



The Cooperative Way!

# BENTON RURAL ELECTRIC ASSOCIATION

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REG 094

October 25, 2006

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

Rec'd  
10/30/06  
@ 3:30pm

Re: Benton Rural Electric Association Comments on BPA's Long-Term Regional Dialogue Policy Proposal

In response to the request for public comment concerning the BPA Long-Term Regional Dialogue Policy Proposal, Benton Rural Electric Association (Benton REA) appreciates the opportunity afforded by the public comment process and provides the following comments.

**General Overview--** BPA Long-Term Regional Dialogue Policy Proposal

*One could easily draw the conclusion that a proposal requiring 91 pages of descriptive narrative (which does not even address the more complex details for implementation), that subsequently elicits 45-50 pages of comments, has failed to achieved the original goal.* The Regional Dialogue Policy Proposal is an extremely complicated proposal as evidenced by the 48 pages of comments provided by the Northwest Requirement Utilities (NRU), and some 30 pages of comments from the Western Public Agencies Group (WPAG). One of the goals of the Regional Dialogue was to provide a simple and transparent process to allocate the costs of the Federal Base System (FBS). Obviously this has not been accomplished. We would encourage BPA to reconsider the goal of developing a tiered rate methodology based upon an allocated system, and revert back to the basic cost based products currently being offered by BPA, and provided at melded rates.

Benton REA provides the following comments concerning the details of the Regional Dialogue Proposal:

**Access to Public Residential Exchange--Generation Resources acquired prior to Regional Act and pursuant to the BPA Notice of Insufficiency**

*The Benton Rural Electric Association urges BPA to strongly consider developing individually crafted settlement approaches for public agencies that developed resources prior to the Regional Act, (or in response to the BPA notice of insufficiency) in the event that these resources are used in the future to serve utility load or are terminated.*

As a member of the Power Resource Cooperative (PRC), Benton Rural Electric Association participated in the construction of the Boardman generation resource prior to the passage of the Northwest Power and Conservation Act in 1980, and pursuant to a

BPA notice of insufficiency. As such, Benton REA is situated differently than most other public utilities that built or acquired resources as a matter of choice after 1980, and not in response to a BPA notice of insufficiency. As owners of this facility, we have continuing financial exposure in the event this project is terminated or we are forced to use the project output to serve load to the detriment of the utility in the future. BPA should allow public utilities that developed resources prior to the Regional Act to have the ability to participate in Residential Exchange Benefits provided by the Regional Act, or BPA should offer an agreed upon settlement arrangement at the time such resources are used to serve utility load or terminated in the future.

Low Density Discount (LDD)--Relationship of LDD to IOU Benefits

*Benton REA believes that the financial value of the LDD should be enhanced and the financial benefit of the LDD memorialized in a manner that reflects equity in comparison to the proposal to lock in the IOU exchange benefits. Future increases in the financial value of the LDD should also be commensurate with those anticipated for the IOU exchange.* Benton REA believes there is a direct relationship between the LDD and the financial benefit levels available to IOUs for the residential and small farm customers that are clearly set forth in the Congressional Record associated with passage of the Regional Act. Benton REA has a density of around 6 meters per mile of line. Benton REA serves in the lower Yakima Valley, and, as such, we are adjacent and compete directly with PacifiCorp. PacifiCorp reflects a \$.01125 / kWh reduction on their retail power bills directly associated with the benefit that they are receiving from BPA through the Residential Exchange Program. This issue alone causes Benton REA's residential rate to be 20% above PacifiCorp's rate. Benton REA members question why their rates from Benton REA include paying money to the IOU while the IOU's retail rates are significantly lower than the cooperatives.

Currently, BPA is providing over \$300 million in financial benefits to IOUs for residential and small farm customers conversely BPA is providing public power a \$20 million benefit through the Low Density Discount. The financial benefit that is being proposed for the benefit of IOUs without a 7(b)2 rate test and regardless of the IOU's Average System Cost (ASC) is an outlandish proposal, and creates an unfair competitive advantage for the IOUs.

Additionally, as the LDD is no longer applied to transmission purchases and in the future may not be applied to Tier 2 product purchases from BPA, we urge BPA to carefully consider increasing the LDD benefits applied to Tier 1 to accommodate for purchases made under Tier 2, otherwise the LDD benefits will shrink rapidly. To the extent the level of LDD methodology is at the discretion of the Administrator, and, as such, subject to adjustment in future rate cases, the proposal to lock in financial benefits for IOUs for the contract period is extremely generous and arguably in conflict with the Congressional

Record as it applies to the LLD and Residential Exchange relationship. The proposal for IOU benefits would secure these benefits through a methodology that would provide for continued increases in IOU benefits in the long term, while it appears there would be a continual erosion of the LDD benefits. Unless this likely disparity is resolved in a manner that we find acceptable, Benton REA will not be waiving its statutory right to challenge the IOU benefit level as proposed in the Regional Dialogue.

#### Rates for Reshaping the FBS to Customer Use

*Benton REA believes that BPA is statutorily required to provide ancillary services including shaping at cost. Benton REA contends that the first priority for the FBS is to use its considerable flexibility to meet the Preference loads placed upon it. To the extent the system capability is used to meet load, then the cost of the existing system must be reflected in pricing.* BPA is proposing that the Agency will charge "reasonable opportunity-cost-of service" based adjustments for shaping services. If our interpretation of the reference to "opportunity costs" in this document are correct, and the application of this market based approach leads to an immediate or potential cost shift that is detrimental to Load Following customers, then Benton REA disagrees that it is appropriate. Other organizations such as NRU and WPAG will be submitting more extensive comments on rate design matters, and we would ask you to give their comments serious attention.

#### Rates for Capacity charges

*Given our interpretation of references to "opportunity-cost-of service pricing" in the document as equivalent to market prices, Benton REA disagrees that this is appropriate.* BPA is proposing that the Agency will charge "opportunity-cost-of service pricing" for capacity charges. Any price signal based upon the cost of capacity to serve requirements load should not be distorted from an embedded cost approach. Inflated capacity costs as a result of BPA moving too far to support slice, wind integration, or fish flow operations should not be recovered through an inflated demand charge and justified to "send the appropriate price signal". Further, integration services for renewable generation supported by the current FCRPS should not be offered if such action has the effect of increasing the cost or reducing the availability of capacity or energy to BPA's Load Following customers.

#### Service to the DSIs

*Benton REA strongly recommends that no further subsidy be provided to the DSIs which are the same comments that we have consistently made to BPA.* In February 2005, in response to a straw proposal drafted by Steve Wright for a \$40 million subsidy to the DSIs, Benton REA made the following comments:

*It is not the industry that needs support it is those people who work for the industry. Therefore it makes more sense to focus our efforts and money on helping displaced workers rather than attempting to breathe life into a dead*

*industry. It is with this idea that Benton Rural Electric Association believes that retraining those in the aluminum industry work force, who are struggling to find other employment become the goal of this last effort to impact this industry.*

*The straw proposal drafted by Steve Wright suggests that the region is willing to spend, over the next 5 years (2007-2011), a maximum of \$40M per year to, once again, attempt to do something these subsidies have never been able to do before and that is to make Northwest aluminum competitively produced. So rather than going down that trail one more time lets take ½ the amount (\$20M) to retrain the DSI workforce.*

*Some advantages of a retraining program as opposed to BPA's straw proposal:*

- *This will eliminate BPA establishing criteria that is required in order for a DSI to acquire the BPA funds.*
- *This will eliminate the frustration caused when the DSIs cheated the BPA program and acquire the funds.*
- *This will also eliminate the need for BPA to inadequately police the effort.*
- *This will eliminate a projection of market rates that will inevitably be incorrect.*
- *This will eliminate BPA's involvement in attempting to determine the viability of the future business plans of the DSIs.*
- *Directing efforts to retrain the DSI work force will eliminate the possibility that the DSI could use the local public power utility as the vehicle to deliver any benefit in a way whereby the DSI load can somehow become a public utility load and now, through a back door the DSI becomes a preference customer of BPA further eroding the feasibility of a fair methodology for allocating the federal base system to preference utilities.*
- *A retraining program will be transparent to those who participate and to those who are providing the funds.*
- *A retraining program is politically sustainable.*
- *An ending point for ongoing subsidize to DSIs is now possible (9/30/2010)*

*If it is truly workers of the DSIs that we want to reach for the long term, let's retrain them to participate in other industries that are viable in their communities. Any currently active employee of a DSI would be eligible for the retraining program.*

BPA is now proposing that the amount be \$59 million rather than \$40 million the above comments from Benton REA are even more applicable.

Benton REA believes that BPA should terminate support to the DSIs at the end of the current contract period. The Priority Firm Rate could be about \$1/MWh lower without BPA financial payments to the DSIs. Our focus in the short term should be to contain the amount of financial benefits provided to each of the remaining aluminum plants, and not to further concentrate the support to the remaining few plants, even as they continue to face challenges of economic viability in an extremely competitive world market.

### Capacity Constraints for Wind Integration

*Benton REA does not support any further integration of renewable resources that are supported by the current FCRPS until the effect of such support is fully evaluated and the effect to BPA's Load Following customers is fully understood and reported.* BPA did not adequately address the tradeoffs between hydroelectric generation as a renewable and wind as a renewable. In the discussion of Integration Service, the document says "BPA intends to use the flexibility of the FCRPS to provide cost based wind integration products for wind projects..." The document expresses uncertainty regarding the flexibility of the FCRPS to do this, given pending litigation regarding the Biological Opinion. We have gleaned in a variety of forums that the capacity availability issue is not yet resolved. But, just as with other uses of the system that require the purchaser to bear the costs, so also the purchasers of the wind project output should be required to purchase this product from BPA without subsidy from other rate payers. BPA needs to be clear as to the true costs of integrating renewable projects into its system and charge accordingly. BPA needs to assure its customers that BPA will use the FCRPS in the manner makes overall economic sense to the end consumer.

### Long term rates methodology

*Benton REA cannot legally waive its right to exercise the provisions of any applicable statute.* A problematic statement in the Policy Proposal is that customers must agree to not challenge the Tiered Rates methodology in order to be able to sign a contract (page 29). This prohibition on challenge extends to the rate methodology, *establishing and changing HWMs in the rate case, accounting for existing FBS resources and the changes in the firm capability of the system, including the source of information and the process that would be used to periodically adjust resource capabilities.* This prohibition has not been the case in prior contracts and leads Benton REA to question whether it can be accomplished from a statutory perspective. If the allocation of the system and the tiered rates methodology is beyond the constraints of the Regional Act, or the Bonneville Project Act, then we would encourage the Agency to revert back to the typical products offered by BPA and calculation of the Residential Exchange Benefits to the IOUs pursuant to the provisions of the Regional Act, and other statutory requirements of the Bonneville Project Act.

### Irrigation Mitigation

*The members of Northwest Irrigation Utilities have submitted separate comments supporting BPA's recommendations, and Benton REA supports these comments.* As a member of Northwest Irrigation Utilities (NIU) and a utility with a significant number of irrigation members, we support the long term Irrigation Mitigation program described in BPA's Regional Dialogue proposal. The program basically incorporates contract features in place during FY 07 – 11. The members of Northwest Irrigation Utilities have submitted separate comments supporting BPA's recommendations, and Benton REA supports these comments.

### Slice of the System

*Benton REA is not a proponent of the Slice Product, and urges BPA to limit access to the amount of Slice Product available under a future offering. In addition, Benton REA urges BPA to limit the flexibilities offered under the Slice product to retain BPA's ability to more efficiently manage the FBS.* BPA describes the current Slice product as "untested and complex." The Slice product initially was offered on an experimental basis, with an assumption that it would be best suited for utilities that had significant generation resources of their own. Benton REA argued fervently at the time that the Slice Product would politically fracture the northwest customers of BPA, creating a weaker political shield against future attacks on BPA. We believe that this concern has manifest itself to be valid and of great concern. One of the original principles for Slice was "no risk of cost shift to non-Slice customers." We believe that the complexity of the product creates opportunities for cost shifts and both a perception and reality of financial "winners and losers" between Slice and other customer groups on a range of issues. For example, setting aside issues surrounding recent litigation, NRU needed to become involved as an advocate for BPA's Load Following customers in the complexities surrounding BPA's potential recall of excess Slice power for FY 2007, in light of the Agency identifying a power supply deficit for the operating year.

We also believe that the current contractual provisions and operational flexibilities of Slice result in the generation resources of the FBS not being operated for the maximum benefit of all customers, and raises concerns regarding BPA's ability to assure overall system reliability. These problems are more evident as the flexibility of the FBS becomes constrained. Growing FBS capacity shortages, evidenced this summer, are a primary example of the problem. Capacity is becoming more and more constrained due to 1) changes in river operations for fish, 2) BPA's commitment to integrate new resources such as wind, and 3) buffers for prudent system operation. To compound this problem, there is lack of a clearly documented and generally understood analysis of the extent to which the system is capacity constrained. Clearly Slice is not the only contributing factor, but Slice is one factor that needs to be carefully reviewed in conjunction with others.

**Payment for Delivery of Non-Federal Power**

*For purposes of limiting non-Federal resource deliveries that would be eligible for financial support, BPA lists 5 requirements. Benton REA objects to criteria "d" that would limit eligibility only to cover points of delivery of the transfer customer's service territory that existed as of October 1, 1996. If any limitation is imposed for PODs, it should be as of October 1, 2011 rather than 1996. A retroactive application is simply unfair, and appears to ignore that the transfer PODs were implemented to save BPA and the region extra cost of duplicative electric facilities.*

In the Regional Dialogue Policy Proposal, we do not see a discussion of the BPA's ability to integrate resources into the system and leads Benton REA to believe that its history with BPA integration of resources has not changed. Benton REA submitted a request for 50 MWs of Network Transmission services September 16, 2003 (OASIS Request No. 721). Two years later, on September 26, 2005, that request was denied by BPA due to Benton REA's inability to demonstrate a resource that would begin on January 1, 2006. Although BPA has said that they are encouraging the development of non-federal resources to serve load, the Agency does not have a process that allows for the integration of serious (excludes wind, solar and other intermittent resources) non-federal resources into the system.

**Secondary Revenues to Pre-Pay the Treasury Debt**

In response to the question Bonneville raised regarding whether or not customers would support the proposal to use secondary revenues in excess of \$500 million to pre-pay the treasury debt, Benton REA does not support this proposal. If the need for borrowing authority is justified it should be sought through the normal congressional appropriations process and not through an increase to power rates to benefit the transmission system users.

**Support of other Association Comments on BPA's Long-Term Regional Dialogue Policy Proposal**

The Benton REA supports the comments submitted by NRU and WPAG regarding the BPA Long-Term Regional Dialogue Policy Proposal. Should the comments of these two parties conflict with those offered directly by Benton REA, Benton REA comments represent the official position of Benton REA.

Sincerely yours,



Virgil Boyle  
President - Board of Trustees  
Benton Rural Electric Association