



SPRINGFIELD UTILITY BOARD

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Re: Long Term Regional Dialogue

Springfield Utility Board (SUB) appreciates this opportunity to comment on BPA's Long Term Regional Dialogue Policy Proposal (July 13, 2006). SUB is a municipal utility that primarily serves the community of Springfield, Oregon. As a preference customer, SUB currently purchases 100% of its power from BPA.

BPA proposal reflects a thoughtful and open approach to resolving complex and intertwined issues. SUB seeks to mirror BPA's approach and BPA will find that SUB's support of certain key aspects of BPA's proposal are a departure from SUB's previous positions. Rather than submit comments that address SUB's individual interests, these comments are intended to reflect a balance of interests while preserving areas that SUB views as critical to providing service to its customers. The Long Term Regional Dialogue is not only important for public power, but the region as a whole.

SUB strongly values its relationship with BPA and throughout this process SUB has felt that BPA strongly values its relationship with SUB. SUB would like to thank you and BPA staff for their efforts. In particular, Mark Gendron, Scott Wilson, Ray Bliven, and John Lebens (among many others) have put forward significant effort towards responding to customer inquiries on the Long Term Regional Dialogue Policy Proposal. BPA staff had the task of dealing with challenging questions on difficult issues and they handled each issue with poise and professionalism.

With some exceptions (discussed below), SUB generally supports BPA's Regional Dialogue proposal and appreciates the attention to a broad range of issues. SUB generally supports the comments filed by the Northwest Requirements Utilities (NRU), again with some exceptions. If the overall proposal outlined by BPA (that reflects NRU's and SUB's comments) is considered not viable, SUB is also supportive of BPA's fallback position (also with some exceptions)

Long Term Regional Dialogue Springfield Utility Board's Comments

Outline

Specific issues SUB addresses in its comments are:

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- 2010 Loads and Resources For Determining High Water Marks

- Centralia

- Hydro Resources and The Pacific Northwest Coordination Agreement

- Hydro Resources and Critical Water Years

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2010 Loads and Resources For Determining High Water Marks

SUB strongly supports BPA's proposal regarding the calculation of High Water Marks (HWM). SUB agrees with BPA statement that "the HWM is one of the most important aspects of this [BPA's] proposal."¹ BPA's proposal to use 2010 actual loads when determining the net requirement provides for loads to be close to the loads at the start of the post-2011 contract period. BPA's proposal to use 2010 resources dedicated to load as specified in current contracts provides certainty regarding the calculation of each utility's net requirement. Certainty on such an important issue is critical at this stage of the Long Term Regional Dialogue process.

SUB has spent years working with other utilities in attempts to resolve this complex and often contentious issue. SUB is very appreciative of the time and effort that the Public Power Council's (PPC) staff has dedicated to the issue of determining High Water Marks. PPC acted as the forum where consumer owned utilities attempted to arrive at a universally agreeable solution. Despite PPC staff's efforts, repeated attempts by SUB and others to get clarity on utility owned resources (and resources dedicated to load not owned by utilities) resulted in little success in arriving at a mutual understanding of the impact of using 2012 resources when determining net requirements. To the contrary, repeated attempts to address individual utility concerns more often than not turned into a list of exceptions.

Because of a lack of information from other customers, SUB turned to BPA for information on the impact of using 2012 resources. SUB's inquiry only dealt with a subset of resource issues, but the impact of those 2012 resource issues would, in SUB's view, create confusion, result in uncertainty, skew the benefits of BPA's low cost system, and disrupt the viability of allocation.

While SUB is a non-voting member of the PPC, SUB ultimately reached the difficult, but necessary, decision to not support PPC's position on this issue.

Centralia

If the Fallback Proposal is not implemented and BPA moves forward with a broad set of policies for the Long Term Regional Dialogue, SUB neither supports nor opposes the proposed treatment of the Centralia resource in BPA's broad proposal. This issue has been in play for a significant period of time and has involved a substantial amount of discussion. Should, Fallback Position be implemented, however, SUB reserves the right to change its position.

¹ Regional Dialogue Policy Proposal, July 13 2006, page 12

Hydro Resources and The Pacific Northwest Coordination Agreement

Hydroelectric Resources that are part of the Pacific Northwest Coordination Agreement (PNCA) follow regulation guidelines. It is SUB's understanding that the Subscription Contracts use firm resource declarations for PNCA resources based on 2001 regulations. In order to preserve certainty with the Regional Dialogue proposal, SUB recommends that BPA not change the firm resource capability of PNCA resources in the 2010 resources to reflect any changes in PNCA regulations (ie. 2010 resources should use 2001 PNCA regulations – or whatever regulations were used in at the time the Subscription Contracts were signed).

SUB is concerned that leaving an open question about the firm resource capability of PNCA resources will dilute High Water Marks of non-generating utilities. SUB requests that should BPA move forward with changing firm resource capability of PNCA resources that non-generators not be impacted from this approach. This would require that non-generators be walled off from the calculation of High Water Marks for generating utilities and any changes to High Water Marks due to adoption of different PNCA regulations would only result in adjustments for High Water Marks for generating utilities.

Hydro Resources and Critical Water Years

Some utilities have argued that the critical water year for individual hydro resources should be changed. This would result in a lower firm resource capability and increased net requirement for those affected utilities (and likely a lower High Water Mark for remaining utilities). SUB recommends that BPA not allow modifications to the critical water year for hydroelectric resources.

SUB requests that should BPA move forward with changing firm resource capability of hydro resources due to changes in critical water years that non-generators not be impacted from this approach. This would require that non-generators be walled off from the calculation of High Water Marks for generating utilities and any changes to High Water Marks due to adoption of different critical water years would only result in adjustments for High Water Marks for generating utilities.

Non-Utility Owned Generation Dedicated to Load

It is SUB's understanding that there is a significant amount of non-utility owned resources declared to serve loads in Subscription Contracts. These resources are typically owned by large industries. With one general exception, BPA should not allow the removal of these resources when determining a utility's High Water Mark as doing so would lower the High Water Marks for the remaining utilities. The utility itself is not harmed by keeping the non-utility owned generation dedicated to load.

The general exception to this would be in the instance that the industry with the generation dedicated to load no longer existed in 2010 (at the time the High Water Marks

were established). In this event, other customers served by the utility would be adversely impacted if a utility lost an industry but was required to have a reduced High Water Mark due to a resource formerly owned by a defunct industrial customer. In this instance, the non-utility owned resource in the Subscription contract should be removed when determining High Water Marks. This would have little or no impact to other public customers since load side of the equation for determining net requirements would also be lower. The application of this general exception would be determined by BPA.

2010 Loads and Force Majure

SUB feels it is appropriate to respond to concerns regarding industrial loads that may experience events that result in reduced operations outside of its control. In this case, a consumer-owned utility may find “abnormal” loads in 2010 and “normal” loads in 2011 due to changes in industrial electricity usage. The High Water Mark for that utility would be lower than if the industrial load were under typical operations.

For simplicity, SUB suggests that BPA make no adjustments to High Water Marks for these types of events. Most utilities have some degree of risk that 2010 loads may be lower than a situation where all loads were at or above average. However, SUB recognizes that not all utilities are the same in terms of a force majeure event – smaller utilities would have greater exposure to Tier II as a percentage of their total load if a large industrial customer was offline.

Should BPA feel it is appropriate to make adjustments to 2010 loads due to Force Majeure events when determining High Water Marks, SUB recommends the following:

- 1) Any utility may request BPA review the utility’s load profile due to a force majeure event.
- 2) BPA would have the sole discretion of providing for a utility’s 2010 loads to be “corrected” for the force majeure event. BPA would treat all requests equally and not weigh requests for small utilities differently than larger utilities.
- 3) If BPA allows for an adjustment, the most recent year of typical operations (as determined by BPA) would be used to make the adjustment.
- 4) BPA would explain the rationale for all force majeure adjustments and allow public comment.
- 5) If an adjustment was made to a utility’s load for a force majeure event and the industrial load did not come back on-line during FY 2011, BPA would recall the adjustment and spread incremental the High Water Mark across all other consumer owned utilities as if the adjustment were never made.

Green Exception

Before leaving the issue of High Water Marks, it is appropriate to address the Green Exception as part of BPA’s New Large Single Load Policy. SUB has spoken at length with BPA staff and others regarding this issue. In particular, SUB would like to thank

Tina Ko, Robert Anderson, and John Lebens. It was suggested that SUB file formal comments within this comment process.

This issue resurfaced recently due to SUB finding out that BPA was ready to move forward with signing contracts to provide long-term service to qualifying loads that meet the Green Exception criteria and that this service is being extended beyond 2011 by contract.

For background, BPA first introduced the Green Exception concept in its short-term regional dialogue process for the 2007-2011 period. BPA proposed to allow green power to be purchased in an amount that would lower a DSI load to below the New Large Single Load threshold and the balance of the load (9.9 aMW) would be served at the PF rate. In its February 4, 2005 Record of Decision for the “Bonneville Power Administration’s Policy For Power Supply Role For Fiscal Years 2007-2011” BPA introduced a new variation on the Green Exception².

One commenter in the short term (2007-2011) process requested that all industrial load be eligible to participate in the green exception, not just DSIs. This specific proposal was not subject to any other input from other interested policies. The dialog on this concept, to SUB’s knowledge, was self-contained within the Final ROD and was between the commenter and BPA. BPA agreed and expanded the Green Exception to include all industrial customers that met qualifying criteria. As a result, regional exposure to the green exception expanded from a handful of DSIs to include a number of other loads.

On July 13, 2006, BPA released its Regional Dialogue proposal for service for the post-2011 period. Section III(E)(3) proposes a time limit for the Green Exception³. When SUB first spoke to BPA on this issue, SUB expressed that SUB’s concerns regarding the Green Exception policy were lessened if the Green Exception was only for the 2007-2011 period. BPA responded by saying that BPA was moving forward with two and perhaps up to four contracts (~20 to 40aMW) with utilities that met BPA’s criteria to qualify for the Green Exception and that those contracts extended PF service beyond 2011. To SUB’s knowledge, none of these industries is a Direct Service Industry.

BPA staff acknowledged that this would impact high water marks for other utilities and explained that the intention was to sign the contracts by early September. SUB stated that because the comment period for the current Regional Dialogue policy for Post-2011 was approaching that the timing of the signing of contracts was awkward and requested that BPA withhold signing contracts. It is SUB’s understanding that as of October 31, 2006 BPA has not signed Green Exception contracts.

Subsequent discussions with BPA revealed that the Green Exception was first brought up to address service to Port Townsend Paper (a DSI). It morphed into an expansion to

² Bonneville Power Administration’s Policy For Power Supply Role For Fiscal Years 2007-2011, starting at page 56.

³ Regional Dialogue Policy Proposal, July 13 2006, page 32

other industries only within the context of BPA's decision-making process (after close of comments) on the basis of one comment in the short-term regional dialogue (despite multiple requests by utilities that BPA should not modify the New Large Single Load policy outside of its short term proposal without a separate formal comment process). SUB made multiple inquiries into the process to make sure that the expansion of the green exception to "industrial" loads rather than "DSI" loads was not brought up during the public process. BPA's response was that it was not.

BPA has brought up the fact that there is historical precedent for the Green Exception as there was an allowance in the 1981 Power Sales Contract. BPA also acknowledged that the 1981 contract allowed for an exception for renewable facilities at the facility that displaced load (not intended, for example, for a short term, unshaped green purchase delivered from Idaho to a Washington facility with non-firm transmission).

Up to this point, SUB's comments on this issue are nothing new. They have been shared with BPA and there is a common understanding of the history of the Green Exception. BPA has acknowledged that the Green Exception has resulted in unintended consequences.

In BPA's long-term Regional Dialogue Policy Proposal, BPA proposes to move forward with signing contracts, but closing the window where industries can participate in the Green Exception.

SUB has following observations (that have already been shared with BPA staff):

- ◆ The short-term (2007-2011) Regional Dialogue policy states "the Policy reflects BPA's decisions to guide the agency's regional power marketing for FY 2007-2011". Other short-term issues, such as service to DSI's were for the 2007-2011 period and future benefits (post 2011) were to be resolved in this Long Term Regional Dialogue process. SUB is confused that BPA is (or was) poised to sign long-term contracts for access to PF beyond 2011 based on a short-term policy. It is unclear to SUB why BPA assumed that the Green Exception extended beyond the current contract period or what authority BPA relied upon based on a public process – other than an internally generated discretionary authority. Executing long-term Green Exception contracts would only serve to undermine this public process.
- ◆ Since BPA introduced the issue for the first time in the February 2005 Record of Decision for the short-term regional dialogue, it makes it difficult to argue that this was vetted through a public process.
- ◆ Under BPA's proposal in the Long Term Regional Dialogue process, those utilities that were poised to take advantage of the Green Exception now appear to be the only ones who can access it. A year and a half window is not a realistic time-frame to allow region-wide participation of the Green Exception – particularly with utilities wanting to attract businesses - and the opening and

closing the opportunity so quickly results in the Green Exception benefiting the few rather than the many (counter to SUB's understanding of BPA's mission guided by BPA's organic statutes). Utilities that would otherwise have loads exposed to market or the NR rate are now able to purchase renewables and qualify for the green exception and reduce the overall power cost through PF purchases to serve an industrial load. The win for those utilities and a few industrial customers comes at the expense of other utilities.

After much deliberation on the issue, SUB proposes that BPA modify its Green Exception policy such that the High Water Marks of other utilities are not impacted (as if the Green Exception did not exist).

For example, BPA can move forward with signing contracts for the Green Exception, but those contracts would not extend into the new (post-2011) contract period and the loads of those industrial customers would not be included in the determination of a utility's High Water Mark.

Utilities that serve customers of industrial loads that take advantage of the Green Exception may either:

- 1) Allow the industrial load to continue to receive PF power under the Green Exception and receive a decrement of the equivalent amount of energy in the Utility's High Water Mark to serve other loads; or,
- 2) Not allow the industrial load to continue to receive PF power under the green exception and not receive a decrement to the High Water Mark to serve other loads.

This approach gives some short term relief to those industrial customers that have gone down the path of taking part of the Green Exception, gives those same end-users adequate time to prepare for the future, and does not impact other consumer-owned utilities over the long term.

SUB took BPA's representation of the load and resource balance presented in the Long Term Regional Dialogue proposal at "face value" – not to be confused or complicated with an obscure short term policy proposal, such as the Green Exception that would tip the balance. SUB agrees with BPA's statement that "Complexity is the enemy of other goals. Complex solutions tend to have unforeseen consequences that reduce their durability. They tend to sow the seeds of future disagreements"⁴. SUB has every confidence in BPA that the Administrator will make the appropriate decision on this matter.

⁴ Regional Dialogue Policy Proposal, July 13 2006, page 5

No Special Adjustments to High Water Marks

Should BPA go down the path of pursuing special adjustments for individual utilities other than the issue of Centralia and Force Majeure discussed above, in SUB's view this would be a departure from BPA's representation of the intent behind its original proposal. Arguments to raise an individual utilities' high water mark may appear reasonable on the surface, but they would likely lead to an unreasonable outcome. In this case, SUB would be remiss if it did not raise the issue that it would also seek a special adjustment to increase its High Water Mark.

In SUB's view, this would be unfortunate as it would mean that the proposal had moved into a "free for all" scramble for access to the low cost FBS and a potential collapse of the Regional Dialogue process.

Service to New Publics

General Policy For New Publics

BPA proposes to allow up to 300 aMW of new public load to be served with the lowest cost (Tier I) resource (50 aMW per rate period). SUB is concerned that this may place new publics on a different playing field than existing public utilities that have to meet load growth with Tier II resources.

For example, a service area in 2010 may have a load of 10aMW, but the load in 2016 may be 25aMW. Existing public utilities would have to meet the incremental load (15aMW) with tier two resources while a new public utility formed to serve the same load would have its entire load served at Tier I. SUB is aware of successful and unsuccessful attempts to create small public utilities that have a relatively few number of customers.

SUB recommends that BPA modify its policy regarding service to new publics to allow new publics access to Tier I resources for the loads that were in existence in 2010. Other loads would have to be served by Tier II resources. This would place existing and new publics on a level playing field with regard to access to Tier I power.

BPA touches on this issue lightly saying "The HWM for a new public would be set at the customer's net requirement level in the year deliveries begin, with the potential for a slight reduction so that the new public's load does not have a greater percentage of its eligible load served at lowest-cost rates than the average existing public customer."⁵

⁵ Regional Dialogue Policy Proposal, July 13, 2006 page 21

The “potential” for a reduction in a high water mark is not substantive policy. SUB suggests that the policy on the HWM for new publics state: “The HWM for a new public would be set at the customer’s net requirement level in the year deliveries begin, with a reduction such that the HWM is ultimately set at the net requirement based on loads that existed in 2010.”

High Water Mark If A New Public Is Formed From An Existing Public

Regarding the formation of a new public customer from an existing public customer, BPA proposes that the new public would receive a percentage of the existing public customer’s HWM equal to its proportion of the existing utility’s retail load.

SUB is concerned that once a HWM is set for an existing public that new load growth may occur in a geographic area outside of its existing service. Conceptually, this load growth would be met with Tier II resources. If a new public is formed within the geographic area where load growth is occurring and receives a portion of the existing utility’s HWM, the remaining customers of the existing utility are harmed (particularly those that existed in 2010). SUB suggests that BPA amend this part of the proposal such that the new utility only receives a HWM from the existing utility for that portion of load that was in existence in 2010. The balance of the net requirement would be met through the standard policy regarding service to new publics (addressed above).

Products Available To Publics

FBS Flexibility

A key component of a utility’s ability to integrate resources is some assurance that it will be able to access the flexibility of the low cost Federal Based System (FBS). For load following customers, BPA proposes to provide lowest cost based rates for the energy and capacity, but load following would be based on opportunity cost pricing. Resulting revenues would flow back to Tier I customers as an offset to Tier I costs. While simple on the surface, it raises questions when looking at the long view.

Ideally, SUB would like its High Water Mark to carry with it some pre-defined access to the benefit of the shaping capability of the FBS. SUB is concerned that BPA’s proposal may result in the flexibility of the system being used to meet the needs of the first generation resources being brought on line, while the last generation resource may face higher shaping costs. SUB would like some ability to conduct long-term resources planning and not have to be concerned about its “share” of the shaping benefits of the FBS being jeopardized by resources decisions made by other utilities.

For example, the Slice product has some advantages compared to load following products with regards to resource integration. A utility that purchases Slice has some certainty about the shape of its Tier I flexibility and can incorporate that knowledge when integrating other resources into its power portfolio.

A load following utility, under BPA's current proposal, has no similar understanding of its share of the access to the flexibility of the BPA system. SUB's understanding of BPA's proposal is that Load Following products are treated as a pool – with the load following costs being determined by the shape of the overall load offset the shape of the Load Following customers' resources (High Water Marks in aggregate and any Tier II resources, also in aggregate).

Load following costs are blind to individual resource decisions. If one utility shaped a Tier II resource to have its net load (load less the Tier II resource) more closely match the energy shape and capacity capability of the Federal Based System, while all other utilities integrated flat Tier II resources it may result in BPA's load following costs rising and impacting the utility that integrated the shaped resource.

SUB is concerned that with BPA dedicating some portion of the FBS flexibility to integrate intermittent resources that the first resource integrated will limit the ability to integrate subsequent resources. BPA's construct may result in utilities rushing to purchase intermittent resources in the near term. Those that do not may not be able to tap into their share of the flexibility of the FBS based on their proportionate share of Tier I power based on their High Water Mark.

SUB requests that as part of the Record of Decision that the Administrator adopt a policy stating that the timing of an individual utility's acquisition of resources will not impact its ability to access its share of the flexibility of the FBS.

In addition, it is SUB's understanding that BPA Power Services (formerly the Power Business Line) has a Memorandum of Agreement with BPA Transmission Services (formerly the Transmission Business Line) to allow redispatch of federal generation in order to integrate resources. SUB supports redispatch of federal generation in order to integrate resources. However if this MOA continues beyond 2011, BPA Power Services has some advantage to integrate Tier II resources compared to utilities that wish to procure Tier II resources. This would place BPA and individual public utilities on the same playing field in terms of integrating Tier II resources. At the September 18th and 19th NWPPA conference that focused on Allocation, SUB asked if BPA would consider the transfer of redispatch capability to public customers based on their High Water Mark. It was suggested that SUB discuss this issue with Power Services in the context of this process.

SUB requests that if the Administrator continues the practice of redispatch to integrate resources that redispatch benefits be given to public utilities based on their High Water Mark. SUB is not advocating ownership rights of redispatch – only a transparent mechanism to transfer redispatch benefits to public utilities by contract. This allows utilities the same or similar flexibility to integrate resources and reduces the risk that a utility that integrates a resource down the road would be impacted by other utilities' resource decisions.

To be clear, there are two interrelated issues – flexibility of the system to follow load and flexibility of the system to integrate resources. Utilities should have a clear understanding of their access to those benefits for the duration of the post-2011 contract – regardless of product selection.

The Slice Product

BPA proposes to limit the amount of the Slice product offered to public utilities. SUB agrees, but establishing a limit at this point may be premature. As a principle, utilities should have real choice on their product selection.

Capping the amount of Slice during the Subscription process was a significant reason why SUB did not pursue the Slice product. SUB was concerned that a cap would ultimately reduce the amount of Slice SUB could purchase to the point where it could not use its Slice/Block purchase to follow load. In the Regional Dialogue Proposal, BPA states “BPA has examined how the Slice component would be reduced if there were an over fiscal year subscription to the product and BPA prorated the allocation. The assessment is that it would take a major customer shift to the Slice product to significantly alter the percentage of Slice in customer portfolios.” BPA also states that capping slice to 25 percent of the existing Federal Based System would add 160 MW to Slice and “[t]his represents a modest increase consistent with all parties’ perspective that little, if any, new interest in Slice is expected”⁶. SUB’s observation is that the best way to limit interest in any product is to implement caps on products.

Capping Slice limits choice and limits on choice places BPA in a position of strength (however unintentional) when conducting product design. SUB would prefer that BPA be in a situation where it recognizes that customers have a real option to purchase the Slice product when discussing the Partial Requirements product.

The bottom line is that SUB would prefer that a successful Load Following product be the driver that limits the participation in the Slice product.

The Load Following Product

At the NWPPA allocation conference held in September, you acknowledged that BPA needs to be more focused on the Partial Requirements product and it needs more work.

SUB is pleased with the current approach outlined at the October 24th Regional Dialogue meeting regarding Load Following product design. BPA proposed to move forward with one Load Following product that would capture a variety of business relationships rather than multiple load following products (Full Service, Partial Service, Complex, etc...). Based on SUB’s prior experience in working with BPA on product design, multiple products often resulted in one being compared to another. Discussions often got bogged down on the topic of relative impacts. By integrating all load following business

⁶ Regional Dialogue Policy Proposal, July 13 2006, page 40

relationships under one Load Following product, it is SUB's hope that this approach will generate more productive product discussions. Discussions on relative impacts likely won't be eliminated, but hopefully they will be reduced.

BPA is off to a solid start. More work needs to be done and SUB looks forward to participating in future product discussions.

SUB does have some reservations about the philosophy behind BPA's approach. As outlined above, BPA appears to be moving toward an "allocation-lite" business relationship with its Load Following customers. High Water Marks focus on energy costs related to Tier I service, but shaping and integration are retained by BPA. SUB requests that the Administrator structure the load following product such that there is more certainty about an individual utility's access to the all of the benefits of the federal based system – not just benefits related to energy purchases.

Adding to SUB's concerns is the relationship between BPA's rate design and price signals for long-term resource development. SUB is pleased that BPA is moving forward with a public process to develop rate design principles for future rate cases. Absent those principles, BPA's price signals could change every rate case (as they have in prior rate cases) – leading to frustration on behalf of customers.

Pooling

SUB agrees with BPA that High Water Marks should be set on an individual basis. After High Water Marks are established, BPA proposes that HWMs cannot be pooled. It is SUB's observation that under BPA's current proposal BPA is pooling HWMs for all Load Following customers. SUB requests that the Administrator allow some degree of pooling of High Water Marks among customers. SUB is not suggesting that the annual net requirement done to determine an individual utility's access to High Water Marks be pooled, but from an operational perspective within a year it seems reasonable that some degree of pooling could be allowed - particularly when utilities have jointly entered into purchases of the same Tier II resource - since BPA, itself, is pooling.

Conservation

SUB agrees with NRU's comments regarding this issue – particularly in the pre-2011 period.

Since customers will have the responsibility to meet load growth Post 2011, it is likely that there will be robust conservation programs funded from utility money. While some customers may advocate for a significant reduction in BPA conservation activities being allocated to the cost of the Tier I product, SUB believes that some level of conservation activity offered by BPA is appropriate. This is for a number of reasons including:

- ◆ Lack of clarity on BPA's ability to entirely remove conservation funding from Tier I costs due to BPA's statutory obligations.

- ◆ Since, under BPA’s proposal, BPA would forecast each individual utility’s Tier II obligation, it makes sense that BPA would include expected conservation activities when calculating the load side of a utility’s net requirement. If BPA’s internal conservation program were eliminated entirely, BPA would lose the institutional knowledge base necessary to apply uniform guidelines to forecast the impact of conservation done by individual utilities.

- ◆ BPA provides a backstop for conservation activities.

Recognizing this, SUB believes it is appropriate for BPA to continue to offer its Conservation Rate Credit program (or something similar) in post-2011 period.

SUB has struggled to find any direct benefit related to BPA funding regional conservation programs related to R&D and related activities. SUB requests that BPA provide a clearer justification for future funding being allocated to Tier I costs in those areas. SUB is not saying that these activities have no value, but is raising this issue in the context that a different funding mechanism may be appropriate. SUB is concerned that regional entities look to BPA because it is perceived that BPA has deep pockets – less attention is focussed on the right funding mechanism and more is focussed on the fact that BPA said “yes” when perhaps it should say “no” to funding requests. SUB suggests that if BPA wishes to continue to fund regional research and development for conservation-related activities that it be at a minimal expense and involve the input of BPA customers on the where BPA could best dedicate its resources.

Finally, bilateral agreements in the future should require a reduction in a utility’s High Water Mark in an amount equal to the conservation energy savings achieved to avoid Tier II resource acquisition being paid for with Tier I rates.

Renewables

BPA proposes to facilitate renewables through a funding mechanism that is part of the Tier I cost structure. BPA proposes that a net cost of \$21 million per year be the target – although this is a cap and funding may be less in a given year.

SUB notes that this \$21 million figure is a “net cost” figure that is subject to assumptions on revenues and expenses related to BPA’s renewables activity. SUB has frequently observed staff inadvertently characterize this as a set cost – like buying office equipment or a vehicle. SUB requests that BPA continue to provide detailed information on its revenues and costs – otherwise the \$21 million figure is fairly loose and may result in years where the net cost is much higher due to higher costs or lower revenues.

Lastly, while BPA is moving forward with a wind integration strategy, SUB is hopeful that BPA’s focus will not be limited to wind resources. BPA should have a “Renewable Integration Strategy” – rather than focus on a particular type of renewable. SUB is

concerned that BPA's focus on wind may tie up FBS flexibility to serve load and integrate other renewables in the future.

Service to IOUs

SUB supports NRU's comments regarding benefits to IOU's. SUB withheld any formal comments regarding IOU benefits until the due date for comments in the hopes that settlement discussions would be fruitful. SUB did not want to distract settlement discussions with premature comments.

Absent settlement, SUB requests that the Administrator include demographic information in the discussion of IOU benefits. It makes little sense, in SUB's view, to provide rich financial benefits for the residential and small farm customers of IOU's when those customers have greater financial resources compared to customers of consumer-owned utilities.

For comparison, the median household income for Springfield residents is \$33,301 and 17.9% of the residents have incomes below the poverty level. Portland, Oregon, by comparison has a median household income of \$40,146 and 13.1% of the residents have incomes below the poverty level. Overall, households in Oregon have median incomes of \$40,916 and 11.6% of households are at or below the poverty level⁷.

Service to Direct Service Industries

SUB supports NRU's comments regarding benefits to DSI's.

If the Fallback Proposal is pursued, SUB would encourage BPA to move the process forward in a way that creates an incentive for DSI's to come to the table. As it stands now, DSI's can stand on the sidelines of the discussion between public utilities and investor owned utilities to achieve settlement. In the recent past, BPA's treatment of DSIs and IOUs has been to address each issue separately and public utilities have been "squeezed" by both sides.

SUB suggests that BPA merge the discussion of benefits to IOUs and DSIs. Conceptually this would involve adding the proposed level of financial benefits to the DSIs to some amount of IOU benefits as a starting place moving forward. In the end, this pot of financial benefits could be entirely distributed to IOU customers, entirely to DSI customers, or some other distribution. By establishing a fixed set of benefits prior to continuing discussions, this would cap the total financial exposure to consumer-owned utilities. SUB suggests that this approach may be more appealing to consumer-owned utilities because past practice has been a "backwards" approach – with consumer-owned utilities faced with two unknowns (IOU benefits and DSI benefits). In the past, these issues have been addressed in separate processes that do not coincide with one another. BPA decides one set of benefits and then moves on to the other.

⁷ Source: US Census Bureau

If BPA does not merge the discussion of benefits into “one pot”, SUB requests that BPA at least keep the decision on the level of benefits to IOUs and DSIs within the same Record of Decision. Piecemeal decision-making on these two issues would only serve to increase complexity and reduce simplicity of Post-2011 policies.

Creditworthiness, Counterparty Risk, and Tier II

SUB shares the concerns of other utilities that BPA lacks an appropriate firewall to prevent Tier II costs from slipping into Tier I. In SUB’s view, one key element is that BPA adopt robust creditworthiness standards for customers that wish to participate in buying a Tier II product. It would be unfortunate for BPA to sell Tier II products only to find purchasers in a position of not being able to pay or declaring bankruptcy and BPA being left on the bottom of a long list of creditors seeking relief.

SUB requests that BPA engage the region on the issue of Creditworthiness and Counterparty Risk in the context of Tier II product offerings. This would include a process where BPA would predetermine requirements for participating in Tier II purchases including the possibility of requiring letters of credit or collateral. SUB would strongly advocate that a utility’s Tier I High Water Mark be reduced in the event that they do not pay for their Tier II obligations and that post-2011 contracts allow BPA this remedy.

Waiver of Customer Rights

SUB agrees that a Long Term Regional Dialogue proposal would require waivers of some of a BPA’s customers statutory rights in order for the Regional Dialogue proposal to be durable. The number of and scope of these waivers should be as limited as possible.

Thank you again for all the work you and BPA staff have put into this process. Should you have any questions, you may contact me at (541) 744-3779.

Sincerely,

/s/

Jeff Nelson
Director of Resource Management
Springfield Utility Board