

**Supplemental Proposal
2007 Wholesale Power Rate Case**

REBUTTAL TESTIMONY

**INSIDE THE BAND COMPENSATION FOR
GENERATION SUPPLIED REACTIVE AND
VOLTAGE CONTROL**

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WP-07-E-BPA-38



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REBUTTAL TESTIMONY OF

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**SUBJECT: INSIDE THE BAND COMPENSATION FOR GENERATION SUPPLIED
REACTIVE AND VOLTAGE CONTROL**

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1 A. This testimony is organized into three sections, including this introductory section. The
2 second section addresses issues raised in the direct testimony of PPM and the third
3 section addresses issues raised in the direct testimony of NIPPC.

4 **Section 2. Rebuttal of PPM Energy, Inc. (PPM)**

5 *Q. PPM claims that BPA intends to “eliminate all compensation to the non-affiliated owners*
6 *of generating resources in the Northwest.” See, Shields, WP-07-E-PE-01, at page 2. Do*
7 *you agree?*

8 A. No. In the supplemental proposal, BPA is only proposing to not forecast revenue from
9 inside the band Generation Supplied Reactive (GSR) for federal generation in FY 2008
10 and 2009. BPA’s eventual objective is to enable TBL to avoid paying generators for
11 GSR inside the band and BPA proposes to develop a method for compensating all
12 generators interconnected to BPA's transmission system for reactive service outside the
13 band beginning as early as October 2007. However, those later actions are not part of
14 this power rate case – only the forecast of revenues as described above are being decided
15 in this proceeding.

16 *Q. PPM claims that BPA's supplemental issue proposal is only a change in bookkeeping*
17 *entries or an accounting gimmick. See, Shields, WP-07-E-PE-01, at pages 3 and 5. Do*
18 *you agree? If not, please explain why and how the proposed change in compensation for*
19 *GSR will impact other rates.*

20 A. No. BPA disagrees with PPM’s incorrect characterization of bookkeeping entries to
21 describe the BPA supplemental proposal for reactive power compensation. The inter-
22 business line charges for generation inputs are a revenue forecast credit that BPA uses to
23 lower the portion of the power revenue requirement to be recovered by firm power rates.
24 BPA is required by statute to recover all of its costs, so a reduction in the forecast
25 revenues from GSR increases BPA's revenue requirement applicable to power rates.
26 Pacific Northwest Electric Power Planning and Conservation Act 16 U.S.C. §7(a)(1).

1 The forgone revenue will be recovered in BPA's power rates and it changes the cost
2 calculated for generation inputs PBL supplies to TBL for the provision of ancillary
3 services. See, WP-07-E-BPA-28 page 8 lines 14 – 26 and page 9 lines 1-18.

4 Q. Do you agree with PPM's characterization of this proposal as a cross subsidization of
5 transmission costs by power customers and an improper classification of GSR costs as
6 operating and regulating reserves? See, Shields, WP-07 –E-PE-01, at pages 3-4.

7 A. No. FERC has stated that these inside the band operations can be a requirement for all
8 generators. See, WP-07-E-BPA-28, page 8, lines 5-8. In Order 2003A and the Entergy
9 case, FERC recognized that if a transmission provider does not compensate its affiliate
10 for inside the band GSR, it would not be required to compensate non-affiliate generators.
11 Consistent with this FERC guidance, the supplemental proposal reflects BPA's decision
12 to not compensate PBL for inside the band GSR. Furthermore, BPA's initial testimony
13 proposes an embedded cost methodology to allocate hydro costs associated with
14 operating reserves and regulating reserves that subtracts costs assigned to GSR from each
15 revenue requirement prior to determining per unit costs to avoid double-counting.
16 Therefore, in order to appropriately determine per unit generation input costs for
17 operating reserves and regulating reserves, it is necessary to first reflect the reduced GSR
18 reactive costs, associated with BPA's supplemental reactive proposal. See, WP-07-E-
19 BPA-20, page 14, lines 11-14.

20 Q. Do you agree with PPM's assertion that BPA has misinterpreted FERC's Entergy
21 Services order? (See, Shields, WP-07 –E-PE-01, at page 5.)

22 A. No. PPM claims that BPA draws superficial support from the Entergy Services order.
23 *Entergy Services, Inc.*, 113 FERC ¶61,040 (2005). PPM implies that Entergy is forgoing
24 revenues from GSR and PPM asserts that BPA is not forgoing revenues from GSR,
25 because the lack of revenues from GSR will increase BPA power rates. This is a
26 misleading argument, because the Entergy Services order only focused on Schedule 2

1 ancillary services rates, which are transmission rates, and FERC did not discuss how
2 these costs should be treated in Entergy's power rates. As described above, BPA must
3 recover all its cost, so a forecast decrease in revenues from GSR must be reflected in
4 other power rates.

5 *Q. Do you believe that it is unfair that BPA has proposed to forgo revenues for GSR inside*
6 *the band without first discussing this decision with PPM or any of the other non-affiliate*
7 *generators? See, Shields, WP-07-E-PE-01, at pages 6-7 and Kahn, WP-07-E-NP-01 at*
8 *page 5.*

9 *A. No. BPA considered a distribution of cost and benefits to regional stakeholders*
10 *associated with the supplemental reactive power proposal. See, Table 1 of WP-07-E-*
11 *BPA-29. In conducting this cost and benefit analysis, BPA did not single out any*
12 *particular customer or customer group to engage in discussions regarding reactive costs*
13 *and/or rates. Based on BPA's analysis it was apparent that the treatment of GSR*
14 *revenues impacts all rate payers and the appropriate forum to discuss rate matters that*
15 *impact BPA customers is in power and transmission rate case forums. Since this is an*
16 *issue in an ongoing rate case, BPA was prohibited by ex parte from discussing this issue*
17 *with the non-affiliate generators outside the context of the rate proceeding.*

18 **Section 3. Rebuttal to Northwest Independent Power Producers Coalition (NIPPC)**

19 *Q. NIPPC supports PPM's testimony and adds the additional claim that BPA's proposal is*
20 *unduly discriminatory. See, Kahn, WP-07-E-NP-01, at page 2. How do you respond to*
21 *these assertions?*

22 *A. Please refer to Section 2 of this rebuttal testimony to ascertain BPA's response to PPM's*
23 *assertions. In response to NIPPC's assertion that BPA's proposal is unduly*
24 *discriminatory, BPA disagrees. BPA's supplemental proposal would eliminate BPA*
25 *revenues from inside the band GSR, in order to relieve TBL of the obligation to pay non-*

1 affiliate generators for inside the band GSR. This is not discriminatory, because BPA
2 intends to treat all generators the same.

3 *Q. How has NIPPC mischaracterized BPA's projections of potential GSR costs to non-*
4 *affiliate generators in Table 1? See, Kahn, WP-07-E-NP-01, at page 4.*

5 A. NIPPC states that the \$9.2 million noted in Table 1, WP-07-E-BPA-29, would apply only
6 to new IOU generators built in the control area. Line 3 of Attachment 5 of 5 in Data
7 Response NP-BPA-10 lists the existing IOU generators interconnected to BPA's
8 transmission system that have not yet filed rates and that make-up that estimated quantity.
9 These are not cost estimates based on generators yet to be built. They are cost estimates
10 of existing generators that could file rates for Reactive Service at FERC at any time.

11 *Q. Does this conclude your testimony?*

12 A. Yes.