



September 15, 2006

Mark O. Gendron
Vice President, Requirements Marketing
Bonneville Power Administration
PO Box 14428
Portland, OR 97293-4428

Re: BPA Regional Dialogue Policy Proposal – Irrigation Mitigation

Dear Mr. Gendron,

The following are comments submitted by Northwest Irrigation Utilities regarding the BPA Long-Term Regional Dialogue Policy Proposal of July 2006. NIU is a non-profit trade association representing 14 BPA Full or Simple Partial Requirement customers.

NIU Members Adopt by Reference the Comments of NRU

Our comments in this communication address specifically and exclusively the issue of BPA's irrigation mitigation program available in new long term contracts, as described on page 32 of the Regional Dialogue proposal. All of the members of NIU are also members of Northwest Requirements Utilities. We adopt by reference the Regional Dialogue comments submitted by NRU that address all other aspects of BPA service to Load Following utilities, other public power products, BPA/customer processes, and service/financial benefits (if any) to other customer groups.

The Importance of Irrigated Agriculture to the Northwest Economy

The cost of BPA power supply for irrigated agriculture is critical to the Northwest economy. Irrigated agriculture production with power supplied by BPA contributes \$2.0 – \$2.5 billion to the Northwest economy annually. The industry dominates Southern Idaho, Eastern Washington, Eastern Oregon, and portions of Nevada, California and Montana served by BPA power. Every \$1 million of agricultural product sales creates about 30 jobs in the overall economy, as many as 75,000 jobs. The agricultural community is driven by national and international competition, and has basically no ability to raise prices to compensate for higher power costs. Please let us know if you need additional information in this area.

During the period FY 07 – 11 the 14 members of NIU will have 820,335 MWh of irrigation load placed on BPA that is eligible for the current Irrigation Mitigation Product. During the qualifying summer months this is roughly equivalent to 280 aMW of load. For some of the members of NIU, irrigation loads may represent as much as ¾ of the utility's total retail loads.

A Long History of BPA Rate Mitigation in the Irrigated Agriculture Sector

NIU has a long history of working with BPA to provide some form of rate mitigation to qualifying wholesale customers with summer intensive seasonal loads tied to irrigated agriculture. BPA established a discounted rate for irrigation usage as early as 1942 when BPA needed to sell surplus power during the summer period. Beginning in 1985 and continuing forward BPA provided an Irrigation Discount to the Priority Firm Rate. Then in 1996, the Agency went to a Summer Seasonal Product FPS sale in lieu of a formal Irrigation Discount in the PF rate structure. For the 2001 – 2011 Subscription contract period BPA provides an Irrigation Mitigation Product as a separate power product.

The BPA Regional Dialogue Proposal

Over the months the NIU Board of Directors has had an opportunity to provide input to the BPA staff regarding the Regional Dialogue proposal. In summary we agree with and support the recommendations for Irrigation Rate Mitigation contained on page 32 of the report, with a few clarifications noted below.

The Regional Dialogue proposal limits BPA's future role for providing service on a rolled in cost basis through an allocation of existing power supply accomplished through tiered rates. Consistent with this approach, the NIU members are willing to agree to BPA's proposal to limit the discount "*only to eligible irrigation loads of customers participating in BPA's irrigation rate mitigation product during FY 2007 – 2011 or in BPA's FY 1997 – 2001 Summer Seasonal Product.*" However, we understand that BPA is proposing, and we agree that members of Western Montana G+T with a 10 year presubscription contract expiring at the end of FY 2010 should also be eligible – specifically Vigilante Electric and Mission Valley Power.

The NIU Board is willing to agree to "*limit the overall program costs to a fixed percentage of the summer rate, times a fixed number of eligible MWh. The fixed percentage is determined as the effective reduction in the melded, weighted average of the summer rates caused by the irrigation rate mitigation product in the average FY 2007 – 2009 PF rates.*" To that end the NIU Board has met with BPA staff and received examples of how the discount would be set for FY 07 – 09, and then adjusted over the years as rates change during the summer from rate period to rate period during the term of the contract. We agree with the examples presented by BPA staff. In summary, there will be no fixed dollar cap for the irrigation rate reduction. Future dollar amounts will change proportionately to the future adjustment in the then effective summer rates.

For purposes of administrative ease, the NIU Board agrees with BPA's recommendation to "*treat participating customers equally by providing all irrigation rate participants with the same fixed mills-per-kWh discount,*" and to include the month of September, but "*leaving overall program costs unchanged.*" The \$/MWh reduction projected for NIU members in 2007 is relatively compact, and this proposal should not result in significant cost shifts between the members.

The NIU Board recognizes that Irrigation Mitigation will be a reduction from the Priority Firm energy rates and not a separate power sales product. While we are willing to agree to this approach, all parties need to recognize that the current program is working well administratively and should be replicated in future business relationships between BPA and the utilities in this program

It is important to note that the power sales contracts for the program eligible Load Following customers need to contain a provision acknowledging the Irrigation Mitigation program, as BPA has recommended. We understand that technically the rate for qualifying irrigation loads will be determined in future rate cases. Therefore, the “*need for*” irrigation mitigation as determined in a rate case is tied to changes in the shaping of rates as well as overall rate levels. “*There have been times when spring/summer intensive irrigation loads have borne an inordinate burden because of the way seasonal rates are shaped.*” As described by BPA, the financial value on a kWh basis may increase or decrease from rate period to rate period, depending upon subsequent changes in rate design from the 2007 – 2009 base period. But the underlying program design, as set forth in contracts, would establish the formulaic boundaries for the degree of change. The “*amount of*” Irrigation Mitigation should be determined in a rate case as long as it is a mechanical implementation of program design that is decided during the Regional Dialogue process – with the program features described above.

The NIU Board agrees that participating customers should “*implement cost effective conservation measures on irrigation systems in their service territories.*” However, in the context of Priority Firm service, any conservation and renewables discount that BPA offers should be comparable between irrigation and non-irrigation loads.

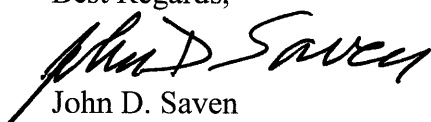
Qualifying Irrigation Loads for BPA Block and Slice Customers

NIU does not object to BPA deciding to expand the Irrigation Mitigation benefits available to Slice Customers through their irrigation related BPA block purchases. However, this support is contingent upon such expanded irrigation loads overall not in any way lowering the financial benefits available to Load Following customers.

Conclusion

We would like to thank the staff of BPA, particularly Garry Thompson, for working with us and incorporating many of our suggestions into the approach the Agency is recommending for Irrigation Mitigation. If you have any questions or would like additional information, please let me know.

Best Regards,



John D. Saven
Executive Director

CC: Members of NIU