transmission Rate Billing Factor.**

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

- Q. Please state your names and your qualifications to provide this testimony.*
- A.** My name is John Saven. My qualifications are stated in BP-14-Q-NRU-02.
- A.** My name is John P. Prescott. My qualifications are stated in BP-14-Q-PN-03.
- A.** My name is Patrick McGary. My qualifications are stated in BP-14-Q-WP-04.
- A.** My name is Gary Huhta. My qualifications are stated in BP-14-Q-CO-01.
- A.** My name is Roger Gray. My qualifications are stated in BP-14-Q-EW-01.
- Q. On whose behalf do you offer this testimony?*
- A.** We are testifying on behalf of Northwest Requirements Utilities (“NRU”), Pacific Northwest generating Cooperative Power and Members (“PNGC”), Western Public Agencies Group and Members (“WPAG”), Utility District No. 1 of Cowlitz County, Washington (“Cowlitz PUD”) and the Eugene Water & Electric Board (“EWEB”), which have been jointly designated as Joint Party 14.
- Q. What is the purpose of this testimony?*
- A.** One purpose of this testimony is to urge BPA to adhere to the primary principle of cost causation when it allocates costs to and designs its transmission rates in this proceeding. Adherence to the principle of cost causation, as well as the guidance provided by the Federal Energy Regulatory Commission (“FERC”) and other

1 generally accepted ratemaking principles reflected in industry standards requires  
2 that BPA allocate the costs of the network segment to network transmission  
3 (“NT”) customers based on the sum of their loads coincident with BPA's  
4 maximum total transmission system loads (“coincident peak” or “CP”) in each of  
5 the 12 months of the year (the “12 CP” allocation methodology). These same  
6 principles require that BPA use each network customer’s load at the time of such  
7 monthly coincident peaks as the Network Integration rate billing factor. BPA's 12  
8 non-coincident peak (“12 NCP”) allocation methodology and BPA’s use of  
9 individual customer’s non-coincident peaks on the transmission system as the  
10 transmission and ACS billing factors are not supported by cost causation or by  
11 FERC’s guidance, and they are out of sync with industry standards. A secondary  
12 purpose of this testimony is to highlight the large cost that NT customers have  
13 borne and would continue inappropriately to bear as the direct result of BPA's  
14 failure to adhere to these cost causation principles.

15 **Section 2: Application of the Cost Causation and Other Standard Ratemaking**  
16 **Principles.**

17  
18 *Q. On what do you base your testimony?*

19 **A.** We did not do any separate numerical analysis to support this testimony. We  
20 relied on the analysis reported in Section 3 of Joint Party 3’s testimony BP-14-E-  
21 JP03-01 on “Cost Allocation for the Integrated Network Segment”, the analysis  
22 reported in Section IV of the Western Public Agencies Group’s testimony BP-14-  
23 E-WG-01 on “Transmission Rate Issues” and BPA's testimony BP-14-E-BPA-33  
24 on “Transmission Network Segment Cost Allocation.” We also relied on the  
25 responses provided by BPA to data requests WG-BPA 18 and WG-BPA-21,

1 which are attached to this testimony as Attachments 1 and 2 respectively. We  
2 applied our own judgments to the matters reported in those exhibits.

3 *Q. BPA claims that its 12 NCP methodology for allocating network segment costs to*  
4 *the NT rate is consistent with cost causation principles. Do you agree?*

5 **A.** No. BPA proposes to allocate network segment costs to the NT rate in proportion  
6 to the sum of the non-coincident loads NT customers place on the transmission  
7 system. BPA claims that such an allocation is supported by cost causation  
8 because BPA plans its system to meet each customer's load at the time of that  
9 load's peak. BP-14-E-BPA-33 pp. 3-4. We do not disagree that BPA should and  
10 does plan its system to meet individual customer's peak. But that design criterion  
11 is not a primary driver of costs on BPA's system. BPA acknowledges that BPA  
12 does *not* design its system to meet the sum of the individual customer's non-  
13 coincident peak transmission loads because "that would be impossible." See Data  
14 Response WG-BPA-21, attached hereto as Attachment 2. It would certainly be  
15 impractical, unnecessary and prohibitively expensive to build the entire  
16 transmission system to meet the sum of all customers' non-coincident  
17 transmission demands. It would be unnecessary because facilities designed to  
18 meet the coincident loads will also meet the non-coincident loads placed on those  
19 facilities at times other than the time of the coincident peaks.

20 *Q. What is the primary driver that causes BPA to incur costs on the network*  
21 *segment?*

22 **A.** The primary cost driver is customer loads that contribute to the highest peaks on  
23 BPA's network system. BPA acknowledges that, quite aside from the role that

1 non-coincident peaks may play in BPA's long term transmission plans, BPA does  
2 take into account the diversity of loads on its system in deciding whether and  
3 when to incur actual transmission investments. See Data Response WG-BPA-18,  
4 attached hereto as Attachment 1. In BPA's words: "BPA plans the transmission  
5 system *as a whole* to meet a forecast range of demands." Data Response WG-  
6 BPA-21, emphasis supplied. In short, it is primarily the highest total loads (i.e.  
7 the coincident peaks) on BPA's transmission system, not the sum of the non-  
8 coincident peaks of individual customers, that cause BPA to incur costs. For that  
9 reason, each customer's contribution to the coincident peaks on BPA's system  
10 best represents such customer's contribution to causing costs on the system. The  
11 CP cost allocation methodologies use this contribution to cost causation as the  
12 basis for allocating costs, whereas BPA's NCP cost allocation methodology  
13 allocates costs on a basis that does not correspond to actual cost causation.

14 *Q. Is BPA's 12 NCP cost allocation methodology consistent with FERC guidance?*

15 **A.** No. BPA correctly notes that FERC considers "a utility's transmission system  
16 planning approach when assessing which type of cost allocation is appropriate for  
17 that utility." BP-14-E-BPA-33 at p. 3. This statement should not be read to  
18 indicate that any matter considered during planning should dictate cost allocation  
19 irrespective of the magnitude of the contribution of such matter to overall  
20 transmission costs. BPA also correctly points out that under the guidance given  
21 by FERC, BPA ought to allocate costs based on 12 peaks. However, as described  
22 in section 3 of BP-14-E-JP03-01 and section IV of BP-14-E-WG-01, all of the  
23 relevant guidance from FERC on this question addresses coincident peaks, not

1 non-coincident peaks. All of the FERC guidance on the selection between 1, 3, 4  
2 or 12 monthly peaks supports BPA's adoption of a 12 CP methodology, and none  
3 supports any NCP methodology. Simply put, FERC's guidance does not support  
4 allocating network segment costs based on the sum of non-coincident peaks as  
5 BPA has proposed.

6 *Q. Is BPA's 12 NCP cost allocation methodology consistent with industry practices?*

7 **A.** No. Based on the information known to BPA and our utilities, we are not aware  
8 of a single utility or PMA that allocates transmission costs based on non-  
9 coincident peaks. Nor to our knowledge do any such entities plan their  
10 transmission system to meet the sum of the non-coincident peaks on their  
11 systems.

12 *Q. Is BPA's proposed billing factor consistent with cost causation?*

13 **A.** No. It is at least as important that billing factors reflect cost causation as it is that  
14 cost be allocated based on cost causation. Just as it is the case that the costs  
15 caused by the NT customers as a group is best reflected by the sum of their  
16 contribution to BPA transmission system peaks, the costs caused by individual  
17 customers is best reflected by each customer's individual contribution to the peak  
18 loads on BPA's system. Therefore, the appropriate billing factor for transmission  
19 rates is each customer's load at the time of the peak load during the billing month  
20 on the transmission system. Thus, BPA's proposal in this proceeding to change its  
21 transmission billing factor to one based on non-coincident peaks is an  
22 inappropriate deviation from cost based rates. This proposed change would also  
23 result in significant and inappropriate rate shock to a number of customers.

1 **Section 3: Consequences of BPA's Allocation Methodologies.**

2 *Q. You stated that you wanted to highlight the large costs imposed on NT customers*  
3 *from what you have described as an inappropriate cost allocation methodology.*  
4 *Could you please elaborate?*

5 **A.** The testimony sponsored by several of our utilities summarizes the history of  
6 BPA's cost allocation methodologies over the past two decades. This history  
7 demonstrates that BPA has long known that a single CP cost allocation  
8 methodology has not been warranted for its system since at least 2002, and  
9 probably before. Nonetheless, BPA has in effect used such a methodology since  
10 it unbundled its transmission rates from its power rates. NT customers have paid  
11 noticeably more since 1996 for transmission services than has been warranted  
12 based on cost causation, FERC guidance and industry standards. Customer's  
13 whose transmission rights are based on contract demands or reservations have  
14 been the beneficiaries of these higher charges to NT customers. BPA's reluctance  
15 to correct this situation appears to have been motivated primarily to avoid higher  
16 rates to such PTP customers and due to the relatively quiet acquiescence of NT  
17 customers to the situation. Now that BPA is engaged in a rate case designed in  
18 part to adopt justifiable cost of service standards for transmission rates, we  
19 believe it is high time to adopt both a cost allocation methodology and  
20 transmission billing factors properly anchored in cost causation principles in order  
21 to eliminate inappropriate cost shifts on to NT customers without creating new  
22 cost shifts within the NT customer class.

23 *Q. Does this conclude your testimony?*

1 A. Yes.



The Following DATA RESPONSE Has Been Issued:

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DATA REQUEST NUMBER TO REFERENCE:  
WG-BPA-18

RESPONSE BY:  
Scott Brusco - Bonneville Power Administration

ORIGINAL DATA REQUEST:

• In clarification, BPA staff indicated that, in calculating the total loads within a given planning area relevant to transmission planning, BPA: First, determines the individual customer non-coincidental peak (NCP) loads for each customer in each planning area; Second, sums the NCP loads for all customers within a given planning area; Third, adjusts that summed amount based on observed loads within the planning area. Please explain and further detail the nature of the adjustments BPA makes to its load assumptions in system planning based on the observed load within a given planning area. Why and how does BPA make the adjustment? What was the quantity of each and every adjustment (made for any planning area) based on observed load in any study conducted in the last five years? What is the likelihood that an adjustment will take place in any given planning study or model?

EXHIBIT: Testimony on Transmission Network Segment Cost Allocation BP-14-E-BPA-33

PAGE(S): 8-10  
LINE(S): 10-5

DATA RESPONSE: (NOTE: You MUST log in to the site in order to view any documents)

--TEXT DESCRIPTION:

BPA responds to each question as follows:

1. BPA plans the system based on the forecasted non-coincident peak loads in the base cases. BPA may study additional sensitivities to different load levels (for a planning area as a whole, not on a customer by customer basis) if the percentage load change for the planning area in the base case load forecast does not correlate with the historical peak load data for that planning area. To determine if the load forecast correlates with historical data, BPA compares the percentage load increase in the base case load forecast to historical annual peak load (determined from SCADA) data. If the load forecast and the trend extrapolated from historical data do not correlate by a significant amount, BPA may study additional sensitivities to different load levels. The results of the analysis of additional sensitivities do not change the long range plan for the area, but rather provides additional information on the timing for any proposed transmission projects.
2. Studying or analyzing area load levels other than what is contained in the base cases is determined on a case by case basis that is unique to each area study. In many studies, no actual power flow studies are run with adjusted base case loads. Planning may simply look at the trend of historical peak loads and perform a linear or best fit extrapolation to determine when the total area load levels may exceed critical levels above which there is the potential for system deficiencies to occur. Again, this does not change the proposed projects, it just helps define a range for the need date for a project to aid in determining when to launch the project.
3. BPA objects to the request for the quantity of each and every adjustment to load in any study conducted in the last 5 years on the grounds that it is vague and ambiguous, unduly burdensome, and would require BPA to perform analysis beyond what BPA performed for the Initial Proposal. BPA performs numerous planning studies each year. BPA considers multiple scenarios for multiple seasons for the 24 planning areas throughout each year. This data request would require BPA to go through each study it has performed in the last five years, which may exceed 100 studies and determine if an adjustment was made and the quantity of each and every adjustment to load.
4. BPA objects to the request about the likelihood of an adjustment because the data requested is beyond the scope of the rate proceeding. The data request presents a hypothetical question related to the probability that BPA would make an adjustment in a planning study or model, which is not a rates issue. Without waiving this objection, BPA responds as follows: BPA does not have this information.

The Following DATA RESPONSE Has Been Issued:

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DATA REQUEST NUMBER TO REFERENCE:  
WG-BPA-21

RESPONSE BY:  
Scott Brusio - Bonneville Power Administration

ORIGINAL DATA REQUEST:

Are there transmission lines and facilities that are used to serve load in more than one planning area? If so, are such lines and facilities designed through BPA's planning process to meet the sum of all of the non-coincidental peak loads of all of the customers in all of the planning areas that are served by those lines and facilities? If the answer is yes to the second question, how is this consistent with the statement in BPA's Transmission Segmentation Study (BP-13-E-BPA-06), page 4, lines 25-26, which states that "BPA plans and operates these facilities on an integrated basis to achieve maximum efficiency on a system-wide basis"? How does using the sum of all the non-coincidental peak loads in the affected planning areas for planning "achieve maximum efficiency on a system-wide basis"?

EXHIBIT: Testimony on Transmission Network Segment Cost Allocation BP-14-E-BPA-33

PAGE(S): 8-10  
LINE(S): 10-5

DATA RESPONSE: (NOTE: You MUST log in to the site in order to view any documents)

--TEXT DESCRIPTION:

Yes, there are transmission lines and facilities that are used to serve load in more than one planning area. BPA does not design the transmission lines and facilities that are located in more than one planning area to meet the sum of all of the non-coincident peak loads of all the customers in all of the planning areas served by those lines and facilities as this would be impossible. For example, a 115 kV line that is located in multiple planning areas does not have the thermal capacity to meet the sum of all the non-coincident peak loads of all customers in all of the planning areas where that 115 kV line is located. BPA plans the transmission system as a whole to meet a forecast range of demands..

For technical questions about this request please contact Larry Furumasu by phone (3606196851) or email (lafurumasu@bpa.gov)