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October 30, 2006

Steve Wright, Administrator
Bonneville Power Administration
PO Box 14428
Portland, Oregon 97293-4428

Re: Lower Valley Energy Comments on Regional Dialogue

Dear Mr. Wright:

Thank you for the opportunity to comment on Bonneville's Long Term Regional Dialogue Policy Proposal. I am writing today to underscore some very important issues to Lower Valley Energy. As you know Lower Valley serves approximately 24,500 customers in Western Wyoming and Southeast Idaho. As a full requirements customer of Bonneville we are vitally interested in the proposed allocation methodology.

Bonneville has provided exceptional power supply service to Lower Valley for many years. We stand in the minority in suggesting that Bonneville has been a good aggregator of loads in the Northwest and believe that they should continue to aggregate loads in the future and not allocate the system. We believe that having many small utilities chasing the same power supply opportunities or running to the market will not be as efficient as managing the same loads as one integrated whole. The economy of scale benefits of operating all of the public power entities in the northwest as one unified power pool have to be enormous. We wonder if, in ten years from now, we will all look back at tiered rates and allocation as a huge mistake.

Short of maintaining the BPA system as is, essentially operated as one large pool, we believe BPA should rethink its stance in the Regional Dialogue about pooling of high water marks. BPA indicates that pooling would work against the goal of reducing regional conflict and would become administratively burdensome. We disagree with BPA's conclusion. Encouraging customers to work together by pooling their resources and loads actually reduces regional conflict and lends itself to greater regional

cooperation. Pooled utilities will operate more efficiently and thereby serve their customers more effectively. In addition, BPA should not implement policies for the purpose of promoting secondary sales at the expense of service to its priority customers at its lowest cost-based rates. Therefore, Lower Valley recommends that pooling be permitted.

The issue of transfer service for non-Federal power is critical to our future viability. Lower Valley Energy is one of only six BPA customers who take service from Bonneville via an exchange agreement between BPA and PacifiCorp. The South Idaho Exchange (SIE) is a unique arrangement that is replicated no where else on BPA's system. Historically, one of the guiding principals for transfer service such as the SIE has always been that such service be comparable to the service provided by BPA to its directly connected customers. If it is BPA's policy to remain faithful to that concept, it is critical that BPA assume the obligation to wheel Tier 2 non-Federal power either through the SIE or via a separate transmission agreement with PacifiCorp. Unfortunately, the proposal, as currently written, will not accommodate our access to regional power markets other than through BPA. This is contrary to the policy guideline in the Regional Dialogue which provides that "BPA should not use transfer service as leverage to induce customers to buy Tier 2 power from BPA".

As mentioned, customers served by either the SIE or GTA service were promised comparable service and therefore we suggest that the 30MW or \$800,000 annual increment limit be stricken from the Regional Dialogue. If you are going to limit the amount of Tier 2 delivery of non-Federal power over the GTA's a similar limitation should be placed on directly connected customers.

The Regional Dialogue provides that Bonneville will "use any surplus power sales (net secondary) revenues it earns in any given year above its historical high level of \$500 million to make early payments on its Federal bond debt to the U.S. Treasury. BPA has historically used any net secondary revenues to reduce the cost of power to its customers who have been paying for the system. This process in all fairness must continue as is. Secondary revenues should be used first and foremost to reduce Bonneville's wholesale Tier 1 rates. Bonneville should retain the flexibility to pre-pay its Treasury debt, but only when doing so makes sound fiscal sense.

We support Bonneville's proposal to allocate approximately \$250 million of financial settlement benefits of the FCRPS to Investor Owned Utilities (IOUs) as Residential Exchange benefits. Anything more is not acceptable and would allow the neighboring IOU to have lower residential rates than Lower Valley Energy at the expense of our customers.

Lower Valley Energy strongly opposes any service to DSI load from Tier 1 resources or any service to DSI load that would have the effect of increasing Tier 1 rates.

Lower Valley Energy supports BPA's proposal to continue with the LDD and the irrigation rate mitigation program. However, we feel strongly that these programs should be fairly and evenly applied to all customers. For example, all customers should be required to use the same methodology to calculate the LDD and the irrigation discount should be available to all irrigators regardless of which utility serves them.

Thank you again for this opportunity to comment on the BPA Regional Dialogue Policy Proposal.

Sincerely,



James R. Webb
President/CEO