



Citizens' Utility Board of Oregon

610 SW Broadway, Suite 308
Portland, OR 97205
(503) 227-1984 • fax (503) 274-2956 • cub@oregoncub.org • www.oregoncub.org

October 30, 2006

Steve Wright
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Re: Comments on the Regional Dialogue Proposal

Dear Mr. Wright,

The Citizens' Utility Board of Oregon offers these comments on BPA's Regional Dialogue Proposal.

The Citizens' Utility Board was created by voter initiative in 1984. State law grants CUB statutory standing in both state administrative and judicial proceedings in order to protect the interests of small consumers of utility services. We have been involved with BPA processes for many years, representing BPA's "other" customers, the residential and small farms customers of investor owned utilities in Oregon.

BPA's Long-Term Regional Dialogue Policy Proposal attempts to paint a picture that the structural paradigm shift being proposed is without controversy or opposition. The proposal shifts the responsibility to acquire resources from BPA to over a hundred individual utilities and implicates a number of major issues, from resource adequacy to BPA's responsibility for acquiring energy efficiency and renewable energy. The essential construct of the Proposal, the reliance on an allocation of the system to move the resource acquisition obligation from BPA to the individual public utility, is controversial and demands careful scrutiny.

This major shift in policy is packaged in a proposal that spans 20 years and that touches, to some degree, every electricity rate payer in the Northwest. This long-term proposal is supposed to be a durable mechanism designed to keep the benefits of the Columbia River System in the Northwest. Before we address a number of issues implicated by this proposal, and in the spirit of sustainability, we identify the major piece of the proposed

policy puzzle that undermines a sustainable construct and is patently unfair to more than half the region's citizens from the outset.

1. The residential exchange proposal is insufficient, unfair and will lead to higher rates for IOU residential customers.

Under the proposal, BPA will no longer augment system generally (absent bi-lateral contracts) and will only allocate energy from the existing system to the publicly-owned utilities. Benefits to IOU residential and small farm customers will be calculated in BPA's rates to its public utility customers. As a result, for the next 20 years, the IOU residential and small farm customers will be seen as a cost to the system rather than a customer/beneficiary of the system. We have advocated for years that residential and small farm customers of the IOUs should be treated with the same kind of respect shown to the publicly owned utilities. We, too, live in the region defined by the Columbia River Basin and we should not be treated as second-class citizens. Currently, 60% of residential and small farm customers in the Northwest are served by investor-owned utilities, yet currently we receive less than 18% of the benefits of the system

Any treatment of the benefits for investor-owned utility residential and small farm customers should satisfy a number of criteria. First, the benefits have to be large enough to represent a fair distribution of the benefits of the Federal Columbia River system. Second, the formula for determining the size of the benefits must be consistent, not subject to manipulation. Third, the benefits must be healthy enough to compensate for the loss of historic rights of IOU customers to form publicly-owned utilities and access preference power which is assumed in the proposal.

The proposal fails this test. In fact, the Regional Dialogue will actually reduce the benefits allocated to IOU residential and small farm customers compared to the present situation. The proposal would allocate \$250 million annually for customers of investor-owned utilities for fiscal year 2012. This is nearly a \$100 million reduction in benefits to IOU residential and small farm customers from the current level. This is approximately a 33% reduction in benefits for IOU residential and small farm customers. BPA's proposal would create a significant rate increase for IOU residential and small farm customers.

There seems to be no rhyme or reason for this diminution of benefits other than a cold, calculated political decision to transfer wealth from IOU customers, who are at an arm's length from BPA, to those publicly-owned utilities who deal directly with BPA. Such a move would appease those utilities who are BPA's most vocal critics. We suppose a similar calculation might have been made to appease the more populous state of Washington, with its higher percentage of publicly-owned utilities than the other Northwest states. We do not wish ill on any resident or utility in the Northwest. However, we are tired of being the casualty of the Administrator's use of the Residential Exchange as a political tool. IOU residential and small farm customers deserve better than the Regional Dialogue proposal.

This proposal seeks stability, however, as the fundamentals in the energy markets continue to rise, the increased value of Priority Firm power as against the market is unsustainable, unless the residential exchange arrangement is a fair one from the outset. Given that the Priority Firm rate is something like one-half the going wholesale market rate now, BPA must reconsider the value of benefits to be shared with IOU residential and small farm customers and provide an enhanced offer commensurate with the value the publicly-owned utilities will receive as against the market over the period of the contracts. It is not good enough for BPA to now say that the publicly-owned utilities will not accept or negotiate a level different from the one in the proposal, since BPA itself established that level in the proposal. BPA must unilaterally increase the level of benefits to IOU customers in its proposal. We will not pay the political or financial cost of BPA's new long-term proposal.

The base amount of benefits proposed for IOU residential and small farm customers is inadequate and is unacceptable to the majority of Northwest citizens.

2. Loss of regional planning.

A natural consequence of moving away from regional acquisition to an atomized resource responsibility is the loss of regional planning. Assuming that individual non-regulated utilities do some sort of planning, there is a significant risk that each plan will be divorced from the rest, resulting in a sub-optimal regional system. BPA must concern itself with this issue, because after 15 years utilities can return their loads plus 15 years of load growth to BPA. BPA's underlying obligations to acquire resources may not be changing all that much after all.

3. Leaning on others for regional adequacy.

The proposal creates an every-utility-for-itself environment. While there may be some examples of consortia or cooperation, there still runs the risk of utilities doing as they will or leaning on the system. We may well find that the resource adequacy standard currently emerging from recent regional discussions will not be firm or enforced enough to prevent reliability or cost-shifting problems in the future. Regulated IOUs will be required by state regulators to plan to serve load assuming some reserve margin. It is not clear that publicly-owned utilities will do the same. Will BPA assert itself if it needs to in order to bolster adequacy rules, or does the leverage to do that die with the signing of power contracts? Who will be to blame when the voluntary regional adequacy standard fails?

4. Regional energy efficiency and renewable energy development will suffer.

This proposal may encourage movement away from conservation and renewables and toward other resources including coal-fired generation. Conservation and renewables, the priority resources in the 1980 Power Act, get platitudes and promises in this proposal.

We are not convinced that BPA's commitment to acquire all cost-effective conservation for its customers' regional share will be borne out. And, for all intents and purposes, BPA excuses itself from future direct investment in renewable energy. At the same time, talk in the region circulates around a number of resource development proposals, including the development of coal resources located in the Northwest, as utilities prepare for their future as acquirers of resources. This Proposal may well result in a net dirtier regional resource portfolio.

While BPA may propose a different resource acquisition paradigm, energy efficiency is still the priority resource in the 1980 Act, and energy efficiency is an important obligation for utilities for the sake of the region as a whole. The Proposal essentially makes a promise that BPA will see that its customers' share of regional energy efficiency will be acquired. Count us among the skeptics. Some observers have already determined that recent past BPA regional dialogue discussions included proposals to acquire "all cost-effective conservation" that would not have been sufficient to do the job. Energy efficiency can serve to reduce bills, decrease dependence on fossil fuels and thus decrease certain kinds of risk, reduce the need for new generation – both baseload and peak, reduce the need for new transmission facilities, and reduce the electricity infrastructure's impact on the environment. And since, as stated above, BPA's obligation to serve never really goes away, neither should BPA's obligation to acquire energy efficiency. The proposal should make more concrete BPA's commitment to acquiring its customers' share of regional energy efficiency.

Ditto for renewable energy. BPA's proposal essentially removes BPA as an acquirer of renewable resources. BPA, we think in contradiction of the intent of the 1980 Act, is shirking its responsibility with regard to renewable resources. Even where BPA says it wants to have a supporting role, it appears as if BPA would divvy the system up, along with all the flexibility of the significant hydro system, before it would consider how it can support renewable energy. Where BPA could become the major solution to wind integration challenges, we think the current proposal will leave BPA nothing left to support renewable energy with. The value of BPA to the region is much more than simply providing the lowest possible cost energy to the publicly-owned utilities. BPA offers the promise of making a real difference in the development of a fleet of renewable resources that is cleaner and less volatile, politically and economically, than the existing fossil-fuel based resources. There is ample room in the BPA system to provide extremely low rates to publicly-owned utilities and to serve the Northwest in the public's interest. The Proposal should devote more resources to the development of renewable energy projects for the benefit of its customers and the region.

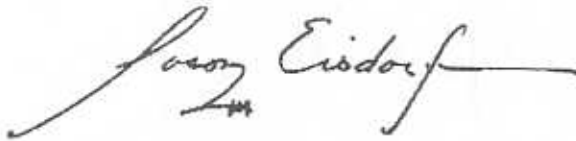
5. Fish and wildlife must do better under the new policy.

Fish and wildlife cannot do worse under any new proposal than they are faring now. In fact, as we are discussing how to carve up the benefits of the Columbia River system for the next 20 years, we must assume that, as part of that new plan, the lot of fish and wildlife must improve. We can view the Columbia River system as providing benefits in the form of low rates, wind integration, flood control, navigation, irrigation and

recreation, but we must remember that the Columbia River also happens to be home for an abundance of fish and wildlife. Any responsible plan to dispense benefits from the river system must first assure that the denizens of that system are fully protected.

Thank you for the opportunity to comment.

Dated this 30th day of October, 2006
Respectfully submitted,

A handwritten signature in cursive script that reads "Jason Eisdorfer". The signature is written in dark ink and includes a long horizontal flourish at the end.

Jason Eisdorfer
Citizens' Utility Board of Oregon