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October 31, 2006

Bonneville Power Administration
Public Affairs Office – DKC-7
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Portland, OR 97293-4428

Re: Comments on Regional Dialogue

Thank you for the opportunity to comment of the proposed Regional Dialogue, and especially for your willingness to extend the comment period to allow more time for working collaboratively toward a sustainable contractual relationship.

The proposed settlement of issues under the Regional Dialogue is an innovative approach to preserving the benefits of the Federal Based System for the Pacific Northwest. Franklin PUD recognizes that, as with any settlement, this proposal requires flexibility on the part of all parties. We are prepared to exercise that flexibility on certain issues, we have concerns on others.

We would be remiss in our duty to our customers if we committed to taking power under new arrangements before some important details are resolved. Yet under the Policy Proposal, many key details would be determined in future processes. We agree with PPC that it is critical to coordinate the timing of the various future processes with the timing of required and related customer approvals to reach the desired destination of executing mutually satisfactory long-term contracts.

We are aligned with both WPUDA and PPC in supporting allocation of the Federal Based System to BPA's public power customers. We also agree with the tiered rates approach provided that all rates and services are cost based. We additionally offer the specific comments that follow.

Products

We encourage you to develop viable products for an allocated environment. The complex partial requirements service of the last contract negotiations was so lacking in benefits that no customer could be induced to take that service.

We agree with PPC that, in a new allocated world, BPA needs to develop a partial requirements service that allows customers to fully utilize their resources, as well as designing block and Slice service in a way that meets the needs of customers wanting to take those services.

We also agree with PPC that all current products offered by BPA should also be offered for the post-2011 period in their entirety at cost based rates.

We strongly agree with PPC's comments regarding the availability of the inherent flexibility of the FBS for the benefit of preference customers. This flexibility must be reserved for preference customers to allow integration of new resources by customers who choose to do so. *BPA should allow operational pooling by utilities for purposes of taking Tier 1 power from BPA.*

Franklin PUD signed and supports the Joint Comments of Slice Customers, but we would like to provide some additional feedback regarding our experience with Slice.

The Slice Product has helped our utility achieve its goal of taking greater control of its load growth needs and preparing for the future allocated world after 2011. Here are some of the things Slice has allowed Franklin to do:

- Build and contract for additional resources, including renewables. Our only renewable acquisition to date has been wind, but may soon include a dairy biomass project.
- Our Pasco CT and Frederickson thermal resources have allowed us to manage our loads when BPA resources were limited and demand for power was high, including record customer loads in late July of this year. It is unlikely we would have either of these resources without the flexibility to coordinate their use with Slice.
- Purchase the output of the Packwood hydro project (along with Benton PUD) because we had the scheduling infrastructure in place that allowed us to integrate it with other resources.
- Be exposed to market prices, both positively and negatively, and learn a lot about managing risk.

The implementation of Slice has not been without difficulty. Although when considering the effort involved in developing this innovative product, it is not surprising there have been issues to work out. Fortunately, most have been amicably resolved by the technical and contract specialists involved with the product on a day-to-day basis. We are confident the Contract Implementation Group and its Operations Subcommittee can continue to make improvements to communications, scheduling, accounting and other protocols involved with Slice.

As you are well aware, some issues raised in the 2002 true-up required considerably more time and effort, but were ultimately resolved through mediation. We feel there were some positive outcomes from the mediation not necessarily related to the dollars and cents. For example, both the Slice and NRU customers gained a better understanding of BPA's debt optimization program (DOP). We truly appreciate all the work by BPA staff to clarify how DOP decisions are made.

Slice is consistent with helping BPA achieve many of the Northwest Power and Conservation Council's Regional Dialogue goals, including these:

- Reducing the risk to the US Treasury and taxpayers.
- Make clear who will be responsible for meeting load growth and on what terms.
- Provide clear signals regarding the value of new energy resources.
- Lessen BPA's exposure to market risk.
- Lessen BPA's impact on the market.

The Council has expressed its preference that BPA minimize augmentation, except as necessary to achieve regional consensus. As previously noted, Slice has allowed Franklin (and the other Slice customers) to purchase resources, thereby reducing BPA's need to do so.

Without repeating the Joint Comments of the Slice Customers, let me just emphasize Franklin PUD's concerns expressed therein on the Regional Dialogue Policy Proposal changes to Slice post-2011. The current attributes and flexibility of Slice are critical to its usefulness to Franklin to allow us to continue managing our load growth and integrate resources. In doing so, we help reduce BPA's risk, which will help lower the rates all preference customers pay.

We urge you to allow flexibility during contract design discussions between BPA and its customers for Slice and, as earlier stated, all products that will be offered in the post-2011 period.

Cost Based Products

Tier 1 should consist of cost-based products, and all components of Tier 1 service should be cost-based. "Leakage" of costs from Tier 2 to Tier 1, or vice versa, must not be allowed to occur.

BPA should provide customers with specifics on how costs of each Tier will be kept segregated in the appropriate Tier, and on how it will keep the cost of risks associated with Tier 2 service in Tier 2. Tier 1 customers should not be expected to incur any of the cost of risks gained by providing Tier 2 service.

Centralia

We agree with PPC that BPA should not require former Centralia owners to continue to include Centralia in their resource exhibits or assume Centralia rights when calculating HWMs or Net Requirements.

Waiver of Customer Rights

We understand that this document constitutes a “settlement” of various issues. But we are concerned that BPA is asking us to waive rights prior to settling several critical implementation details of the proposal. Requiring us to waive our rights to seek appellate review of BPA’s rate methodology as a condition for being able to sign a new power sales contract has the appearance of coercion.

BPA needs to delay when customers need to waive certain rights until we are more certain of the details of the proposal. If we are to sign long terms contracts, we need to know what is being offered *prior* to signing.

Annual HWM

Thank you for agreeing to use the “annual HWM” approach rather than the “monthly HWM” approach.

We are in agreement with WPUDA and PPC regarding the year in which load and resource determinations are made to establish the HWM and ask that you reconsider your desire to change that proposal.

Transmission Issues and Transfer Service

We agree with the concerns raised by PPC regarding the significance of unresolved transmission issues and with the suggestion that these issues be resolved rapidly outside of the formal Regional Dialogue process. We also concur with the details outlined in PPC’s comments addressing both transmission issues and transfer service.

True-ups

As with cost-based rates for all products and ancillary services, BPA should utilize equivalent risk mitigation devices for all requirements products, so that each product bears an equitable share of the risk associated with serving that product.

Section 5(b)/9(c) Marketing Impediments

BPA needs to rethink its interpretation of section 9(c) of the Regional Act in light of the new allocated world. Utilities are going to have a more complex relationship with BPA and other power suppliers, and BPA needs to have policies that allow utilities to balance their power sales and purchases without undue restriction.

Conservation

Under the Regional Dialogue proposal, utilities are responsible for their own load growth. This new paradigm needs to be considered in BPA's conservation policy to reflect that, as part of utilities accepting responsibility for meeting their load growth, utilities should also assume responsibility for acquiring their own conservation. Furthermore, we are faced with the possibility of meeting mandated conservation standards with the passage of Initiative 937. If the Initiative becomes law, we should not be required to pay twice for conservation: firstly, for requirements under the initiative over and above BPA contract requirements and, secondly, for conservation undertaken by others under Tier 1 rates.

If BPA is to continue to administer conservation programs post 2011, a number of issues regarding design of the programs must be resolved prior to signing new contracts.

We agree with WPUDA's comments that conservation measures undertaken without BPA funding should be included when calculating each utility's HWM from 2002 through 2011. Franklin PUD customers should not be penalized for the aggressive conservation programs our utility has historically undertaken for the good of the region.

Dispute Resolution

As a Slice customer, we have a deep understanding of the criticality of fair and reasonable dispute resolution procedures. Disagreements must be resolved in an objective, timely manner. *It is vital that fair, understandable dispute resolution procedures be determined before new contracts are signed.*

WPUDA's suggestion of establishing an Issues Identification Process has merit. The collaborative process has the potential of resolving issues before they rise to the level of formal disputes. We also agree with PPC that BPA should commit in the Regional Dialogue Record of Decision (ROD) to specific dispute resolution processes for each of the major types of disputes that are likely to arise under the twenty-year contracts and tiered rate approach, and that wherever possible BPA should agree to use neutral third-party decision makers in these processes.

Cost-Control

We, as customers, are being asked to make a significant commitment to BPA under 20-year take-or-pay contracts. Provided that major issues under the proposed settlement agreement are resolved, we are inclined to make that commitment. However, we will require viable cost-control mechanisms to be in place. Of the three cost-control alternatives BPA identifies in the Regional Dialogue, we prefer the Regional Cost Review (RCR) process that grows out of the Power Function Review process.

We look forward to the collaboration between BPA and its customers that this process brings. We do, however, agree with PPC that BPA's cost-control mechanism should be subject to periodic review.

President's Budget Proposal

BPA should not be required to send secondary revenue to prepay U.S. Treasury obligations. We strongly agree with WPUDA's comments in opposition to this proposal.

Residential Exchange

This issue is a particularly difficult one for us as we have watched money flow from the pockets of our residential and farm customers to the pockets of investor owned utility customers with *lower* rates. This must not be allowed to continue.

We agree with WPUDA that any settlement of the exchange issue must be based on principles in existing law. Benefits to the IOUs must be in the form of a cash settlement rather than providing power. The price paid by preference customers for IOU benefits was far too great during the recent energy crisis; that must not be allowed to happen again. Utilizing an initial dollar amount with an annual adjustment via a transparent index is appropriate. However, we do not feel BPA has adequately explained or justified the \$250 million initial payment proposal.

We appreciate your swift, appropriate response to the inappropriate and unjustified demands of the Northwest regulatory commissions.

Service To DSIs

Why should the DSIs, who have no statutory right to power or other benefits from BPA, be treated preferentially? The DSIs should not receive benefits from the Federal Based System after 2011. They will have had 30 years to wean themselves from the subsidies given to them by BPA preference customers. Franklin PUD's industrial customers, who also provide economic benefits and family wage jobs in the Pacific Northwest, should not have to pay rates that subsidize other industry stockholders.

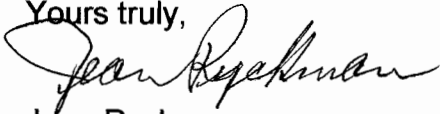
Providing power to the DSIs is particularly problematic in a tiered rate environment. Providing power to DSIs at any rate below Tier 2 rates has the dual negative effects of both raising Tier 1 rates for preference customers, and providing benefits to the DSIs at lower rates than the Tier 2 rates your preference customers will pay to meet their growing loads.

Conclusion

Thank you for the opportunity to submit these comments. We appreciate the considerable effort BPA staff made in setting up field hearings to ensure all parties had an opportunity for open dialogue. The excellent turnout here in Pasco is an indicator of the importance we all attach to the Regional Dialogue.

We look forward to continuing to work with BPA and others in the region as the process moves forward.

Yours truly,

A handwritten signature in cursive script, appearing to read "Jean Ryckman".

Jean Ryckman
Manager

Ltr. 2006-275