

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

October 30, 2006

Re: Washington Public Utility Districts Association's Comments on BPA's Long-Term Regional Dialogue Policy Proposal

Introduction

The Washington Public Utility Districts Association (WPUDA) thanks Bonneville for the opportunity to provide comments on the Long Term Regional Dialogue Proposal (RD Proposal). WPUDA acknowledges that the document is a proposed long-term settlement of various issues. In return for such agreements WPUDA expects long-term preservation of the Federal Base System value and benefits for the Pacific Northwest generally and for BPA's preference customers specifically. WPUDA pledges to work in good faith with all the parties in an attempt to reach an agreement that will move this proposal forward.

We recognize that in order to achieve the goals which underlie this proposal, the preservation of the benefits of the FBS and ensuring the Pacific Northwest continues to have an affordable and sufficient supply of power for the future, certain responsibilities will have to be accepted and certain rights will have to be temporarily suspended by all parties.

Support for Allocation Proposal

WPUDA would like to express our strong support for allocation of the FBS to public power utility customers of BPA. WPUDA passed a resolution in support of allocation in 2005, laying out several principles that should accompany allocation of the system.

WPUDA understands BPA's desire to finalize this policy in a timely manner. We share the belief that for utilities and BPA to take action needed to prepare for post 2011 this process cannot drag on. That desire notwithstanding, we believe it may be difficult for the region to reach agreements on several of the issues that the proposal contemplates. Consequently we request that BPA, at a minimum, provide informal opportunity for continued input and dialogue after the comment period has closed.

Tiered Rates

WPUDA supports the tiered rates approach and we believe that the proposed rate structure provides necessary incentives to invest in conservation and new resources. We believe that all tiered rates and services offered to preference customers should be cost based.

Service to Publics/ High Water Mark Calculations

WPUDA members have participated in the development of PPC's comments on the provisions regarding High Water Marks (HWM) and we generally support PPC's comments on these provisions. WPUDA specifically supports PPC's position as to the year in which load and resource determinations are made in order to establish a utility's HWM, and opposed BPA's change to that proposal. It also supports PPC's position on pooling of HWMs. WPUDA supports the development of a net requirements methodology as soon as practicable so as to allow utilities to better plan how to meet their loads post 2011.

A provision should be added which provides that resources a utility is required by federal law, such as PURPA, to acquire, or that is required or funded by state appropriation for economic development purposes should not be counted against a utility in its HWM calculation. Acquisition of a resource under such circumstances is not by choice of the utility. If a utility is required to acquire the output from a PURPA facility that is a declared resource under a current Subscription contract, that utility's HWM would be adjusted downward for that resource. If the generation is terminated or reduced in operation for reasons beyond the utility's control, under the current proposal the utility would have to make up that resource with either a Tier 2 purchase (with 3 years notice) or outside market purchase. As BPA is aware, being placed in a position to acquire a replacement resource on short notice is not an ideal economic situation for the utility, nor is it one that is easily anticipated or planned for.

WPUDA suggests that any resource that a utility is or has been required to acquire under federal or state law prior to 2011, not be included in the HWM calculation, but instead be included only in the net requirements calculation (similar to the proposal's treatment of renewable resources). If the facility terminates operation, then the utility has access to Tier 1 power in its net requirements calculation to replace that facility up to its HWM.

Long-Term Cost Control

WPUDA appreciates the Administrators recent efforts to create a more transparent and collaborative cost control process. WPUDA has examined the cost control mechanisms within the RD Proposal and agrees with BPA that the Regional Cost Review (RCR) would provide the most opportunity within the region for all stakeholders to participate and to make BPA's "decision making and cost information open and transparent with ample opportunity for input." Having said that, WPUDA is not convinced that the RD Proposal provides effective cost control mechanisms commensurate with customers making a 20-year contract commitment.

Cost control is of utmost importance to BPA's customers. It is imperative that BPA and its customers have a reciprocal obligation and incentive to work cooperatively to control costs which ultimately show up in customer rates. Because rates are cost based, and this structure is to be set in place for 20 years, WPUDA believes the cost control process must provide for a real, durable and effective method by which customers can exert tangible input on BPA's costs. To the extent allowed by Federal law, this may require the Administrator to cede some of their inherent decision making discretion to the cost-control process. It is not clear that BPA has in fact gone as far as it is allowed in this regard. In this proposal BPA is asking customers to settle certain issues and waive certain rights, which many customers are extremely reluctant to do. In return WPUDA asks the Administrator to revisit the RD cost control proposal to assure that it does, to the extent allowed by law, provide customers with meaningful cost control mechanisms.

An important element of a creative and effective cost control environment is creating alignment of interests among various contracts / products. Currently the differences between how the slice and other contracts treat true-up and CRAC mechanisms cause difficulties for both BPA and its customers. Those differences should not carry forward in the post 2011 contracts.

Absent an effective cost control mechanism, WPUDA suggests that a standard off-ramp provision will need to be included in the contract to minimize long-term risk of uncontrolled cost.

A very important element of effective cost control is preventing the leakage of Tier 2 costs into Tier 1 rates. While we understand that BPA has a statutory obligation to recover all costs, we also believe it is very important that all costs, benefits and risks of Tier 2 service be contained within Tier 2 rates and placed on customers opting for Tier 2 service.

Enforcement/ Dispute Resolution

WPUDA is not clear exactly what the proposed dispute resolution processes really are in the RD Proposal. For example, what is the remedy if a utility becomes involved in a dispute with BPA in the event BPA represents the dispute as a change in interpretation, rather than a change in underlying policy? We do understand that BPA cannot cede ultimate jurisdiction where they do not have the authority in law to do so, but we also understand that this is a settlement proposal and that BPA and the region should agree on a robust dispute resolution process that will serve us all equitably and fairly, one in which both parties have ceded some of their discretion to the process.

We do believe that all parties would be better served if those contract provisions that may lend themselves to solution through specific dispute resolution processes be so labeled in the contract. Certain provisions could be labeled as appropriate for arbitration, for instance, or submission to an administrative law judge or other independent third party. A more defined pathway to dispute resolution coupled with the issues identification process described below will provide more certainty for all parties.

One potentially viable dispute resolution alternative which has recently come to our attention is the proposed dispute resolution process in the Slice Settlement.

As we understand the Slice settlement dispute resolution process, a party to a dispute can trigger a facilitated discussion process, followed a draft report by the Administrator. If the dispute is not resolved in the facilitated discussion, a party may then initiate non-binding arbitration with processes established for intervention by other preference customers and ultimate resolution or judicial review.

A known and transparent dispute resolution along these lines would merit support by WPUDA.

Long-Term Issues Identification Process

WPUDA believes that BPA and its customers should not automatically go into an adversarial process as a default to resolve certain of these issues. As such WPUDA suggests an additional process called, for want of a better term, an Issues Identification Process (IIP). The IIP would be a collaborative process involving BPA and its customers that would be utilized to identify issues, potential contract amendments and other problems or uncertainties that may arise *before* they rise to the level of formal disputes. Once those issues are identified and solutions proposed and agreed upon, RD contracts could be amended to incorporate those agreed upon solutions. While we don't yet have a specific process to suggest, perhaps a mixture of the RCR and customer collaborative could be discussed or built upon.

Residential Exchange

WPUDA specifically requires that any settlement of the exchange issue must be one based on principles in existing law. In our opinion utilizing an initial dollar amount, with an annual adjustment via a transparent index, is an appropriate approach. That approach approximates a result commensurate with the application of the Regional Act's intent of bringing benefits to the residential and small farm customers of *higher* priced utilities compared to *lower* priced utilities, while protecting public agency customers from paying the costs of such benefits and maintaining transparency and simplicity.

WPUDA believes \$250 million is too high. WPUDA takes note further of the letter from the regulatory commissions of the PNW states and the complete absence of justification in law of their calculations that arrive at \$350 million as "the number". The State commissions seem to be inappropriately attempting to establish an entirely new rationale for providing residential exchange benefits, based on the relative proportion of customers served by investor owned utilities and building upon prior exchange benefits under the current settlement agreement. Public customers believe that approach to be inappropriate both as a matter of law and equity. WPUDA applauds BPA's recent response to the letter it received from the four State commissions.

WPUDA understands that there are negotiations taking place on the specifics of the initial amount and the indexing formula. WPUDA supports negotiation among the parties to attempt to reach consensus. It is possible that WPUDA would support an agreement

among the parties; however WPUDA reserves the right to review and take a position on the language if and when it becomes available.

DSI Benefits

WPUDA has gone on record for the current 2007 - 2011 rate period as reluctantly supporting a suggested "known and capped" subsidy of \$40 million to the aluminum companies, as financial benefits only, and opposed any power being offered. We saw the known and capped benefits as mitigating risks for those who provide this subsidy, the customers of public power utilities. BPA ultimately provided \$59 million in DSI subsidies for the rate period.

However, for the post - 2011 period a significant majority of WPUDA members can no longer support any subsidy to the aluminum companies. By 2011 aluminum companies will have had 30 years notice under Regional Act to wean themselves away from subsidies from public power customers. By their own admission they cannot compete on a sustained basis in the world market against newer, more efficient smelters without those subsidies.

Most WPUDA members cannot, in good conscience, support continuing discriminatory corporate subsidies to large multi-national companies. Most of our members believe that it is not fair to our customers to ask them to pay these subsidies to these companies when businesses and industries in their own communities are struggling to maintain viability and employment in competitive world markets as well.

Treatment of Centralia

WPUDA joins in the comments provided by the Public Power Council on this issue. The agreement not to reduce a utility's HWM based upon resources no longer owned by the utility was central to the allocation proposal put forth by PPC. The treatment of Centralia should not be used as a bargaining chip in the Regional Dialogue Proposal.

Product Offerings

All current products offered by BPA should also be offered for the post-2011 period. Those products include Full and Partial Requirements, Block and Slice. These products should be viable, responsive to customers' needs and offered in their entirety at cost based rates.

In all products, the inherent flexibility of the FBS should be available for the benefit of preference customers. As preference customers transition to providing for their own load growth, whether through Tier 2 rates or acquisition of resources independent of BPA, this flexibility will be necessary, and should be reserved for preference customers to allow integration of new resources by customers who choose to do so.

The proposed limitations to the availability of the slice product appear to be premature and arbitrary. The availability of slice should not be limited in a manner that makes it impossible for a utility to meet its responsibilities in following its load. The product

should be provide flexibility on a "pro rata" basis and be comparable to flexibility BPA provides to its PBL.

Additionally, BPA should develop a complex Partial Requirements product that better allows the integration of resources than does the current contract. WPUDA believes the concerns BPA has regarding over subscription to slice are significantly less likely if BPA offers a more useable Partial Requirements contract.

For all product / contract types, services to support these products such as ancillary services and capacity, should honor public preference and be provided at cost-based rates, not on a market priced basis as proposed. While BPA has pledged to have a cost-based revenue requirement, offering ancillary services and capacity at market rather than at cost results in some customers paying more than cost, while others pay less, and violates its obligation to offer services to preference customers on a cost based basis.

Transmission

WPUDA strongly supports making preference transmission services for preference customers to serve load in the future an element of the Regional Dialogue ROD and subsequent 20 year contracts. We urge BPA to make transmission service to serve both federal and non-federal Tier 2 resource acquisitions on behalf of customers a preference service on par with preference power. Otherwise, the basis for a workable and successful allocated system will be jeopardized.

Conservation and Renewables

BPA should include utility-funded conservation when calculating each utility's HWM from 2002 through 2011 rather than 2007 through 2011. That is, the conservation value should be added to the load requirement to establish the HWM. To do otherwise will penalize early adopters of cost-effective conservation. We support BPA's proposal to exclude fifty percent of rate-funded conservation from the HWM calculation.

BPA should consider redefining it's role in regional conservation particularly in states where other authorities may require some utilities to achieve all cost-effective conservation (at their own cost as necessary) regardless of BPA involvement (e.g., Initiative 937 in Washington). If those requirements become law, BPA should ensure that customers subjected to those requirements do not also pay for other's conservation under Tier 1 rates in addition to their own.

WPUDA supports the concept that conservation and renewables funding provided to customers post-2011 should be in Tier 2 rates, including the portions of the proposed \$21 million for "renewables facilitation" that do not directly provide facilitation to Tier 1 products.

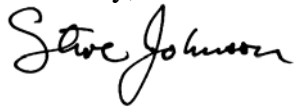
President's Budget Proposal

WPUDA opposes sending any secondary revenue to prepay US Treasury obligations. This can only hurt our customers by not having those revenues available to provide

stability to the Northwest economy. Further, this proposal is contrary to commitments made by Congress and previous administrations to not arbitrarily increase the costs to customers by means such as accelerating Treasury payments by BPA. WPUDA understands there are ongoing discussions on this topic and intends to participate constructively.

We look forward to continuing dialogue with you on this important issue to the Northwest. If you have any questions about our comments please don't hesitate to call either Brian Skeahan at Cowlitz PUD or Dave Warren in our office.

Sincerely,

A handwritten signature in black ink that reads "Steve Johnson". The signature is written in a cursive, flowing style.

Steve Johnson
Executive Director