

# Montana Public Service Commission



Brad Johnson - Chairman  
Travis Kavulla - Vice Chairman  
Roger Koopman - Commissioner  
Bob Lake - Commissioner  
Tony O'Donnell - Commissioner

February 1, 2017

Bonneville Power Administration  
P.O. Box 14428  
Portland, OR 97293-4428

## Public Comment on BP-18 (Power and Transmission Rates for FY 2018-19)

Pursuant to the notice published in the Federal Register by the Bonneville Power Administration (BPA) on November 10, 2016, the Montana Public Service Commission (Commission) offers public comment related to BPA's current proceeding (BP-18) to establish power and transmission rates for FY 2018-19.

We limit our comment to a single issue, whether BPA should eliminate the Eastern Intertie (IM) rate that applies to the 90-mile, Townsend-to-Garrison segment of the Colstrip 500kV line, and instead charge BPA's network rate for transmission service starting at Townsend. The Commission believes that circumstances warrant the elimination of this segmented rate, and submits that protections for both customers of utilities jurisdictional to state utility commissions and for BPA's preference customers can be accommodated in an act of ratemaking.

The IM rate applies to BPA's 200 megawatt (MW) portion of the 1,930 MW capacity of the Eastern Intertie. Since the original Montana Intertie Agreement was signed in 1981 (amended, 1994), BPA's 200 MW portion of the Intertie has gone unsubscribed, with the exception of 16 MW that has been subscribed for several years by one of the Colstrip owners.

The presence of unsubscribed BPA capacity over an otherwise frequently congested transmission path (Path 8) during such a considerable span of time provides *prima facie* evidence of an uneconomic rate. The Commission submits that the marginal cost of making this capacity available to a long-term subscriber is approximately zero. Virtually any revenue that BPA receives for this capacity would exceed its marginal cost. While utility regulators must also consider the necessity of covering the embedded costs of such transmission investment in ratemaking, the Commission regards that this consideration is not a prerequisite to BPA's ratemaking decision here, because a contractual provision exists to cover all of the intertie's revenue requirement through the Montana Intertie Users' transmission agreement.<sup>1</sup> Rates should therefore, with this safeguard in place, be set at the marginal cost; in other words, the IM rate should be eliminated.

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<sup>1</sup> Bonneville Power Administration and Montana Intertie Users, *Amended and Restated Transmission Agreement*, Exhibit D, pp. 1-5, April 17, 1981.

One of the Colstrip transmission owners is NorthWestern Energy, a regulated utility with 360,000 customers in Montana. It is one of the parties to the Montana Intertie Users agreement, who together have actually paid revenues so substantial that BPA has overcollected the Eastern Intertie's revenue requirement.<sup>2</sup> The Commission believes any collections in excess of the revenue requirement should be refunded to the Montana Intertie Users and, thus, their customers. In addition, by eliminating the IM rate, BPA could attract incremental revenues at its network rate. The Commission submits that one method of ratemaking would provide that the Montana Intertie Users continue to pay a rate designed to collect the Eastern Intertie revenue requirement under contract, retain their firm transmission rights, and be credited an appropriate portion of any incremental network transmission revenues from subscriptions that originate at Townsend and use the residual capacity of the Eastern Intertie. The Commission believes that a fair crediting arrangement could simultaneously boost revenues to BPA, even while adding little or nothing to its costs, and also provide revenue through the crediting arrangement that was envisioned in the Montana Intertie Users agreement but which has not been forthcoming in any meaningful way for the agreement's decades-long lifespan.

The elimination of the IM rate is not a panacea. The Commission understands there are many other factors that may cause unsubscribed transmission capacity to continue to exist. The elimination of the IM rate would not necessarily resolve who has operational control of the residual capacity that exists from Townsend to Garrison, for instance. It would not improve the path-ratings process which confines available transfers to a limit which may not reflect the actually engineering limits of a more integrated grid. We also note that NorthWestern's transmission utility has available capacity deliverable directly to BPA's transmission network already posted on its open access same-time information service site. Nonetheless, the IM rate issue can be, and should be, regarded on its own merits.

The idea of eliminating the IM rate has faced opposition in past BPA rate cases, because it has been argued that a Network roll-in of the Eastern Intertie would set a precedent for rolling in the Southern Intertie.

That argument rests upon the false premise that the Eastern and Southern Interties are similar adjuncts to the BPA network. In fact, the two segments differ in significant ways:

- The Southern Intertie is fully subscribed, while the Eastern Intertie has always been undersubscribed;
- The Southern Intertie has capacity that is optimized on a real-time basis by an independent system operator (CAISO);
- The Eastern Intertie's revenue requirement is contractually satisfied by the Montana Intertie Users agreement, the obligations of which persist even if the IM rate is eliminated.

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<sup>2</sup> Bonneville Power Administration, *Transmission Rates Study and Documentation—Initial Proposal*, BP-18-E-BPA-08, p. 38, November 2016, <https://www.bpa.gov/Finance/RateCases/BP-18/bp18/BP-18-E-BPA-08%20Transmission%20Rates%20Study%20and%20Documentation.pdf>

Finally, much of the debate on this issue has focused on whether the IM rate is an impediment to the development of renewable energy projects of Montana. We take no position on this issue. The Commission is solely interested in the establishment of an economically sound rate structure on the Eastern Intertie that will optimize use of unsubscribed capacity on the line and translate into lower costs for the Colstrip transmission owners and their customers.

Thank you for your consideration.

Respectfully,



BRAD JOHNSON, Chairman



TRAVIS KAVULLA, Vice Chairman



ROGER KOOPMAN, Commissioner



BOB LAKE, Commissioner



TONY O'DONNELL, Commissioner

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the Public Comment on BP-18 (Power and Transmission Rates for FY 2018-19 issued on February 1, 2017 was served upon the following, by mailing a true and correct copy, via first class mail, on the 1<sup>st</sup> day of February, 2017, addressed as follows:

Bonneville Power Administration  
P.O. Box 14428  
Portland, OR 97293-4428

A handwritten signature in blue ink that reads "Sandy Scherer". The signature is written in a cursive style with a large initial "S".

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Sandy Scherer, Administrative Assistant