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

**Fiscal Year 2014-2015 Proposed                    )                    BPA Docket No. BP-14**  
**Power and Transmission Rate                    )**  
**Adjustment Proceeding                            )**

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**REBUTTAL TESTIMONY OF  
JOINT PARTY 10**

**SUBJECT:**

**RATES FOR TRANSMISSION SERVICE OVER  
THE EASTERN INTERTIE**

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WITNESSES:  
Nancy Baker  
Geoffrey H. Carr  
Michael Deen  
Joseph A. Lukas  
Kevin O'Meara

March 11, 2013

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TESTIMONY OF:

Nancy Baker  
Geoffrey H. Carr  
Michael Deen  
Joseph A. Lukas  
Kevin O’Meara

SUBJECT: RATES FOR TRANSMISSION SERVICE OVER THE EASTERN  
INTERTIE

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1 **SUBJECT: JOINT PARTY 10’S TESTIMONY REGARDING RATES FOR**  
2 **TRANSMISSION SERVICE OVER THE EASTERN INTERTIE**

3 **SECTION 1: Introduction and Purpose of Testimony**

4 *Q: Please state your names and qualifications.*

5 A: My name is Nancy Baker. My qualifications are shown at BP-14-Q-PP-02.

6 A: My name is Geoffrey H. Carr. My qualifications are shown at BP-14-Q-NR-01.

7 A: My name is Michael Deen. My qualifications are shown at BP-14-Q-IN-01.

8 A: My name is Joseph A. Lukas. My qualifications are shown at BP-14-Q-WM-01.

9 A: My name is Kevin P. O’Meara. My qualifications are shown at BP-14-Q-PP-01.

10 *Q: What is the purpose of your testimony?*

11 A: We are offering testimony on behalf of Joint Party 10 (JP10) on Renewable  
12 Northwest Project’s (RNP’s) direct testimony, *Williams, et al.*, BP-14-E-RN-02,  
13 which was filed in response to BPA’s testimony on this subject. *Metcalf, et al.*,  
14 BP-14-E-BPA-35.

15 *Q: Please briefly summarize your principal conclusions regarding these rates.*

16 A: The economic value of eliminating the IM rate that would accrue to eastern  
17 Montana wind generation developers would not materially affect wind  
18 development in that area, and macroeconomic and access-to-capital issues more  
19 readily explain the failure of wind generation to develop and use Eastern Intertie  
20 capacity. BPA is acting consistently with its statutory obligations by maintaining  
21 the IM rate as a separate charge. Elimination of that charge would bear on future  
22 Network Open Season decisions and may create a precedent that could be asserted  
23 by parties in future rate cases for similarly eliminating the Southern Intertie rates.

1 Q: *What is JP10's interest in these rates and charges?*

2 A: Please see BP-14-E-JP10-01 for the statement of the parties' interests.

3 Q: *How is your testimony organized?*

4 A: Section 1 is this introduction. Section 2 concerns the inability of the elimination  
5 of the IM rate to materially improve the competitiveness of eastern Montana wind  
6 energy and the potential demand for that energy. Section 3 rebuts the notions that  
7 Eastern Intertie capacity is stranded and that maintaining the IM rate is  
8 inconsistent with sound business practices. Section 4 addresses the potential  
9 precedent that could be created by eliminating the IM rate.

10 **Section 2: The Reduction In the Delivered Power Price of Wind Energy Due to**  
11 **Rolling In the IM Rate Would Be Extremely Small and the**  
12 **Competitive Benefit Irrelevant.**

13 Q: *Has RNP contended that Eastern Montana wind resources would be more*  
14 *competitive if the IM rate was rolled into the network segment?*

15 A: Yes. See BP-14-E-RN-02, page 5 lines 4-16.

16 Q: *Has RNP made any effort to specifically quantify the value of this alleged effect?*

17 A: No. RNP's assessment is purely qualitative and gives no analysis of the  
18 magnitude or importance of the effect. When considering economic issues, it is  
19 essential to not only consider whether an effect might exist, but also whether it  
20 would have an actual and substantial impact in practice. In this case the relevant  
21 question for entities considering, for example, whether to invest in Eastern  
22 Montana or Columbia Gorge wind projects would be a comparison of the total  
23 levelized cost of each resource. RNP has not demonstrated that rolling the IM

1 rate into the network segment would have any significant impact on this type of  
2 analysis.

3 *Q: What specific reasons do you have to support the conclusion that RNP's proposed*  
4 *roll in of the IM segment would have minimal effect on resource decisions*  
5 *regarding Eastern Montana wind?*

6 A. For example, as part of the Energy Information Administration ("EIA") 2012  
7 Annual Energy Outlook there is an analysis of the levelized cost and variance in  
8 cost of new generation resources. For resources entering service in 2017, this  
9 report shows a range of levelized costs for wind resources in 2010 dollars of  
10 \$77/MWh (minimum) to \$96/MWh (average) to \$112/MWh (maximum).  
11 Conversely, BPA has calculated the IM-14 rate at an average of \$1.22/MWh (BP-  
12 14-E-BPA-07A, Table 8, line 37).<sup>1</sup> This magnitude of cost is completely dwarfed  
13 in comparison to the variability of levelized cost of specific wind resources.  
14 Considering potentially significant differences in capacity factors or operational  
15 characteristics of wind resources adds another layer of variability that  
16 marginalizes the significance of the IM rate in resource decision making.

17 *Q: RNP argues that Washington and Oregon utilities may wish to purchase eastern*  
18 *Montana wind generation to meet their current and future RPS needs. Williams,*  
19 *et al., BP-14-E-RN-02, p. 6, lines 9-14. Are Washington utilities currently able to*  
20 *use eastern Montana wind generation to meet their RPS requirements?*

21 A: Our understanding is that RCW 19.285.030(11)(a)(ii) prohibits use of renewable  
22 resources located outside of the Pacific Northwest unless the "electricity from the

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<sup>1</sup> EIA "Levelized Cost of New Generation Resources in the Annual Energy Outlook 2012" (report available at [http://www.eia.gov/forecasts/aeo/electricity\\_generation.cfm](http://www.eia.gov/forecasts/aeo/electricity_generation.cfm)).

1 facility is delivered into Washington state on a real-time basis without shaping,  
2 storage, or integration services.” This appears to require the use of a dynamic  
3 transfer of the energy to a specific load in Washington state and resources held by  
4 the load to account for the inherent variability of the energy delivery. From a  
5 practical standpoint, it also appears to eliminate delivery of the energy with  
6 bundled renewable energy credits to a market hub for use as an I-937 resource.  
7 We understand that this provision has been a significant barrier to importation of  
8 resources for the purposes of meeting the Washington RPS.

9 **Section 3: Capacity on the Eastern Intertie Is Not “Stranded,” and BPA Is Not**  
10 **Acting Inconsistently with Its Obligation to Manage Its Assets**  
11 **Consistently with Sound Business Principles.**

12 *Q: RNP asserts that the transmission capacity associated with the IM rate “is*  
13 *currently stranded, leaving potential revenue on the table for BPA.” Do you*  
14 *agree with that assertion?*

15 *A: No. Like any other transmission provider, BPA often builds transmission*  
16 *capacity that will remain unused for some period of time. Transmission is a*  
17 *“lumpy” investment that must be sized to meet future needs. The fact that the*  
18 *capacity is not currently subscribed, by itself, does not qualify the capacity as*  
19 *stranded.*

20 The argument that the capacity is “stranded,” however, rests on the  
21 assertion that the “rate pancake [of the Network and IM rates] has contributed to  
22 the under-utilization of the capacity associated with the IM rate.” *Williams, et al.*,  
23 BP-14-E-RN-02, p. 8, lines 14-16. RNP provides no evidence, however, that

1 there is any causation between the existence of the IM rate and the inability of any  
2 wind plant operating, or planned for construction, in eastern Montana to reach  
3 Northwest markets. No evidence presented by BPA and relied on by RNP  
4 demonstrates this either. The existence of correlation is not a demonstration of  
5 causation, and the evidence regarding the high value of eastern Montana wind  
6 generation's superior capacity factor and other attributes militates against a  
7 conclusion that the application of the IM rate has a sufficient effect on the  
8 delivered energy price to stifle competition.

9 The converse is also not demonstrated by RNP's testimony. There is no  
10 evidence or rationale cited in the testimony to demonstrate that wind generation  
11 planned for eastern Montana would in fact be built because the IM rate is  
12 removed (either as the sole factor or as a material contributing factor) or that  
13 eastern Montana wind generation will purchase transmission service over the  
14 Eastern Intertie where they would not have because of the IM rate.

15 *Q: Are there factors other than the IM rate that could more easily account for the*  
16 *unused capacity on the Eastern Intertie facilities?*

17 *A:* Yes. The recent deep, economic recession has limited electrical load growth  
18 overall and has tightened capital availability for many industries, including wind  
19 generation development. Furthermore, changes in the California Renewable  
20 Portfolio Standard (RPS) rules and compliance with Northwest RPS targets have  
21 slowed the development of wind generation in the Northwest. These factors have  
22 combined to dampen significantly wind generation development and the demand

1 for wind energy. These factors more easily explain the lack of use of Eastern  
2 Intertie capacity by wind generation from eastern Montana.

3 *Q: RNP suggests that the cost of future network upgrades is an issue apart from the*  
4 *decision to roll in the IM rate. Williams, et al., BP-14-E-RN-02, p. 7, lines 18-21.*  
5 *Do you concur that “[t]he elimination of the IM rate has no bearing on future*  
6 *decisions that the Administrator will make in the NOS process?”*

7 A: We disagree in that the elimination of the IM rate and the inclusion of the  
8 capacity associated with that rate in the Network segment brings that portion of  
9 the Eastern Intertie into the Network Open Season process. If the Network is  
10 extended to Townsend for purposes of purchasing Network transmission services,  
11 new transmission service requests with PORs over that path presumably would  
12 trigger new transmission builds that would be assessed based on their impact on  
13 Network rates. This represents a new source of cost for Network customers  
14 beyond the current costs now recovered by the current IM rate. Although we  
15 concede that this represents an additional economic incentive for eastern Montana  
16 wind generation to wish for the IM rate to be rolled into the Network, it also  
17 demonstrates that the elimination of the IM rate directly bears on decisions that  
18 the Administrator might make in a future Network Open Season process.

19 **Section 4: RNP Does Not Distinguish the Eastern and Southern Interties**  
20 **Sufficiently to Provide any Assurance that Parties in Future Rate**  
21 **Cases Would Not Be Able to Argue that Rolling In the Eastern**  
22 **Intertie Creates a Precedent Supporting Roll-In of the Southern**  
23 **Intertie.**



1 Q: *If RNP's arguments are successful and the IM rate is rolled into the Network,*  
2 *could any of the arguments made by RNP be used by other parties to argue that*  
3 *the Southern Intertie rates should also be rolled into the Network?*

4 A: Just as parties have argued here in regard to the IM rate, future rate case litigants  
5 could argue that economic benefits accruing to areas outside of the Pacific  
6 Northwest and support for renewable generation outside of the Pacific Northwest  
7 are reasons to roll in the Southern Intertie rates. Similarly, and assuming they are  
8 successful, RNP's arguments that the Eastern Intertie is an impermissible  
9 "pancake" rate could be used to mount a similar attack on the Southern Intertie  
10 segment. We do not support these assertions or arguments but caution that rolling  
11 in the Eastern Intertie could easily entice entities that pay the Southern Intertie  
12 rates to argue for their elimination.

13 Q: *Please address RNP's attempt to distinguish the Eastern and Southern Interties.*  
14 *See Williams, et al., BP-14-E-RN-02, p. 10, line 21 – p. 11, line 11.*

15 A: Neither the Eastern nor the Southern Intertie should be rolled in. We note that the  
16 Eastern Intertie connects two distinct geographical regions: the Pacific  
17 Northwest, as defined by statute, and eastern Montana. We do not believe that the  
18 bidirectional nature of Southern Intertie transactions are relevant to the  
19 fundamental issue, which is that Network customers that do not transact business  
20 directly with the California and Southwest markets do not benefit to a sufficient  
21 extent to justify them having to bear the costs of that intertie facility.

22 BPA has long recognized that the commercial benefits of both the Eastern  
23 and Southern Interties are confined to the parties that use those facilities and has

1 not required Network customers to pay the costs of those intertie facilities. BPA  
2 executed separate contracts with the parties sharing in the construction of those  
3 facilities and benefiting from them to recover the costs of those facilities and  
4 established rates to recover the costs of operations, maintenance and capital  
5 expense associated with those facilities from the parties that transact business  
6 across it.

7 *Q: Does this conclude your testimony?*

8 *A: Yes.*

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing testimony on Bonneville Power Administration's Office of General Counsel and Hearing Clerk and all litigants in this proceeding by uploading the document to the 2014 Rate Adjustment Proceeding (BP-14) secure websites pursuant to BP-14-HOO-02.

DATED: March 11, 2013.

Alex Walker  
Public Power Council  
825 NE Multnomah St., Suite 1225  
Portland, Oregon 97232  
503 595 9770

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