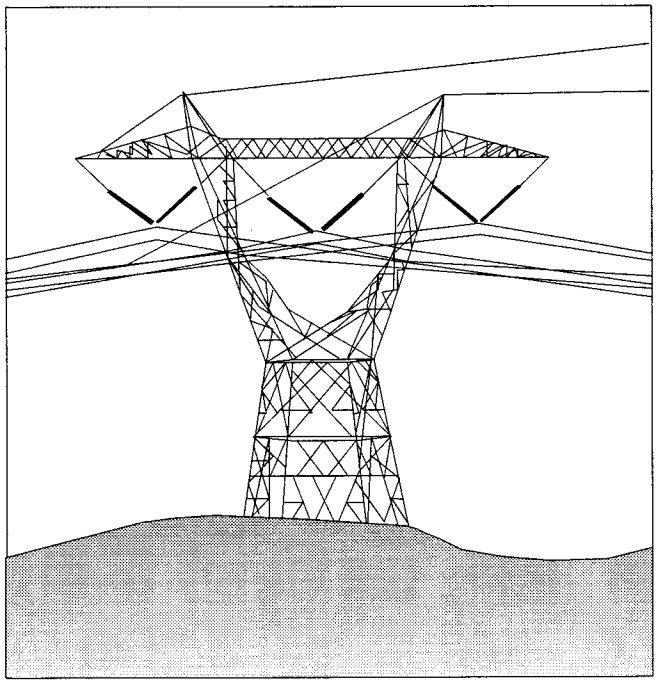
BONNEVILLE POWER ADMINISTRATION
TRANSMISSION BUSINESS LINE

2002 FINAL TRANSMISSION PROPOSAL

ADMINISTRATOR'S RECORD OF DECISION

TR-02-A-01



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AUGUST 2000

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1.0 PROCEDURAL HISTORY

1.1 Introduction

In setting rates for the period beginning October 1, 2001, the Bonneville Power Administration (BPA) bifurcated its general rate proceeding into separate power and transmission rate proceedings. BPA's 2002 wholesale power rate proceeding began on August 24, 1999. The Administrator's Record of Decision of the 2002 Final Power Rate Proposal (Final Power Rate ROD), WP-02-A-02, was issued on May 10, 2000. The instant record documents the Administrator's decision adopting BPA's 2002 Final Transmission and Ancillary Services Rate Proposal. BPA simultaneously conducted transmission rates and transmission terms and conditions proceedings. The transmission and ancillary services rates adopted in this Record of Decision (ROD) are the rates proposed as a result of a comprehensive settlement agreement between BPA's Transmission Business Line (BPA-TBL) and a diverse group of transmission customers and other constituents, including BPA's Power Business Line (BPA-PBL), regional investor-owned utility customers, partial and full requirements customers of the BPA-PBL, the Direct Service Industrial (DSI) customers, and a number of national and international marketers and merchant generators. The decisions in this ROD to adopt the rates and charges proposed by the settlement agreement are neither intended to create or imply any factual, legal, procedural or substantive precedent, nor to create agreement to any underlying principle or methodology contained herein. The transmission and ancillary service rates adopted in this ROD are for the period October 1, 2001, through September 30, 2003 (fiscal years (FY) 2002-2003).

1.2 Procedural History Of The Rate Proceeding

BPA's 2002 Final Transmission and Ancillary Services Rate Proposal was preceded by several other public processes which contributed to the material that formed the basis for the final transmission and ancillary services rates adopted herein. These other processes are described below.

1.2.1 Other Proceedings

1.2.1.1 Spending Level Development

Spending levels for the FY 2002–2003 period that are reflected in the transmission and ancillary services rates began with the Comprehensive Review of the Northwest Energy Systems (Comprehensive Review), initiated by the governors of Idaho, Montana, Oregon, and Washington in 1996. The Comprehensive Review recognized that the fundamental issues for transmission were ensuring reliable service, minimizing cost shifts resulting from a shift in responsibility for some generation costs, and minimizing the risk of repayment to the U.S. Treasury for BPA-TBL's share of the Federal investment in the Federal Columbia River Power System (FCRPS). Revenue Requirement Study, TR-02-E-BPA-01, at 8.

Upon recommendation of the Comprehensive Review, in September 1997, BPA and the Northwest Power Planning Council jointly launched a Cost Review of FCRPS costs. Recommendations were issued in March 1998. The objectives of the Cost Review for transmission were to:

1. Assure effective cost management of Federal River Transmission System (FCRTS);
2. Minimize, if not avoid, transition (stranded) costs; and
3. Ensure that obligations to the U.S. Treasury and third-party bondholders would remain at least as secure as they were in 1998.

Id. at 8–9.

In June 1998, BPA took the Cost Review recommendations into a public involvement process entitled "Issues '98." After considering written comments and the result of public meetings, BPA completed Issues '98 and released the "Cost Review Implementation Plan." For transmission, the Cost Review recommended that BPA:

1. Enhance transmission cost management through improved capital asset management;
2. Reduce administrative and internal services costs; and
3. Adjust and correct the functionalization and allocation of costs in accordance with Federal Power Act (FPA) conformance.

Id. at 10.

The 1996 rate case settlement had a significant impact upon BPA's transmission expense and capital spending programs for the FY 1996-2001 rate period. In order to meet the aggressive cost targets set in the 1996 settlement, the BPA-TBL implemented cost cuts, adopted efficiencies in its transmission operation and maintenance programs and deferred transmission system improvements to later years. Those cost cuts and deferrals, however, resulted in increases to the forecast of costs and expenses for the FY 2002-2003 period. The increases were attributed to:

- Business line separation costs, including the implementation of functional separation and separate systems for billing, scheduling, contracting and marketing;
- BPA-TBL's obligation to fully fund payments to the Civil Services Retirement System ($27.6 million in FY02 and $17.6 million in FY03), and negotiated wage and benefits increases for 50 percent of all BPA-TBL positions covered by the Columbia Power Trades Council (CPTC) Agreement;
- Planning for replacements of an aging BPA-TBL workforce, one-half of which is eligible to retire within five (5) years and obtaining personnel to address higher and more complex uses of the system;
- The costs of generation inputs for ancillary services are now the responsibility of the BPA-TBL, as a result of functional unbundling (portions of these costs, were previously bundled in the power rates); and

- Inflation on materials and services, and wage and benefits for General Schedule employees.

Id. at 10–11.

BPA-TBL presented its preliminary FY 2002-2003 cost proposal to its customers and constituents through regional workshops in a public forum entitled "Reliability and the Future of Transmission Costs." The workshops began in November 1999, and continued through February 2000. Notices of the workshops were widely distributed to BPA-TBL's customers and interested parties and were published on BPA-TBL's OASIS. The notices informed workshop participants that the outcome of this public process would form the basis for the spending levels that would be used in the 2002 final transmission revenue requirement study to set 2002 final transmission and ancillary services rates. The process specifically solicited public comment on BPA-TBL's proposed FY 2002-2003 spending levels for transmission system operations, capital spending levels and planned transmission system improvement, upgrade and reinforcement projects. Written comments on BPA-TBL's planned capital spending and expenses were formally accepted through February 25, 2000. *Id.* at 12–13.

The customer and constituent views expressed during this public process are summarized and addressed in a close-out letter issued on June 28, 2000, outlining the Administrator's decision on the BPA-TBL's FY 2002-2003 costs. *See* Program Level Expense and Capital Spending – Fiscal Years 2002 and 2003 Close-out of the Program Level Public Process. Final Revenue Requirement Study, TR-02-FS-BPA-01, at Appendix B. These costs are reflected in the final transmission revenue requirement and repayment studies.

1.2.1.2 Rate Case Workshops

Prior to the development of the initial rate proposal and continuing through the rate proceeding, BPA-TBL sponsored workshops on a variety of issues related to its ratemaking. The workshops covered topics ranging from transmission rates and terms and conditions to revenue requirements, risk analysis, rate design, segmentation, transmission scheduling procedures, ancillary services, congestion management, and other issues. These noticed workshops were held between BPA-TBL and interested parties to develop a common understanding of the issues and to generate ideas and propose alternative solutions to issues in specific areas, if possible. Solutions and ideas arising from the workshops were incorporated into BPA-TBL's initial rate proposal and, thus, into the final rate case studies and this ROD, where appropriate.

Seventeen workshops were held in 1999. Two additional workshops were held in January 2000 to present to customers and interested entities BPA-TBL's preliminary transmission and ancillary service rates, and proposed open access terms and conditions. In addition, on April 4, 2000, BPA-TBL held a workshop for parties to the proceedings to discuss the use of the electronic rate case web page for data requests, notices and other purposes.

1.2.1.3 2002 Wholesale Power Rate Case

In setting rates for the period beginning October 1, 2001, BPA bifurcated its general rate proceeding into separate power and transmission rate proceedings. Establishing BPA's power rates and transmission and ancillary service rates in separate rate proceedings is consistent with the Federal Energy Regulatory Commission's (the Commission) functional separation and unbundling paradigm, and allowed BPA to resolve power and transmission issues in separate rate proceedings. 65 Fed. Reg. 14,102, 14,103–04 (2000); Administrator's Record of Decision of the 2002 Final Power Rate Proposal (Final Power Rate ROD), WP-02-A-02, at 2-9 - 2-10. BPA's 2002 wholesale power rate proposal was noticed in the Federal Register on August 13, 1999 and a formal proceeding began on August 24, 1999. The Final Power Rate ROD was signed on May 10, 2000. *Id.* at 20-1.

A number of issues affecting BPA's 2002 Final Transmission and Ancillary Services Rate Proposal were proposed, litigated and decided in BPA's 2002 power rate proceeding. Those decisions are not revisited in this ROD. The issues decided in BPA's 2002 power rate proceeding include:

- a methodology for functionalizing corporate overhead, generation and transmission costs to the generation or transmission revenue requirement;
- unit costs for generation inputs for operating reserves and regulation ancillary services;
- the generation input cost for reactive supply and voltage control from generation sources service;
- the generation input costs for station service and remedial action schemes used by the FCRTS;
- the allocation of generation integration and generator step-up transformer costs to generation;
- the allocation of the costs to transmit Federal and non-Federal power over third party transmission systems (General Transfer Agreements, or their replacement or equivalent) to the power or transmission revenue requirement; and
- BPA-PBL's support of the Utility Delivery Charge.

Revenue Requirement Study, TR-02-E-BPA-01, at 14-15; Final Power Rate ROD, WP-02-A-02, at 5-60 - 5-70, 8-1 - 8-30, and 9-1 - 9-13. BPA-TBL's initial proposal preceded the conclusion of the BPA 2000 power rate proceeding. The decisions on these issues, as determined in the Final Power Rate ROD, are incorporated into the final studies and final transmission and ancillary services rates adopted herein.

1.2.1.4 OATT Proceeding

Concurrent with the rate proceeding proposing the transmission and ancillary services rates addressed in this ROD, BPA-TBL initiated a formal administrative proceeding proposing non-rate terms and conditions to revise its Open Access Transmission Tariff (OATT), BPA Docket No. TC-02. BPA-TBL intended that the initial proposal OATT would replace its current reciprocity tariff and be used to

offer non-discriminatory open access transmission service over the FCRTS, effective October 1, 2001. *See* 65 Fed. Reg. 14,098 (2000). The non-rate terms and conditions contained in BPA-TBL's initial proposal OATT incorporated more of the terms of the Commission's *pro forma* open access tariff, and implemented a Network Contract Demand transmission service, in addition to the *pro forma* tariff Point-to-Point (PTP) and Network Integration Transmission (NT) services, and various other modifications to the *pro forma* tariff, including, without limitation, a redispatch congestion management mechanism. *Id.* at 14,099-100. The non-rate terms and conditions in the initial proposal OATT included optional services and terms and conditions that shaped the development of BPA-TBL's 2002 Initial Transmission and Ancillary Services Rate Proposal.

The settlement agreement, discussed in more detail in section 2 of this ROD, also settled the terms and conditions of the proposed OATT (settled OATT). *See* Settlement Agreement, Appendix A, June 20 2000 Settlement Agreement, at Section 2. Some of the non-rate terms and conditions of the settled OATT, as agreed to, pursuant to the settlement agreement, necessitated changes to BPA-TBL's transmission and ancillary services rate proposal. These changes were reflected in BPA-TBL's supplemental rate proposal. Metcalf *et al.*, TR-02-E-BPA-13, at 3. See the discussion in section 2 of this ROD for more detail. The settlement agreement also provided that BPA-TBL would file the settled OATT directly with the Commission, without completing the terms and conditions proceeding. Therefore, BPA-TBL's initial proposal to revise the OATT was withdrawn and the 2002 Terms and Conditions Proceeding, BPA Docket No. TC-02, was dismissed. TR-02-H-11.

1.2.1.5 NEPA Compliance

BPA must evaluate its proposed rate increases in a formal rate proceeding pursuant to section 7(i) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). 16 U.S.C. § 839 (1994). In addition, BPA must also evaluate the potential environmental effects of its rate proposals, as required by the National Environmental Policy Act (NEPA). 42 U.S.C. § 4321 (1994 & Supp. I 1995). The NEPA analysis is conducted separate from the formal rate process. BPA's 2002 Final Transmission and Ancillary Services Rate Proposal is consistent with BPA's Business Plan Environmental Impact Statement, DOE/EIS-0183, June 1995 (Business Plan EIS), and the Business Plan Record of Decision, August 15, 1995 (Business Plan ROD).

The Business Plan EIS was intended to support a number of decisions, including decisions to establish rates for products and services in rate cases in 1995 and thereafter. Before reaching a final decision establishing or revising rates, BPA stated that the Administrator would review the Business Plan EIS to ensure that the proposed actions fell within the scope of the EIS. Business Plan EIS, at Fig. 1.4-1 and section 14.2. Then, if appropriate, the Administrator would issue a tiered ROD. Tiering a ROD to the Business Plan ROD helps BPA delineate decisions clearly, and provides a logical framework for connecting broad programmatic decisions to more specific actions. *Id.* at section 1.4.1.

Consistent with the strategy presented in the Business Plan ROD, the Administrator reviewed the Business Plan EIS to determine whether the potential impacts of BPA's 2002 Final Transmission and Ancillary Services Rate Proposal fall within the range of alternatives. The Business Plan EIS includes an evaluation of the environmental impacts of rate design issues for BPA's transmission products and services. This evaluation is discussed in more detail in Section 6 of this ROD.

1.2.2 Formal Proceedings

Section 7(i) of the Northwest Power Act requires that BPA's wholesale power and transmission rates be established according to certain procedures. 16 U.S.C. § 839e(i). These procedures include, among other things, issuance of a Federal Register Notice announcing the proposed rates; one or more hearings; the opportunity to submit written views, supporting information, questions, and arguments; and a decision by the Administrator based on the record. This proceeding is governed by BPA's rule for general rate proceedings, §1010 of the *Procedures Governing Bonneville Power Administration Rate Hearings*, 51 Fed. Reg. 7611 (1986) (hereinafter Procedures). These Procedures implement the statutory section 7(i) requirements.

On March 15, 2000, BPA published a Notice of 2002-2003 Proposed Transmission Rate Adjustment, 65 Fed. Reg. 14102 (2000), and a Notice of Hearing on Proposed Open Access Transmission Tariff, 65 Fed. Reg. 14098 (2000). BPA's Standards of Conduct do not permit preferential access by BPA-PBL to information on BPA's transmission and ancillary services pricing. BPA-PBL therefore was a party to the transmission rate proceeding, with all of the rights and responsibilities of a party in the rate proceeding, including prohibition of *ex parte* communications.

BPA's 2000 Transmission Rate Adjustment Proceeding (BPA Docket No. TR-02), and the 2002 Transmission Terms and Conditions Proceeding (BPA Docket No. TC-02), began with a Prehearing Conference on March 29, 2000. These proceedings were conducted simultaneously. At the Prehearing Conference, the Hearing Officer (1) adopted an official service list and a discovery service list for BPA's 2000 Transmission Rate Adjustment Proceeding, and 2000 Transmission Terms and Conditions Proceeding; and (2) established a procedural schedule for BPA's 2000 Transmission Rate Adjustment Proceeding, and 2000 Transmission Terms and Conditions Proceeding.

BPA's initial rate proposal was filed on March 29, 2000, and was supported by prefiled written direct testimony and studies sponsored by 19 witnesses. BPA responded to three data requests concerning the initial proposal. Clarification sessions, held on April 10, 11 and 14, 2000, were not transcribed.

During the April 11, 2000, clarification session, parties began to discuss the possibility of reaching a settlement. On April 12, 2000, the parties held a conference call with the Hearing Officer to present an oral motion for minor adjustments to the procedural schedules for both the 2000 Transmission Rate Adjustment Proceeding, and 2000 Transmission Terms and Conditions Proceeding. The Hearing Officer granted the motion, deferring the dates for certain clarification sessions, responses to data requests,

and the discovery conference in order to allow the parties time to participate in settlement negotiations. TR-02-O-07.

On April 20, 2000, the parties notified the Hearing Officer that they had reached a settlement in principle on the rates and anticipated settling the OATT terms and conditions. On April 20, 2000, the Hearing Officer ordered a further suspension of the procedural schedules for both proceedings through May 1, 2000, to allow the parties time to consider signing a written settlement agreement. TR-02-O-08. The April 20, 2000 settlement agreement settled the rate levels of certain transmission rates, contingent upon settlement of the OATT terms and conditions by June 20, 2000. TR-02-E-BPA-14. On May 1, 2000, a hearing was convened to allow the Hearing Officer to consider any objections to the proposed settlement agreement. No objection was made. On May 1, 2000, the Hearing Officer granted a motion to further suspend the procedural schedules for both proceedings through June 20, 2000, to allow the parties time to complete settlement negotiations. TR-02-O-09.

On June 20, 2000, the settling parties reached agreement on a comprehensive settlement agreement, which incorporated by reference the April 20, 2000 settlement agreement, agreeing to a proposal for the terms and conditions of BPA's OATT (Settlement Agreement). On June 20, 2000, the parties notified the Hearing Officer that a tentative settlement had been reached, and submitted a motion to modify the procedural schedules for both the 2000 Transmission Rate Adjustment Proceeding, and 2000 Transmission Terms and Conditions Proceeding. TR-02-M-04. That motion was granted. TR-02-O-11.

Under the modified procedural schedules, certain parties had until July 7, 2000, to submit written objections to the Settlement Agreement, and if any such objections were submitted, any party that signed the Settlement Agreement had an opportunity to revoke its signature by July 12, 2000. TR-02-O-11. No party submitted a written objection. Consequently, no Party executing the Settlement Agreement could revoke its signature on July 12, 2000.

Participant comments were due on July 10, 2000. On July 18, 2000, BPA served the 2002 Supplemental Transmission Proposal, 2002 Transmission and Ancillary Services Rate Schedules on the parties. TR-02-E-BPA-12. On July 27, 2000, BPA served its proposed evidence in support of the rate settlement on the parties. TR-02-E-BPA-13. BPA also filed on July 27, 2000, a motion to withdraw the docket for the 2000 Transmission Terms and Conditions Proceeding effective August 18, 2000, contingent upon issuance of a Final Record of Decision by the Administrator adopting the rates included in the Settlement Agreement. TR-02-M-06.

Clarifying cross-examination was held on August 3, 2000. At the August 3, 2000, hearing, the Hearing Officer granted the July 27, 2000, motion to withdraw the transmission terms and conditions proceeding. TC-02-O-12, *See* TR-02-H-11.

In accordance with the modified procedural Order, BPA did not prepare a draft ROD. TR-02-O-11. BPA made this final ROD available on August 18, 2000.

This Record of Decision, including the 2002 Final Transmission and Ancillary Services Proposed Rates, will be filed with the Commission. The Commission will review the proposed rates for conformance with statutory review standards, and upon confirmation and approval, the rates will go into effect on October 1, 2001, for a 2-year period.

1.2.2.1 Opportunity To Participate In The Settlement Process.

As discussed in Section 1.1.2, above, the Northwest Power Act establishes a hearing procedure to provide for adequate due process during the ratemaking process. BPA-TBL and the Hearing Officer went to great lengths to ensure that parties to the proceeding had notice of all meetings and hearings and were given sufficient opportunity to participate in settlement discussions to express their concerns and opposition to the settlement process and the terms of the settlement.

BPA-TBL provided parties a full opportunity to comment on the Settlement Agreement and the settlement process, in general, as negotiations occurred. All meetings and hearings were noticed electronically to the parties at the official rate case web address. *See e.g.* April 20, 2000 Transcript, TR-02-T-02, at 4-6. In addition, BPA-TBL sent electronic mail reminders to the parties advising of dates, locations and times to encourage their attendance and participation at meetings in which the terms of settlement would be discussed and the settlement agreement would be reduced to writing. *Id.* To encourage participation, BPA-TBL and the parties also frequently contacted parties' representatives by telephone to advise of meetings at which crucial decisions would be made. BPA-TBL arranged a telephone bridge to provide parties the opportunity to monitor hearings and meetings by telephone. *Id.* The draft settlement agreements were periodically circulated electronically to all parties for review and comment prior to execution. The Hearing Officer encouraged, and in some cases required, actual attendance at hearings in which major aspects of settlement, including execution of the Settlement Agreement, were discussed. April 20, 2000 Transcript, TR-02-T-02., at 35.

At the settlement negotiations certain parties were regular or frequent attendees and actively participated in negotiating the settled transmission rates and terms and conditions. Other parties attended the settlement discussions intermittently to comment on issues and areas of direct concern to their interests. Some parties elected not to attend any hearings or participate in settlement negotiations.

1.2.2.2 Opportunity To Comment On The Final Settlement Agreement.

On April 20, 2000, certain parties announced that they had reached a settlement in principle of the 2002 Transmission Rate Adjustment Proceeding, contingent upon achieving settlement of issues in the 2002 Transmission Terms and Conditions Proceeding by June 20, 2000. An April 20, 2000 hearing was noticed electronically to all parties. The parties reduced the settlement agreement to writing and BPA-TBL served it electronically on all parties.

At the April 20, 2000 hearing, the Hearing Officer required all parties to provide written notice to the hearing clerk by April 28, 2000, indicating whether they supported the settlement, opposed the settlement, or neither supported nor opposed the settlement. April 20, 2000 Transcript, TR-02-T-02, at 29-30, 42; TR-02-O-08. Parties who opposed the settlement agreement were required to briefly state the reasons for their opposition and were advised that they would be able to fully argue their position later. *Id.* Pursuant to the Hearing Officer's Order, "[p]arties that state they neither support nor oppose the proposed settlement agreement thereby waive the right to participate in any argument in opposition to the proposed settlement agreement." TR-02-O-08. Any party that failed to state it's settlement position in writing was advised that such failure would be deemed a waiver of the right to present any argument with respect to the proposed settlement agreement. *Id.*; April 20, 2000 Transcript, TR-02-T-02, at 14-16, 18-19, 29. In addition, the Hearing Officer provided parties an opportunity to revoke their execution of the settlement agreement in the event any other party failed to provide notice of their settlement position by the April 28, 2000 deadline. *Id.* Finally, the Hearing Officer scheduled another hearing on May 1, 2000, to poll the parties with respect to the settlement, consider objections to the settlement, and provide parties an opportunity to change their positions with respect to settlement. TR-02-O-08. The Hearing Officer required any party opposing the settlement that wished to argue against the settlement, any party that wished to revoke its prior support of the settlement and any party that wished to speak in support of the settlement to appear in person at the May 1, 2000 hearing. *Id.*

The parties met on May 1, 2000, to report on the settlement status. The Hearing Officer asked the parties to advise if their settlement positions had changed. May 1, 2000 Transcript, TR-02-T-03, at 2-10. No party stated opposition to the settlement or revoked its prior support of the settlement. *Id.* at 7. One party that previously stated it neither supported nor opposed the settlement changed its position to one of support. *Id.* at 3. Including BPA-TBL, 43 of the 49 original TR-02 parties stated their support of the April 20, 2000 settlement agreement. Order Suspending Procedural Schedule, TR-02-O-09. Some entities that were previously represented by the Western Public Agencies Group (WPAG), Northwest Requirements Utilities (NRU) or Pacific Northwest Generating Cooperative (PNGC) elected to be recognized as individual parties to the proceedings so that they could state their intention to neither support nor oppose the settlement.TR-02-T-03, at 5-7. WPAG, NRU and PNGC supported the settlement. TR-02-O-09.

At the May 1, 2000 hearing the Hearing Officer clarified the effect of adopting a "neutral" ("neither support nor oppose") stance regarding settlement:

> The order itself states that the act of waiver, either through stating position of neutrality or by not stating a position at all, waived your rights to oppose here. The idea behind that being that everyone needed to make a firm decision by the 28th. If they were going to oppose, they needed to say so then and state what the basis of that was. And if they didn't do so, they waived the right to that opportunity, at least insofar as this docket is concerned. Is that clear? That was my intention and that was my understanding of what the parties wished to occur.

TR-02-T-03, at 9. This explanation confirmed that adopting a neutral stance or not stating a position waived a party's right to oppose the settlement. The Hearing Officer continued the suspension of the TR-02 procedural schedule until June 20, 2000, to allow the parties to negotiate OATT terms and conditions, at which time another hearing was scheduled to discuss the settlement status. TR-02-O-09

In the days leading up to June 20, 2000, the final settlement deadline, the parties engaged in several noticed meetings and conferences. On June 13, a noticed telephone conference was held to discuss comprehensive settlement of the TR-02 and TC-02 dockets. *See* June 13, 2000 Transcript, TR-02-T-04, at 5; TR-02-O-10. On June 16, 2000, a noticed settlement conference was held to draft the proposed final settlement proposal prior to the June 20, 2000 hearing. The parties were directed to make their best efforts to participate in the June 16, 2000 conference, particularly if they opposed all or part of the proposed settlement, and to be able to state their positions on the settlement at that time. *Id.* Many, but not all, parties participated in the conference. The parties again were required to file a written statement with the hearing clerk on June 19, 2000, indicating whether they support, oppose or neither support nor oppose the settlement proposal. *Id.* The Order, in similar language to that found in the April 18, 2000 Order, made it clear that parties who neither supported nor opposed the settlement would waive their right to argue against the proposal and that those who failed to state a position waived the right to present any argument with respect to the proposal. *Id.* Including BPA-TBL, 43 parties supported the Settlement Agreement, 10 parties neither supported nor opposed the Settlement Agreement, and no party opposed the Settlement Agreement.

Prior to the June 20, 2000 hearing, certain parties filed a motion which provided that if any party failed to execute and deliver the settlement agreement to the Hearing Clerk prior to the established deadline, any party that had executed the June 20, 2000, settlement agreement would have the right to orally revoke their signature at the June 20, 2000 hearing. TR-02-M-04. The Motion also proposed a mechanism to allow certain party representatives who required executive board approval to conditionally sign the final settlement, pending board approval, and allowed others to back out of the settlement if any such party failed to get board approval. The motion was granted. *See* TR-02-O-11. Ultimately no party changed its position with respect to settlement. Hearing Clerk Notice Regarding July 7, 2000 Deadline for Objections, TR-02-H-10.

1.3 Legal Guidelines Governing Establishment Of Rates

1.3.1 Statutory Guidelines

The Northwest Power Act sets forth numerous rate directives for BPA. Section 7 of the Northwest Power Act directs the Administrator to establish, and periodically review and revise, rates for the sale and disposition of electric energy and capacity and for the transmission of non-Federal power. 16 U.S.C. § 839 e(a)(1). Rates are to be set to recover, in accordance with sound business principles, the costs associated with the acquisition, conservation, and transmission of electric power, including

amortization of the Federal investment in the FCRPS (including irrigation costs required to be repaid by power revenues) over a reasonable period of years. *Id.* Section 7 also contains rate directives describing how rates for individual customer groups may be derived.

Section 7 of the Northwest Power Act also establishes procedural guidelines to be used when developing rates, including publication of notice in the Federal Register of the proposed rates, a hearing before a hearing officer, an opportunity to submit oral and written comments, and an opportunity to refute or rebut other material submitted for the record. 16 U.S.C. § 839e(i). BPA has expanded on these statutory directives by promulgating rules of agency procedure to aid in the conduct of these hearings. 51 Fed. Reg. 7611 (1986). In addition to the Northwest Power Act, the the Flood Control Act of 1944 (Flood Control Act) and the Federal Columbia River Transmission System Act (Transmission System Act) provide numerous rate directives. 16 U.S.C. §§ 825s and 838.

Section 9 of the Transmission System Act provides that rates shall be established: (1) with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates consistent with sound business principles; (2) with regard to the recovery of the cost of producing and transmitting electric power, including amortization of the capital investment allocated to power over a reasonable period of years; and (3) at levels that produce such additional revenues as may be required to pay when due the principal, premiums, discounts, expenses, and interest in connection with bonds issued under the Transmission System Act. 16 U.S.C. § 838g. Section 10 of the Transmission System Act allows for uniform rates and specifies that the costs of the Federal transmission system be equitably allocated between Federal and non-Federal power utilizing the system. 16 U.S.C. § 838h.

The Flood Control Act contains ratemaking requirements similar to the Transmission System Act. Section 5 of the Flood Control Act directs that rate schedules should encourage the most widespread use of power at the lowest possible rates to consumers consistent with sound business principles. 16 U.S.C. § 825s. Section 5 also provides that rate schedules should be drawn having regard to the recovery of the cost of producing and transmitting electric energy, including the amortization of the Federal investment over a reasonable number of years.

In addition, section 6 of the Bonneville Project Act (Project Act) requires that the Administrator prepare schedules of rates and charges for electric power sold to purchasers. 16 U.S.C. § 832e. Section 212(i) of the Federal Power Act sets forth additional ratemaking requirements applicable to BPA for transmission rates in connection with transmission service ordered by the Commission. 16 U.S.C. § 824k(i).

1.3.2 The Administrator Is Vested With Broad Ratemaking Discretion

The Administrator has broad discretion to interpret and implement statutory standards applicable to ratemaking. These standards focus on cost recovery and do not restrict the Administrator to any particular rate design methodology or theory. *See Pacific Power & Light v. Duncan*, 499 F. Supp. 672 (D.C. Or. 1980); *accord City of Santa*

Clara v. Andrus, 572 F.2d 660, 668 (9th Cir. 1978) ("widest possible use" standard is so broad as to permit "the exercise of the widest administrative discretion"); *ElectriCities of North Carolina v. Southeastern Power Admin.*, 774 F.2d 1262, 1266 (4th Cir. 1985).

The United States Court of Appeals for the Ninth Circuit has also recognized the Administrator's ratemaking discretion. *Central Lincoln Peoples' Utility District v. Johnson*, 735 F.2d 1101, 1116 (9th Cir. 1984) ("[b]ecause BPA helped draft and must administer the [Northwest Power] Act, we give substantial deference to BPA's statutory interpretation"); *PacifiCorp v. F.E.R.C.*, 795 F.2d 816, 821 (9th Cir. 1986) ("BPA's interpretation is entitled to great deference and must be upheld unless it is unreasonable"); *Atlantic Richfield Co. v. Bonneville Power Admin.*, 818 F.2d 701, 705 (9th Cir. 1987) (BPA's rate determination upheld as a "reasonable decision in light of economic realities"); *cf. Aluminum Company of America v. Central Lincoln Peoples' Utility District*, 467 U.S. 380, 389 (1984) ("The Administrator's interpretation of the Regional Act is to be given great weight"); *Dep't of Water and Power of the City of Los Angeles v. Bonneville Power Admin.*, 759 F.2d 684, 690 (9th Cir. 1985) ("Insofar as agency action is the result of its interpretation of its organic statutes, the agency's interpretation is to be given great weight").

1.4 Confirmation And Approval Of Rates

BPA's rates become effective upon confirmation and approval by the Commission. 16 U.S.C. § 839e(a)(2). The Commission's review is appellate in nature, based upon the record developed by the Administrator. *United States Dep't of Energy-Bonneville Power Admin.*, 13 F.E.R.C. ¶ 61,157, 61,339 (1980). The Commission may not modify rates proposed by the Administrator, but may only confirm, reject or remand them. *United States Dep't of Energy—Bonneville Power Admin.*, 23 F.E.R.C. ¶ 61,378, 61,801 (1983). The Federal Power Act ratemaking provisions applicable to BPA did not alter this process for BPA's transmission rates for Commission-ordered transmission service. H.R. Conf. Rep. No. 102-1018, 102nd Cong., 2d Sess., 389 (1992), *reprinted in* 1992 U.S.C.C.A.N. 2480.

1.4.1 Transmission Rates

With respect to all transmission rates other than those for transmission service ordered by the Commission, the Commission determines whether: (1) rates are sufficient to assure repayment of the Federal investment in the FCRPS over a reasonable number of years after first meeting BPA's other costs; (2) rates are based on BPA's total system costs; and (3) transmission rates equitably allocate the cost of the Federal transmission system between Federal and non-Federal power using the system. 16 U.S.C. § 839e(a)(2); *See also*, *United States Dep't of Energy—Bonneville Power Admin.*, 39 F.E.R.C. ¶ 61,078, 61,206 (1987). The limited Commission review permits the Administrator substantial discretion in the design of rates, which is not subject to Commission jurisdiction. *Central Lincoln Peoples' Utility District v. Johnson*, 735 F.2d 1101, 1115 (9th Cir. 1984).

Sections 211 and 212(i) of the Federal Power Act include authority for the Commission to order access to utility transmission systems, including authority to order transmission

service over the Federal Columbia River Transmission System (FCRTS). 16 U.S.C. §§ 824i, 824j, 824k and 824l. In general, the Commission may issue an order, after notice and an opportunity for hearing, to any applying entity that generates electricity for sale or for resale. 16 U.S.C. § 824j(a). Section 212(i) of the Federal Power Act contains provisions specifically applicable to the FCRTS:

> (1) The Commission shall have authority pursuant to section 824i of this title, section 824j of this title, this section, and section 824l of this title to (A) order the Administrator of the Bonneville Power Administration to provide transmission service and (B) establish the terms and conditions of such service. In applying such sections to the Federal Columbia River Transmission System, the Commission shall assure that –
>
> (i) the provisions of otherwise applicable Federal laws shall continue in full force and effect and shall continue to be applicable to the system; and
>
> (ii) the rates for the transmission of electric power on the system shall be governed only by such otherwise applicable provisions of law and not by any provision of section 824i of this title, 824j of this title, this section, or section 824l of this title, except that no rate for the transmission of power on the system shall be unjust, unreasonable, or unduly discriminatory or preferential, as determined by the Commission.

16 U.S.C. § 824k(i)(l)(ii).

The Federal Power Act also provides authority for the Commission to determine terms and conditions for transmission service on the FCRTS. 16 U.S.C. § 824k(i)(2)(A).

If the Administrator denies an application, or a party seeks access under "terms and conditions different than those offered by the Administrator" and the application is "filed within 60 days of the Administrator's final determination and in accordance with Commission procedure," the Commission may determine whether to grant or deny access and determine the terms and conditions of the access. If the Administrator has conducted a hearing, the Administrator's hearing record is, with very limited exceptions, the basis for Commission review. 16 U.S.C. § 824k(2)(B).

The Administrator's discretion to set rates was preserved in the Federal Power Act, with the addition of a new standard. Thus, the Administrator, and the Commission, must determine that BPA's rates are sufficient to repay the Federal investment in the FCRPS, are based upon the Administrator's total system costs, and for transmission rates, equitable allocate the costs of the Federal transmission system between Federal and non-Federal power utilizing the system. *See* section 1.2.1 *supra*; 16 U.S.C. § 839(a)(2). The Administrator must also establish the rates to meet the widespread use and lowest possible rates standards discussed in section 1.2.1 *supra*. In addition, the transmission rates for transmission service ordered by the Commission pursuant to its Federal Power Act authorities must not be unjust and unreasonable or unduly discriminatory or preferential. 16 U.S.C. § 824k(i)(1)(B)(ii) and (ii).

The Joint Explanatory Statement of the Committee of Conference is instructive with regard to the additional ratemaking standard. The statement of the conferees reinforces Congressional intent to leave prior law governing BPA intact. The Conference Report makes clear that, except for adding a new standard for Commission-ordered transmission, amendments to the Federal Power Act did not change the Commission's rate review authority:

> Rates for transmission services provided by BPA under an order issued under section 211 are to be established by BPA and reviewed by Commission through the same process and using the same statutory requirements as are applicable to all other transmission rates established by BPA, with the additional requirement that such rates for transmission services must also be just and reasonable and not unduly discriminatory or preferential as determined by the Commission, taking into account BPA's other statutory authorities and responsibilities.

H.R. Conf. Rep. No. 1021018, 102nd Cong., 2d Sess., 381 (1992) *reprinted in* 1992 U.S.C.C.A.N. 2472, 2480 (Conference Report). Thus, the Administrator's rate decisions remain entitled to substantial deference by the Commission, as previously established by law. In addition, this language was intended to ensure that the new standard was developed in light of BPA's unique character and particular circumstances rather than as previously developed under the Federal Power Act. *Id.*

In its final rule *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Service by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, (hereinafter Order 888), the Commission included a reciprocity provision applicable to all customers, including non-public utility entities such as municipal power authorities and federal power marketing administrations. F.E.R.C. Stats. and Regs. ¶31,036, 31,761 (1996). Under the reciprocity provision, non-public utilities are allowed to voluntarily submit to the Commission a transmission tariff and a request for a declaratory order that the tariff meets the Commission's comparability (non-discrimination) standards. If the Commission finds that a tariff contains terms and conditions that substantially conform or are superior to those in the Order 888 pro forma tariff, the Commission will deem it an acceptable reciprocity tariff and will require public utilities to provide open access service to that particular non-public utility. In order to find that a non-public utility's tariff is consistent with the Commission's comparability standards, the Commission must conclude that the rate the non-public utility charges to itself is comparable to the rate it charges others. *Id.*

2.0 SETTLEMENT AGREEMENT

Representatives of the BPA-TBL and the parties (collectively, the "Settling Parties") to the 2002 Transmission Rate Adjustment Proceeding entered into settlement discussions shortly after BPA-TBL's initial rates and terms and conditions proposals were published on March 29, 2000, initiating the formal proceedings. In addition to participating in the two BPA-TBL transmission proceedings, most of the parties, including the BPA-TBL, expected to fully participate in efforts to form a Regional Transmission Organization (RTO) in the Pacific Northwest (RTO West). Metcalf *et al.*, TR-02-E-BPA-13, at 2. On December 20, 1999, the Commission issued its Order No. 2000, Regional Transmission Organization; Final Rule (Order 2000). F.E.R.C. Stats & Regs. ¶31,036 (1999). Order 2000 directed all jurisdictional public utilities to file with the Commission by October 15, 2000, a proposal for an RTO to be operational or, in the alternative, a description of their efforts to participate in an RTO. *Id.* at 30,995.

In response to Order 2000, the regional investor-owned utilities and BPA agreed to participate in negotiations to develop an RTO West. The schedule for developing the RTO West proposal, driven by the deadlines in Order 2000, was on the same schedule as the BPA-TBL transmission rates and terms and conditions proceedings. The Settling Parties were therefore concerned about the ability to adequately staff both the BPA-TBL rate case and terms and conditions proceeding, as well as the efforts to form RTO West. In addition, many parties wanted certainty by the fall of 2000 on the transmission terms and conditions and FY 2002-2003 transmission and ancillary services rates prior to agreeing to power sales contracts in the BPA-PBL Subscription process. Metcalf *et al.*, TR-02-E-BPA-13, at 2.

The Settling Parties in the April 20, 2000 settlement agreement, agreed to rate levels for certain proposed transmission and ancillary service rates contingent upon negotiating and settling the transmission terms and conditions of the BPA-TBL OATT by June 20, 2000. Forty-three parties supported the April 20 settlement agreement; 10 parties neither supported nor opposed the settlement agreement. No party objected to the April 20, 2000 settlement agreement. The Settling Parties agreed to the terms and conditions of the BPA-TBL's OATT and additional rate issues in a comprehensive settlement agreement, dated June 20, 2000, that incorporated the April 20 settlement agreement (Settlement Agreement). After realignment of certain parties, 43 parties supported the Settlement Agreement, 10 parties neither supported nor opposed the Settlement Agreement, and no party objected to the Settlement Agreement. *See* Settlement Agreement, TR-02-E-BPA-14; *See also*, Appendix A to this ROD; *see also* Orders TR-02-O-09 and TR-02-O-11.

BPA-TBL filed a supplemental proposal that reflected the settlement rates proposed by the Settlement Agreement. Metcalf, *et al.*, TR-02-E-BPA-13. In addition to revising the proposed rate levels for some transmission rates, certain non-rate level modifications were also made to the proposed rate schedules: provisions were added to allow a waiver or reduction of the Unauthorized Increase Charge and the IR Ratchet Demand, and the availability of the Reservation Fee was clarified. *Id.* at 3. BPA-TBL's supplemental proposal also eliminated proposed rates associated with a Network

Contract Demand service (the NCD rate) and the redispatch methodology (the Redispatch Adjustment for Accepted Bids and the Redispatch Charge) and the proposal for a seasonally differentiated Southern Intertie rate. *Id.; see also* Appendix B to this ROD. BPA-TBL's supplemental proposal recommends that the Administrator adopt the settlement rates included in the draft rate schedules, and corrected for errors if any, as BPA's final transmission and ancillary services rate proposal. Metcalf *et al.*, TR-02-E-BPA-13, at 4.

3.0 TRANSMISSION REVENUE REQUIREMENT

3.1 Introduction

BPA is a self-financed power marketing agency within the Department of Energy (DOE). Sales of electric power and transmission services provide BPA's primary sources of revenue. *See Central Lincoln Peoples' Utility District v. Johnson*, 735 F.2d 1101, 1116 (9th Cir. 1984). BPA's transmission and ancillary services rates are based on the Administrator's total system costs, and must produce revenues which are sufficient to assure repayment of the Federal investment in the FCRPS over a reasonable number of years after first meeting the Administrator's other costs. 16 U.S.C.§ 839e(a)(2)(A) and (B). At the same time, BPA must set transmission and ancillary services rates with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates consistent with sound business principles. 16 U.S.C. § 825s, § 839g, and § 839(a)(1).

The proposed transmission and ancillary services rates established herein are designed to recover BPA's costs as set forth in the transmission revenue requirement. Rates to recover the costs set forth in BPA's generation revenue requirement were established in BPA's 2002 power rate case. *See* Final Power Rate ROD, WP-02-A-02. BPA has determined separate revenue requirements for generation and transmission since 1984, pursuant to a Commission order. *See United States Department of Energy - Bonneville Power Admin.*, 26 F.E.R.C. ¶ 61,096 (1984).

Consistent with BPA's statutory obligations, the transmission revenue requirement is comprised of the Administrator's total transmission-related costs, including costs to assure the timely repayment of the Federal investment in BPA's transmission assets. The transmission revenue requirement determines the level of revenue required to recover all of BPA's costs of transmitting electric power, which include: the Federal investment in transmission and transmission-supporting facilities; operations and maintenance (O&M) expenses; transmission marketing and scheduling expenses; the cost of generation inputs for ancillary services and reliability; and all other transmission-related costs incurred by the Administrator. *See* Revenue Requirement Study, TR-02-E-BPA-01, at 1.

3.2 Revenue Requirement Development

BPA develops its revenue requirement to recover its costs in conformance with its statutory obligations and the financial, accounting, and repayment requirements of the Department of Energy's Order No. RA 6120.2.

The transmission revenue requirement for the FY 2002-2003 rate period was developed using a cost accounting analysis comprised of three components:

- Repayment studies are conducted to determine the schedule of amortization payments and to project annual interest expense for bonds and appropriations that fund the Federal investment in transmission. Repayment studies are conducted for

each year of the two-year rate test period, and include a 35-year repayment period. TR-02-E-BPA-06, at 10; TR-02-E-BPA-01, at 21-22.

- Operating expenses functionalized to transmission and minimum required net revenues (if needed) are projected for each year of the rate test period.

- Annual planned net revenues for risk (PNRR), if any, are determined based on the risks identified and quantified and the Treasury Payment Probability (TPP) goal.

With these three parts, the transmission revenue requirement is set at the lowest revenue level necessary to fulfill BPA's cost recovery requirements and objectives. Revenue Requirement Study, TR-02-E-BPA-01, at 2. In addition, the transmission revenue requirement is segmented for rate development. BPA uses the segmentation method to equitably allocate costs to the various segments of the FCRTS because the entire transmission system is not used to provide each type of transmission service. For more discussion on equitable allocation see section 4.2.

Order No. RA 6120.2 requires that BPA demonstrate the adequacy or inadequacy of its existing rates. BPA conducted a current revenue test to determine whether revenues projected from current rates meet its cost recovery requirements and objectives for the rate test and repayment period. If the current revenue test indicates that cost recovery and risk mitigation requirements can be met, current rates could be extended. The current revenue test demonstrated that current revenues are insufficient to meet cost recovery requirements and objectives for the rate test period and the repayment period. Revenue Requirement Study, TR-02-E-BPA-01, at 32-33, 38-41.

Order No. RA 6120.2 also requires that BPA demonstrate the adequacy of proposed rates. The revised revenue test determines whether projected revenues from proposed rates will meet cost recovery requirements and objectives for the rate test and repayment period. The revised revenue test demonstrates that revenues from proposed transmission and ancillary services rates will recover transmission costs in the rate test period and over the ensuing 35-year repayment period. *Id.* at 33-34, 42-45. In this proceeding, rate test period costs are demonstrated to be recovered with a high confidence level. Risks have been quantified and analyzed, and risk mitigation measures designed to achieve at least a 95 percent probability that planned payments to Treasury will be recovered on time and in full over the two-year period.

The Settling Parties agreed to set rate levels sufficient to recover BPA's transmission revenue requirement. The Settlement Agreement, itself, did not result in any changes to the method that BPA uses to develop the revenue requirement. Settlement Agreement, TR-02-E-BPA-14. Changes from the initial proposal revenue requirement and repayment studies to the final proposal revenue requirement and repayment studies reflect updates based on actual data and changes due to corrections of some errors. In addition, the final revenue requirement study reflects final decisions in the power rate case, and in BPA-TBL's FY 2002-2003 spending level process. *See* August 3, 2000 Transcript, TR-02-T-06 at 18-25.

3.3 Repayment Studies

BPA made no changes to either its repayment policy or to the repayment model itself for this rate proposal. As discussed below, as a result of functionalization changes, the Corps of Engineers (COE) and Bureau of Reclamation (BOR) transmission-related repayment obligations were moved from the transmission repayment study to the generation repayment study. *See* Homenick, *et al.*, TR-02-E-BPA-06, at 9.

The 1996 final rate proposal included projections of the Bonneville Appropriations Refinancing Act, which was passed in April of 1996. *See* Revenue Requirement Study Documentation, Vol. 1, WP-02-FS-BPA-02A, at 139-189. In 1997, after audited actual financial data was available, BPA performed the refinancing calculation and forwarded a demonstration of the transaction to Treasury for confirmation. *See* Revenue Requirement Study Documentation, Vol. 1, WP-96-FS-BPA-02A, at 239. Treasury approved the transaction calculations in July of 1997. The 2002 transmission repayment study reflects the actual transaction, which is substantially the same as projected in the 1996 rate proposal. *See* Revenue Requirement Study, TR-02-E-BPA-01, at 20.

The transmission repayment studies in this rate proposal were run with 35-year repayment periods. In 1999, BPA commissioned a new depreciation study to update and replace its 1987 depreciation study. The study provided recommendations on annual depreciation accrual rates and estimates of service lives and net salvage characteristics for transmission and general plant. The study results indicated that the weighted average service life for BPA transmission and general plant assets was 40 years. Revenue Requirement Documentation, TR-02-E-BPA-01A, at 22. Order No. RA 6120.2 requires that the repayment period for Federal transmission investments and obligations be no longer than 50 years or the average service lives of the assets, whichever is less. Thus, the horizon of the repayment period must be no longer than 40 years. In addition, BPA's current actual bonds were issued with a maximum maturity of 35 years. Projected new transmission debt was therefore assigned a maximum maturity of 35 years. *See* Homenick, *et al.*, TR-02-E-BPA-06 at 10. The 35-year repayment period reflects that the outstanding appropriations and bonds in the transmission system are fully repaid within this period. It also more closely matches the terms of the current shorter maturity bonds, and reflects the estimated average service life of 40 years. Revenue Requirement Study, TR-02-E-BPA-01, at 21.

3.4 Transmission Operating Expenses

3.4.1 Functionalization

The methodology for functionalizing BPA's costs between generation and transmission was developed in the 2002 power rate proposal. Final Power Rate ROD, WP-02-A-02, at 5-60 – 5-70, 8-1 – 8-30, and 9-1 – 9-13. Changes in the overall functionalization methodologies were minimal. As in the past, BPA looked to the Commission Uniform System of Accounts and Commission-accepted industry practices for guidance. In BPA's power rate case, the investment in the BPA control

centers and supporting communications equipment previously functionalized to generation was refunctionalized to transmission. The investment in the control centers and supporting communications equipment are needed to perform scheduling, dispatch and control operations. As a result of functional unbundling consistent with the Commission's Order 888 and its *Final Rule on Open Access Same-Time Information Systen (Formerly Real-Time Information Networks) and Standards of Conduct*, (hereinafter Order 889), 61 Fed. Reg. 21,737, (1996), BPA-TBL is the provider of ancillary services, which include transmission scheduling, dispatch and control services. These costs are now functionalized to transmission. Final Power Rate ROD, WP-02-A-02, at 5-60 – 5-70; Homenick *et al.*, TR-02-E-BPA-06, at 5.

3.4.2 Operating Expenses

On June 28, 2000, the Administrator issued a final close out letter on BPA-TBL's program spending levels for the FY 2002-2003 rate period. *See* "Program Level Expense and Capital Spending – Fiscal Years 2002 and 2003 Close-out of the Program Level Public Process," Final Revenue Requirement Study, TR-02-FS-BPA-01, Appendix B. See section 1.2.1.1., *infra*, for a more detailed discussion on spending levels. The final transmission spending levels determined for the FY 2002–2003 rate period are included in the final transmission revenue requirement.

Inter-business line costs, consisting of annual expenses for generation inputs to ancillary services, station service, remedial action schemes needed for reliability support of the FCRTS, and costs associated with COE and BOR transmission facilities, were identified and functionalized to transmission in the power rate case. The Administrator also decided, in the power rate case, to functionalize third party transmission costs for the delivery of non-Federal power to transmission, and to assign such costs to the Integrated Network Segment. Final Power Rate ROD, WP-02-A-02, at 8-1 – 8-30 and 9-1 – 9-13. Those decisions are implemented in this transmission rate proposal. Homenick, *et al.*, TR-02-E-BPA-06, at 3 and 7. See section 1.2.1.3, *infra*, for more detail on decisions in the power rate case.

3.5 Planned Net Revenues for Risk

In the 1993 Final Rate Proposal BPA determined that, as a long term policy, it would plan to set its total rates to maintain financial reserves sufficient to achieve a 95 percent probability of meeting Treasury payments in full and on time for each 2-year rate period. 1993 Final Rate Proposal, Administrator's ROD, WP-93-A-02, at 72-73. The Comprehensive Review, a regional forum convened in 1996 on the future of BPA, reinforced the need for a high probability of Treasury payment. Revenue Requirement Study, TR-02-E-BPA-01, at 15.

The probability of meeting its Treasury payment obligation is the primary measure of BPA's expected ability to recover its costs. In prior rate cases, the risk analysis was performed at the agency level and focused on power-related risks. In this rate proposal, BPA has, for the first time, analyzed its transmission risks and proposed risk mitigation tools separate from power risk mitigation. BPA has functionally separated its transmission and power business lines and is setting rates in separate rate

proceedings. Separately analyzing and mitigating transmission and power risks ensures a high probability of cost recovery, including BPA's ability to make Treasury payments. Westman and Sapp, TR-02-E-BPA-07, at 2.

To achieve this Treasury payment probability (TPP), the following risk mitigation "tools" were considered:

1. Starting reserves: Starting financial reserves include cash in the BPA Fund and the deferred borrowing balance attributed to the transmission function. The risk-adjusted value for starting reserves is projected to total $45.2 million at the beginning of FY 2002. Revenue Requirement Documentation, TR-02-FS-BPA-01A, at Chapter 9.

2. Planned Net Revenues for Risk. PNRR is a component of the revenue requirement that is added to annual expenses. PNRR adds to cash flows so that financial reserves are sufficient to mitigate short run volatility in costs and revenues and achieve the TPP goal. Revenue Requirement Study, TR-02-E-BPA-01, at 16, Revenue Requirement Documentation, TR-02-E-BPA-01A, at 98.

3. Two Year Rate Period. The rates established in this record are proposed to be effective for a two-year rate period. The ability to revise rates after two years, or more frequently, serves as an important risk mitigation tool. A two year rate period limits the effects of uncertainty which must be mitigated by other risk mitigation tools. Longer run risks are mitigated by the ability to change rate levels. Revenue Requirement Study, TR-02-E-BPA-01, at 16.

3.5.1 Transmission Risk Analysis

To quantify risks, the effects of uncertainty in costs and revenues on transmission cash flows was analyzed using a Monte Carlo simulation method. The analysis estimated the probability of successful Treasury payment (on time and in full) for both years of the rate period. Successful Treasury payment is deemed to occur when the end-of-year transmission cash reserve, after Treasury payments are made, is sufficient to cover the transmission working capital requirement of $20 million. The working capital threshold is based on the monthly net cash flow patterns and requirements for the transmission function. Revenue Requirement Documentation, TR-02-E-BPA-01A at 98.

The foundation of the risk analysis Monte Carlo simulation is a transmission financial spreadsheet model, called the Transmission Risk Analysis Processor (TRAP). This model was developed to estimate the effects of risk and risk mitigation on end-of-year cash reserves and likelihood of successful Treasury payment during the rate period. Cash reserve levels at the end of the fiscal year determine whether BPA is able to meet its Treasury payment obligation. *Id.* at 100-01. Treasury payments have the lowest priority in the repayment policy outlined in RA 6120.2. Revenue Requirement Study, TR-02-E-BPA-01, at 51-55. If cash reserves are sufficient to cover working

capital requirements at the end of the fiscal year, it can be assumed that the Treasury payment was made in full and on time that fiscal year. End-of-year cash reserves during the rate period are, therefore, the main outcome of interest in the model. Parameters for the probability distributions were developed from historical data and analysis of risk factors. Revenue Requirement Documentation, TR-02-E-BPA-01A, at 100-01.

3.5.2 Probability of Treasury Repayment

The transmission risk analysis simulation performed for this rate case resulted in a Treasury payment probability greater than 95% for the FY 2002 through 2003 rate period. This likelihood of Treasury repayment is due to updates in actual cash reserves and deferred borrowing balance functionalized to transmission at the end of FY 1999, updates in forecasted transmission revenues and costs for FY 2000 and 2001, and the settlement rates, set forth in the Settlement Agreement. Revenue Requirement Documentation, TR-02-FS-BPA-01A, at Chapter 9.

Sufficient transmission cash reserves are expected to be available at the beginning of the next rate period (FY 2004). PNRR therefore do not need to be incorporated in the transmission revenue requirement for the FY 2002 - FY 2003 rate period. Revenue Requirement Documentation, TR-02-FS-BPA-01A at Chapter 9.

3.6 Segmentation of Transmission Revenue Requirement

The Segmentation Study identifies the transmission investment base and historical O&M expense for each transmission segment. The transmission investment and O&M expenses are assigned to transmission segments based on the service the facilities provide. *See* Segmentation Study, TR-02-E-BPA-02; TR-02-E-BPA-02(E1); Gilman, *et al.*, TR-02-E-BPA-05. The six transmission segments are the Integrated Network, Southern Intertie, the Eastern Intertie, Generation Integration, Utility Delivery and DSI Delivery Segments. Gilman, *et al.*, at 1-2. In addition to assigning costs to transmission segments, investment and O&M costs were also developed and identified for a new ancillary services segment and further allocated to specific sub-segments for each ancillary service. Segmentation Study, TR-02-E-BPA-02, at 1.

The sale of Delivery segment facilities resulting from the 1996 Sale of Facilities Policy had an effect on the total transmission revenue requirement as well as its segmentation. The investment and O&M costs attributed to the sale of facilities that closed in fiscal years 1997 and 1998 were excluded from the plant-in-service analyzed for the Segmentation Study. Homenick, *et al.*, TR-02-E-BPA-06, at 6; Gilman, *et al.*, TR-02-E-BPA-05, at 5-6; Segmentation Study, TR-02-E-BPA-02, at 9. The proceeds from these facility sales, as well as from those made in 1999, $22 million in total, were applied as additional amortization to transmission debt to reduce overall repayment obligations, consistent with the transfer of title of these assets. Homenick *et al.*, TR-02-E-BPA-06, at 6. Additional facilities expected to be sold by the end of the current rate period were also identified, and the gross investment in those facilities and those sold in 1999 was removed from the plant-in-service forecast for 2001. The estimated proceeds for the forecasted sales were included in the

interest credit calculation to provide a reduction to the transmission revenue requirement comparable to the effect of using the proceeds to repay outstanding debt. *Id.* at 6–7. Actual proceeds that are received for this period will be used to reduce an amount of transmission debt equivalent to the depreciated book value of the facilities sold. The amount over depreciated book value is treated as available to mitigate risk. *Id.*

4.0 TRANSMISSION AND ANCILLARY SERVICES RATES

4.1 Description of Transmission Rates and Ancillary Services Rates

BPA's 2002 Final Transmission and Ancillary Services Rate Proposal is attached as Appendix B to this ROD. The rates are developed in the Transmission Rate Study, TR-02-FS-BPA-03, and reflect the rate provisions of the Settlement Agreement. The majority of the proposed rates apply to transmission service under BPA-TBL's proposed OATT. The rates applicable to the OATT are the Network Integration (NT-02) rate, Point-to-Point (PTP-02) rate, Southern Intertie (IS-02) rate, Montana Intertie (IM-02) rate, and the Ancillary and Control Area Services (ACS-02) rate. The proposed Use of Facilities (UFT-02) rate and Advanced Funding (AF-02) rate may be used in conjunction with open access service. The UFT-02 and AF-02 rates also apply to pre-OATT transmission service. The ACS-02 rate schedule includes rates for the six ancillary services included in the OATT service, plus rates for four control area services providing the reliability obligations for resources or loads in the BPA Control Area. In addition, the Integration of Resources (IR-02) rate and the Formula Power Transmission (FPT-02) rate are proposed for pre-OATT firm transmission contracts. Two rates, Townsend-Garrison (TGT-02) and Eastern Intertie (IE-02), are available to parties to the Montana Intertie Agreement. A variety of other charges are also proposed, including a Delivery Charge for use of low-voltage facilities and a Power Factor Penalty Charge.

4.2 Equitable Allocation

4.2.1 The Equitable Allocation Standard

Section 7(a)(2)(C) of the Northwest Power Act provides that the Commission will confirm and approve BPA's rates upon a finding that "such rates equitably allocate the costs of the Federal transmission system to Federal and non-Federal power using the system." 16 U.S.C. § 839e(a)(2)(C). In addition to the equitable allocation standard, section 7(a)(1) of the Northwest Power Act and section 10 of the Transmission System Act provide that the rates must be established to recover the costs associated with transmission of electric power "in accordance with sound business principles." 16 U.S.C. § 839e(a)(1), 16 U.S.C. § 838h. Section 7(a)(1) of the Northwest Power Act incorporates by reference section 9 of the Transmission System Act, which provides that rates "shall be fixed and established: (1) with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates consistent with sound business principles." 16 U.S.C. § 838g. Similar language is also contained in section 5 of the Flood Control Act. 16 U.S.C. § 825s.

Taken together, the "equitable allocation" and "widest possible use consistent with sound business principles" standards evince a Congressional intent to give BPA substantial ratemaking discretion. The equitable allocation standard does not expressly or implicitly mandate that each of BPA's transmission rates must reflect costs that are equitably allocated between Federal and non-Federal power. Rather, it requires fairness in allocating the transmission costs between Federal and non-Federal power using the system in the aggregate.

Furthermore, Section 7(e) of the Northwest Power Act grants the Administrator considerable rate design discretion, including the ability to determine the appropriate method for recovering transmission costs that have been allocated to Federal use. Section 7(e) provides that "[n]othing in this chapter prohibits the Administrator from establishing, in rate schedules of general application, a uniform rate or rates for sale of peaking capacity or from establishing time of day, seasonal rates or other rate forms." 16 U.S.C. § 839e(e). Accordingly, where a transmission rate is based upon something less than the actual embedded cost of the service, BPA's rates in total can still be designed to insure that the costs of the transmission system are equitably allocated and recovered.

4.2.2 Comparability

With enactment of Energy Policy Act of 1992 (EPA'92), Congress declared its policy choice to encourage the development of competitive power markets through the availability of open transmission access. EPA'92 amended sections 211 and 212 of the Federal Power Act to allow the Commission to order transmitting utilities to provide transmission service to eligible customers over their systems. The definition of transmitting utility includes a Federal Power Marketing Administration, such as BPA. The Federal Power Act, as amended, contains provisions specifically applicable to the FCRTS. 16 U.S.C. § 824k(i)(1).

Since passage of EPA'92, the Commission has actively declared its policy to remove barriers to competition in the electric energy industry by promoting open access transmission, both through rulings on a case-by-case basis, and through rulemaking. Order 888, at 31,651.

The construct that has emerged relies on the concept of "comparability." On April 24, 1996, the Commission issued its final rule, Order 888, adopting terms and conditions for open transmission access. As the Commission stated:

> The Commission found that a voluntarily offered, new open access transmission tariff that did not provide for services comparable to those that the transmission owner provided itself was unduly discriminatory and anticompetitive. In reaching that conclusion, the Commission broadened its undue discrimination analysis . . . to include a focus on the rates, terms and conditions of a utility's own uses of the transmission system.

Order 888, at 31,647. The Commission further stated that "an open access tariff that is not unduly discriminatory or anticompetitive should offer third parties access on the same or comparable basis, and under the same or comparable terms and conditions, as the transmission provider's uses of the system. *Id., citing American Electric Power Service Corporation*, 64 F.E.R.C. ¶61,279 at 61,490 (1993), *reh'g denied*, 67 F.E.R.C. ¶61,168 (1994). In addition, the Commission required that certain ancillary services that are needed to provide basic transmission service be provided to transmission customers. Order 888, at 31,703. The Commission has also required that jurisdictional utilities must functionally unbundle transmission from generation. *Id.* at 31,654.

While Order 888 by its terms does not apply directly to BPA, the Commission has declared its intention to apply the policies it announces as broadly as it can through sections 211 and 212 of the Federal Power Act, to promote a national policy of open transmission access. *Id.* at 31,691. In furtherance of this goal, the Commission included a reciprocity provision in Order 888, allowing non-public utilities to voluntarily submit to the Commission a tariff and a request for a declaratory order that the tariff meets the Commission's comparability standards. *Id.* at 31,761. Thus, BPA and its customers have been guided throughout the rate proceeding (and the terms and conditions proceeding) by a desire to arrive at rates, terms and conditions for access to the FCRTS that would conform to the policies announced in Order 888. TR-02-E-BPA-13, at 6-7. Equitable allocation and comparability are similar concepts in that, under each, Federal and non-Federal power have access to the FCRTS under the same or comparable rates, terms and conditions. *Id.*

4.2.3 Settlement Rates Satisfy Equitable Allocation Standard and Comparability

The proposed transmission and ancillary service rates provide an equitable allocation of Federal transmission costs between Federal and non-Federal power. In previous rate cases, BPA segmented the transmission system and developed a methodology to allocate costs between Federal and non-Federal power using the transmission system. These segmentation and cost allocation methodologies formed the basis for the demonstration that costs were equitably allocated. BPA-TBL developed an initial transmission and ancillary service rate proposal based on such segmentation and cost allocation methodologies. Settlement negotiations then commenced shortly after the formal rate process began. While the final rate proposal is a product of the Settlement Agreement, the Settlement Agreement preserved certain parts of the initial proposal.

For the most part, however, the proposed 2002 transmission and ancillary service rates were developed through negotiation with the rate case parties, and are not the product of specific cost allocation methodologies. Nevertheless, the proposed settlement rates represent an equitable allocation between Federal and non-Federal power using the system for three reasons. TR-02-E-BPA-13, at 6.

First, equitable allocation is demonstrated through the principle of comparability. Since 1996, BPA-TBL has developed and offered OATT services and rates that apply to the transmission of both Federal and non-Federal power using the FCRTS. With limited exceptions for grandfathered transmission contracts, all transmission service contracted for since 1996 has been under the terms and conditions of BPA-TBL's OATT at rates that do not distinguish between Federal and non-Federal power using the system. In other words, BPA charges others the same rates it charges itself. During the 1996-2001 rate period, BPA allowed power sales customers to unbundle the transmission service from their power sales contracts and convert such transmission service to OATT service. Many customers took advantage of this opportunity. *Id.*

At the end of the 1996-2001 rate period, most BPA-PBL long-term power sales contracts will expire. New long-term firm power sales contracts within the region will not include transmission service. The power sales customers--*not* BPA-PBL--

will be purchasing the associated transmission from BPA-TBL. These customers will choose between the OATT Network Integration and Point-To-Point Transmission Services and will pay the associated rates. These are the same service options and rates that customers who purchase or transmit non-Federal power will have with the proposed settlement rates. Similarly, for out-of-region and short-term sales, Federal transmission service required by the BPA-PBL must be purchased under the OATT and paid for at the same rates as customers who transmit non-Federal power. *Id.* at 6-7. By offering transmission service for Federal and non-Federal power on a comparable basis, BPA-TBL demonstrates an equitable allocation of costs.

Second, the ability to reach settlement among diverse customer groups, including the BPA-PBL and a variety of customers, demonstrates an equitable allocation of costs. All of BPA-TBL's major transmission customers were well-represented and participated in the settlement process. The Settling Parties included the BPA-PBL; BPA-PBL full requirements customers; major investor-owned utility customers who wheel non-Federal power and purchase little power from BPA-PBL; BPA-PBL partial requirements customers who purchase significant amounts of power from BPA-PBL but also transmit significant amounts of non-Federal power; and marketers. The Settlement Agreement reached between BPA-TBL and these entities with diverse interests demonstrates that the cost allocation implicit in the proposed settlement rates is reasonable, equitably allocating transmission costs between Federal and non-Federal power. *Id.* at 7.

Finally, the settlement rates fall between the rates proposed in the 2002 Initial Transmission Rate Proposal, TR-02-E-BPA-04, and the rates that would result from applying a uniform percentage increase to the current rates. Thus, the settlement rates are supported by the 1996 cost allocation studies, the studies in the 2002 initial proposal, and the principle of minimizing or phasing in cost shifts. *Id.* at 7-8.

5.0 PARTICIPANT COMMENTS

5.1 Introduction

This section defines "participant" and "party" and summarizes and evaluates the comments of participants in BPA-TBL's 2002-2003 rate proceeding.

Apart from the formal hearing process, BPA received written comments, views, opinions and information from "participants." BPA distinguished "participants" from "parties" in the rate case in its Federal Register Notice dated March 15, 2000 as those who may submit comments without being subject to the duties of, or having the privileges of, parties. 65 Fed. Reg. 14,098 (2000). The Hearing Officer also clarified that "parties" are those entities whose petitions to intervene in the rate proceeding are granted and that "participants" are those entities who are not parties but who provide oral or written comments as provided in Section 1010.5 of BPA's Rules of Procedure Governing Rate Hearings, as well as those entities granted special "participant" status on motion. *See* Special Rules of Practice to Govern these Proceedings, TR-02-O-01. Section 1010.5 states that only non-parties to the rate proceeding may submit written comments to BPA.

Participants do not take part in the formal rate case hearings. Comments of participants are made part of the official record of the rate case and are considered when the Administrator makes her decisions set forth in this ROD. "Parties" are provided the opportunity to fully participate in the rate case by filing testimony, briefs, motions and exhibits, and they can participate in clarification and cross examination. Comments received from "parties" outside the normal rate case process are not a part of the official record of the rate case and are not considered by the Administrator in reaching her final decisions in this ROD.

Copies of participant comments are available for review in BPA's Public Information Office.

5.2 Evaluation Of Participant Comments

The chart below identifies the comments received by BPA-TBL from participants and parties to the rate proceeding.

Affiliation	Status	Last Name	First Name
National Energy Systems Company	Participant	Jones	Darrell
Idaho Falls Power	Party	Gendron	Mark
TransAlta	Party	Hill	Denise E.
Wells Rural Electric	Party	Angell	Don
Seattle City Light	Party	Zarker	Gary
Southern California Edison Co.	Party	Fisher	Ann

Five parties to the rate proceeding submitted written comments: Idaho Falls Power, TransAlta, Wells Rural Electric, Seattle City Light, and Southern California Edison Company. Some of these entities were not stand-alone parties but were represented in trade groups who intervened in the rate proceeding on behalf of their members. Accordingly, such members have party status. As discussed above, comments from parties in this proceeding will not be recognized as "participant comments" and are not considered in this ROD.

In addition, BPA received a comment from the National Energy Systems Company (NESCO), which it identified as relating to the transmission terms and conditions proceeding. Generally, the terms and conditions comments do not apply to the rate proceeding. However, because the NESCO comment relates to pricing issues, it will be considered here.

NESCO's comments concern locational credits for new generation projects. *See* NESCO Letter, dated March 23, 2000, TR-02-W-01. The comments encouraged BPA to examine, outside the transmission rate case, the feasibility of developing an interim locational pricing incentive for new generation to address reliability challenges facing the region. NESCO argues that a locational credit will encourage the development and proper siting of generation resources, will promote transmission voltage stability, and will improve reliability.

In the Federal Register Notice for the 2002 Transmission Terms and Conditions Proceeding, BPA-TBL requested comments on the issue of calculating loss percentages using an incremental loss methodology. In the OATT attached to the Settlement Agreement, a provision is included that allows BPA-TBL and the customer to agree on lower loss factors for new resources located such that system losses are reduced. OATT, Schedule 9. In addition, the rate schedules applicable to the OATT service contain provisions that allow a customer to be charged the greater of the incremental cost of providing service or the embedded cost rate. These provisions, reflecting the principles of the Commission's "or" test, should encourage generation to locate in areas where major, expensive transmission upgrades are not needed to integrate the generation and serve load. Adopting these provisions does not foreclose the possibility that BPA-TBL, or an RTO, may further consider the issue in the future.

6.0 ENVIRONMENTAL ANALYSIS

In the 1996 rate proceeding BPA first established separate rates for power, transmission and ancillary services products and services. BPA unbundled these services and proposed separate rates in response to both the competitive market for wholesale bulk power and the Commission's Order 888. 1996 Final Rate Proposal Administrator's Record of Decision, WP-96-A-02, Chapter 2. While Order 888 does not apply directly to BPA, since its 1996 rate case BPA has committed to voluntarily provide open access transmission services and associated rates in a manner comparable to that required of public utilities regulated by the Federal Power Act. The 2002 Transmission and Ancillary Services rates propose to revise the rate levels of transmission and ancillary services rates established in prior rate cases, and propose to establish rates for some additional ancillary services and other transmission charges that will be in effect on or after October 1, 2001.

In order to participate successfully in the increasingly competitive wholesale electricity market, BPA needed an adaptive policy to guide the agency in meeting both its business and public service missions. BPA therefore prepared the Business Plan EIS and Business Plan ROD to support a number of decisions, including decisions to establish rates for products and services in rate cases in 1995 or thereafter. BPA identified several purposes for consideration, including: achieves strategic business objectives; establishes rates that are easy to understand and administer, stable and fair; recovers costs through rates; meets legal mandates and contractual obligations; and avoids adverse environmental impacts. Business Plan EIS, sections 1.2 and 2.6.5; Business Plan ROD, sections 5 and 6.

BPA's Business Plan EIS evaluates six alternative business directions: Status Quo (No Action); BPA Influence; Market-Driven; Maximize Financial Returns; Minimal BPA; and Short-Term Marketing. Each of the six alternatives provides policy direction for deciding 19 major policy issues that fall into five broad categories: Products and Services, Rates, Energy Resources, Transmission, and Fish and Wildlife Administration. A series of policy options, or modules, were developed for four key areas, including rate design, to allow variations of the alternatives. All of the alternatives and modules are examined under two widely different hydro operations strategies. These strategies represent the range of effects on BPA's business activities and BPA's ability to balance costs and revenues. The Business Plan EIS also identifies response strategies—which include measures to decrease spending, increase revenues, or transfer costs--that BPA can implement if its costs and revenues do not balance. Business Plan EIS, section 2.5.

The 19 key policy issues analyzed include several related to transmission services: Unbundling of Transmission and Wheeling Services; Transmission and Wheeling Pricing; Transmission System Development; Transmission Access; Assignability of Rights Under BPA Wheeling Contracts; Retail or DSI Wheeling; Customer Service Policy and Sub-transmission; and Operations, Maintenance, and Replacement of the Transmission System. Unbundling of Transmission and Wheeling Services, addressed charging customers separately for power and transmission services and noted that choices related to unbundling were closely related to choices about pricing. Business

Plan EIS, Transmission and Wheeling Pricing, sections 2.4.1.6 and 2.4.2.2. Table 2.4-1 shows the treatment of these issues among alternatives. In addition, Figure 2.4-3 shows the major influences, including products and pricing, on transmission development. *Id.* at section 2.4.4.

The Business Plan EIS focuses on BPA relationships to the market. The environmental impacts are determined by the responses to BPA's marketing actions, rather than by the actions themselves. *Id.* at sections 2.1.5 and 4.1.2. Four types of market responses are identified: resource development; resource operations; transmission development and operation; and consumer behavior. These market responses determine the environmental impacts, which include air, land, and water impacts, as well as socioeconomic impacts. *Id.* at figure 2.1-1 and figure S-2. Figure 2.4-1 shows how decisions on key issues that change BPA rates affect market responses and affect the environment. *Id.* at section 2.4.2.1.

General market responses to the 19 key policy issues are identified. *Id.* at Table 4.2-1. The market responses for products and services are discussed for each of the alternative business directions, and the market responses for rates are also discussed. *Id.* at sections 4.2.1 and 4.2.2. The market responses and the environmental consequences are discussed both in general terms and in terms specific to each alternative. *Id.* at section 4.3. Table 4.3-1 details the typical environmental impacts from power generation and transmission. Section 4.4 presents the market responses and environmental impacts by alternative, under two bookend hydro operation scenarios. Table 4.4-19 summarizes the key environmental impacts by alternative. *Id.* at section 4.4.3.8. In addition, Appendix B to the Business Plan EIS includes an extensive evaluation, including market response and environmental impacts, of rate design. *Id.* at Appendix B.

The potential environmental impacts of all business direction alternatives fall within a fairly narrow band, and several of the key impacts are virtually identical across alternatives. In addition, the costs of environmental externalities differ only slightly among alternatives. *Id.* at Table 4.4-20.

Each of the alternative business directions examined in the Business Plan EIS is evaluated against the purposes for the action to determine how well each of the alternatives meets the need. Business Plan ROD, at Table 2. Based on that evaluation, the Administrator chose the Market-Driven alternative. *Id.* at 11-12. The Market-Driven alternative strikes a balance between marketing and environmental concerns.

In recognizing that the Administrator could select a variety of actions, BPA included many mitigation response strategies to address changed conditions and allow the agency to balance costs and revenues. These mitigation strategies enable BPA to best meet its financial, public service, and environmental obligations, while remaining competitive. The Administrator "may ultimately select an action that may not resemble the mix of components described under any one of the six alternatives. However, these alternatives and the modules are designed to cover the range of options for the important issues affecting BPA's business activities, and the impacts of those options.

Variations can be assembled by matching issues and substituting modules among the six alternatives." Business Plan EIS, at section 2.1.2.

The Market-Driven Alternative assumes a market-driven approach for BPA, consistent with its statutory obligations. *Id.* at section 2.1.6.1. An objective of the 2002 Transmission and Ancillary Services Rate proposal is for such rates to recover BPA's transmission revenue requirement, consistent with BPA's statutory mandates. BPA is obligated to establish rates sufficient to recover its costs. It has voluntarily decided, consistent with national policies, to administratively separate its power and transmission businesses. Furthermore, establishing transmission and ancillary services rates separate from power rates reflects the current deregulated market situation. BPA remains market-driven. In fact, the Market-Driven alternative still best meets BPA's needs for an adaptive policy and is consistent with BPA's policy to encourage competition in the marketplace.

The Business Plan EIS and Business Plan ROD also documented a decision strategy for tiering subsequent business decisions to the Market-Driven approach. *Id.* at section 1.4.2; Business Plan ROD, at 15. BPA's 2002 Final Transmission and Ancillary Services Rate Proposal is one of those subsequent decisions. As discussed above, the actions associated with the 2002 Final Transmission and Ancillary Services Rate Proposal fall within the scope of the Business Plan EIS, the rate proposal is consistent with the intent of the Market-Driven approach, and it is appropriate to tier this decision to the Business Plan ROD.

7.0 ADMINISTRATOR'S DECISION

As required by law, the transmission and ancillary services rates established and adopted by this ROD have been set to recover the costs associated with the transmission of electric power, including the amortization of the Federal investment in the FCRTS over a reasonable period of years, and all other costs and expenses incurred by the Administrator in carrying out the requirements of the Northwest Power Act and other provisions of law. The rates have been established with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles. In addition, the transmission and ancillary services rates are designed to equitably allocate the cost of the Federal transmission system between Federal and Non-Federal power using the system. Finally the rates satisfy the Commission's comparability standards, as the transmission of Federal power will be charged the same rates as the transmission of non-Federal power under BPA-TBL's open access transmission tariff.

BPA must establish its transmission and ancillary services rates in a proceeding pursuant to section 7(i) Northwest Power Act. BPA began a formal 7(i) proceeding on March 29, 2000. The hearing officer has assured that all interested parties and participants in that proceeding were afforded the opportunity for a full and fair evidentiary hearing, as required by law. BPA must also evaluate the potential environmental impacts of the rate proposal and alternatives thereto, as required by NEPA. In this instance, the environmental analysis provided by the Business Plan EIS details the environmental impacts of BPA's 2002 Transmission and Ancillary Services rate proposal. The environmental analysis contained in the Business Plan EIS has been considered in making the decisions in this ROD.

Based upon the record compiled in this proceeding, the decisions expressed herein, and the requirements of law, I hereby adopt the attached Transmission and Ancillary Services Rate Schedules as the Bonneville Power Administration's 2002 Final Transmission and Ancillary Services rate proposal. The rate levels and other provisions in the attached rate schedules are consistent with the rates proposed in the Settlement Agreement. In accordance with the Commission's filing requirements applicable to Federal power marketing administrations, 18 CFR § 300.10(g), I hereby certify that the Transmission and Ancillary Services rate proposal adopted herein are consistent with applicable laws and are the lowest possible rates, consistent with sound business principles.

Issued in Portland, Oregon, this 18th day of August, 2000.

J. A. Johansen

Judith A. Johansen
Administrator
Bonneville Power Administration

APPENDIX A to the

2002 Transmission

Record of Decision

TR-02-A-01

UNITED STATES OF AMERICA
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

FY 2002-2003 Transmission Rates and	)	TR-02
Transmission Terms and Conditions	)	TC-02
Proceedings	)	SETTLEMENT AGREEMENT
		(June 20, 2000)

The undersigned Parties (hereafter "Parties") agree to the following:

1. TR-02/TC-02 Settlement Agreement

The provisions of the TR-02/TC-02 Settlement Agreement effective April 20, 2000 ("April 20 Agreement") are incorporated by reference and such provisions, together with this agreement, are referenced hereinafter as the "Settlement Agreement."

2. OATT for the FY 2002 – 2003 Settlement Period

Bonneville Power Administration Transmission Business Line ("BPA-TBL") will propose the attached Open Access Transmission Tariff ("OATT"), which consists of the attached terms and conditions, schedules, and attachments listed in the OATT table of contents to be effective October 1, 2001 ("proposed OATT"), to the Commission as a replacement reciprocity tariff. The Parties agree that the proposed OATT satisfies the objectives set forth in sections 2.1 and 2.2 of the April 20 Agreement, and that, as among the Parties, section 2.3 of the April 20 Agreement shall be of no force and effect.

3. OATT Section 2.2 Rollover Rights and Related Business Practices

BPA-TBL will adopt the following business practices to transition from its OATT effective September 1, 1998, as revised June 16, 1999 ("current OATT"), which does not include section 2.2 of the Commission's Pro Forma Tariff, to the proposed OATT, which does include section 2.2, and to implement that OATT section 2.2, and post this section 3 on the OASIS on or before July 12, 2000.

The proposed OATT section 2.2 does not apply to transmission service that was requested prior to October 1, 2001, except as provided in this section 3 below. In order to transition from its current OATT to its proposed OATT, BPA-TBL will implement reservation priorities for existing firm service (rollover rights) pursuant to section 2.2 of the proposed OATT as follows:

3.1 Reservation priorities as described in section 2.2 of the proposed OATT will apply immediately to BPA's historic wholesale full and partial requirements customers, direct service industry customers, and transmission-only customers served by transmission capacity supplied under pre-Order 888 FPT, IR and BPA Power Sales contracts with a contract term of one year or more over the Integrated Network ("Historic Transmission Service"). Such Historic Transmission Service shall also include transmission service that has been converted from transmission capacity supplied under such pre-Order 888 FPT, IR and BPA Power Sales contracts to (1) long-term firm transmission service under Parts II and III of the BPA-TBL OATT or other BPA-TBL transmission agreement; or (2) long-term firm transmission service under Parts II and III of the BPA-TBL OATT, or other BPA-TBL transmission agreement, where such capacity was used by a third party to serve the Transmission Customer's historic load. Section 2.2 rights will apply to the amount of long-term firm transmission capacity held under such contract(s) or converted contract(s) at the time that the right is exercised. This section 3.1 applies whether such conversion occurred in the past or occurs in the future.

3.2 The proposed OATT section 2.2 will also apply to service with a Service Commencement Date on or after October 1, 2001, unless such service was requested between April 20, 2000 and the day before the "Designated Day" referred to in section 3.3 below. For Transmission Customers with advance reservations with a Service Commencement Date on or after October 1, 2001 that were requested prior to April 20, 2000, section 2.2 rights will be limited to three (3) consecutive rollovers of one (1) year each following the termination of the current Service Agreement. This paragraph does not apply to contracts or converted contracts referred to under section 3.1 above.

3.3 As soon as practicable after August 15, 2000, BPA-TBL will post the proposed OATT transition implementation procedures on its OASIS. The proposed OATT transition implementation procedures shall provide notice that on the 31st day after such posting ("Designated Day"), BPA-TBL will treat all requests for long-term firm transmission service with a Service Commencement Date on or after October 1, 2001 that are filed during posted business hours on the Designated Day as having the same priority in the request queue. BPA-TBL will also notify customers that to the extent requests for service with the same priority in the queue exceed available transmission capability ("ATC"), such requests for Reserved Capacity shall be allocated on a pro rata basis. For purposes of determining a customer's pro rata share, any request in excess of the posted ATC shall be treated as equal to the posted ATC. If any customer offered a pro rata share declines to execute a Service Agreement, that

customer's pro rata share of capacity shall be reallocated to other customers with the same priority in the queue up to the amount of the customer's request. No action is required under this paragraph to preserve rights under contracts described in section 3.1.

4. Business Practices

BPA-TBL will use good faith efforts to establish as soon as practicable before January 1, 2001, business practices that will implement the proposed OATT, including without limitation sections 4.1 through 4.5 below. BPA-TBL will establish as soon as practicable but before October 1, 2001, business practices that will implement the following sections 4.1 through 4.4, for at least the period FY 2002 – FY 2003:

4.1 Deposit Waiver for Creditworthiness

BPA-TBL will waive deposits pursuant to sections 17.3 and 29.2 of the proposed OATT for Transmission Customers who meet the creditworthiness requirements of section 11 of the proposed OATT. The creditworthiness determination will be made consistent with the BPA Standards of Conduct.

4.2 Extensions of Commencement of Service

The bumping, acceleration and matching requirements of section 17.7 of the proposed OATT will only apply if the Transmission Customer requests and obtains an extension of the Service Commencement Date specified in its executed Service Agreement. All other Long-Term Firm Point-to-Point Transmission Service will be treated as unconditional service.

4.3 Self Supply of Energy Imbalance

The Transmission Customer may self-provide an amount of Energy Imbalance Service by meeting the following conditions:

4.3.1 The Transmission Customer must make available to the BPA-TBL for deployment an amount of generation that it wishes to designate for use to expand the energy imbalance deviation band. The difference that may occur between scheduled and actual hourly load before BPA-TBL's Energy Imbalance Service is used is equal to the amount of generation made available by the Transmission Customer for this purpose.

4.3.2 To be considered available, the amount of generation the Transmission Customer wishes to provide to meet its obligation

must be directly controllable by BPA-TBL to meet the imbalance through electronic/automatic means.

4.3.3 If the amount made available is not sufficient to cover the Transmission Customer's obligation, BPA-TBL's Energy Imbalance Service will be provided to cover the amount of deficiency, in accordance with the ACS-02 Rate Schedule or its successor.

4.4 Generation Imbalance Service

BPA-TBL will develop business practices to clarify how total hourly schedules from generation resources in BPA-TBL's Control Area will be determined.

4.5 Contiguous Points of Delivery

The treatment of contiguous points of delivery set forth in footnote 4 of Exhibit A to Attachments A and B of BPA's current OATT will be established as a business practice.

5. Revisions to TR-02 Rate Schedules

The Parties agree that BPA-TBL will modify the 2002 Initial Transmission Proposal: 2002 Transmission and Ancillary Service Rate Schedule and General Rate Schedule Provisions (dated March 15, 2000, TR-02-E-BPA-04) to include:

5.1 Reservation Fees

BPA-TBL will apply a non-refundable reservation fee to any Transmission Customer who postpones service by 1) reserving "deferred" service for Long-Term Firm Point-to-Point Transmission Service through an advanced reservation; or 2) requesting an extension of the Service Commencement Date specified in the executed Service Agreement. For requests made during the period October 1, 2001 through September 30, 2003, "deferred" service is any advance reservation of Long-Term Firm Point-To-Point Transmission Service with a Service Commencement Date greater than one (1) year from the request date.

5.2 Unauthorized Increase Charge and Ratchet Demand

Under appropriate circumstances, BPA-TBL may waive or reduce the Unauthorized Increase Charge ("UIC") to a Transmission Customer on a non-discriminatory basis. The Transmission Provider may also waive or reduce the Ratchet Demand for an IR customer. A transmission customer

seeking such reduction or waiver must demonstrate good cause for relief, including a demonstration that:

5.2.1 The event which resulted in the UIC or Ratchet Demand

5.2.1.1 was the result of an equipment failure or outage that could not reasonably have been foreseen by the transmission customer; and

5.2.1.2 did not result in harm to BPA-TBL's transmission system or transmission services, or to any other transmission customer; or

5.2.2 The event which resulted in the UIC or Ratchet Demand

5.2.2.1 was inadvertent;

5.2.2.2 could not have been avoided by the exercise of reasonable care;

5.2.2.3 did not result in harm to BPA-TBL's transmission system or transmission services, or to any other transmission customer; and

5.2.2.4 was not part of a recurring pattern of conduct by the transmission customer.

If a waiver or reduction is granted under the proposed OATT to a Transmission Customer, notice of such waiver or reduction will be posted on the Transmission Provider's OASIS.

If the transmission customer is subject to a UIC (or establishes a Ratchet Demand) in a month, but has not received notice from the Transmission Provider of such UIC (or Ratchet Demand) by billing or otherwise, then the transmission customer shall not be assessed such UIC (or establish a Ratchet Demand) in the following months if such subsequent assessments are due to the lack of notice. In such event BPA-TBL may bill the transmission customer the highest UIC (or Ratchet Demand) that would have been assessed.

5.3 IR rate

BPA-TBL will roll the costs of the required ancillary services into the IR rate. The cost component for the two required ancillary services will be equal to the unbundled prices set forth in the ACS-02 rate schedule. A

credit for Reactive Supply and Voltage Control from Generation Sources will be available on an equivalent basis to the credit for the PTP customers.

5.4 Generation Imbalance Service Rate

The rate schedule for Generation Imbalance Service will be modified to specify that the rate will apply if such generation imbalance service is provided for in an interconnection agreement or other arrangement.

6. Reservation of Rights

6.1 This Settlement Agreement will not preclude any Party from challenging any section of the proposed OATT (or BPA-TBL business practices implementing the terms of sections 3 and 4.1 through 4.4) after September 30, 2003. No Party to this Settlement Agreement shall contend that, by failing to challenge any section of the proposed OATT (or BPA-TBL business practices implementing the terms of sections 3 and 4.1 through 4.4) on or before September 30, 2003, any Party challenging such section thereafter failed to exercise its rights in a timely manner or that such Party is barred under any equitable or legal doctrine.

6.2 Except as permitted elsewhere in the Settlement Agreement, on or before October 1, 2003, no Party may challenge any business practice implementing sections 3 and 4.1 through 4.4 on any ground other than that such business practice is inconsistent with the Settlement Agreement.

6.3 Except as provided in section 6.2, no Party, by executing the Settlement Agreement, waives any right to claim that a particular charge, methodology, practice, rate schedule or OATT provision has been improperly applied.

7. Stipulations

7.1 Nothing in this Settlement Agreement is intended to in any way alter the BPA-TBL's authority and responsibility, if any, to periodically review and revise (or the Parties' rights to challenge such revisions) the terms and conditions for OATT, or to transition to the formation of a Regional Transmission Organization.

7.2 BPA-TBL will file the proposed OATT attached to this Settlement Agreement with the Commission with a request for a declaratory order finding that such terms and conditions satisfy the Commission's reciprocity requirements applicable to non-jurisdictional utilities. The Parties agree not to challenge (or support or join any challenge to) such

request for declaratory order with the Commission or in any judicial review thereof. This section 7.2 clarifies section 3.3 of the April 20 Agreement with respect to language expressly referring to the BPA-TBL OATT.

7.3 If the proposed OATT described in section 2 above is approved by the Commission, each Party agrees not to seek an order from the Commission under sections 211 or 212 of the Federal Power Act compelling BPA-TBL to provide transmission, Ancillary Services or Control Area Services under terms and conditions other than those so established and approved, unless such order is sought after April 1, 2003, and is for service commencing after September 30, 2003.

7.4 Each Party agrees that it will not assert in any forum that anything contained in this Settlement Agreement, nor any action taken by any Party, the Hearing Officer/Administrative Law Judge, the Administrator, the Commission or a court with respect to the transmission terms and conditions proposed by BPA-TBL pursuant to this Settlement Agreement, creates or implies any procedural or substantive precedent, nor creates agreement to any underlying principle or methodology.

7.5 Nothing in the Settlement Agreement amends any contract or modifies rights or obligations or limits the remedies available thereunder.

7.6 For purposes of this Settlement Agreement the term "contract" or "contracts" shall include without limitation intra-agency or inter-agency agreements within or among federal entities.

7.7 Unless otherwise defined herein, all capitalized terms shall have the meanings set forth in the proposed OATT and rate schedules.

7.8 Each Party agrees to be bound by the provisions of the April 20 Agreement with regard to the TR-02 rates and charges for FY 2002-2003.

8. Proceedings in the TC-02 and TR-02 Dockets

8.1 The Parties shall move to dismiss the TC-02 docket and BPA-TBL will file the proposed OATT with the Commission as provided in section 2 above.

8.2 The Parties shall move to adopt a proposed TR-02 procedural schedule for the purpose of implementing the rate settlement provided for herein.

9. Savings Clause

If any material substantive provision covered by this Settlement Agreement is disapproved by the Commission, the Parties will use their best efforts to agree to an alternative means to achieve a result functionally equivalent to that originally agreed to, consistent with the order issued by the Commission or a court of competent jurisdiction. If the Parties fail to negotiate such an alternative and BPA-TBL makes a compliance filing with the Commission, the Parties reserve any and all rights to challenge such compliance filing.

10. Revocation

10.1 In the event that any party to the BPA TR-02 and TC-02 dockets fails to execute and deliver to the Hearings Clerk this Settlement Agreement at or before 1:30 p.m. on Tuesday June 20, 2000, any Party that has executed this Settlement Agreement shall have the opportunity to revoke orally on the record its execution of this Settlement Agreement at the hearing on Tuesday June 20, 2000.

10.2 If the signing of this Settlement Agreement by a party is subject to ratification by its governing body or if a party cannot execute this Settlement Agreement due to lack of authority from its governing body (or if the officer to execute this Settlement Agreement for a Party is not available) at or before 1:30 p.m. on Tuesday, June 20, 2000, then such party so supporting this Settlement Agreement shall state orally on the record at the hearing on Tuesday, June 20, 2000 that it will recommend execution of this Settlement Agreement to its governing body (or to its officer). Any such party who fails to execute, or revokes, this Settlement Agreement must either (1) waive its rights to object to the Settlement Agreement or (2) in order to retain its rights to object to this Settlement Agreement, submit a written statement specifying its objection(s) to the Settlement Agreement by July 7, 2000. In the event that any such party submits a written objection by July 7, 2000, then any Party who has executed this Settlement Agreement may revoke its execution of this Settlement Agreement by written notice to the Hearing Clerk on or before July 12, 2000.

This Settlement Agreement may be executed in counterparts.

/ / / / /
/ / / / /
/ / / / /

This Settlement Agreement is effective June 20, 2000, regardless of the date signed by each executing Party.

_____ Date: _____
(*Signature*)

_____
(*Print Name*)

Representing:_____

_____ Date: _____
(*Signature*)

_____
(*Print Name*)

Representing:_____

_____ Date: _____
(*Signature*)

_____
(*Print Name*)

Representing:_____

_____ Date: _____
(*Signature*)

_____
(*Print Name*)

Representing:_____

_____ Date: _____
(*Signature*)

_____
(*Print Name*)

Representing:_____

UNITED STATES OF AMERICA
U.S. DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

2002 TRANSMISSION RATES AND OPEN ACCESS TARIFF PROCEEDING	)))	BPA Docket TC-02 TR-02

RESULTS OF STATEMENTS OF SUPPORT
June 20, 2000

		Support	Oppose	Neither Support nor Oppose	Did Not State a Position[1]
AC	AVISTA CORP	X			
AE	AVISTA ENERGY	X			
AH	ASHLAND, CITY OF	X			
BH	BELLINGHAM COLD STORAGE				X
BX	BRITISH COLUMBIA POWER EXCHANGE CORPORATION	X			
CC	COMINCO LTD				X
CL	CENTRAL LINCOLN PUD	X			
CO	COWLITZ COUNTY PUD	X			
CP	CLATSKANIE PEOPLE'S UTILITY DISTRICT	X			
CU	CLARK PUBLIC UTILITIES			X	
DC	DOUGLAS COUNTY PUD	X			
DI	DIRECT SERVICE INDUSTRIAL CUSTOMERS	X			
DK	DUKE ENERGY TRADING AND MARKETING, L.L.C.				X
DS	DIRECT SERVICE INDUSTRIES	X			
EM	EMERALD PEOPLE'S UTILITY DISTRICT	X			
EN	ENRON POWER MARKETING, INC.	X			
EW	EUGENE WATER & ELECTRIC BOARD	X			

[1] These Parties did not notify the Hearing Clerk prior to the June 20, 2000 hearing, and as stated in Orders TR-02-O-10 and TC-02-O-10 waived the right to present any argument with respect to the Proposal.

GE	PORTLAND GENERAL ELECTRIC COMPANY	X			
GP	GEORGIA-PACIFIC, BELLINGHAM				X
GR	GRANT COUNTY PUD	X			
HR	HERMISTON, CITY OF	X			
ID	IDAHO CONSUMER-OWNED UTILITIES ASSOCIATION, INC.	X			
IF	CITY OF IDAHO FALLS	X			
IN	INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES	X			
IP	IDAHO POWER COMPANY	X			
KL	KLAMATH FALLS, CITY OF	X			
KP	PACIFICORP POWER MARKETING, INC.	X			
LR	LOST RIVER ELECTRIC COOP	X			
MA	MARKET ACCESS COALITION GROUP	X			
MM	McMINNVILLE WATER & LIGHT	X			
MP	MONTANA POWER COMPANY	X			
NI	NORTHWEST REQUIREMENTS UTILITIES	X			
OR	OREMET-WAH CHANG			X	
PB	BONNEVILLE POWER ADMINISTRATION POWER BUSINESS LINE	X			
PC	PENNISULA LIGHT COMPANY			X	
PG	PUBLIC GENERATING POOL	X			
PL	PACIFICORP	X			
PM	PPL MONTANA, LLC	X			
PN	PACIFIC NORTHWEST GENERATING COOPERATIVE	X			
PO	PEND OREILLE COUNTY PUD	X			

PP	PUBLIC POWER COUNCIL	X*			
PS	PUGET SOUND ENERGY, INC.	X			
SC	SOUTHERN COMPANY ENERGY MARKETING L.P.			X	
SM	SUMAS ENERGY 2, INC.	X			
SL	SEATTLE CITY LIGHT	X			
SO	SOUTHERN CALIFORNIA EDISON COMPANY			X	
TBL	BONNEVILLE POWER ADMINISTRATION TRANSMISSION BUSINESS LINE	X			
TE	TRANSALTA ENERGY MARKETING (U.S.) INC.				X
TI	TILLAMOOK PEOPLE'S UTILITY DISTRICT	X			
TU	CITY OF TACOMA	X			
WA	WESTERN PUBLIC AGENCIES GROUP	X*			
WM	WESTERN MONTANA ELECTRIC GENERATING & TRANSMISSION COOP, INC.	X			
YA	CONFEDERATED TRIBES AND BANKS OF THE YAKAMA NATION	X			
	Totals	**Support**	**Oppose**	**Neither Support nor Oppose**	**Did Not State a Position**
		43	**0**	**5**	**5**

*These Parties stated at the Hearing that their position was subject to approval by their clients governing boards. As stated in the Settlement Agreement these parties may retain their right to object to the Settlement Agreement if they submit a written statement specifying their objections by July 7, 2000.

UNITED STATES OF AMERICA
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

FY2002-2003 Transmission Rates and Transmission Terms and Conditions Proceedings	)))	TR-02 and TC-02 SETTLEMENT AGREEMENT

The undersigned Parties to this Settlement Agreement (hereafter "Parties") hereby agree to the following:

1 Transmission Rates for Fiscal Years (FY) 2002-2003 Rate Period.

Except as provided below, the rates and charges for the Bonneville Power Administration Transmission Business Line (BPA-TBL) transmission services, Ancillary Services and Control Area Services for FY2002 – 2003 will be established at levels not to exceed those proposed in the 2002 Initial Transmission Proposal (Initial Proposal), including the 2002 Transmission and Ancillary Service Rate Schedules.

The Parties agree to the following:

1.1 For IR, NCD, and PTP service, the sum of the rates for Long-Term Firm Service; Scheduling, System Control and Dispatch Service; and Reactive Supply and Voltage Control from Generation Sources Service shall be $1.243/kW-mo. (dollars per kilowatt month).

1.2 For NT service, the sum of the Base Charge; the Transmission Load Shaping Charge; Scheduling, System Control and Dispatch Service; and Reactive Supply and Voltage Control from Generation Sources Service shall be $1.647/kW-mo. The Base Charge shall be equal to the PTP rate for Long-Term Firm Service.

1.3 For IS service, the sum of the rates for Long-Term Firm Service; Scheduling, System Control and Dispatch Service; and Reactive Supply and Voltage Control from Generation Sources Service shall be $1.389/kW-mo.

1.4 The Utility Delivery Charge shall be $0.932/kW-mo.

1.5 The DSI Delivery Charge shall be calculated consistent with the 2002 Initial Transmission Proposal except that the 1.197 factor initially

proposed to be applied to the UFT-02 rate on page 56 of TR-02-E-BPA-04, Section II.A.1.a.ii, shall be eliminated.

1.6 The Unauthorized Increase Charge for all services shall be four (4) times the monthly charge for PTP Long-Term Firm Service. The manner and circumstances in which the Unauthorized Increase Charge will be applied under the BPA-TBL Open Access Transmission Tariff (OATT) will be reserved for further negotiation pursuant to Section 2 below.

1.7 The FPT-96.1 and 96.3 rate components shall be increased by 24.3% each.

1.8 The maximum rates for Short-Term Firm and Nonfirm Service and required Ancillary Services, when available, shall be calculated based upon the applicable Long-Term Firm Service and required Ancillary Service rates and charges determined under Sections 1.1 and 1.3 above, and consistent with the methodology in the 2002 Initial Transmission Proposal; or if the Short-Term Services are changed from those in the Initial Proposal as part of the BPA-TBL OATT development pursuant to Section 2 below, then the rates for those services will be calculated to recover the same forecasted revenues as the rates calculated consistent with the Initial Proposal methodology.

1.9 A Transfer Utility Delivery charge for low voltage delivery service provided under General Transfer Agreements (GTA) between BPA and a transmitting utility shall be $0.932/kW-mo. and charged on the same billing factor as the Utility Delivery Charge.

2 Terms and Conditions.

2.1 During the period through June 20, 2000, the Parties shall use their best efforts to develop a proposal for a BPA-TBL OATT as similar as practicable to the Federal Energy Regulatory Commission (FERC) *pro forma* tariff.

2.2 The Parties also agree that the proposed BPA-TBL OATT will include:

2.2.1 No-POI service, flexible PTP service, NCD service, or a workable alternative that does not adversely affect access to, or quality of, service to PTP, IR and FPT customers. Firm transmission service will have priority over all Nonfirm transmission service.

2.2.2 BPA-TBL payments for the use of third-party facilities (GTA and open access service for non-federal deliveries).

2.2.3 Customer Served Load as a substitute for NT credits for customer owned transmission facilities.

2.3 In the event the Parties fail to agree on a proposal for a BPA-TBL OATT on or before June 20, 2000, then this entire Settlement Agreement shall be void and the Hearing Officer/ALJ will set the schedule for resumption of the TR-02 and TC-02 cases.

3 Stipulations.

3.1 The Parties agree that this Settlement Agreement constitutes an agreed-upon proposal for BPA-TBL's 2002-2003 Transmission Rate proceeding (TR-02) and that neither the settlement nor the Administrator's eventual adoption of the proposal in any way evidences a closed mind or predetermination by the Administrator as to any matters contained in the proposal.

3.2 Nothing in this Settlement Agreement is intended to in any way alter the Administrator's authority and responsibility, if any, to periodically review and revise (or the Parties' rights to challenge such revisions) the Administrator's transmission rates so that they meet statutory requirements and third party debt obligations, or to transition to the formation of a Regional Transmission Organization.

3.3 If the Administrator establishes transmission, Ancillary Services and Control Area Services rates and charges for FY2002 and 2003 consistent with the terms of Section 1 above and a BPA-TBL OATT as agreed to by the Parties pursuant to Section 2 above, then: (1) the Administrator shall, consistent with Section 5 below, file the rates and charges with FERC for confirmation and approval only under the applicable standards of the Northwest Power Act and as part of a reciprocity filing; (2) the Parties agree not to challenge, support or join any challenge to such confirmation and approval of such rates, charges, or the methodologies and principles used to establish them, or the BPA-TBL OATT at FERC or in any judicial review thereof; (3) the Parties shall withdraw any challenge to the proposal in Section 2.2.2 above, filed in any FERC or judicial review of BPA docket WP-02; and (4) the Parties shall support, or not oppose, a finding by FERC that BPA-TBL's OATT and rate application satisfy reciprocity requirements for the purposes of FERC Order 888.

3.4 Assuming BPA-TBL transmission, Ancillary Services and Control Area Services rates and charges are established by the Administrator and approved by FERC consistent with the terms of Section 1 above, the Parties agree not to seek transmission, Ancillary Services or Control Area

Services from BPA-TBL under rates other than those so established and approved.

3.5 The Parties agree that they will not assert in any forum that anything contained in this Settlement Agreement, nor any action taken by any Party, the Hearing Officer/ALJ, the Administrator, FERC or a court with respect to the rates, charges, and transmission terms and conditions proposed by BPA-TBL pursuant to this Settlement Agreement, creates or implies any procedural or substantive precedent, nor creates agreement to any underlying principle or methodology.

3.6 By executing this Settlement Agreement, no Party waives any right to pursue dispute resolution procedures consistent with the BPA-TBL OATT, including without limitation any complaint concerning implementation of BPA-TBL's OATT or any claim that a particular charge, methodology, practice or rate schedule has been improperly applied.

3.7 Nothing in the Settlement Agreement amends any contract or modifies rights or obligations or limits the remedies available thereunder.

4 Suspension of TR-02 and TC-02 schedules.

4.1 The Parties shall move for a suspension of the TR-02 and TC-02 hearing schedules for the period from April 20, 2000, through June 20, 2000.

4.2 Such motions shall request the Hearing Officer/ALJ to specify a date by which any party to the TR-02 and TC-02 dockets that has not executed this Settlement Agreement must object to the settlement proposed in this Settlement Agreement. In the event of any such objection to the Settlement Agreement, the Parties shall move the Hearing Officer/ALJ to schedule a hearing to consider those objections.

5 Procedures After June 20, 2000.

5.1 If the Parties reach an agreement on a proposal for a BPA-TBL OATT, then BPA-TBL will file in these proceedings a revised rates proposal and, unless the Parties agree to an alternative procedure, a revised BPA-TBL OATT proposal consistent with this Settlement Agreement and the BPA-TBL OATT agreement, and will submit a proposed procedural schedule to the Hearing Officer/ALJ for approval of such agreement.

5.2 If the Parties fail to reach an agreement on a BPA-TBL OATT, then the provisions of Section 2.3 will govern.

6 Savings Clause.

If any material substantive provision covered by Section 1 or Section 2 of this Settlement Agreement is disapproved by FERC, the Parties will use their best efforts to agree to an alternative means to achieve a result functionally equivalent to that originally agreed to, consistent with the order issued by FERC or a court of competent jurisdiction. If the Parties fail to negotiate such an alternative and BPA-TBL makes a compliance filing with FERC, the Parties reserve any and all rights to challenge such compliance filing.

7 Revocation Clause.

In the event that any party to the BPA TR-02 and TC-02 dockets fails to execute and deliver to the Hearings Clerk this Settlement Agreement on or before noon on Friday April 28, 2000, any Party that has executed this Settlement Agreement shall have the opportunity to revoke orally their execution of this Settlement Agreement at the hearing on Monday May 1, 2000.

This Settlement Agreement is effective April 20th, 2000, regardless of the date signed by each executing Party.

This Settlement Agreement may be executed in counterparts.

/s/_____ for

_____ Date _____

Party

/s/_____ for

_____ Date _____

Party

/s/_____ for

_____ Date _____

Party

UNITED STATES OF AMERICA
U.S. DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

2002 TRANSMISSION RATE PROCEEDING) BPA Docket TR-02

UPDATED RESULTS OF CONSIDERATION OF PROPOSED SETTLEMENT AGREEMENT AS OF MAY 1, 2000

		PROPOSED SETTLEMENT AGREEMENT		
		SUPPORT	OPPOSE	NEITHER SUPPORT NOR OPPOSE
AC	AVISTA CORPORATION	X		
AE	AVISTA ENERGY, INC.	X		
AH	ASHLAND, CITY OF	X		
BH	BELLINGHAM COLD STORAGE	X		
BX	BRITISH COLUMBIA POWER EXCHANGE CORPORATION	X		
CC	COMINCO LTD			X
CL	CENTRAL LINCOLN PUD	X		
CO	COWLITZ COUNTY PUD	X		
CP	CLATSKANIE PEOPLE'S UTILITY DISTRICT	X		
CU	CLARK PUBLIC UTILITIES			X
DC	DOUGLAS COUNTY PUD	X		
DI	DIRECT SERVICE INDUSTRIAL CUSTOMERS	X		
DK	DUKE ENERGY TRADING AND MARKETING, L.L.C.			X
DS	DIRECT SERVICE INDUSTRIES	X		
EM	EMERALD PEOPLE'S UTILITY DISTRICT	X		
EN	ENRON POWER MARKETING, INC.	X		
EW	EUGENE WATER & ELECTRIC BOARD	X		
GE	PORTLAND GENERAL ELECTRIC COMPANY	X		
GP	GEORGIA-PACIFIC, BELLINGHAM	X		
GR	GRANT COUNTY PUD			X*
IF	CITY OF IDAHO FALLS			X
HR	HERMISTON, CITY OF	X		

		PROPOSED SETTLEMENT AGREEMENT		
		SUPPORT	OPPOSE	NEITHER SUPPORT NOR OPPOSE
ID	IDAHO CONSUMER-OWNED UTILITIES ASSOCIATION, INC.	X		
IN	INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES	X		
IP	IDAHO POWER COMPANY	X		
KL	KLAMATH FALLS, CITY OF	X		
KP	PACIFICORP POWER MARKETING, INC.	X		
LR	LOST RIVER ELECTRIC COOP			X
MA	MARKET ACCESS COALITION GROUP	X		
MM	McMINNVILLE WATER & LIGHT	X		
MP	MONTANA POWER COMPANY	X		
NI	NORTHWEST REQUIREMENTS UTILITIES	X		
OR	OREMET-WAH CHANG	X		
PB	BONNEVILLE POWER ADMINISTRATION POWER BUSINESS LINE	X		
PC	PENISULA LIGHT COMPANY			X
PG	PUBLIC GENERATING POOL	X		
PL	PACIFICORP	X		
PM	PPL MONTANA, LLC	X		
PN	PACIFIC NORTHWEST GENERATING COOPERATIVE	X		
PO	PEND OREILLE COUNTY PUD	X		
PP	PUBLIC POWER COUNCIL	X		
PS	PUGET SOUND ENERGY, INC.			X
SC	SOUTHERN COMPANY ENERGY MARKETING L.P.			X*
SM	SUMAS ENERGY 2, INC.	X		
SL	SEATTLE CITY LIGHT	X		
SO	SOUTHERN CALIFORNIA EDISON COMPANY	X		
TBL	BONNEVILLE POWER ADMINISTRATION TRANSMISSION BUSINESS LINE	X		
TE	TRANSALTA ENERGY MARKETING (U.S.) INC.	X		
TI	TILLAMOOK PEOPLE'S UTILITY DISTRICT	X		
TU	CITY OF TACOMA	X		
WA	WESTERN PUBLIC AGENCIES GROUP	X		

WM	WESTERN MONTANA ELECTRIC GENERATING & TRANSMISSION COOP, INC.	X		
YA	CONFEDERATED TRIBES AND BANKS OF THE YAKAMA NATION			X
	TOTALS	43	0	10*

This list reflects the different Parties status after the May 1 conference and the addition of intervenors at that conference. Two parties that were previously not oppossed have signed the settlement agreement, and four parties split from their group representation to become new intervenors that do not oppose.

*Two parties did not notify the hearing clerk. Pursuant to the order TR and TC-02-O-08 these parties are deemed as neither opposing nor supporting the settlement agreement.

Bonneville Power Administration

PO Box 3621 Portland, Oregon 97208-3621

DOE/BP-3325 AUGUST 2000 175