FLATHEAD ELECTRIC COOPERATIVE, INC.

October 31, 2006

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

Re: Flathead Electric Cooperative's Comments on BPA's Long Term Regional Dialogue Policy Proposal

Flathead Electric Cooperative ("FEC") appreciates this opportunity to comment on the Bonneville Power Administration's *Long-Term Regional Dialogue Policy Proposal* dated July 13, 2006 (the "*Proposal*"). Flathead Electric is a member of the Public Power Council, NRU and Western Montana G&T, who will be commenting on many issues in the Policy Proposal. FEC would specifically like to comment on the Proposal's revisions to BPA's service to the direct service industries ("DSIs") and BPA's New Large Single Load Policy ("NLSL Policy").

Comments on Service to Direct Service Industries

FEC is greatly influenced by BPA's decision concerning service to the DSIs. One of the few remaining operational aluminum companies in the Northwest is located within FEC's service territory - Columbia Fall Aluminum Company ("CFAC"). FEC has entered into an agreement with BPA and for the delivery of power or financial benefits from BPA to CFAC during 2007 to 2011. FEC is participating with BPA in its efforts to help CFAC continue operations because of the economic benefits this plant contributes to the economy in Flathead County and in the State of Montana.

Current employment at CFAC is about 160, yet at full production CFAC will have over 550 employees. Currently, CFAC employees earn wages and benefits of about $12 million and CFAC estimates that at full production employee earnings would be around $38 million. Clearly, CFAC employees were among the best paid workers in the state. Indirectly, studies have shown that at full production CFAC and its employees also support a total of 1,980 jobs in Flathead County, which accounts for over four percent of the entire employment in the county. Additionally, the personal income impact is estimated to exceed $65 million or over four percent of the county income and CFAC generates significant local and state tax revenues.

Due to these factors, FEC supports BPA's efforts to provide limited financial and power benefits to CFAC to allow it to continue to operate during the next rate period. FEC is aware that the financial and power benefits that BPA provides CFAC indirectly increases the overall costs of BPA's power. BPA's decision to provide financial and power benefits to CFAC and the other DSIs in the Northwest arises in part from the DSIs steady payment stream for many years prior to 2001. BPA cannot, however, provide an endless or unlimited level of subsidy to the

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DSIs without causing unjustified cost shifts to its other customers. FEC supports the current balance BPA has reached between the benefits to its DSI customers and costs to its other customers. Any additional benefits to the DSIs need to be carefully weighed against the economic burdens such programs place on other sectors of the economy.

Comments on New Large Single Load (NLSL) Green Exception

One of FEC's large industrial customers is Plum Creek's MDF plant, which is an NLSL. FEC has been working with Plum Creek to take advantage of BPA's recently offered "Green Exception" to BPA's NLSL Policy. FEC supports BPA's current NLSL Green Exception policy and greatly appreciates BPA's efforts to make benefits of that policy available to Plum Creek and requests that BPA continue the NLSL Green Exception.

FEC further requests BPA to continue to allow off-site renewable resources to be qualifying resources for this program. As explained in more detail below, BPA's strategic direction includes facilitation of regional renewable resources, and is statutorily mandated to promote the development of renewable resources; BPA's continuation of off-site renewables as qualifying resources would help BPA comply with those mandates.

<u>The NLSL Green Exception</u>

As noted in the *Proposal*, BPA has revised and refined its NLSL Policy in two prior proceedings. One which resulted in a record of decision in fiscal year 2002 and another associated with BPA's February 2005 *Policy for Power Supply Role for Fiscal Years 2007-2011.*

Under the NLSL Green Exception, BPA provides an option to energy consumers to reduce their load on BPA by purchasing and delivering either renewable resources or on-site cogeneration, in a shape that reduces the NLSL demand on BPA to less than 10 aMW. If the NLSL consumer successfully reduces their load on BPA to less than 10 aMW with either a purchase of qualifying renewable energy or on-site cogeneration, BPA will provide the local serving utility with up to 9.9 aMW of Federal power at the PF rate. FEC and Plum Creek have implemented the NLSL Green Exception.

The primary purpose of the NLSL Green Exception is to encourage use of renewable and on-site cogeneration resources by consumers whose loads would otherwise be NLSLs. BPA adopted the consumer renewable resource and on-site cogeneration option in its 1981 utility power sales contracts as an incentive for the development of on-site cogeneration and on-site renewable resources in the region.

In the February 2005 *Policy for Power Supply Role for Fiscal Years 2007-2011*, BPA expanded the definition of qualifying renewable resources to include off-site renewable resources. BPA recognized that the "on-site" requirement for renewable resources materially reduces the effectiveness of the NLSL Green Exception in promoting renewable resource development. BPA stated:

> "The nature of renewable resources and likely locations of the renewable energy source (wind, geothermal, hydro, biomass, landfill gas, etc.) will not necessarily make the large single load facility site a feasible location for the generation. *The*

practical effect of requiring the renewable resource to be onsite is to potentially defeat the encouragement of those resources."

Policy for Power Supply Role for Fiscal Years 2007-2011, Administrator's Record of Decision, p. 59.

In the *Proposal*, BPA has revised its position and now believes it needs to sunset its off-site renewable option effective December 31, 2006. If a NLSL cannot make service arrangements that qualify them for the NLSL Green Exception by December 31, 2006, it will be ineligible for the off-site renewable option. To support its revised position, BPA states:

> As describe elsewhere in this proposal, BPA is proposing a multi-prong approach to meeting its renewable resource development targets. In the context of this approach, this NLSL policy provision on off-site renewables is not necessary. Furthermore, this issue is likely to be a transition issue as BPA moves to a tiered rate pricing structure that gives utilities market-based incentives to develop renewables by limiting utilities' access to lowest-cost pricing.

Long-Term Regional Dialogue Policy Proposal, p. 33.

As BPA stated in its *Policy for Power Supply Role for Fiscal Years 2007-2011*, the practical effect of requiring the renewable resource to be onsite is to potentially defeat the encouragement of those resources. Therefore, BPA's decision to sunset the use of off-site renewable resources is to discourage the use of those resources.

Pacific Northwest Power Act Requirements

One of the primary purposes that Congress intended to achieve with the Northwest Power Act was to "encourage, through the unique opportunity provided by the Federal Columbia River Power System . . . the development of renewable resources within the Pacific Northwest." 16 U.S.C. § 839(1) (B). The Congressional record sets forth Congress's incentive for promoting renewable resources:

> [T]here is increasing interest in broadening our generation resource mix to include renewable resources and there is widespread support for a strong conservation effort. We believe that every opportunity should be provided for renewable resources to compete with more conventional resources . . .

House Report 96-976, Part I, Committee on Interstate and Foreign Commerce, May 15, 1080, p. 32.

To promote renewable resources, Congress directed the BPA Administrator to use his authorities to maximum extent practicable. The Northwest Power Act, Section 6 states:

> In order to effectuate the priority given to conservation measures and renewable resources under this chapter, the Administrator shall, to the maximum extent practicable, make use of his authorities under this chapter to acquire conservation measures and renewable resources, to implement conservation measures, and to

provide credits and technical and financial assistance for the development and implementation of such resources and measures (including the funding of, and the securing of debt for, expenses incurred during the investigation and preconstruction of resources, as authorized in subsection (f) of this section)."

To the extent conservation measures or acquisitions of resources require direct arrangements with consumers, the Administrator shall make maximum practical use of customers and local entities capable of administering and carrying out such arrangements."

16 U.S.C. §§ 839(e)(1) and (2).

The Congressional directives are clear – BPA must, to the maximum extent practicable, take steps to promote the development of renewable resources, including direct arrangements with BPA's consumers and their consumers.

The Proposal

FEC appreciates that BPA is continuing the NLSL Green Exception for on-site co-generation resources and on-site renewable resources. BPA's decision to continue the program at this level advances the Congressional goal to promote renewable resources.

It appears, however, that BPA's proposal to eliminate the off-site renewable resources as qualifying resources under the NLSL Green Exception is plainly contrary to Congressional directives.

Plum Creek's experience in attempting to find qualifying off-site renewable resources does not agree with BPA's position that off-site renewable resources are unnecessary and market forces are sufficient to provide the region with an adequate renewable resource portfolio. As noted in BPA's *Policy for Power Supply Role for Fiscal Years 2007-2011*, the practical effect of requiring the renewable resource to be onsite is to defeat the encouragement of those resources. BPA's proposal to eliminate off-site renewable resources from this program effectively eliminates any further development of renewable resources through this program.

Even with the inclusion of off-site renewable resources in the program, the restrictions in the program made it difficult for such renewable resources to qualify. Plum Creek had a very difficult time finding off-site renewable resources that met BPA's requirements. BPA would not accept integrated wind energy from a supplier located outside the region and another wind energy supplier that provided integrated energy from a wind resource portfolio. The restrictions that BPA placed on qualifying resources limited Plum Creek's selection to about one or two energy suppliers that had dispatchable renewable resources. In short, BPA's restrictions eliminated many renewable resources from qualifying and, thus, did little to promote the development of renewable resources.

Contrary to BPA's position, market-based incentives are not sufficient to ensure development of the type and quantity of renewable resources that will help the Northwest gain some level of independence from conventional generation resources.. The Northwest Power and Conservation Council's White Paper *The Role of Renewable Resources in the Fifth Power Plan* suggests that several factors have fostered the development of over 450 MW of existing renewable resources capacity and will promote over 1,200 MW additional renewable resource capacity. The White Paper notes that over 99 percent of this new renewable resource development is from wind generation resources.

The White Paper further states, "Whether this rate of renewable resource development continues will depend upon extension of the federal production tax credit beyond 2007, availability of wind integration services, utility need, relative cost of renewable and conservation resources and expansion of state renewable portfolio standards." The White Paper suggests that absent these factors, the 5th Power Plan forecasts only about 370 aMW of renewable resources between 2007 and 2012.

The White Paper demonstrates that the future development of renewable resources in the Northwest will be driven by many other factors other than simply market forces. Many of those factors may or may not occur for host of reasons. Also, the region is only developing one type of renewable resource – wind.

The BPA Administrator's opening remarks on August 24, 2006 for the development of the Northwest Wind Integration Plan highlighted the serious problems facing the Northwest in developing wind resources. He noted that wind resource development raises three broad issues – reliability, capacity, and transmission. First, the region will likely run out of frequency regulation some time in 2007 and also will be limited in load following capability. Thus, wind resources provide no benefit toward improving the reliability of the region's system.

Second, wind resources also have little or no capacity value. The lack of capacity from wind resources was a factor in the region's emergency response to peak load on July 24, 2006.

Third, most wind development is located East of the Cascades or East of the Continental Divide and the region is limited in its ability to transmit the wind energy to load demands West of the Cascades. The further development of large wind resource projects may not be practical given the constraints on our transmission system.

Steve Wright concluded his remarks by stating that these are serious problems that may require costly solutions. Therefore, BPA's position to rely on "market forces" to drive the development of wind resources, which account for over 99 percent of current renewable resource development, appears to be unsupported.

The Congressional directives set forth in Section 2 and 6 of the Northwest Power Act indicate that Congress did not intend the development of renewable resource to be left to chance. It wanted and directed BPA to take assertive steps to develop and promote renewable resources.

FEC strongly urges BPA to retain the off-site renewable resource option in the Green Exception. FEC believes that decision is supported by the requirements of the Northwest Power Act and advances the Congressional mandates set forth in the Northwest Power Act.

If BPA does adopt its *Proposal* and places a deadline on off-site renewable resources qualifying for the Green Exception, then FEC would like BPA to clarify its policy statement to reflect FEC's present understanding and ensure that those customers and consumers that have made arrangements to qualify for the Green Exception by December 31, 2006 will continue to qualify even if their current contractual arrangements must be replaced, extended, or renewed to obtain new qualifying renewable power purchases. The current policy is unclear on the issue of whether the entities will lose their qualifying status if their current arrangements for renewable power expire and they obtain new qualifying resources.

Additionally, FEC is seeking reassurance from the final Regional Dialogue ROD that BPA will continue to offer the Green Exception beyond 2011 to customers and their consumers (i.e. Plum Creek), who have implemented the Green Exception prior to Dec 31, 2006, and who have continued to meet the terms and conditions of the Green Exception.

FEC acknowledges that the NLSL Green Exception may create some additional BPA costs that it would not otherwise incur. Those costs are justified given BPA's statutory obligations. Congress was well aware that renewable resources were not economically on par with conventional resources. That is why Congress directed BPA to give priority to renewable resources over other generation resources in Section 4(e)(1) and billing credits for renewable resources in Sections 6(e) and 6(h).

BPA's decision to retain the NLSL Green Exception and to continue to allow off-site renewable resources to qualify under this program will also help with BPA's goal of keeping working wage jobs in the region in support of families and the region's economy by providing reasonably priced power to Plum Creek.

FEC greatly appreciates BPA's efforts to assist it and Plum Creek in taking advantage of the NLSL Green Exception.

Very truly yours,

Kenneth A. Sugden
General Manager