



May 5, 2004

**VIA E-MAIL**

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Re: Proposed Tariff Compliance Filing Concerning Large Generator  
Interconnection Agreement and Procedures

Dear Brian:

Thank you for the opportunity to comment.<sup>1 2</sup> As a general matter, PPC believes that the majority of the changes proposed to the FERC Large Generator Interconnection Agreement (LGIA) and Large Generator Interconnection Procedures (LGIP) are appropriate. BPA is not a jurisdictional entity and should not permit FERC to approve or determine terms and conditions of its contracts or the technical requirements of interconnections. Generators ought to have the same dispute resolution as BPA's other transmission customers. PPC also agrees that the revisions to incorporate the Western Electric Coordination Committee reliability requirements, as well as BPA reliability requirements, are appropriate.

**Rate Issues**

BPA proposes to defer adoption of Order 2003-A's pricing proposal. We do not disagree with BPA's decision to do so. The pricing proposal needs to be in a rate case. Fundamentally, as was noted at the meeting, these are questions of who pays. More specifically, the question of what facilities are directly assigned to the generator and what facilities are network facilities determines whether certain rates are available (e.g., the advanced funding and

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<sup>1</sup> *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003, 68 Fed. Reg. 49845, FERC Stats. & Regs. ¶31,146 (2003); *order on reh.*, Order No. 2003-A, 106 FERC ¶61,220 (2004).

<sup>2</sup> *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003-A, 106 FERC ¶61,220 (2004).

use-of-facilities transmission rates). Availability provisions are part of the rate schedules and must be determined via a 7(i) proceeding. See *Calif. Energy Res. Conserv. & Dev. Comm. v. BPA*, 831 F.2d 1467, 1473 (9<sup>th</sup> Cir. 1987).

PPC would not object to an expedited rate proceeding if BPA concludes that the time needed to include these issues in the next general transmission rate case would delay generation projects in the region. If it is apparent from rate case documentation that the proposal will not result in significant cost increases or cost shifts, and if BPA's proposal does not raise additional complications, PPC expects that the rate case would settle promptly.

### **Crediting**

Section 11.4 of the LGIA, as currently drafted, requires that BPA provide transmission service credits to repay the generator's investment in transmission facilities. PPC believes that BPA should be able to negotiate with the generator to arrange alternate forms of financing agreeable to both.

Federal legislation is pending that would score third-party financing of transmission investments against BPA's borrowing authority. Were that legislation to be enacted, we feel it would be unwise for BPA to permit investment for generation interconnection to deplete the funds available to make reliability investments in the transmission system.

### **Insurance**

Section 18.3 of the LGIA requires each party to the agreement to purchase specified types and minimum levels of insurance. A party may self-insure if it "maintains a self-insurance program" at levels comparable to those specified, and if its "senior secured debt is rated at investment grade or better by Standard & Poor's[.]" LGIA, § 18.3.10.

BPA currently self-insures. Section 18.3.10 exempts self-insured parties from the requirement to purchase insurance. A strict reading of section 18.3.10, however, leads us to question whether BPA could qualify for the exemption from the purchased insurance requirements. BPA does not have senior secured debt that is rated by Standard & Poor's. While bonds backed by BPA receive a debt rating, BPA itself does not have such a rating.

Because BPA currently does not purchase insurance, its failure to qualify for the exemption in section 18.3.10 represents a new cost for the Transmission Business Line and, thus, its customers. Given the breadth and depth of the insurance requirements, this cost could be significant.

The preferred solution would be for BPA to exempt itself from the purchased insurance requirement. BPA is in a unique position and should be

able to justify revising section 18.3 to remove its obligation to purchase insurance. As an agency of the federal government, BPA's liabilities are backed, ultimately, by the federal government. The risk of BPA being financially unable to pay a successful liability claim should be small. Although FERC has been reluctant to grant exemptions from the standard agreement, BPA's situation in regard to insurance would allow FERC to distinguish the decision and avoid a precedent.

Moreover, FERC provides the following justification for its refusal to ease the credit rating requirements: "[m]any public utilities sell power under state, not federal oversight, and there is no guarantee that a rate increase to cover increased insurance costs would be approved by a state commission in a timely manner." Order 2003-A, ¶ 464. FERC has jurisdiction over BPA's power and transmission rates in regard to whether the rates are sufficient to ensure recovery of BPA's costs. 16 U.S.C. § 839e(a)(2). We suggest that BPA redraft section 18.3 to provide that it will self-insure to the required levels and that section, as currently drafted, applies to the generator.

Sincerely,

/s/

Nancy P. Baker  
Senior Policy Analyst