

REG-068

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MAYOR – ROBERT “BOB” BROMLEY

CLERK-TREASURER – GERI LEWIS

October 19, 2006

Mr. Steve Wright

Administrator  
Bonneville Power Administration  
P O Box 3621  
Portland, OR 97208-3621

Re: BPA's Long Term Regional Dialog Policy Proposal

Dear Mr. Wright:

The City of Sumas appreciates the opportunity to provide comments on BPA's Long Term Regional Dialog Policy Proposal. Sumas recognizes the considerable effort BPA staff has invested in crafting a proposal to define BPA's power supply role, post 2011.

Sumas supports BPA's development of new twenty-year power sales contracts to lock-in the benefits of federal power for the region. Sumas is willing to support with some trepidation, the proposed allocation method and accompanying tiered rate structure that would transfer responsibility for load growth from BPA to its public utility customers. However, Sumas is also mindful of the beneficial historic role BPA has played in providing for its customers' load growth at cost of service melded rates.

Rather than focus on all elements of the Proposal, Sumas will focus the following comments on aspects that are particularly relevant with respect to Sumas' service area, customer base, and economic circumstances.

#### *Allocation Methodology*

Although any allocation methodology implemented will be perceived as good or bad depending on an individual utility's circumstances, Sumas supports an allocation for purposes of Tier 1 pricing, based on actual net requirements load on BPA in 2010. Use of an annual period for determining each utility's HWM, which is closer to implementation of the new power sales contracts, accommodates some level of load growth in the interim.

The methodology for determining net requirements load on BPA is a critical component of allocation, the details of which Sumas encourages BPA to resolve in a public process as soon as possible.

### *Pooling Arrangements*

Although currently Sumas has the ability to aggregate its load and power supply requirements with other utilities, such as the City of Blaine and Whatcom PUD locally, we encourage BPA to change its current policy position and offer operational pooling for those publics that want such arrangements. Pooling with respect to tier 1 power provides, in particular, smaller utility systems greater flexibility to manage their resources and deal with load growth and tier 2 cost exposure.

### *Transfer Service & Costs*

The region has benefited from BPA's policy of providing for delivery of federal power over third party facilities in lieu of constructing facilities, where it was the least cost alternative. This policy shouldn't change just because BPA's transfer service customers may find that the least cost strategy for them is to cover their load growth with non-federal power.

Sumas believes that BPA's long term policy should be to treat transfer customers comparably to similarly situated customers, who are directly connected to the BPA grid. Transfer customers should not be denied access to or economically disadvantaged in efforts to secure additional federal and/or non-federal resources to cover tier 2 load growth merely because they receive delivery of power off of third party facilities.

### *Products and Services at Cost*

Sumas believes BPA should price its power products and attendant services at rates based on cost of service. There has been discussion that BPA will tinker with its rate structure, such that products and ancillary services derived from the flexibility of the hydro system will be opportunity or market priced. This approach will create winners and losers among BPA's public customers, depending on the power products they purchase or resources they manage.

### *Conservation Activities & Expenditures*

With a change in paradigm to a tiered rate regime in which utilities must manage the cost of new resource acquisition, it seems appropriate that BPA change its paradigm with respect to the acquisition of conservation resources. Under a tiered rate environment, it is in a utility's economic interest to pursue self-funded conservation as a local load management tool and a means to reduce tier 2 exposure.

Therefore, Sumas opposes BPA continuing its role as the backstop conservation provider with the attendant expenses being embedded in the tier 1 rates. Expenses associated with conservation should be minimal with respect to tier 1. Only those activities that are truly regional in scope and outside the purview of individual utilities should be considered.

Technology transformation efforts, such as higher appliance efficiency standards would be in this category.

BPA has skilled and dedicated staff devoted to BPA's conservation program activities currently. BPA could continue to utilize this expertise via separate service offerings as a tier 2 product or on a bi-lateral contract basis.

#### *BPA Cost Control*

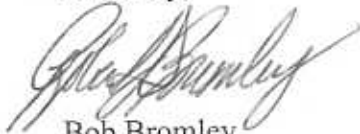
Sumas has appreciated the increasing level of input, which BPA has facilitated with regard to its budgeted and actual expenditures. The cost and rate reductions that have been implemented in this rate period are evidence of these efforts. If the publics are to sign on for twenty-year take or pay contracts, then the primary tool for mitigating their take or pay obligation will be cost control. Therefore, Sumas supports an even greater level of involvement by BPA's customers in providing budget and operational expenses oversight and input.

#### *Tier 2 Costs*

Sumas encourages BPA to develop and offer viable tier 2 power products and services, which Sumas and other utilities will consider for covering their load growth exposure. However, if tiered rates are to function as intended, then tier 2 costs must be contained and not allowed to migrate into the tier 1 resource pool. Using tier 1 as a backstop for tier 2 under-recovery of costs should not be allowed. Tier 2 resource acquisition and other services should be covered by tier 2 customers, who backstop the risks through separate contractual obligations. These commitments should be in-place prior to BPA developing or acquiring resources.

In closing, Sumas understands the large task at hand for BPA in trying to balance the competing interests encompassed by BPA statutory authorities and obligations. We look forward to further discussions and the development of more details supporting the proposal, once this initial comment period ends.

Sincerely,



Bob Bromley  
Mayor