

PUBLIC UTILITY DISTRICT No. 1 of Whatcom County

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October 31, 2006

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

Re: BPA's Long Term Regional Dialog Policy Proposal

Dear Mr. Wright:

Public Utility District No.1 ("Whatcom PUD") appreciates the opportunity to provide comments on BPA's Long Term Regional Dialog Policy Proposal. Whatcom PUD recognizes the considerable effort BPA staff has invested in crafting a proposal that defines BPA's power supply role, post 2011.

Whatcom supports BPA's development of new twenty-year power sales contracts, as a means to lock-in the benefits of the federal power system for the Region. Whatcom PUD supports BPA's proposed allocation approach and tiered rate structure, as a method of transferring responsibility for regional load growth from BPA to its public utility customers. While endorsing this shift in resource acquisition obligations, Whatcom PUD acknowledges the tremendously beneficial role BPA has historically played in providing for its public customers' load growth at cost of service melded rates

We submit the following comments with respect to certain elements of BPA's Long Term Proposal that are of particular relevance to Whatcom PUD. With the exception of their position on no benefits for DSIs post 2011, we generally support the comments provided by the Washington PUD Association and Public Power Council. Whatcom PUD is a member of both organizations.

Allocation Methodology

Although any allocation methodology implemented by BPA will be perceived as good or bad depending on an individual utility's circumstances, Whatcom PUD supports an allocation for purposes of Tier 1 pricing that is based on actual net requirements load on BPA.

Since allocation, as proposed, would be based on actual net requirements, the methodology for determining such becomes a crucial component in this process. Whatcom PUD encourages BPA to resolve issues related to net requirements determinations, as soon as possible in an open public process.

Pooling Arrangements

Although currently Whatcom PUD has the ability to aggregate its load and power supply needs with other utilities, including our municipal neighbors Blaine and Sumas, we encourage BPA to change its proposed position and offer operational pooling for those publics that want such arrangements. Pooling with respect to Tier 1 power provides, in particular, smaller utility systems greater flexibility to manage their resources and deal with load growth and Tier 2 cost exposure.

Products and Services at Cost

Whatcom PUD believes BPA should price its power products and attendant services at rates based on cost of service. There has been discussion that BPA might tinker with its rate structure, such that products and ancillary services derived from the flexibility of the hydro system will be opportunity or market priced. This approach will create winners and losers among BPA's public customers, depending on the power products they purchase or resources they manage. Although one could argue the logic for such a rate structure, it will serve as an impediment to reaching consensus and balancing interests, within the context of the Regional Dialog.

Service to DSIs

BPA's Proposal outlines a new power supply business relationship with its public utility customers. This change in paradigm allows the publics and their customers to continue receiving the benefits of federal power from the CRFPS. At question is whether these benefits should be continued for the DSIs as well.

Although BPA is not legally required to provide for the remaining aluminum smelters post-2011, it seems reasonable that the Agency should continue to do so, albeit as industrial customers of their local utilities. Absent their designation as DSIs, part of the balancing of interests in the Regional Act, they would currently be able to access the benefits of federal power through their local utility suppliers.

Now that the paradigm for accessing low-cost federal power has shifted once again, there are those in the Region who do not believe the aluminum plants should be part of the balancing of interests equation, since BPA has no legal obligation to serve them. Whatcom PUD believes the Region should include them. We propose that BPA collaborate with the local utilities that want to serve the remaining smelter loads and explore creative alternatives for doing so.

Conservation Activities & Expenditures

With the future change to a tiered rate regime in which utilities must manage the cost of new resource acquisition, it seems appropriate that BPA change its business model with

respect to the acquisition of conservation resources. Under a tiered rate environment, it is in a utility's economic interest to pursue self-funded conservation as a local load management tool and as a means of reducing Tier 2 exposure.

Therefore, Whatcom PUD opposes BPA continuing its role as the backstop conservation provider, particularly if the associated costs are to be embedded in Tier 1 rates. Expenses associated with conservation should be minimal with respect to Tier 1. Only those activities that are truly regional in scope and outside the purview of individual utilities should be considered. Technology transformation efforts, such as higher appliance efficiency standards are among such activities.

BPA has skilled and dedicated staff devoted to BPA's conservation program activities. BPA could continue to utilize this expertise via separate service offerings, as a Tier 2 product. Those utilities interested in such services could engage BPA on a contract for services basis.

Whatcom PUD opposes crediting utilities for their historic conservation efforts (prior to FY 2007). However, we do support crediting utility self-funded conservation for the FY 2007-10 period. The one caveat is that only conservation that can be verified through a generally accepted protocol should be credited for purposes of establishing HWMs.

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BPA Cost Control

Whatcom PUD appreciates the increasing level of involvement, which BPA has afforded its customers with regard to Agency budgets and actual expenditures. The cost and rate reductions that have been implemented in this current rate period are evidence of these ongoing efforts. If the publics are to sign on for twenty-year take or pay contracts, then the primary tool for mitigating their take or pay obligation will be cost control. Therefore, Whatcom PUD supports an even greater level of involvement by BPA's customers in providing budget and operational expenditure oversight and input.

Tier 2 Costs

Whatcom PUD encourages BPA to develop and offer viable Tier 2 power products and services, which Whatcom PUD and other publics may then consider for covering their load growth exposure. However, if tiered rates are to function as intended, then Tier 2 costs must be contained and not allowed to migrate into the Tier 1 resource pool. Using Tier 1 as a backstop for Tier 2 under-recovery of costs should not be allowed. Tier 2 resource acquisition and attendant services offered by BPA should be secured and costs recovered through contracts with Tier 2 customers. These commitments should be in-place prior to BPA purchasing Tier 2 resources or providing Tier 2 services. BPA should not prospect or enter into any new ventures with only the hope of securing revenues later.

Timing of Commitments & Needed Flexibility

BPA has proposed that parties waive their rights to challenge in court elements of the Regional Dialog Proposal. This would be a requirement of the settlement process. Further, BPA has proposed offering and requiring utilities to sign new power purchase contracts during the first quarter of 2008.

As a current full requirements customer, who is considering partial requirements status for post-2011 service, Whatcom PUD is greatly concerned about the timing of both the contract offering and the waiver of rights. Absent significantly greater detail regarding the power products to be offered, the methodology for determining future rates, etc., it will be extremely difficult to make a decision that commits our utility for twenty years. The problematic nature of the decision is compounded by the fact that the contract obligates Whatcom PUD for power purchases, the deliveries of which don't start until over three years later. Further, we won't know how much power can be purchased at the Tier 1 rate until the end of FY 2010!

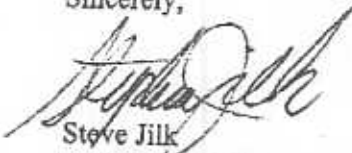
Whatcom PUD's choice of contract form and power product(s) purchased from BPA going forward will be greatly influenced by the forecast of our utility's HWM and Tier 2 load exposure. Whatcom PUD's circumstances by the end of 2010 could have significantly changed to the degree that our contract choice in 2008 would be inappropriate at that time. Therefore, we would propose a one time option to change contract forms, prior to FY 2012. Allowing this flexibility for a utility, such as Whatcom PUD, that currently has no load serving resources of its own is as important to us, as the flexibility requested by a partial requirements utility desiring to change its resource exhibit prior to 2012.

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In Closing

Whatcom PUD supports the long-term objectives driving BPA's issuance of the Long Term Regional Dialog Proposal. Whatcom PUD understands the large challenge facing BPA, as the Agency attempts to achieve a balance among competing regional and national interests. We believe the objectives are worth the effort and that that it will be extremely important to continue working on the details of the Proposal with customer groups, beyond the deadline for comments.

Sincerely,



Steve Jilk
General Manager
Public Utility District No.1 of Whatcom County

Cc: Whatcom PUD Commissioners