

PACIFIC NORTHWEST STATE UTILITY COMMISSIONERS



Idaho
Public Utilities
Commission



Montana
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Commission



Oregon
Public Utility
Commission



Washington
Utilities and Transportation
Commission

August 25, 2006

Mr. Steve Wright, Administrator
Bonneville Power Administration
P.O. Box 14428
Portland, OR 97293-4428

**INFO ONLY: A-7, P-6, PS-6, Nita Burbank-DKC-7,
Anne Morrow-DKR-7, Cindy Custer-DR/WSGL,
Rob Swedo-DR/Spokane, John Williams-DR/Boise,
Gail Kuntz-DR/MSGL, Mreller-DR/MSGL,
Helen Goodwin-PS-6, Scott Wilson-PT-5, Larry Kitchen-PT-5**

RE: Comments Concerning BPA's July 13, 2006, Proposal for the Determination and Distribution of Post-2011 Federal System Benefits Under a Settlement of the Residential Exchange Program (REP).

We appreciate the opportunity to comment on BPA's Long-Term Regional Dialogue Policy Proposal issued on July 13, 2006. In our joint letters of May 26, 2005, and November 17, 2005, the four Pacific Northwest (PNW) state utility regulatory commissions proposed a set of principles to guide any long-term resolution of the level of federal system benefits available to the residential and small-farm customers of the investor-owned utilities (IOUs). The 60 percent of all PNW citizens served by the region's IOUs deserve a fair share of federal system benefits. We remain committed to this most fundamental principle and offer the following comments in light of BPA's new proposal.

Long-term stability requires an equitable solution.

Although we are concerned with the proposed level of benefits for the IOUs' residential customers, we appreciate BPA's efforts to develop and issue its Regional Dialogue Proposal.

We recognize that continuing debate within the region and in Washington, D.C. made this a difficult task. While complete consensus is desirable, we do not expect it given the broad set of issues represented in the proposal. Lack of consensus, however, should not be an excuse for inaction that could negatively affect the long-term stability of the region's electric system. That said, the stability we all desire won't be achieved if the majority of the region's electric ratepayers are treated unfairly. BPA's proposal to reduce annual REP benefits to \$250 million in 2012 – a one-third reduction from the current level of benefits in real dollars – is simply not fair to IOU customers who will be hit with bill increases in an environment of increasing load growth costs and rising rates.

IOU residential and small farm customers deserve an equitable and undiminished share of the current and future benefits of the federal power system.

BPA's proposed annual benefit of \$250 million (2012 dollars) represents a significant, unjustified and unfair reduction in the benefits received by IOU-served residential and small-farm customers. Again, we emphasize that these customers make up 60 percent of the residents in BPA's service territory. Even at the current benefit level, these citizens receive only about 18 percent of the economic benefit of the federal system. Our request is a simple and reasonable one: the already modest share of federal system benefits received by the IOU customers should not be further reduced.

In 2005, the IOUs calculated that a properly determined REP would produce benefits of \$610 million (2011 dollars) at the end of the current contract period.¹ Even more recently, BPA concluded that it faced potential exposure in excess of \$300 million per year and that the total IOU benefit could be nearly \$778 million if all disputed issues regarding calculation of ASC and the 7(b)(2) rate test were resolved in favor of the IOUs.² The IOUs calculate that the historical average annual benefit for the REP, considering inflation and load growth, was \$390 million

¹ Pacific Northwest Investor-Owned Utility Comments on Long-Term BPA Regional Dialogue Policy Issues at 8-10. June 13, 2005.

² Supp. Brief for Respondent Bonneville Power Administration at 11, *Portland General Electric Co., et al. v. Bonneville Power Administration*, 9th cir., 01-70003, 01-70005, 01-70010, 01-70012, 01-70041, 01-70042.

between 1981 and 2006 (stated in 2012 dollars).³ Accounting for inflation, the REP would need to provide IOU customers at least \$350 million in 2012 just to maintain the current \$300 million in benefits. In light of these figures, a benefit of \$350 million in 2012 not only falls well within the historical range that Bonneville identified in its Regional Dialogue Proposal, when that range is adjusted to 2012 dollars, it is also a conservative forward-looking approximation of benefits that would result under the statutory REP.

We believe that BPA should acknowledge that \$350 million is a reasonable, fair, and well-justified annual level for IOU customer benefits beginning in 2012. Although \$350 million represents a significant concession, relative to what can be justified, this level of benefits would allow IOU customers to share equitably in, and to have a meaningful stake in preserving, the value of the federal power system for the region. Considering historical trends, the value of the federal system should grow substantially into the foreseeable future.

A 20-year solution requires trustworthy indexing and sensible review.

Assuming a fair and equitable level for the 2012 benefit as a starting point, BPA's proposal to index the annual REP benefit to changes in the relative relationship between federal system costs and the average of IOU average system costs (ASCs) could offer an acceptable framework. However, BPA's proposal involves a number of as-of-yet undefined methods and calculations. For example, neither the so-called "cookbook" method for calculating utility ASCs nor the method for determining load-growth costs in the "proxy PF" has been developed. These methodologies would likely be determined in contracts, should there be a conceptual agreement on indexing.

IOUs, public agency utilities and the states will better trust the indexing calculations if they are independent, objective and transparent. We strongly recommend using a method similar to the independent calculation and review of market prices relied on in current contracts to oversee and implement any indexing in future contracts. Given the inevitable uncertainty of

³ Pacific Northwest Utilities' Perspective on Bonneville's Regional Dialogue Proposal for Post-2011 Investor-Owned Utility Residential Exchange Program. August 2006. Distributed at Spokane Public Meeting of the Northwest Power and Conservation Council, August 15, 2006.

conditions over a 20-year time horizon, we also recommend a mid-point review of any residential exchange long-term settlement.

The four state utility commissions accept the responsibility for the allocation of REP benefits among the utilities and states.

While it has been a challenging process in the past, we believe the commissions are in the best position to allocate the benefits among the region's IOUs. We appreciate and accept BPA's invitation in the Regional Dialogue Proposal for the commissions to make a recommendation on REP allocation for the post-2011 period. Our task will be made less difficult if the level of REP benefits fairly reflects the growing value of the federal system and an equitable share of that value for IOU-served customers.

We continue to believe that it is in the best interests of all Northwest stakeholders to work constructively with BPA to ensure that the benefits of the federal power system are preserved and continue to be widely and equitably distributed. We look forward to continuing the dialogue with you and your staff on improving BPA's Regional Dialogue Proposal as outlined above.

Sincerely,

**OREGON PUBLIC UTILITY
COMMISSION**



Lee Beyer, Chairman



Ray Baum, Commissioner



John Savage, Commissioner

**IDAHO PUBLIC UTILITIES
COMMISSION**



PAUL KJELLANDER, PRESIDENT

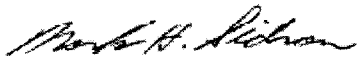


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

**WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**



Mark H. Sidran, Chairman



Patrick J. Oshie, Commissioner



Philip B. Jones, Commissioner

RE: EPA's July 13, 2006 Long-Term Regional Discharge Policy Proposal

The Montana Public Service Commission endorses the August 25, 2006 letter to BPA from the four Northwest public utility commissions.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION


GREG JEROCIN, Chairman


BRAD MOLNAR, Vice Chairman


DOUG MOOD, Commissioner


BOB RANEY, Commissioner


THOM SCHNEIDER, Commissioner

ATTEST:

Connie Jones
Commission Secretary

(SEAL)