

## **Network Cost Allocation**

### **1996 Transmission Rate Case**

BPA's rate construct was to set the PTP rate, the IR rate, and the Base Charge for the NT and NTP rates equal to each other. Given its different rate design, FPT was treated as a revenue credit to Network cost.

Network allocation factors were annual contract demands (PTP/IR) or their equivalent (NT/NTP); i.e., a 1NCD (non-coincidental demand) cost allocation method.

- The contract demand equivalent for the load-based services of NT and NTP (service under the 1981 power sales contract) was the sum of the forecasted annual noncoincidental peak demands.

The portion of the NT/NTP allocation factor that represented the difference between the classes' coincidental peak demand and their annual noncoincidental peak demands was the basis for the Load Shaping allocation factor. The remaining portion of the NT/NTP allocation factor was included in the determination of the Base Charge.

The rate case was settled at negotiated rate levels that maintained the rate construct but changed the results of the 1CP Network cost allocation.

### **2002 and 2004 Transmission Rate Cases**

In its 2002 initial rate proposal, TBL proposed a 1CP (coincidental peak) Network cost allocation methodology. Usage patterns of the Federal transmission system would have supported using a 12CP method, consistent with FERC standards for jurisdictional utilities. (See below). Given the cost shifts among the Network services that would have resulted from the use of 12CP, TBL proposed the 1CP method. However, the 2002 final rates were based on a negotiated settlement that specified rate levels.

The 2004 transmission rates are also based on a negotiated settlement that increased most rates by a uniform percentage adder.

### **FERC Guidance**

In Order 888, FERC states

. . . we will allow all firm transmission rates, including those for flexible point-to-point service, to be based on adjusted system monthly peak loads. The adjusted system monthly peak loads consist of the transmission provider's total monthly firm peak load minus the monthly coincident peaks associated with *all* firm point-to-point service customers plus the monthly contract demand reservations for *all* firm point-to-point service.

Translating this guidance for the FCRTS, the unit charge for Network service (PTP/IR) =

$$\frac{\text{Network Cost}}{\text{CP}_{\text{Network firm/nonfirm}} - \text{CP}_{\text{PTP/IR}} + \text{Contract Demands}_{\text{PTP/IR}}}$$

- PTP includes firm and nonfirm service.
- Forecasted short-term PTP converted to annual equivalents.
- FPT not included in this calculation.
- Network cost not recovered through PTP/IR would be basis for NT rate.

Coincidental Peak Method

The allocation method is based on transmission system planning considerations—are investments driven primarily by an annual peak use (1CP), seasonal use (3 or 4CP), or usage throughout the year (12CP)? FERC has defined certain “tests” to determine when it is appropriate to use a 12CP method, which is used by most utilities. These tests are:

1. **Test 1:** Compare the lowest monthly peak as a percentage of the annual peak. If this ratio is **greater than 71%**, FERC has adopted 12CP.
2. **Test 2:** Compare the average of the 12 monthly peaks to the annual peak. If this ratio is **greater than 84%**, FERC has adopted 12CP.

The results of applying these tests to the Federal transmission system are shown here:

CY	(a) Lowest Monthly Tx Peak (MW)	(b) Avg of 12 Monthly Tx Peaks (MW)	(c) Annual Peak (MW)	(d) <u>Test 1:</u> Col (a)/ Col (c) (%)	(e) <u>Test 2:</u> Col (b)/ Col (c) (%)
1999	21,213	24,844	27,070	78.4	91.8
2000	19,723	23,607	27,139	72.7	87.0
2001	16,660	20,125	24,035	69.3	83.7
2002	18,587	21,362	23,463	79.2	91.0
2003	18,126	20,959	22,700	79.9	92.3

The FERC tests would support the use of a 12CP allocator for TBL.

Use of 12CP method would result in the same rate for NT, PTP and IR; i.e., a shift of costs to the contract demand services.

**Recommendation**

Currently, TBL plans to propose a 1CP Network cost allocation method in light of the significant cost shifts that would result from use of the 12CP method.

**Summary**

