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REBUTTAL TESTIMONY of

DANIEL R. YOKOTA, BRIAN T. GALBRAITH, and DERRICK PLEGER

Witnesses for Bonneville Power Administration

SUBJECT: TRANSFER SERVICE DELIVERY CHARGE

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Witnesses for Bonneville Power Administration

SUBJECT: TRANSFER SERVICE DELIVERY CHARGE

Section 1: Introduction and Purpose of Testimony

Q. Please state your names and qualifications.

A. My name is Daniel R. Yokota, and my qualifications are contained in BP-18-Q-BPA-43.

A. My name is Brian T. Galbraith, and my qualifications are contained in BP-18-Q-BPA-10.

A. My name is Derrick Pleger, and my qualifications are contained in BP-18-Q-BPA-30.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to respond to the direct testimony of Pacific Northwest Generating Cooperative (PNGC), Scott & Russell, BP-18-E-PN-01, and Northwest Requirements Utilities (NRU), Stratman & Weathers, BP-18-E-NR-01, regarding the calculation of the Transfer Service Delivery Charge (TSDC).

Section 2: Background on the Agreement Regarding Transfer Service (ARTS) and the Transfer Service Delivery Charge (TSDC)

Q. Please describe the types of Transfer Service costs BPA incurs.

A. BPA incurs two types of costs related to delivering Federal power to its Transfer Service customers: (1) transmission of Federal power over high-voltage transmission systems that separate BPA from its Federal power customers; and (2) the cost of transferring Federal power over the low-voltage systems of other transmission providers. High voltage costs generally include transmission charges over the “main grid,” or network transmission system. These costs also typically include costs associated with purchasing ancillary services from the transmission provider that operates the transmission system.
where our customers are located. Service over the low-voltage systems is often assessed a separate “delivery” charge. For Transfer Customers serviced by low-voltage facilities, BPA generally must pay two charges to deliver Federal power to the customer: a main grid “network” transmission charge, and a low-voltage “delivery” charge.

Q. **How does BPA recover the network costs of Transfer Service?**

A. The costs BPA incurs for network transmission are rolled into the PF rate. This “rolled-in” treatment is proposed in each rate case because of certain commitments BPA made to its Transfer Service customers in the Agreement Regarding Transfer Service (ARTS), which was executed in 2004.

Q. **What is your understanding of the general intent of the ARTS with respect to transfer costs?**

A. The ARTS is a 20-year agreement in which BPA has committed to propose treating Transfer Service costs in a consistent manner for the term of the contract. The ARTS Record of Decision (ARTS ROD) states, “[t]he purpose of the proposed contract is to provide a degree of certainty regarding future rate proposal treatment of Transfer Service costs to BPA’s Transfer Service customers.” ARTS ROD at 1 (2004), available at https://www.bpa.gov/news/pubs/RecordsofDecision/rod-20041222-Proposed-Contract-With-Transfer-Service-Customers.pdf. During the ARTS negotiations, Transfer Service customers expressed concern that if BPA were to directly assign Transfer Service costs, it would have a “devastating effect” on the economic health of transfer customers. *Id.* at 2. To alleviate these concerns, BPA and its Transfer Service customers signed the ARTS, reassuring the customers that BPA would propose to roll certain Transfer Service costs into the Priority Firm Power (PF) rate and not directly assign such costs to Transfer Service customers.
Q. What is BPA’s commitment to pay for network costs for Transfer Service under the ARTS?

A. Under ARTS section 4(b), BPA is committed to propose “rolled in” treatment of Transmission Component Costs into the PF rate. See Scott & Russell, BP-18-E-PN-02, Exhibit A, at 4. Specifically, section 2(i) of the ARTS defines “Transmission Component Costs” as “the costs of Transfer service to deliver Firm Power to << Customer Name>> over non-Federally owned facilities that have characteristics comparable to the characteristics used to define BPA’s Integrated Network Segment.” ARTS, § 2(i) (emphasis added). Facilities included in the Integrated Network Segment are those facilities identified “in the BPA segmentation study for the applicable transmission rate period . . . .” Id., § 2(d). The ARTS ROD clarified that voltage levels and types of use are the characteristics to be considered for determining whether facilities are comparable.

ARTS ROD at 10. Both characteristics refer to broad categories to serve as a general measure of comparability.

In summary, network costs are the costs of transmission service over facilities that are comparable to those included in Transmission Services’ Integrated Network Segment. Costs for service over such facilities are rolled into the general power (or transmission) rate. See ARTS § 4(b). The ARTS ROD reiterates this point by stating that “[t]he proposed contract would obligate BPA to propose rolled-in rate treatment in the initial rate proposal for the transmission component of Transfer Service cost in future rate proceedings for the next 20 years.” See ARTS ROD, at 3. This provides a long-term commitment to Transfer Service customers that BPA will continue to propose to roll certain costs into the PF rate in future rate case Initial Proposals.
Q. Did the ARTS address how BPA should recover the costs of the low-voltage “delivery” charge?

A. No. The ARTS did not address how BPA would recover the cost of the delivery charge. Certain parties requested that low-voltage service be included in the definition of Transmission Component Cost, but BPA did not agree to make this change. ARTS ROD, at 12 (“Low voltage delivery charges will not be included in the Transmission Component Costs and consequent rolled-in treatment, and the low voltage delivery service will be addressed in a future process”). Instead, BPA left the recovery of delivery charges to future policy development with its customers. Id.; see also ARTS, Exhibit A.

Q. How does BPA recover the cost of the delivery charge?


Q. How was the TSDC rate set previously?

A. In WP-07, WP-10, and BP-12, the TSDC rate, at that time referred to as the GTA Delivery Charge rate, was set at a level equal to Transmission Services’ Utility Delivery Charge (UDC) rate. In BP-14, the TSDC rate was “decoupled” from the UDC rate. Miller & Yokota, BP-14-E-BPA-20, at 3.

Q. Why did BPA decouple the TSDC and UDC rates in BP-14?

A. In BP-14, BPA proposed to decouple the TSDC rate and the UDC rate to more accurately reflect the transfer service costs related to low-voltage delivery. In the three previous rate cases, the UDC rate had remained constant. In BP-14, the UDC rate was proposed to substantially increase to move toward recovering the full cost of the facilities in
Transmission Services’ delivery segment. Power Services, however, was not experiencing a similar increase in its low-voltage delivery costs for transfer customers. Power Services was then faced with two choices: (1) continue to charge transfer customers the rate that Transmission Services was charging its customers, which could result in a charge that exceeded what Power Services was actually spending for low-voltage services; or (2) decouple the rates and set a low-voltage charge that reflected the actual costs incurred for transfer service delivery. Power Services proposed and adopted option (2) and developed its own rate. BP-14 ROD, BP-14-A-03, at 45.

BPA justified its proposal to decouple the TSDC and UDC in the BP-14 Transfer Service Testimony:

Power Services now has the ability to more accurately determine costs related to low-voltage delivery and therefore is able to derive a standalone GTA Delivery Charge rate. Having a standalone [TSDC] rate can more accurately reflect the costs incurred by Power Services for transfer low-voltage delivery. This is preferable to applying a rate that mirrors the UDC rate, which will likely increase in the BP-14 rate case to a level that will exceed what Power Services needs to recover from transfer service customers for acquiring low-voltage delivery. Additionally, it is our understanding that Transmission Services is moving toward a Use-of-Facilities charge for delivery facilities, which is a different policy direction than Power Services is choosing to take.

Miller & Yokota, BP-14-E-BPA-20, at 3.

Q. Did any party in the BP-14 rate case comment on BPA’s proposal for decoupling the TSDC and the UDC?

A. Yes. In a joint filing, PNGC and NRU supported decoupling the TSDC and UDC, specifically noting “[t]his is a constructive proposal that potentially ends more than a decade of discussion on this topic.” Brawley & Carr, BP-14-E-JP03-01, at 14. Furthermore, they explained:
First, in the past, the GTA UDC rate had equaled the NT UDC rate for purposes of comparability. As a result, in this rate case the GTA charge was set to increase with the NT UDC rate without any basis in cost of service over GTA facilities. Although BPA’s analysis is admittedly not perfect, it is superior to this “mimic” approach. Second, under this approach, GTA UDC customers will now face a charge that is much closer to the actual cost of service over GTA facilities, and BPA Power will not face an unneeded revenue increase simply because the NT UDC charge is increasing. Third, most GTA customers cannot purchase the facilities that serve them, so sending an increasing price signal to purchase serves no purpose and is harmful to these customers.

Id.

Q. Did BPA use the same methodology to set the BP-16 TSDC as it used for the BP-14 rate?

A. Yes. No party objected to the methodology used to set the TSDC in the BP-16 case. The BP-16 TSDC rate was $0.94/kWh, and the BP-16 UDC rate was $1.285/kWh.

Q. Please explain how you calculated the TSDC for BP-18.

A. For BP-18, BPA calculated the TDSC using the same methodology BPA used for the BP-16 rate period (FY 2016–2017). The proposed rate increase is due primarily to increased costs from a third-party transmission provider. As noted in the Initial Proposal, the Final Proposal will be updated with actual data from 2015 and 2016. Yokota et al., BP-18-E-BPA-21, at 5.

Section 3: Consistency with the RD Contract and ARTS

Q. What are PNGC and NRU’s concerns regarding the proposed BP-18 TSDC?

A. PNGC and NRU seek to have the TSDC and UDC rates developed on a comparable basis and provide parity between transfer and non-transfer customers. Scott & Russell, BP-18-E-PN-02, at 6–9; Stratman & Weathers, BP-18-E-NR-01, at 7, 9–10. PNGC and NRU argue that the continuation of the decoupled TSDC rate no longer accomplishes this. Scott & Russell, BP-18-E-PN-02, at 9–10; Stratman & Weathers, BP-18-E-NR-01, at 7–8. Further, PNGC argues that under the proposed BP-18 TSDC methodology,
low-voltage transfer customers are now required to pay a larger share of transfer costs than they should according to the ARTS. Scott & Russell, BP-18-E-PN-02, at 1. PNGC believes that the proposed TSDC rate includes certain types of facility costs that Transmission Services does not include in the UDC based on the current segmentation methodology adopted by Transmission Services in the BP-16 ROD. Id. at 6–7. These costs, they argue, would have been allocated to the PF rate if Transmission Services’ segmentation methodology were applied; therefore, the comparability required by the ARTS is not achieved. Id. Similarly, NRU argues that BPA’s goal of parity is not met if the current segmentation methodology was not used to calculate the TSDC rate. Stratman & Weathers, BP-18-E-NR-01, at 7.

Q. What is your response?

A. Before addressing NRU’s and PNGC’s concerns with the ARTS, we will first discuss the terms of the RD Contract. As discussed above, the ARTS did not address the cost treatment of the low-voltage delivery charge. Rather, this was left to subsequent processes. The RD Contract addressed this issue:

Low Voltage Delivery is service over the Low Voltage Segment by any Third Party Transmission Provider’s system. “Low Voltage Segment” means the facilities of a Third-Party Transmission Provider that are equivalent to the voltage level of the facilities excluded by Transmission Services from the Integrated Network Segment. For Low Voltage Delivery, «Customer Name» shall pay Power Services the applicable General Transfer Agreement (GTA) Delivery Charge, or its successor rate, consistent with the applicable BPA Wholesale Power Rate Schedules and GRSPs. The Parties shall list «Customer Name»’s PODs that require Low Voltage Delivery in Exhibit E.

Thus, the costs expected to be included in the TSDC are not determined exclusively by the ARTS, but also by this provision in the RD Contract. In section 14.6.2, Transfer Service customers commit to pay for “Low Voltage Delivery,” which is
defined as facilities of other transmission providers that are “equivalent to the voltage level of the facilities excluded by Transmission Services from the Integrated Network Segment.” Id. (emphasis added). Significantly, and contrary to NRU’s and PNGC’s arguments, what Transfer Service customers have committed to pay BPA (and thus what BPA may include in the TSDC) is based on the voltage level of the facilities excluded from the Integrated Network Segment, not the specific characteristics of the facilities included in the Integrated Network Segment.

Q. What is the voltage level of the facilities excluded from the Integrated Network Segment?

A. Our understanding is that Transmission Services’ segmentation analysis did not adopt a new voltage level for the facilities excluded from the Network Segment. Rather, Transmission Service now segments specific “high-side” equipment, previously included in the Utility Delivery Segment, to the Network Segment. This decision to move certain pieces of equipment from the Utility Delivery Segment to the Network Segment does not, in our view, mean that Transmission Services has established a new voltage threshold for its facilities from which Power Services must now redevelop the TSDC. Indeed, we can find no mention of a new “voltage” level in the Segmentation Study for the facilities excluded from the Network Segment. Transmission Segmentation Study and Documentation, BP-18-E-BPA-07. As such, the voltage level of the facilities that were excluded from the Network Segment remains largely the same, and consequently, we see no basis to revise the TSDC based on an unknown voltage level.

Q. NRU and PNGC note that Transmission Services changed its segmentation by removing certain high-side equipment from the Utility Delivery Segment. Scott & Russell, BP-18-E-PN-02, at 5; Stratman & Weathers, BP-18-E-NR-01, at 6–7. Doesn’t this mean that the TSDC Charge should also see a reduction in costs?

A. It is certainly the case that some equipment has been removed from the Utility Delivery Segment, with the result that the rate for the UDC has gone down. A similar reduction in
the TSDC may be appropriate if it were clear that this reduction was the result of a change in the voltage of the facilities that are excluded from the Network Segment. But that is not the case. Transmission Services made a policy choice to move some equipment to the Network Segment, but then continued to exclude from the Network Segment most of the previously excluded facilities. While Transmission Services has moved away from a voltage segmentation, it is our understanding that most of the facilities in the Utility Delivery Segment remain at the same voltage as in the previous segmentation (pre-BP-16 rate case), and thus, retaining our proposal is correct.

Fundamentally, we believe that the RD Contract language makes clear that the TSDC must be set based on the cost of facilities of equivalent voltages that are excluded from the Network Segment. Absent a clear change in the voltage level of the facilities excluded from the Network Segment, we believe the TSDC may continue to be designed as we have proposed.

Q. Does your view of the RD Contract language also comport with the terms in the ARTS agreement?

A. Yes. BPA’s obligation under the ARTS is to roll in Transmission Component Costs that are comparable to the network segment identified in the Segmentation Study. Transmission Segmentation Study and Documentation, BP-18-E-BPA-07, at 4. This does not require that the Transmission Component Costs be segmented identically with the segmentation methodology. As we noted above, the ARTS defines Transmission Component Costs as “costs with characteristics comparable to those characteristics used to define Integrated Network Segments.” (Emphasis added.) PNGC and NRU’s arguments rely on the term “comparable” to mean “identical.” However, having comparable characteristics is not the same as having identical characteristics.

One of the main purposes of the ARTS was to provide comparability in terms of costs between directly connected customers and Transfer Service customers. Perfect
symmetry between these customers was impossible. As such, in the ARTS ROD, BPA declined to narrowly define the term “comparability” and instead clarified that the ARTS provides high-level guidelines: “. . . BPA intends the proposed contract to provide the ‘high level’ principles that will guide the parties in developing policies of the future.” ARTS ROD at 16. The statement that Transmission Component Costs are costs with characteristics comparable to the Integrated Network Segment should be read as high-level guiding principles rather than a requirement that Transmission Component Costs must have characteristics identical to the Network Segment.

Q. Do you believe the calculation of the TSDC is consistent with these guiding principles?

A. Yes. The Segmentation Study divides BPA’s transmission system into seven segments. \textit{Id.} at 3. The two segments relevant to setting the TSDC are the Network Segment and the Utility Delivery segment. The Segmentation Study then assigns facilities to the appropriate segment. \textit{Id.} at 9–12.

Our proposal follows this approach to comparability. In determining the TSDC, we divide the actual costs charged to BPA by third-party transfer providers between network and delivery. The costs associated with low-voltage delivery are the basis for the TSDC rate, and the remaining network-related Transfer Service cost is allocated to the Composite cost pool to be recovered by all PF customers, \textit{i.e.}, rolled-in treatment. Because the TSDC rate is based on rolling in network costs and establishing the TSDC based on costs comparable to the UDC, the TSDC is being calculated consistent with the commitments made in the ARTS.

Q. What would be an example of a change made by Transmission Services that would require a change in the costs included in the TSDC?

A. One obvious example is if in the Segmentation Study, Transmission Services were to entirely eliminate the Utility Delivery segment, thereby leaving only six segments. This would be the type of scenario where Transfer Service would be obligated to follow suit.
and eliminate the TSDC. Another example would be if Transmission Services changed the voltage level of the segments. Thus, for instance, if Transmission Services excluded from the Network Segment all facilities of 12.5kV and below, we would again follow suit.

But that is not the case here. The Segmentation Study, although including specific equipment determinations, still fundamentally distinguishes between Network and Utility Delivery segments. To the best of its ability, BPA distinguished Transfer Service costs between Network Segments and Utility Delivery Segments. Although the costs are not divided exactly as done in the Segmentation Study, the TSDC is established with characteristics comparable to the Integrated Network Segment.

Q. PNGC and NRU believe the Initial Proposal is inconsistent with the commitments BPA made in the ARTS. Scott & Russell, BP-18-E-PN-02, at 7; Stratman & Weathers, BP-18-E-NR-01 at 7. Please explain the parties’ concern.

A. PNGC and NRU argue that BPA is acting inconsistent with the ARTS because they believe the proposed TSDC includes costs that should have been rolled into the PF rate as Transmission Component Costs. Specifically, PNGC claims: “[I]f the T[S]DC includes categories of costs that the UDC does not, the comparability required by the ARTS is not achieved.” Scott & Russell, BP-18-E-PN-02, at 7. Additionally, the parties argue that it is BPA’s policy to provide parity between Transfer Service customers and directly connected customers. Because the segmentation methodology changed in BP-16 and TSDC was not based on the exact methodology used to set the UDC, NRU argues that “BPA falls short in meeting its goal to provide parity between transfer and non-transfer customers.” Stratman & Weathers, BP-18-E-NR-01, at 7.

Q. Do you agree?

A. No. First, as we note above, these parties have not addressed the language in the RD Contract, which makes it clear that the TSDC includes the cost of deliveries over the
“Low Voltage Segment,” which is based on the voltage of the facilities excluded from the Network Segment. Thus, the critical question for designing the TSDC is not simply what facilities must be rolled into the Network Segment (via the definition of Transmission Component Cost), but also what facilities Transfer Service customers committed to pay for under the RD Contract. As section 14.6.2 makes clear, they committed to pay for service over facilities with voltages that are excluded from the Network Segment, which, as we discussed above, includes most of the facilities that were previously in the Utility Delivery Segment.

Second, PNGC focuses on a limited set of facilities which, under the Segmentation Study, were included in the network segment. We acknowledge that there are certain costs, such as those identified by PNGC, which could be included in the network segment in a manner identical to the segmentation policy. However, whether the inclusion of these specific pieces of equipment in the Network Segment meant that the voltage of the facilities excluded from the Network Segment changed is unclear, and not supported by anything in the record.

Q. If there were a conflict between the ARTS and the RD Contract, which one would control?

A. This question is a legal question, so we leave it to the Draft and Final Records of Decisions to address. However, it is our understanding that in the event of a conflict between the ARTS and the RD Contract, the RD Contract would control:

In the event that a conflict exists between the provisions of this Agreement and the Agreement Regarding Transfer Service (ARTS) Contract No. 05EO «#####», this Agreement shall govern.

RD Contract at § 14.6.
Q. Do you think there is a conflict between the ARTS and the RD Contract?

A. No. The ARTS and RD Contract work in tandem. Whereas BPA made the broad commitment to propose rolled-in treatment of costs over the network, BPA left open the question of what types of delivery facility costs would be recovered directly from Transfer Service customers through a delivery charge. ARTS ROD at 12. This question was answered in section 14.6.2 of the RD Contract through the development of the new term “Low Voltage Segment” and the creation of the TSDC. Thus, the two agreements work together, with the ARTS providing guidance on the broader context and the general rolled-in treatment for network-related costs, and the RD Contract providing more specific guidance on the costs included in the TSDC.

Q. PNGC claims that section 2(f) of the ARTS is a prohibition, arguing that “the TDC must be revised to ensure that BPA does not directly assign Transmission Component Costs to a ‘subgroup’ of TDC customers, as prohibited by § 2(f) of the ARTS.” Scott & Russell, BP-18-E-PN-02, at 7. Please respond.

A. Section 2(f) is not a prohibition but simply a definition that describes a cost allocation treatment for certain Transfer Service costs: “Rolled In cost” refers to a cost shared among preference customers. For BPA’s Power rates, section 2(f) states, “Rolled In means that the Transfer Service costs included in BPA’s power revenue requirement are not directly assigned or allocated to a subgroup of firm power load of preference customers under Section 5(b)(1) of the Northwest Power Act . . . .” ARTS, § 2(f). This simply means that “Rolled In” is a cost that was not directly assigned or allocated to a subgroup. If a cost is directly assigned, it cannot also be “Rolled In” because then the charge would be recovered twice.
Q. Does PNGC’s proposal identify an instance in a prior ROD where BPA relied on the obligation contained in the ARTS as support for an action?

A. Yes. PNGC points to the BP-14 ROD as an instance where the Administrator reiterated the agency’s obligations under the ARTS. Scott & Russell, BP-18-E-PN-02, at 7–8. However, the Administrator’s explanation in the BP-14 ROD is in response to Joint Party 12’s proposal. The BP-14 Final ROD states: “A change in segmentation [such as JP12’s proposal] would likely trigger GTA cost shifts. Thus, further analysis should need to be performed.” BP-14 Final ROD, BP-14-A-03, at 81.

Q. What is your response to PNGC’s reliance on the BP-14 Final ROD?

A. The referenced citation must be read in the context of the BP-14 rate case. The sentences in the BP-14 Final ROD preceding the foregoing quotation state that the JP12 segmentation proposal would likely increase the overall number of transfer customers’ Points of Delivery (PODs) subject to the TSDC: “JP12’s proposal would likely increase the number of transfer customers’ PODs subject to the GTA Delivery Charge . . . .” BP-14 Final ROD, BP-14-A-03, at 81. In this context, the JP12 proposal was going to result in a substantial change to the voltage levels of facilities included in the UDC. If adopted, BPA acknowledged that this would be the type of change that would have triggered a recalculation of the TSDC because the voltage of facilities excluded from the Network Segment would have changed.

But that is not what has occurred here. It is our understanding that Transmission Services did not change its segmentation such that the voltage levels of facilities excluded from the Network Segment changed. Instead, Transmission Services took a more selective approach of moving some equipment from the Utility Delivery Segment

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into the Network Segment for policy and practical reasons. As noted above, we do not view this type of selective change as requiring a revision to the TSDC.

**Q. Assuming BPA were to agree that the TSDC must be revised to reflect Transmission Services’ segmentation, could BPA perform this analysis before the end of the rate case?**

**A.** No. At this time, BPA does not have the resources or ability to deconstruct each third party’s transfer facility schematics to perfectly mirror the segmentation methodology. As PNGC and NRU note, it would be difficult to precisely segment the transfer service facilities exactly as done in the Segmentation Study. Stratman & Weathers, BP-18-E-NR-01, at 7; Scott & Russell, BP-18-E-PN-02, at 8.

In this instance, regarding the revised definition of the Utility Delivery and Network segments, we have not performed an extensive review of third-party facility schematics to determine if there are components that could be included in the Network Component. Nor do we think such a review is possible, given that BPA does not have access to transfer provider utilities’ proprietary and confidential detailed system and substation schematics and their associated costs. Moreover, the review likely would not be fruitful because the vast majority of transfer service costs concern step-down transformers and low-side feeder positions—facilities that were not the focus of the BP-16 Segmentation Study methodology changes.

**Q. Do PNGC and NRU want BPA to conduct an analysis of transfer costs under the new Segmentation Policy?**

**A.** No. Although PNGC makes the argument that BPA is obligated to determine Transmission Component Costs using Transmission Services’ exact segmentation methodology, both PNGC and NRU correctly conclude that to do so would be administratively burdensome. Scott & Russell, BP-18-E-PN-02, at 8–9; Stratman & Weathers, BP-18-E-NR-01, at 7. Both parties then incorrectly conclude that simply

Thus, PNGC and NRU argue that if the TSDC simply mirrored the UDC, it would address the ARTS comparability concerns and would achieve greater parity between directly connected customers and Transfer Service customers. Scott & Russell, BP-18-E-PN-02, at 10; Stratman & Weathers, BP-18-E-NR-01, at 7.

Q. Does BPA support recoupling the UDC and the TSDC?

A. No. BPA does not believe that returning to the UDC is the appropriate solution. The TSDC rate is reflective of the actual costs incurred by Transfer Service. We believe that setting the TSDC to recover its costs is a sound practice that will, in the long run, be more beneficial to transfer customers than mirroring a rate that is not reflective of the facilities being charged for. For example, if Transmission Services were to revise its practices next rate period, the result could be a substantially higher rate than a separately identified TSDC. Power Services could once again be in the situation of charging a rate that exceeds its costs.

Q. The parties both cite to BPA setting the Operating Reserve Charge equal to the ACS rate as support for the TSDC to mirror the UDC. Scott & Russell, BP-18-E-PN-02, at 9–10; Stratman & Weathers, BP-18-E-NR-01, at 7–9. Please respond.

A. In the Initial Proposal, BPA proposed for the Transfer Service Operating Reserve Charge to continue to mirror the ACS-18 Operating Reserve rates. Yokota et al., BP-18-E-BPA-21, at 6–7. NRU cites Staff’s statement as evidence that because BPA used an equal rate for the Operating Reserve Charge to achieve parity between directly connected and transfer service customers, the TSDC rate should equal the UDC to achieve parity. Similarly, PNGC cites to the BP-16 ROD where BPA explained that “[t]his revision helps maintain parity between directly connected customers and other transfer customers.” Scott & Russell, BP-18-E-PN-02, at 10.
In either situation, the parties are correct that BPA set the Operating Reserve Charge rate equal to the ACS rate to achieve closer parity. However, this does not establish a precedent that simply mirroring a transmission rate will bring the Transfer Service customers and directly connected customers in closer parity. In addition, since the inception of the ARTS, BPA has been clear that it would not always mirror the UDC and that BPA would consider other approaches to calculating the low-voltage delivery charge. ARTS ROD at 12. BPA developed a specific approach to the low-voltage delivery charge in the RD Contract, and that approach should govern.

Q. Do you have other concerns with recoupling the UDC and the TSDC?

A. We are also concerned about setting a precedent that BPA will couple/decouple the UDC and TSDC based on whichever rate is most favorable to the transfer customers. Directly connected customers do not have this choice. In BP-14, Transmission Services adopted a more aggressive policy of cost recovery from low-voltage facilities, with the consequence that directly connected preference customers paid a Utility Delivery rate that increased by 25 percent. Transfer customers, however, were sheltered from these increases through Power Services’ separate rate, and thus benefitted from the separate rate treatment.

Now that Transmission Services revised its segmentation methodology in BP-16 and transfer service costs have increased so that the proposed UDC rate is slightly below the TSDC rate, PNGC and NRU would have BPA return to mirroring the UDC. We fundamentally disagree with a rate construct that has BPA changing its methodology for a rate in each rate case based on whichever rate is lowest. This approach would encourage customers to cherry pick between the rate methodologies—arguing that BPA must mirror Transmission Services’ UDC when that rate is lower than the TSDC rate, but then demanding Power Services develop its own rate if the UDC begins to increase above the TSDC rate. We think the better approach is to adopt a rate methodology that is
sustainable through time, and that focuses on the cost of facilities being charged to Power Services. Thus, we believe our proposal remains the most reasonable.

Q. Would you expect that further analysis of TSDC costs, if possible, would yield a significant lowering of the TSDC costs?
A. We are not sure. PNGC states that “[t]he new segmentation in BP-16 resulted in a UDC decrease of 27 percent (from $1.749/kW-mo to $1.285/kW-mo) from the Initial Proposal to the final rate.” Scott & Russell, BP-18-E-PN-02, at 9. PNGC then presumes that “we would expect a substantial lowering of the TDC rate if BPA were to perform the necessary analysis.” *Id.* As described above, BPA does not have the information necessary to conduct an analysis.

Section 4: Capping the TSDC Rate Increase

Q. Does PNGC have other concerns regarding the proposed TSDC?
A. Yes. PNGC argues that a 38 percent rate increase is too burdensome to be applied in a single rate period. Scott & Russell, BP-18-E-PN-02, at 11. In addition, transfer customers do not have the option of purchasing their delivery substations to mitigate the impact. *Id.* PNGC proposes that BPA limit the TSDC average rate period rate increase to 25 percent until the TSDC and the UDC are equal, and from that point forward the TSDC and UDC rates should match. *Id.*

Q. Should BPA limit the increase of the TSDC rate to an effective 25 percent average increase per rate period until it is at the same level as the UDC?
A. No. At this time, Staff does not support a 25 percent cap until the TSDC equals the UDC. PNGC argues that having a 25 percent cap would result in a *de minimis* cost shift to the PF rate. However, the fact that the effect on others is *de minimis* does not make an action justifiable. Further, the parties’ proposal to mirror the Initial Proposal UDC rate would result in a nominal decrease of $255,698.
However, since decoupling from the UDC, transfer customers have saved $3,551,242.

Q. *Has BPA previously applied a 25 percent rate cap?*

A. Yes. In BP-14, BPA applied a 25 percent cap on the rate increase of the UDC. PNGC points to the BP-14 ROD, where BPA stated that setting the rate level for the UDC “requires striking a balance between cost causation and avoidance of rate shock.” *Id.* at 11. However, nothing in the Regional Dialogue or ARTS commits BPA to setting rate increase caps. Further, applying a 25 percent cap in BP-14 does not establish a present requirement or commitment to apply a cap going forward. Finally, applying a 25 percent cap would be inconsistent with the commitments the Transfer Service customers made in the RD Contract to pay for service over the facilities with voltages that are excluded from the Network Segment.

### Section 5: Proposed Modification to the Treatment of NorthWestern Energy in the Calculation of the TSDC

Q. *Why is BPA proposing to modify the method for calculating the TSDC as it pertains to service provider NorthWestern Energy?*

A. As noted above, PNGC and NRU identified the different rate levels between the UDC and the TSDC rates. In preparing our response to their concerns, we reexamined our method for developing the independent Power Services’ rate and discovered a methodology issue we believe should be addressed, resulting in a slightly lower TSDC. Specifically, in BPA’s Initial Proposal, we explained how we calculated the costs from NorthWestern Energy:

> Instead of having a separate charge for low-voltage delivery, NorthWestern rolls the cost of low voltage service into the transmission rate that BPA pays for transfer service. To calculate NorthWestern’s cost...
of low-voltage service, we used the average cost of low-voltage service on all other third-party transmission provider systems and then multiplied this average by the amount of low-voltage transfer service for customers on NorthWestern’s system.


Because NorthWestern has had a fixed—albeit rather high—Open Access Transmission Tariff (OATT) rate for some time, we determined it is more equitable to use a static value for NorthWestern rather than the method used to establish NorthWestern’s initial distribution rate in BP-14. That method, which applied an average cost based on the costs of all other low-voltage service provided over third-party transmission provider systems, could misrepresent actual changes in NorthWestern’s transmission rate. Consequently, we believe that establishing NorthWestern’s rate using the average distribution rate of all other transmission providers may have unintended consequences for the General Transfer Agreement (GTA) delivery charge.

To adjust for this unintended outcome, BPA proposes to establish a base distribution rate for NorthWestern’s calculated distribution rate. This rate would be the average distribution rate of all transmission providers that was set in BP-14, and would remain constant until the time NorthWestern changes its transmission rate or develops a unique distribution rate. This adjustment best reflects the real cost of low-voltage delivery in the case where a transfer service provider does not split out low-voltage delivery as an independent charge.
Q. What does this change do to the overall TSDC rate?

A. All else being equal, making this change results in a slight decrease in the TSDC rate to $1.26/kW-mo. from the Initial Proposal rate of $1.30/kW-mo.

Q. Does this conclude your testimony?

A. Yes.