



Richland

**ENERGY SERVICES – MS-21
ADMINISTRATION**

*Recd
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@ 3 pm*

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Bonneville Power Administration
Public Affairs Office – DKC-7
P.O. Box 14428
Portland, OR 97293-4428

REG-091

Re: Comments on BPA's Long-term Regional Dialogue Policy Proposal

Gentlemen:

While Richland Energy Services supports the general direction of BPA's Regional Dialogue Policy, we are understandably concerned about specific elements of the policy. This letter identifies those concerns. As a member of Northwest Requirement Utilities, Richland has a keen interest in having new long-term power supply contracts in place that will serve our specific interests while satisfactorily meeting the collective interests of the region. Negotiation and implementation of new contracts within the general framework of BPA's Regional Dialogue Policy will be a significant accomplishment for all involved. Richland applauds BPA and those elements of the utility community striving to craft fair, reasonable, and durable contracts. With this in mind, we would like to offer the following comments:

- We encourage BPA to pursue its established time schedule for the new contracts. While some of the issues constitute major challenges and may in fact delay the process, the region should proceed as quickly as prudence allows. The magnitude of power supply planning issues facing regional utilities will demand as much time as possible prior to contract implementation.
- We believe regional interests and BPA should continue working toward removal of the threat posed by the current federal administration's 2007 budget proposal requiring early payments toward Federal bond debt when BPA surplus power sale revenue surpasses \$500 million. This proposal threatens to undermine our collective efforts to restore BPA power rates to reasonable levels and, in turn, poses a real danger to our northwest economy, which is still recovering from the impacts of the recent west coast energy crisis.
- We suggest, that BPA staff work with public power to quickly develop sound rules for the determination of net requirements. This is a critical computation underlying FBS allocation and as such needs to withstand challenges.

- To date attention appears to be focused primarily on the energy aspect of power supply. We would like to see more attention applied to the capacity side, especially given the growing demands being placed on the system and corresponding constraints.
- We agree with BPA's selection of 2010 for determination of customer High Water Marks (HWMs). The use of forecasted 2010 net requirements subsequently trued up to actual during 2011 seems reasonable.
- Regarding the credit accorded BPA-funded energy conservation, we strongly support adopting a level exceeding the proposed 50%. We think a more appropriate level would be at least 75%.
- The HWM construct should remain annual in nature. Abandoning the annual approach in favor of a monthly approach introduces unnecessary complexity and instability. We believe, that most customers prefer the annual approach.
- Any changes to HWMs must be consistent with contractual provisions and HWM changes effected via rate cases must be part of the formal process.
- We believe pooling should be available to customer utilities. BPA needs to be more sensitive to the customer benefits derived from pooling loads and resources. More time and attention should be devoted to making this a reality under the new contracts.
- Resource removal rights must be maintained to protect Tier 1 allocations in the event of retail load loss.
- Take or pay provisions must be carefully developed to protect customer interests, particularly those of load-following customers. If a customer's net requirement falls below its HWM, say due to load loss, the take or pay provisions should only apply to the net requirement, with the value of the excess Tier 1 credited back to load following customers. Tier 2 rules should provide that any excess will be remarketed by BPA for the benefit of the related customer.
- We agree with BPA's treatment of new public customers. Reserving a limited amount of Tier 1 power for them is appropriate; protecting existing Tier 1 customers from uncontrolled cost increases is imperative.
- Consistent with NRU's formal position re treatment of DSIs, Richland strongly opposes any future power sales to them. BPA has no legal obligation to do so and should resist political pressures. The recent independent study confirms the contention, that a reduction of DSI presence in the region does not constitute a net economic detriment.

- If the FBS should lose a major resource, some avenue must exist whereby BPA customers can effect replacement of those resources either through BPA or using nonfederal resources.
- BPA should not lose sight of the imperative, that power under the new BPA contract be "delivered" power. In short, for load following customers adequate transmission service must accompany any and all power purchases. This is an exceedingly critical issue meriting corresponding attention.
- Satisfactory load following products must be offered at acceptable cost, including the cost of resources to ensure adequate shaping and variance service. BPA must reserve sufficient capacity to meet load following obligations.
- As many customers have yet to determine their resource requirements, much less their resource plans, we suggest, that BPA approach the partial service question with the intent of working with its customers to develop a truly acceptable product providing sufficient resource integration flexibility.
- With respect to Tier 2 resources, we suggest that BPA work closely with its customers to develop a truly acceptable, workable program devoid of unnecessary complexity while protecting the interests of individual and collective customer groups. Creative and responsive engagement with customers would pay dividends to all parties.
- BPA suggests that its customer utilities waive their legal rights to challenge its tiered rate methodology. This represents radical departure from traditional BPA contracts. There is no convincing rationale to support this position, which should be withdrawn.
- We do not agree with BPA's proposal to employ opportunity cost pricing for load following products. Consistent with clear delineation of the resources providing both Tier 1 and Tier 2 power, the associated resource costs should also be likewise carefully and clearly identified. The cost of load following should reflect embedded FBS costs; anything required beyond FBS resources should be differentiated.
- The Slice product has been an exceedingly contentious issue. BPA needs to restructure it in order to eliminate sources of disagreement and cost shifts. BPA should pursue implementation of its Alternative #2, which provides for "continued sales of the Slice product at approximately the current amount, with modest reductions in the current level of operating flexibility and or clarification of the nature of the capacity rights and flexibility".
- We remain very skeptical about BPA's requirement that customer utilities contractually waive their statutory rights to legally challenge Residential Exchange Program benefits for IOUs. While we recognize the challenges surrounding this entire issue, which in many respects is truly fundamental to achieving regional consensus, we regard this surrender of legal option unrealistic and probably unachievable. BPA should recognize this now and approach the problem from a



different direction. Similarly, no physical power should be provided to IOUs in settlement of their exchange rights; instead only financial payment is appropriate.

- BPA should resist the DSI's political pressures to continue subsidization at the expense of BPA's utility customers. Neither power nor financial payments should be made to these firms post-2011.
- We believe BPA needs to reexamine its stance toward regional energy conservation. Its shift away from the residential market and its corresponding reduction in related measures and credits will undoubtedly prove to be a mistake. BPA needs to heed utility recommendations and reinstate many of the successful elements of its previous program.
- Renewable resources constitute both opportunity and risk. BPA needs to become far more aware and sensitive to the impacts on utilities of related events outside BPA's immediate areas of responsibility. The repercussions of state-mandated renewable portfolio standards could be adverse for BPA customers, if related protective measures are not adopted. For example, reductions in Tier 1 take may be forced on specific utilities by virtue of satisfying renewable standards. How does BPA propose to pass on the benefits of remarketed Tier 1 power? We suggest impacted utilities receive the credit rather than all Tier 1 buyers. And, any renewable project that BPA promotes should satisfy state renewable standards.
- The intentional exclusion by some regional interests of existing hydro generation from renewable status is absurd. BPA should encourage a more enlightened viewpoint and take steps to treat increased hydro generation as renewable.
- The upsurge in support for wind generation needs to be tempered with the reality of BPA's limited ability to support both existing and new wind projects. BPA must not compromise its ability to satisfy existing capacity obligations merely for the sake of supporting questionably viable wind projects.
- On the basis of its Regional Dialogue Policy, BPA seems to have perhaps lost sight of its obligation to serve the net requirements of consumer-owned load following utilities. Suggesting that BPA would not meet load for these utilities, should such a utility fail to acquire sufficient Tier 2 resources, appears to contradict its legal commitment to serve load. So long as deficient utilities pay the full cost of meeting load, BPA must stand ready to do so.
- Cost control by BPA has always been and will continue to be a sensitive and highly important issue for its utility customers. The recent power rate case was encouraging, as BPA did make progress in controlling some of its costs. Nevertheless, BPA's Regional Dialogue Policy appears to minimize customer interest and involvement in this area. Effective mechanisms for customer input and influence must be provided. Non-customer stakeholder influence must be correspondingly reduced to ensure bill-paying customers are accorded the attention deserved.

- Richland agrees with the intent to avoid staggered contracts, which if adopted, would introduce unnecessary and undesirable confusion, complication, and cost. Efforts should also be made to extend the contracts to encompass a full twenty years, regardless of when actually signed. And lastly, a single power sale contract should be used to deal with both Tier 1 and Tier 2 service.
- While elusive, regional consensus is achievable, given willingness to commit and compromise. This is particularly the case in dealing with settlement of IOU exchange rights. In contrast, we do not believe BPA has any defensible commitment to the DSIs and thus no FBS benefits should accrue to them.

We appreciate the opportunity to comment on the numerous underlying issues and trust that BPA staff will seriously consider them as well those submitted by other consumer-owned utilities. We are confident, that collectively we can craft a comprehensive approach satisfactory to BPA's customer utilities.

Sincerely,

Raymon D. Sieler

Raymon D. Sieler
Energy Services Director

cc: John C. Darrington, City Manager
Utility Advisory Committee