

October 31, 2006

Bonneville Power Administration

Larry King

2700 Overland Ave.

Burley, ID 83318

Dear Mr. King;

I wish to take this opportunity to provide BPA with the comments of Wells Rural Electric Company (WREC) on the Long-Term Regional Dialogue Policy Proposal dated July 13, 2006. WREC generally supports the goals and approach taken by BPA in the Regional Dialogue Policy Proposal. We feel it is essential that BPA define their responsibility for meeting current and future load growth and to preserve the value of the Federal generation system for the region. WREC is an all requirements customer of BPA and a member of Northwest Requirements Utilities (NRU). WREC fully agrees with comments provided by NRU on the Regional Dialogue Proposal. Rather than expressing our agreement with each issue of the NRU comments we wish only to submit comments to clarify our position on specific issues that we feel are of particular interest to WREC. Therefore we are providing the following comments to better define WREC's positions and concerns.

Access to Power at Lowest-Cost-Based Rates

WREC is in agreement with the six step approach of setting the HWM. We wish to comment on the Step 3 (page 14) phrase "based on the actual loads experienced and measured in FY 2010, normalized and in rare instances, adjusted for significant one-time force-majeure events." WREC has a large industrial load on the Maggie Creek POD that comprises approximately 70 percent of WREC's entire load. This load periodically experiences forced outages due to a variety of causes. In 2003 the Mill 6 at Newmont's Gold Quarry Mine had a failure of the main grinding mill that took 45 days to repair. The Maggie Creek POD was reduced by approximately 20,000,000 kWh (approximately 5 percent of the annual POD load) over this period. We find the term in Step 3 "in rare instances" troubling and subject to the possibility of unacceptable interpretation. If events occur in FY 2010 that significantly reduces the normal load at Maggie Creek or any other POD there should be provisions for adjustments. We feel the term "in rare instances" should be removed from the Step 3 True-Up and replaced with the term "and adjusted for significant verifiable force majeure events".

Annual Net Requirements Calculation

We agree with the NRU comments that the Net Requirements Determination (page 17) used by a utility to determine the amount of power purchased at Tier 1 should be for the rate period rather than annually for the reasons stated but we have concerns with this position if the rate period is in excess of two years. If a utility were to grow rapidly and beyond their net requirements determination and HWM during a prolonged rate period, the utility would have their load growth above their HWM met through the load Variance (or other substitute charges) rather than by a Tier 2 purchase for the prolonged rate period. This would shift additional costs into Tier 1. If BPA is anticipating rate periods beyond two years, we prefer to see Net Requirements Determinations at least every two years.

Tier 2 Rate Purchase Alternatives

We feel that BPA's Tier 2 options (page 28) will be appealing to many small utilities including WREC. At issue is WREC's large industrial load served from the Maggie Creek POD comprising 70 percent of the WREC load. BPA should include a provision to partition off large industrial loads (served from a unique POD) from residential, farm, and commercial loads such that the large industrial load can be served by non-Federal Tier 2 power and the utilities' residential, farm, and commercial load can be served by one or more of the BPA Tier 2 products.

Another issue we have with the BPA Tier 2 products is the structure of long term and full load growth coverage products. Long term time periods, being in excess of five years, have extreme uncertainty associated with them. Many things can change including the government mandates for renewable energy, reduction of green house gas and/or prohibition of carbon based fuels, etc. There needs to be off-ramp provisions accompanying the long term Tier 2 products to account for uncertainty, with provisions that are flexible but that do not result in significant cost shifts.

Transfer Service

There are two issues we wish to point out regarding the proposal for transfer service for non-Federal power. First is the issue of the requirements for eligibility, specifically "b", "c", and "d" (page 68). Requirement "b" requires that transfer customers must use the FCRTS in combination with third-party transmission service. This becomes a problem for transfer utilities located in southern Idaho and northern Nevada. Specifically WREC has PODs located in the IPC and the SPPC control areas. If WREC wishes to purchase Tier 2 power from the IPC or SPPC control areas or from transmission interconnecting with the IPC or SPPC control areas, the Tier 2 purchase will not meet the requirement "b". This "b" requirement will penalize WREC and any transfer utility located in a control area outside the FCRTS. This "b" requirement should be removed.

Service to the SPPC transmission system for transfer service to Harney and WREC loads in northern Nevada is complicated. The transfer path from the FCRTS is via the PACI to Malin, then via an intervening section of FCRTS to a transformer owned by Pacific Corp at Hilltop, then connecting to the SPPC transmission system at Hilltop. Requirement "c" seems to say that the transfer service must be from the FCRTS through the third party transmission service to the customer's load. Transfer service to northern Nevada does not appear to meet the requirements of "c". This "c" requirement should be removed or modified to accommodate the various transfer service configurations that exist.

Requirement "d" will penalize any transfer utility requiring a new POD after October 1, 1996. There are any number of reasons a new POD could be required and it may or may not involve additional load. In the case of WREC, there is a major transmission line permitted through the eastern part of their service territory. If this transmission line is built it could provide a new POD for WREC replacing three current WREC PODs that are capacity limited. Such a new POD would not meet the requirements of "d". This requirement makes no sense, appears to be arbitrary, and should be removed.

The second issue is the MW or cost cap for transfer service (page 69). Transfer service is intended to be a replacement for the FCRTS by delivering power to customers via third party transmission systems. BPA initiated transfer service under the "one utility concept" which took advantage of capacity on third party transmission systems in lieu of building BPA transmission. Transfer service would then be comparable to the service provided by BPA to customers directly connected to the FCRTS. By imposing MW or cost caps on transfer service, utilities served by transfer service would not be treated the same as utilities served by the FCRTS. The transfer service would not be comparable to FCRTS service. The cost cap appears to be an arbitrary discrimination against transfer service and should be removed.

Sincerely,

Clay R Fitch
Wells Rural Electric Company