

ATTACHMENT A

Rationale Supporting Determination of Rate Treatment Applicable to Projects Under the 2009 Network Open Season

Bonneville Power Administration's (BPA) decision regarding which of the 2009 Network Open Season (NOS) Precedent Transmission Service Agreements and associated Transmission Service Requests may reasonably be offered service at rolled-in transmission rates is a key milestone in the NOS process. As explained below, BPA has decided that 1,121 MW of TSRs in the 2009 NOS should continue to move forward in the NOS process at rolled-in rates. BPA can authorize another 293 MW without construction of new facilities. These results demonstrate the continued success of the NOS concept.

Background

BPA announced the 2009 NOS process in a notice to customers on April 9, 2009,¹ and the 2009 NOS commenced on June 1, 2009. The deadline to submit Transmission Service Requests (TSRs) to participate was June 30, 2009. As of June 30, 2009, BPA's TSR queue contained 4,867 MW of eligible requests for service on BPA's network. This amount of requested megawatts was smaller than the 9,262 MW of TSRs in the queue prior to the 2008 NOS, in part because the 2008 NOS successfully reduced the queue congestion that BPA had experienced for many years.² The structure of the 2009 NOS is essentially the same as that of the 2008 NOS. The NOS combines a cluster study of participating TSRs with a requirement that participating customers sign a Precedent Transmission Service Agreement (PTSA). In order for customers with eligible TSRs to participate in the 2009 NOS, they were required to sign PTSAs and satisfy other requirements by August 19, 2009.

BPA offered 83 PTSAs to customers with eligible TSRs representing approximately 4,867 MW of service. Customers signed 34 of those PTSAs for a total of 1,553 MW.

Cluster Study Results

BPA included the 1,553 MW of TSRs for which customers signed PTSAs in the NOS Cluster Study to determine the transmission system reinforcement, if any, that would be required to serve those TSRs. The Cluster Study included three primary elements. First, BPA used its ATC Methodology to identify for each PTSA the impact to each monitored flow gate and other areas of the transmission system to determine the system reinforcements required to provide the requested service.

¹ A copy of the letter is available at:

http://www.transmission.bpa.gov/customer_forums/open_season_2009/NOS_Announcement_04_09_09.pdf.

² Please refer to the 2008 NOS Decision Letter and Attachment A for a description of the circumstances that led to the 2008 NOS and the structure of the NOS process at:

http://www.transmission.bpa.gov/Customer_Forum/open_season/docs/Decision_Letter_02_16_2009.pdf

BPA deemed that TSRs that could not be served by the current infrastructure required system reinforcement. BPA also performed sub-grid assessments to consider impacts on other facilities on the system that are not included in the monitored flow gates. As a result of these analyses, BPA determined that 10 TSRs, representing 293 MW, could be authorized with no further system reinforcements beyond any requirements identified in the generator interconnection studies.

If the transmission system lacked flowgate capacity or if sub-grid impacts violated reliability limits for a particular request, system reinforcements were determined to be necessary.

BPA determined that 20 TSRs, representing 1,121 MW, could be provided service with the projects moving forward at rolled-in rates as a result of the 2008 NOS. Those plans of service are³:

1. McNary-John Day Reinforcement
2. Big Eddy-Knight Reinforcement
3. I-5 Corridor Reinforcement
4. Central Ferry-Lower Monumental Reinforcement

No further system reinforcements, other than any requirements identified in the interconnection study process, are necessary to provide service to those TSRs.

As the second element of the Cluster Study, for TSRs that BPA found to need additional system reinforcements, BPA grouped the requests into study areas based on impacts described above and electrical proximity. BPA identified the following study areas for development of a plan of service to provide the service requested:

1. Northern Intertie Reinforcement
2. West of Garrison Reinforcement⁴
3. Harney Area Reinforcement⁵

For each group of PTSAs for a study area, BPA studied the requests and identified or developed a plan of service for the required system reinforcements. The following table shows the number of PTSAs and amount of associated MW for each project or combination of projects needed to provide the requested service. Note that the two TSRs that require the Northern Intertie Reinforcement also require the West of Garrison Reinforcement and the Central Ferry-Lower Monumental Reinforcement, but the one TSR that requires the West of Garrison

³ The West of Garrison Remedial Action Scheme was also determined to move forward at rolled-in rates, but later became unnecessary when certain TSRs were withdrawn from the transmission service request queue.

⁴ This is a different plan of service from the West of Garrison Remedial Action Scheme plan of service identified as part of the 2008 NOS cluster study.

⁵ This is a different plan of service from the Harney Area Reinforcement plan of service identified as part of the 2008 NOS cluster study.

Reinforcement requires only that project. The one TSR that requires new facilities in the Harney study area requires only that project.

2009 NOS PTSA Grouping Summary		
Grouping	PTSAs	Demand
Authorize	10 TSRs	293 MW
Harney	1 TSR	25 MW
I-5	2 TSRs	100 MW
I-5, MCNY-JDAY, BIGE-KNGT	1 TSR	125 MW
MCNY-JDAY, BIGE-KNGT	17 TSRs	896 MW
Northern Intertie, CFRY-LOMO, & West of Garrison	2 TSRs	100 MW
West of Garrison	1 TSR	14 MW
<i>Total</i>	34 TSRs	1,553 MW

More detailed information on the specific TSRs in each group is posted on BPA’s website at:

http://www.transmission.bpa.gov/customer_forums/open_season_2009/PTSA_Summary_by_Cluster_2009.pdf.

Third, once BPA completed the technical studies, it added the proposed projects to a 2014 ATC base case and confirmed that the projects allowed BPA to provide the requested service.

Direct Assignment Determination

PTSA section 5(a)(3) provides that “all Expansion Facilities resulting from the Cluster Study are subject to a determination of Direct Assignment of costs.” All plans of service and system reinforcements identified in the Cluster Study as necessary to provide service to TSRs are subject to a determination of whether costs of the system reinforcements should be directly assigned to the applicable customer(s). Plans of service that are determined to be directly assigned to the customer are excluded from consideration for rolled-in rate treatment under the Commercial Infrastructure Financing Analysis (CIFA) pursuant to PTSA section 5(b).

In the 2009 NOS, BPA determined that the costs of the Harney Area Reinforcement are appropriate for direct assignment to the customer whose TSR(s) required the plan of service.⁶ This determination was based on the technical attributes of the plan of service and on BPA’s policies, including its Guidelines for Direct Assignment Facilities.⁷ As a result of this determination, the Harney Area Reinforcement was excluded from consideration for rolled-in rate treatment.

⁶ The estimated costs of the Harney Area Reinforcement are \$242 million.

⁷ The Guidelines for Direct Assignment Facilities are posted at <http://www.transmission.bpa.gov/includes/get.cfm?ID=827>.

Rolled-In Rate Determination

PTSA section 5(c) obligates BPA to evaluate the projected cost and benefits of proposed expansion facilities consistent with the CIFA to determine “in its discretion whether Transmission Service can reasonably be provided under the applicable PTP or NT rate schedule (Bonneville’s ‘rolled-in’ or ‘embedded’ rate).”⁸

The 2009 NOS Cluster Study determined that 20 TSRs, representing 1,121 MW, could be provided service with the projects that moved forward at rolled-in rates in the 2008 NOS. For purposes of the evaluation under the PTSA and CIFA for those 2009 NOS TSRs, BPA relied heavily on its evaluation of those projects for the rolled-in rate determination for the 2008 NOS, and did not revisit all of the assumptions and information underlying that decision. BPA evaluated the additional revenues associated with the 2009 NOS TSRs and the effect of those revenues and updated capital information on the estimated rate pressure associated with the 2008 NOS projects. This evaluation indicated that the estimated rate pressure would decrease significantly as a result of the additional revenue and other updated information. The 2009 NOS TSRs that require the projects that moved forward at rolled-in rates in 2008 provide additional benefit and justification for those projects, and those 2009 TSRs will move forward at rolled-in rates as well.

The TSRs from the 2009 Cluster Study that require the Northern Intertie and West of Garrison Reinforcements will not move forward at rolled-in rates. Evaluation of the TSRs and the necessary projects under the PTSA revealed several reasons to not move forward with the projects at rolled-in rates.

First, the two projects in combination would serve only three TSRs with a combined 114 MW of service. The limited amount of TSRs and megawatt demand that the projects would serve, combined with the project costs, and would result in an unacceptable amount of upward pressure on network transmission rates. The estimated upward rate pressure over 20 years would be approximately 5.51%, which exceeds the rate pressure that was generally considered acceptable in the 2008 NOS.⁹ When the revenues from all the 2009 NOS TSRs were considered, including the revenues associated with TSRs that could be authorized without new facilities, the upward rate pressure of the two 2009 projects was estimated at 4.71%, which also exceeds the rate pressure considered acceptable in the 2008 NOS. In addition, the Cluster Study and CIFA did not identify any reliability benefits associated with either of the projects.

⁸ The Commercial Infrastructure Financing Analysis (CIFA) is posted at: http://www.transmission.bpa.gov/customer_forums/open_season_2009/. The CIFA is referred to as the “Commercial Infrastructure Financing Proposal” in the PTSA.

⁹ The range of rate pressure that was generally considered acceptable in the 2008 NOS was based on customer comment. Please refer to the 2008 NOS decision documents, posted at http://www.transmission.bpa.gov/customer_forums/open_season/.

To estimate the rate pressure, BPA performed a net present value analysis (NPV) of the costs of the two projects, including the revenues received from the NOS TSRs that would receive service over each project. For the NPV analysis, BPA assumed no increase in embedded cost rates to recover additional project costs, but assumed an average annual 1% embedded cost rate increase representing normal rate increases over time.

The NPV analysis began with the following direct project costs identified in the NOS Cluster Study:

Project-Description	Estimated Total Direct Cost (\$M)
Northern Intertie Reinforcement	\$225
West of Garrison Reinforcement	\$91
Total '09 NOS Projected Project Costs	\$316

The NPV analysis was organized as follows: 1) each project and the service associated with the project was individually evaluated as an independent capital project; 2) both projects necessary to provide service to the applicable PTSA customers were evaluated; and 3) evaluations were performed for several scenarios identified in the Cluster Study.

The following are the base point assumptions used in the NPV and rate analysis modeling:

- Discount rate of 9%.
- Overhead rate for NPV of \$2 million per project per construction year.
- Overhead rate for rate pressure analysis only of 23%.
- 1% rate increase per year.
- 2% inflation rate.
- Any reliability benefits identified in the Cluster Study of the expansion projects would be taken into account.
- Revenues begin at the start of the year after completion of expansion facilities.
- PTSAs were assumed to roll over for the life of the expansion facilities (all PTSAs have duration of more than five years).
- Project cost and revenues not adjusted for risk.
- Revenues from PTSAs for which service can be provided without new facilities (293 MW) were not included in the NPV analysis but were included in the determination of rate pressure.

None of the individual projects or analyzed scenarios resulted in a positive NPV; instead, all were negative. Inclusion of NOS revenues where service could be provided without new facilities also resulted in a negative NPV.

Furthermore, the cost of the projects compared with the TSRs that would be provided service results in a high cost per MW. The Northern Intertie Reinforcement would result in a cost per MW of \$13,140. The West of Garrison Reinforcements would result in a cost per MW of \$27,080. There were only two TSRs that would need the Northern Intertie Reinforcement, and the total requested demand for the TSRs was only 100 MW. Those same two TSRs also needed the West of Garrison Reinforcement. There was one TSR with a demand of 14 MW that needed the West of Garrison Reinforcement alone.

Finally, the customers with the TSRs that are not moving forward at rolled-in rates have other options to receive transmission service from BPA. They could proceed under the OATT provisions for individual studying and processing of TSRs, including funding preliminary engineering and environmental review of the projects required to serve their TSRs. If customers proceed under the OATT process for individual TSRs, their TSRs will be eligible for a future NOS.