UNITED ELECTRIC
CO-OP, INC.

"Owned By Those We Serve"

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October 20, 2006

Steve Wright, Administrator
Bonneville Power Administration
PO Box 14428
Portland, Oregon 97293-4428

RE: United Electric Co-op, Inc.'s Comments on Regional Dialogue

Dear Mr. Wright:

Thank you for the opportunity to comment on BPA's Long Term Regional Dialogue Policy Proposal ("Proposal"). I am writing today to underscore some very important issues to my utility, United Electric. As you know United Electric serves approximately 6000 customers in Southern Idaho. As a full requirements customer of Bonneville we are vitally interested in the proposed allocation methodology.

United Electric is participating with other entities in drafting comprehensive comments which are being filed separately. However, the issue of transfer service for non-Federal power is so compelling to our future viability that it is necessary for me to write separately in order to emphasize its importance.

United Electric takes service from Bonneville via a GTA that BPA has with Idaho Power Company. One of the guiding principals of GTA service has always been that such service be comparable to the service provided by BPA to its directly connected customers. If it is BPA's policy to remain faithful to that concept, it is critical that BPA assume the obligation to wheel Tier 2 non-federal power through its transmission agreement with Idaho Power in order to serve United Electric's native load. Unfortunately, the Proposal, as currently written, will not accommodate our access to regional power markets other than BPA. This is contrary to the policy guideline in the Regional Dialogue which provides that "BPA should not use transfer service as a leverage to induce customers to buy Tier 2 power from BPA".

Thank you again for this opportunity to comment. We are also a member of and endorse the comments filed by NIU, NRU, ICUA, and IDEA.

Sincerely,

Ralph Williams, General Manager
United Electric Co-op, Inc.

Idaho Energy Authority IDEA

IDAHO CONSUMER-OWNED UTILITIES ASSOCIATION

BEFORE THE U.S. DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINSTRATION

IN THE MATTER OF THE BONNEVILLE POWER ADMINSTRATION'S LONG TERM REGIONAL DIALOGUE POLICY PROPOSAL	)))))))	JOINT COMMENTS of the IDAHO ENERGY AUTHORITY, INC. and the IDAHO CONSUMER-OWNED UTILITIES ASSOCIATION, INC.

COMES NOW, the Idaho Energy Authority, Inc. (IDEA), and the Idaho Consumer-Owned Utilities Association, Inc. (ICUA) , pursuant to the Bonneville Power Administration's ("BPA") Long-Term Regional Dialogue Policy Proposal ("Regional Dialogue" or "Proposal") issued on July 13, 2006 and hereby provides its comments as follows:

I.

OVERVIEW AND SCOPE

IDEA is a Joint Action Agency and an Idaho not for profit corporation consisting primarily of wholesale power supply customers of BPA. IDEA's member roster consists of 24 publicly and municipally owned electric utilities located in Washington, Idaho, Montana, Wyoming and Nevada. ICUA is an Idaho non-profit corporation representing twenty-one municipal and cooperative utilities that are customers of BPA in Idaho. There is significant overlap of IDEA and ICUA membership but there are functional differences between IDEA and ICUA. IDEA is generally more actively engaged in regional and operational issues while ICUA tends to focus primarily on state and national policy issues. IDEA's and ICUA's comments are combined in this single document because of the broad sweeping operation and policy impacts of BPA's Regional Dialogue Proposal. A complete list of IDEA/ICUA members is attached as Exhibit A hereto.[1] While our comments are thoughtful and as detailed as is possible at this point of the process, we may not have commented on all of the important points in the Policy. Our silence on any specific issue should therefore not be viewed by BPA as either acquiescence or objection.

Overall, IDEA/ICUA supports the basic concept of allocation of the BPA system. We believe that individual utilities ought to have the opportunity to plan for their own load growth and assume responsibility for their resource decisions. At the same time we believe, with the implementation of the Regional Dialogue, BPA should not assume that its obligations to provide "Tier 1" service has been mitigated in any manner. We believe that Tier 1 service includes delivery of power and energy regardless of the physical interconnection between BPA and its customers.

These comments are organized according to the appearance of the issue in the Regional Dialogue and are not necessarily organized in priority of importance.

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[1] Fur purposes of "counting" comments IDEA and ICUA ask that these comments be attributable to each of the member utilities listed on Exhibit A.

II.

RELATIONSHIP TO PRESIDENT'S BUDGET PROPOSAL

Bonneville provides that it will "use any surplus power sales (net secondary) revenues it earns in any given year above its historical high level of $500 million to make early payments on its Federal bond debt to the U.S. Treasury". P. 6. BPA is able to generate secondary revenues using the system for which BPA's customers have paid. Therefore secondary revenues should not be "hard wired" to make prepayments to Treasury of Bonneville debt. Secondary revenues should be used first and foremost to reduce Bonneville's wholesale Tier 1 rates. Bonneville should retain the flexibility to pre-pay its Treasury debt, but only when doing so makes sound fiscal sense.

III

CONSERVATION AND HIGH WATER MARK

The Proposal, at pages 14 – 15, provides:

> BPA proposes to add the amount of conservation achieved by each utility from FY 2007 through FY 2010 to its individual HWM .... For this purpose BPA proposes to count 100 percent of self-funded megawatts and 50 percent of BPA-funded megawatts.

IDEA/ICUA believes the fifty percent limitation on BPA-funded conservation for purposes of calculating an individual utility's "High Water Mark" ("HWM") may be sufficient to maintain an incentive for continued utility participation in BPA-funded conservation programs. We are open to increasing that number should it prove necessary in order to maintain the utility incentive to participate.

We also agree with the Proposal to "count 100 percent of self-funded megawatts" acquired through conservation efforts as not reducing a utility's HWM. We hope, however, that BPA will also include in the definition of "self-funded megawatts" those conservation efforts engaged in by third-party vendors and/or self-funded conservation acquired by industrial customers and other large discreet consumers. Some utilities have third party, for profit, conservation providers operating in their service territories and some utilities have large industrial facilities that are actively engaged in conservation on their own. These activities ought to be included in the definition of what conservation measures are "self-funded". To do otherwise may cause some utilities to discourage such third party conservation activities until after the HWM has been calculated.

At page 56 of the Regional Dialogue BPA states, "BPA proposes recovering costs of achieving conservation on the loads it serves in Tier 1 rates." IDEA/ICUA agrees that the costs of conservation aimed at <u>loads it serves in Tier 1</u> should be recovered from Tier 1 customers. Conservation aimed at Tier 2 load, on the other hand, should be paid for by Tier 2 customers/load. It is not clear from the Proposal whether BPA is suggesting that costs associated with Tier 2 conservation efforts would be blended with and recovered from Tier 1 rates. If so, IDEA/ICUA would be opposed to such a blending because it would increase Tier 1 rates and partially frustrate the purpose of tiered rates. Preventing such a blending may present implementation challenges because it may be difficult to identify at which Tier a particular conservation product is aimed. An easy example would be DSM programs targeted at new construction on a utility above its HWM. Those conservation efforts should be allocated to Tier 2 for such a utility. A more challenging test for the same utility would be the allocation of costs for a program that is aimed at customers regardless of the year they come on line. IDEA/ICUA looks forward to working with BPA on these issues. However, the bottom line is that Tier 2 load should be responsible for the costs associated with Tier 2 conservation. To do otherwise inflates Tier 1 costs.

IV.

PRE-1980 HYDROELECTRIC RESOURCES

In what appears to be a very specifically tailored exception to the use of FY 2010 for calculation of the high water mark, BPA proposes, at page 15:

> [O]ne exception to the use of FY 2010 customer and consumer resources listed in Subscription contracts; a customer's hydroelectric resources used prior to 1980 that BPA expects would be returned to a customer by withdrawal from other customers for the post-2011 period.

Several of us are involved in small hydro projects or portions of projects and our understanding it does not apply to any of the IDEA or ICUA members that are so involved.

V.

POOLING

BPA proposes to prohibit pooling of high water marks for the following reasons:

> BPA is concerned that pooling would work against the goal of reducing regional conflict and would become administratively burdensome. Pooling would also increase Tier 1 rates, because any gain in value by the select group of customers who pooled would be at the expense of the other customers since it would reduce the amount of secondary power available to market to lower Tier 1 rates and cause a need for greater amounts of augmentation within the 300 aMW cap, than would otherwise be required. P.17.

IDEA/ICUA disagrees with both the foundation and the conclusion in BPA's reasoning to support its decision to not allow pooling. Encouraging customers to work together by pooling their resources and loads actually reduces regional conflict and lends itself to greater regional cooperation. Pooled utilities will operate more efficiently and thereby serve their customers more effectively. In addition, BPA should not implement policies for the purpose of promoting secondary sales at the expense of service to its priority customers at its lowest cost based rates. Therefore, IDEA/ICUA recommends that pooling be permitted.

VI

FLEXIBILITY

We hope that BPA will work with its customers relative to providing more flexibility and options for acquisition of Tier 2 products than is provided for at page 28 under the "Tier 2 Rate Purchase Alternatives." Energy managers need the ability to change Bonneville Tier 2 products more frequently than every three years. Effective energy management also requires that BPA's customers have access to seasonal products and the ability to shape when Tier 2 products are brought to our load. For example a utility may want to take all of its Tier 2 product in the four winter months rather than flat over the year. We urge BPA to build such flexibility into its final record of decision.

VII

TRANSFER ISSUES

As a starting point ICUA/IDEA read the Regional Dialogue Transfer Service section as continuing to represent a perspective by Bonneville that transfer services are primarily costs to be controlled. Consequently, most of the Regional Dialogue proposals are for controls or requirements that target transfer service customers from a cost containment perspective. Fundamentally, this is the wrong "view" of transfer service.

IDEA/ICUA would again suggest that a more compelling case can be made that third party transfer service (or General Transfer Agreements (GTAs)) saves Bonneville and its customers significant money that would have been otherwise spent had BPA constructed facilities to directly connect everyone to BPA transmission system. A comprehensive study commissioned by ICUA concluded that using the transfer facilities of third party utilities to serve GTA load -- instead of constructing transmission lines to directly serve such load -- has saved BPA "at least $1.7 billion (2004 dollars) in capital costs" and provides annual benefits in the range of $87 to $107 million per year. Final Report General Transfer Agreements Regional Cost – Benefit Study p. 2, © Patrick McRae Consulting Services LLC July 29, 2004. A copy of the McRae study is attached hereto as Exhibit B. Consequently, IDEA/ICUA believes this section of the Regional Dialogue proposal should at least acknowledge the cost "savings" role the GTAs have played in allowing BPA to avoid spending several billion dollars more on transmission facilities in the region.

Delivery of Non-Federal Power: Bonneville proposes to wait to implement its new policy on delivery of non-federal power "until service begins under new Regional Dialogue contracts." (p. 63) No justification is given for delaying implementation of this policy, while moving forward to implement other transfer issues "upon finalization of the Regional Dialogue policy." (p. 63). It makes little sense for IDEA/ICUA members to have to pay for pan-caked transfer service for non-BPA power deliveries for a limited window of time up until September 30, 2011, with the transfer service for such purchases then rolled in beginning October 1, 2011. IDEA/ICUA therefore request that this delayed implementation of rolled-in transfer cost treatment of non-federal deliveries be discarded and the policy be implemented "upon finalization of the Regional Dialogue Policy."

On page 68 Bonneville proposes five "eligibility requirements" in order to qualify for delivery of non-federal power at rolled-in rates. Of the 5 requirements only the fifth requirement is appropriate: i.e., "(e) *The third-party transmission service is over facilities equivalent in function and voltage level of the FCRTS Integrated Network Segment.*" The other four requirements are inappropriate, for the reasons discussed below.

> (a) The first requirement – that "*the transfer customer has historically been served under arrangements between BPA and a third party transmission owner*" – is ambiguous and discriminatory. Ambiguity stems from "when" a customer is deemed "historical" versus "new." More importantly, there may be new public power customers that are eventually able to exercise their statutory rights to receive service from Bonneville; even at Tier 2 rates. However, this "historical" requirement could forever preclude such new customers from ever receiving rolled-in transfer service from Bonneville. No substantive justification for this discrimination is offered.
>
> (b) . The second requirement – that "*The transfer customer must use the FCRTS in combination with third-party transmission service*" – would exclude the South Idaho Exchange Utilities from transfer service benefits. The South Idaho Exchange ("SIE") is a creative and cost effective method of delivering PacifiCorp's physical resources to BPA customers located in Eastern Idaho and Western Wyoming/Montana by exchanging a like amount of BPA's physical

10

resources to serve PacifiCorp's customers in Western Oregon and Washington. This exchange has proved to be financially beneficial for all involved, including Bonneville. (*See* McRae 2004 Cost-Benefit Study) We hope this is just an oversight on BPA's part as the goal for delivery of non-Federal power over third-party systems should not be extinguished simply because deliveries are made over an exchange agreement. IDEA recently sent a Transmission White Paper to Bonneville recommending that BPA make deliveries of non-Federal Power over existing GTA agreements if the customer is able to physically deliver that power to the load control area currently delivering power over a GTA. We urge BPA to incorporate that concept in the Regional Dialogue. A copy of the White Paper is attached and made part of these comments as Exhibit C. In summary, we believe customers served by an exchange should be given the opportunity to access non-Federal power at the same cost of a GTA.

(c) The third requirement for BPA payment for delivery of non-federal power is that the third party transfer service is "from" the BPA system "to" the transfer customer's native load. For the reasons explained in sub-paragraph (b) above, this requirement would exclude the South Idaho Exchange utilities from eligibility for payment of delivery of non-federal power. Certainly that is not BPA's intent.

(d) The fourth requirement found on page 68 of the Regional Dialogue proposal provides that non-federal power deliveries can only be made to "Points of Delivery on the transfer customer's service territory that existed as of October 1, 1996." This restriction will needlessly complicate deliveries for Bonneville

11

customers who upgrade or construct new substations and/or add new Points of Delivery. In addition, the date appears to be arbitrary with respect to delivery or non-Federal power in the future. IDEA/ICUA urges BPA to strike the restriction on service of non-Federal power over new Points of Delivery that are installed after 1996.

At the bottom of page 68, the Regional Dialogue begins a discussion of caps on the amount (and cost) of non-Federal power deliveries. IDEA/ICUA understands that there may be some risk associated with an open ended commitment for delivery of non-Federal power. The proposed 30 MW or $800,000 annual increment limit, with a 20 year limit of $16 million or 600 MW is arbitrary and should be strickent. Because we were promised equilevant service there should be no cap. This concept is well documented in the ARTS agreement and is fundamental provision of Transfer service

Transfer Service for Annexed Load: On page 63 BPA states that it does not intend to implement resolution to issues 6 (transfer service to annexed load) "until service begins under new Regional Dialogue contracts." No justification is given for delaying implementation of this policy either, while moving forward to implement other transfer issues "upon finalization of the Regional Dialogue policy." One of ICUA's/IDEA's members – the City of Weiser – is materially and adversely impacted by this apparent arbitrary delay in permitting rolled-in transfer service for the City of Weiser. We see no reason not to do so and actively urge BPA to resolve these issues now, rather than waiting until service begins under the new Regional Dialogue contracts. We endorse the City of Weiser's comments with respect to providing GTA transfer service for new public power entities now rather than waiting until 2012.

12

VIII

RESIDENTIAL EXCHANGE

Bonneville's proposal to allocate approximately $250 million of financial settlement benefits of the FCRPS to Investor Owned Utilities (IOUs) as Residential Exchange (RE) benefits is a reasonable compromise. In fact, we believe that, based on current market conditions, a range of $200 million to $250 million is more than reasonable. The BPA proposed RE settlement amount is an adjustment downward from the approximately $300 million of exchange benefits [partially] agreed upon for the last rate period, but which settlement amount is currently being litigated [as being too high]. Base on current market conditions – as opposed to conditions occurring during the last settlement in 2000 – the $250 million is a more than generous reflection of a mid-point of the range of possible RE benefit calculations.

Many commentators in Idaho and throughout the region argue that because residential and small farm customers make up such a strong percentage of the customer base[2] that the IOU benefits under the residential exchange program should be increasing over time, especially after adjusting for inflation. Some commentators argue therefore that benefits should now be in the $350 to $390 million range. Antidotal stories have also circulated as to how a $250 million exchange benefit proposal will put IOU small farm customers in Idaho and other locations "out of business" and would cause great hardship for Idaho IOU residential customers. Therefore, in order to better understand the potential impacts in Idaho of the various RE benefit proposals ICUA commissioned

[2] In Idaho, approximately 85 % of the customer base is served by IOUs and not public power utilities.

13

an economic analysis by Ben Johnson & Associates. The results of that study can be seen as Exhibit 4 to these comments.

The ICUA Retail Rate Analysis: The Exhibit 4 rate impact study looked at Idaho Power's and Pacificorp's (Rocky Mountain Power; hereinafter "RMP") effective revenues per kwh for residential and small farm customers, compared to similar calculations made for Raft River Electric, Fall River Electric and the City of Idaho Falls. For regional comparative purposes all five utilities serve eastern Idaho and are sequentially contiguous. PCA rate adjustments were ignored in order to get to an "apples to apples" revenue/kwh comparison.

Table 1 of Exhibit 3 shows the effective kwh rate for all five utilities for 2005 with IOU rates including the BPA exchange credit.[3] In 2005, with the exchange credit settlement amount at approximately $300 million, Idaho's two southern Idaho IOU's had the two lowest effective rates for both residential and small farm customers. In 2005 RMP's effective irrigation rate was approximately a half cent below the comparable rate of Raft River Electric and a full 1.5 cents lower than irrigation rate of Fall River Electric. Fall River and Raft River continue to have robust and economically viable small farm customers; in spite of the fact that their irrigation rates are either higher or significantly higher than RMP's.

Table 2 of Exhibit 3 assumes a $250 million RE credit settlement amount, and holds all other factors constant. Even with this drop in total dollars spent by BPA on the RE Program, Idaho IOU residential rates remain lower than the three comparative BPA

[3] For example, in 2005 the exchange credit for RMP amounted to approximately 2 cents per kwh.

customers in Idaho, and RMP's irrigation rate is now about equal to Raft River's irrigation rate, but still significantly below Fall River's irrigation rate.

Table 3 represents a $350 million exchange credit in total, with a proportional amount being allocated into Idaho. Under this scenario, RMP experiences a 10% residential rate reduction and a 20% irrigation rate reduction. RMP's irrigation rate now drops to 3.67 cents per kwh. Meanwhile, Raft River's irrigation rate rises to 4.73 cents per kwh and Fall River's irrigation rate rises to 5.85 cents per kwh.

Conclusions: The following conclusions result from the ICUA eastern Idaho residential and small farm rate analysis and from IDEA's/ICUA's review of the Regional Proposal:

a. I equity is a goal, then a $250 million RE amount provides the greatest retail rate "equity" among public versus private utilities in Idaho.

b. Arguments based on equity, a "fair share" of Bonneville or "we serve more customers than you do" in a particular state have nothing to do with BPA's statutorily mandated calculation of exchange benefits for IOU residential and small farm customers.

c. The corollary to conclusion (a) is that the best alternative may be for BPA to implement the RE fall-back position, take RE settlement off-the-table and simply calculate benefits according to the statutory formula; instead of trying to settle the amount.

d. If BPA now estimates the exchange credit range as between zero and $329 million, then $250 as a midpoint is much more to the right than the left side of "mid."

e. As assumed in the ICUA rate analysis, all other factors will <u>not</u> remain constant in the next rate period.

f. The corollary to conclusion (e) above is that it is just as unlikely that a \$250 million exchange credit amount will result in a 20% rate increase to RMP irrigation rates in easten Idaho as a \$350 million exchange credit amount will result in a 20% rate decrease.

g. If anyone's irrigation customers are at risk of going out of business, it will be Fall River's and Raft Rivers if the RE credit goes to \$350 million.

IX

2010 HIGH WATER MARK DATE

IDEA/ICUA also supports use of the 2010 high water mark date. It will produce viable data for use in calculating the high water marks for BPA's customers.

X.

DSI SERVICE

IDEA/ICUA strongly opposes any service to DSI load from Tier 1 resources or any service to DSI load that would have the effect of increasing Tier 1 rates.

XI

LDD AND IRRIGATION DISCOUNT

IDEA/ICUA appreciates and supports BPA's proposal to continue with the LDD and the irrigation rate mitigation program. Many of our members are directly affected by these programs. These programs should be fairly and evenly applied to all customers by using number of meters and not other methods for allocation of benefits.

XII

TIMELINE

We encourage BPA to adhere to its time line and not delay this proceeding as delay will cause uncertainty and increase our risk of not being able to adequately plan for the ultimate allocation of the system.

Respectfully submitted this ___ day of October, 2006.

By__________________

17