



**PUBLIC UTILITY DISTRICT NO. 1
OF MASON COUNTY**

N. 21971 Hwy. 101
Shelton, Washington 98584

BOARD OF COMMISSIONERS

KARL DENISON, Commissioner
JACK JANDA, Commissioner
RON GOLD, Commissioner

DATE: 10/30/06

Mark Gendron
Bonneville Power Administration
P.O. Box 14428
Portland, Oregon 97293-4428

RE: Regional Dialog and PURPA

Dear Mr. Gendron:

Because of the requirements of federal law, Public Utility District No. 1 of Mason County, Washington (Mason PUD 1) has been obligated to purchase from Lilliwaup and Rocky Brook hydro projects (Projects), both of which are PURPA projects. Although Mason PUD 1 has taken steps to terminate one of the contracts under which it purchases such power due to failure of the Project to produce power, we are concerned how these Projects could affect our High Water Mark (HWM) and resulting rates under BPA's proposed the new 20 year contract.

As currently proposed, the net requirement determination used to set the HWM for Mason PUD 1 will deduct from the forecast of the District's net requirement the output of Projects if they are still serving the retail load of Mason PUD 1 at the time the net requirement determination is trued up in 2010. If this is done, it will materially reduce the HWM of Mason PUD 1 for the duration of the new, long-term BPA contract. And under the current BPA regional dialogue proposal, if the output of Projects becomes unavailable at any point during the term of the new BPA contract, then any power purchased from BPA to replace the output of Projects will be priced at the incremental Tier 2 rate.

From a policy perspective, it is important to consider that Mason PUD 1 did not voluntarily develop or pursue these Projects, but was required by federal law to purchase their output at a legislatively set price. In this regard, the circumstances of Mason PUD 1 are materially different than those of public utilities who have voluntarily developed resources on their own because of the benefits their ratepayers obtained from such resources.

It is also important to note that Mason PUD 1 has no control over how these resources are operated or maintained. As a consequence, the timing and amount of power available from the Projects is uncertain, and as recent events have shown, the long-term availability of the output of these Projects for the next twenty years is problematic at best.

We think that it is crucial that BPA's regional dialogue proposal recognize the unique circumstances of Mason PUD 1. The fact that Mason PUD 1 has been required by federal law to purchase the output of these Projects, and that it has no control over the quantity or long-term availability of the Projects' output warrants different treatment of these PURPA resources. I strongly urge BPA to adopt a policy that either exempts the output of PURPA projects from the calculation of the HWM altogether, or that commits BPA to replacing the output of PURPA projects with Tier 1 power should such output become unavailable during the term of BPA's new, long-term contracts. Such a policy would ensure that the ratepayers of preference utilities that are forced by law to purchase output from PURPA projects are not unfairly penalized.

Please accept this letter and the attached document entitled, "Comments of the Public Utility District No. 1 of Mason County, Washington on the Bonneville Power Administration Long-Term Regional Dialogue Policy Proposal" as Mason County PUD 1's comments relating to the treatment of PURPA Projects in the Regional Dialogue Policy Proposal.

Sincerely,

A handwritten signature in cursive script that reads "Karl Denison".

Karl Denison

BOARD PRESIDENT
MASON PUD 1

C.C. Scott Wilson

**COMMENTS OF THE PUBLIC UTILITY DISTRICT NO. 1 OF
MASON COUNTY, WASHINGTON
ON THE
BONNEVILLE POWER ADMINISTRATION
LONG-TERM REGIONAL DIALOGUE POLICY PROPOSAL**

1. Introduction

These comments are submitted on behalf of the Public Utility District No. 1 of Mason County, Washington ("District") in response to the Bonneville Power Administration's ("Bonneville") Long-Term Regional Dialogue Policy Proposal issued July 13, 2006 ("Regional Dialogue Proposal").

The District has participated in the Regional Dialogue process through the Public Power Council and the Western Public Agencies Group, and endorses the comments submitted by both of these organizations. The District appreciates the opportunity to submit comments on this important topic.

2. Background

The District currently purchases power from Bonneville under a Full Service Power Sales Agreement (Contract No. 00PB-12056) to provide service to its retail load of about 6.3 aMW. In addition to the power provided by Bonneville under this contract, since about 1994 the District has been obliged to purchase the output of two small run of the river hydroelectric resources located in the county under the requirements of the Public Utilities Regulatory Policies Act (PURPA), 16 U.S.C. §824a *et seq.* These PURPA resources have a nameplate capacity of 1.3 MW and 1.4 MW respectively. On an average energy basis, these resources supply about fifteen percent (15%) of the energy used to serve the District's loads.

Under current arrangements, the output of these two PURPA resources is used exclusively to serve the District's loads when it is available. When they are not operating due to water conditions or maintenance outages, Bonneville fills in behind these resources and serves the load at the Priority Firm rate. These PURPA resources have had a spotty record of performance since they commenced operations. One of these resources has not produced any output for the last ten months.

It is important to note that the District does not own, operate, maintain or in any manner control these resources, and the District did not pursue or solicit the output of them. Rather, these resources were brought to the District by the resource sponsors who required the District to purchase their output under the provisions of PURPA. This arrangement, in combination with a purchase price that for the most part has equaled the Priority Firm rate, has resulted in these resources not working an economic hardship on the District's customers. However, this outcome will change dramatically under the Regional Dialogue Proposal.

3. The Problem Posed by the Regional Dialogue Proposal

Under the Regional Dialogue Proposal, the high water mark ("HWM") of the District will be based on its forecast retail load (adjusted to 2010 actuals) minus the output of any generating resources that are declared in Exhibit C of its Bonneville power sales contract. Under this suggested approach, the output of the PURPA resources that the District has been forced to acquire will be permanently deducted from its HWM. This will result in reduction to the District's HWM of about fifteen percent (15%) for the entire term of the new Bonneville power contract. This is an inequitable outcome for a number of reasons.

Under the approach contained in the Regional Dialogue Proposal, PURPA resources and non-federal resources that were voluntarily developed by preference customers will be treated identically. This identical treatment makes little sense given the materially different circumstances of these two classes of resources. Non-federal resources that were voluntarily developed by utilities were pursued because of the economic benefits that were expected to accrue from them, and were the product of a conscious choice on the part of the developing utility. In contrast, PURPA resources are not pursued by the utility, but are foisted upon them by the resource developer under federal law.

Further, non-federal resources voluntarily developed by utilities are owned, or at least controlled, by the developing utility. This means the utility can determine the quality of the maintenance, capital additions and replacements, and operating regime of the resource. In short, the utility can control the quantity, reliability and useful life of the resource. In contrast, utilities such as the District have no control over the quality of the maintenance, capital additions and replacements and operating regime of the resource. They have no say in the amount of power produced, when the power will be available, or whether the resource (or resource developer) will be there for the long-haul.

Given these differing circumstances, it does make policy sense to reduce the HWM of utilities by the amount of output they have declared in Exhibit C from non-federal resources that they own or control, since these utilities have the ability to ensure that these resources will reliably produce power that can be used to serve their retail load during the term of the new power contract. However, it makes no sense to apply such a standard to PURPA resources, over which the purchasing utility such as the District has no control.

4. Recommended Solution

The Regional Dialogue Record of Decision should recognize that small PURPA resources warrant a different treatment from declared non-federal generating resources that are owned or controlled by the utility. To provide differing treatment to these two categories of non-federal resources in a manner that is fair to all parties, it is recommended that the HWM calculation mechanics be revised to exclude from the HWM calculations in 2008 and 2010 the output of small PURPA resources (less than 3 MW of nameplate capacity). The output of PURPA resources used to serve preference customer

load should continue to be recognized in the net requirement calculation of those preference customers so long as the output is so used. However, if the PURPA resource ceases to provide power or is no longer used to serve the preference customer's load, the net requirement should reflect that change.

Under this approach, the output from PURPA resources that is used to serve preference customer load would be recognized in calculating the amount of Tier 1 power available to the utility so long as such power was available. However, if the resource sponsor elects to cease producing power or requiring the utility to purchase it, the preference customer would not face a permanent reduction to its HWM based on a PURPA resource it did not seek and over which it exercises no control

Making this modification to the HWM calculation would not open a huge loop hole for large number of resources. Research on this topic by the District has revealed that presently the only two PURPA resources serving preference customer load are those located in the District's service area. And there is no reason to believe that this modest revision to the HWM calculation would change this fact.

5. Conclusion

The District is supportive of Bonneville's effort to implement a tiered rate construct that will provide certainty of supply to preference customers, and give them incentives to develop non-federal resources rather than simply relying on Bonneville to fill their future needs. However, the District strongly urges Bonneville to do so in a manner that does not severely and permanently penalize the District because of its obligation to purchase the output of PURPA resources. Adopting in the Regional Dialogue Record of Decision the recommended revision to treat equitably preference customers with small PURPA resources will accomplish this goal.