

OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR



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October 18, 2006

Steve Wright, Administrator
Bonneville Power Administration
PO Box 3621
Portland, OR 97208-3621

ASSIGN: DKR-7

**cc: FO3, DKN/Wash, DK-7, KHunt-DKR-7,
GKuntz-DKR/MSGL, MReller-DKR/MSGL, L-7,
P-6, PT-5, Helen Goodwin-PS-6, Larry Kitchen-
PTL-5, CAEs**

Dear Steve:

I am pleased to take this opportunity to comment on Bonneville's draft regional dialogue proposal. As you know, Montana shares a keen interest with the rest of the region in successfully reaching the goal of preserving and enhancing the benefits of the Federal Columbia River Power System (FCRPS) for the Northwest and its citizens. To endure, the regional dialogue proposal must provide equity and balance for all FCRPS regional stakeholders.

Residential Exchange Credit

Congress intended that the Residential Exchange Program (REP) would provide the benefits of the Federal system to residential and small farm customers of investor owned utilities in the Region. The issues of allocation and amount have become contentious and despite recent signs of compromise the potential for REP settlement talks to bog down remain. Disagreements focus on comparisons of historical benefit levels and stakeholder perceptions of equity that have yet to be reconciled. I will not attempt to reconcile differing stakeholders positions, but will note that the most equitable settlement of REP amounts is likely to leave no stakeholder group satisfied. Instead, I want to concentrate on the allocation of REP benefits. While BPA has welcomed the four State Commissions effort to determine the allocation of REP benefits, I strongly discourage you from accepting any allocation that departs significantly from Average System Cost (ASC) methodology. As you know, the current allocation does depart from ASC methodology to the detriment of Montana's ratepayers.

Direct Service Industries

Montana is fortunate to be home to one of the few remaining Direct Service Industries (DSIs), Columbia Falls Aluminum Corporation (CFAC). I believe it is commendable for BPA to continue to offer benefits to DSIs like CFAC as a way of assisting in maintaining CFAC's economic viability.

New Publics


Bonneville has clearly acknowledged its obligation to supply power to any new publics under Section 5(b) of the Northwest Power Act. The Northwest Power and Conservation Council recommended that new or annexed loads should qualify for service from the existing system on the same basis as existing public utilities. I concur with the Council's recommendation. Any allocation of the Federal Base System that does not provide equitable treatment for new publics risks the possibility of legal review.

Fish and Wildlife Obligations

BPA has a legal obligation to fund activities and projects that protect, mitigate, and enhance fish and wildlife in the Columbia Basin that have been impacted by the construction, inundation, and operation of the federal hydro system. I urge BPA to commit to the implementation of the Council's Fish and Wildlife Program. Specifically, the subbasin plans in Montana and the Council's Mainstem Amendment operations for Libby and Hungry Horse must be implemented. Lastly, I ask that the ratepayer monies Bonneville spends on fish and wildlife be done in the most cost-effective and efficient manner possible.

I commend your efforts to finalize this process that had its beginnings over a decade ago in the regional review. I also urge you to conclude this process expeditiously, 2011 is looming on the horizon and the uncertainty surrounding the responsibility for resource acquisition compels an immediate response. While it is my greatest desire that the region achieve consensus, the concerns I addressed above apply equally to Bonneville's fallback position.

Sincerely,


BRIAN SCHWEITZER
Governor