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November 1, 2006

Steve Wright, Administrator
Bonneville Power Administration
Post Office Box 14428
Portland, OR 98293-4428

Dear Steve 

With this letter I am providing comments, on behalf of Washington State, on the July 13, 2006, "Long-Term Regional Dialogue Policy Proposal" (Regional Dialogue). My letter of August 10, 2006, stated my intent to submit more detailed comments once my staff and departments fully reviewed your proposal and had an opportunity to discuss it with stakeholders. That review is now complete.

I continue to maintain that a regional agreement that leads to 20-year contracts, along the lines of Bonneville Power Administration's (BPA) Regional Dialogue holds the promise of considerable value to the Pacific Northwest region and Washington State. A regional agreement will provide the certainty and predictability that the Northwest electric power system needs. Lack of certainty in our electricity system over the last ten years (or more) has exacerbated many of the problems and disputes concerning prices, governance, and infrastructure investment. I congratulate you on your perseverance and determination in developing this proposal.

To protect the benefits of the federal power system, regional stakeholders will need to seek common ground. The Regional Dialogue represents considerable progress toward a common vision, but important agreements still need to be reached. Therefore, I aim my comments at improving the proposed set of policies so we can all enjoy the benefits of the Federal Columbia River Power System (FCRPS) in this region for many years to come.

My specific comments and recommendations are organized around 11 areas of concern:

1. The President's Budget Proposal

The Regional Dialogue solicits comments on the President's budget proposal that would require BPA to accelerate federal debt payments under certain conditions. Because the President's budget proposal stands at odds with a key goal BPA has defined for the Regional Dialogue, it should be removed from the proposal for long-term contracts with BPA.



Specifically, the President's budget proposal undermines the certainty that BPA will be able to make Treasury payments. It does so by reducing the BPA financial reserves required to make Treasury payments during drought years. The proposal, if enacted, would also make it more difficult for BPA to achieve its goals of maintaining low costs and low rates. Analysis by the Northwest Power and Conservation Council (Council) indicate that the President's budget proposal could contribute to significantly higher power rates while causing adverse economic impacts in the Northwest.

Finally, the proposal is, in my view, simply unnecessary. BPA continues to make repayment on time and often early, as its financial strength permits.

2. Residential Exchange

Washington, unlike the other three states, serves a majority of its electricity consumers, and a majority of its electrical load, through consumer-owned utilities. Thus, Washington stands to bear much of the cost, but also stands to gain much of the benefit, of any policy that secures the value of the FCRPS to the region over the long-term. But, our state also has a very large number of customers served by investor-owned utilities, giving us a diversity of electricity providers that comes close to reflecting the broader diversity of the region as a whole.

It is in Washington's interest, as it is in the region's interest, to settle long-standing disagreements about how residential and small farm customers of investor-owned utilities should receive a fair share of the benefits of the federal power system. A settlement of the residential exchange, guided by the Regional Act and within the parameters laid out by the parties, would be acceptable and certainly preferable to no settlement at all.

It is time for a durable solution for all Northwest ratepayers over the next two decades. I encourage you to take whatever steps are necessary to facilitate constructive negotiations among the parties to bring all sides together. It is important that in the end all parties believe that their claims to fairness and legal entitlement are reflected in a package that will benefit them and the region with long-term certainty and durability.

3. The "Fallback Proposal"

I have significant concerns about the "Fallback Proposal" outlined in the Regional Dialogue. If issues around the investor-owned utility residential exchange and the public utility exchange are not resolved, it is likely that whatever progress made elsewhere in the Regional Dialogue will ultimately be undermined. If these difficult issues are not resolved now, the region will necessarily revisit the same stubborn controversies regularly over the next 20 years. I am concerned that many stakeholders are viewing this alternative with unjustified optimism. Deferring these issues will not, as history teaches, make them any easier to resolve later.

Worse still, lack of resolution on the exchanges will prevent you from achieving your central goals of greater predictability and stability—goals that I share. Implementation of the residential exchange has never been predictable or particularly stable. Furthermore, the public exchange has the potential to undermine the fundamental purpose of tiered rates, one of the major reasons for this effort. If public utilities can “exchange” new, high cost resources with BPA, then effort to separate the low cost resources of the federal power system from new resources would be lost. BPA rates may be more volatile as a result, making it more difficult for utilities to make long-term resource plans and decisions.

4. Providing the right incentives for conservation

The Pacific Northwest Electric Power Planning and Conservation Act (Regional Power Act) made conservation the first priority resource and the region has gained major benefits from significant investments in energy efficiency over the past 26 years. I strongly support BPA’s commitment to acquire its share of the region’s conservation targets developed by the Northwest Power and Conservation Council. While the methodology for computing BPA’s share of regional conservation targets is not entirely settled, BPA’s pledge is an important first step.

It is significant, as BPA is aware, that the method for allocating access to lowest priced power, or setting high-water marks, continues to provide a clear and strong incentive for both BPA and its customers to achieve their conservation targets now and in the future. The current proposal would require customers, under some conditions, to forego future federal power allocations equivalent to 50 percent of their conservation savings. This does not appear to provide the correct incentive. Utilities should not be discouraged from securing any cost-effective conservation because of a concern that they will lose future access to lowest priced federal power.

Furthermore, utilities that made investments in conservation since 2002 should not be penalized with a loss of access to lowest priced federal power in the future. I encourage you to continue to listen to the region and ensure that positive incentives for conservation are firmly anchored in BPA’s future role.

5. Augmentation of the Power System

The Regional Dialogue describes three possible reasons for augmenting the output of the federal power system available for sale at the Tier 1 rate: to reach an initial high-water mark in Fiscal Year (FY) 2012; to serve new publics; and for possible service to direct service industries (DSIs). The Regional Dialogue creates a possible augmentation of as much a 1000 aMW federal system capability. If this expansion is, in fact, found to be necessary, BPA should implement it in accordance with the Regional Power Act. BPA investments in new resources should be consistent with the Power Council’s plan and certain large resource acquisitions by BPA would be subject to Power Council review.

It is likely that many of your customers will ask BPA to meet their load growth with Tier 2 power. Any power acquired to meet Tier 2 loads should, of course, also follow the resource priorities established in the Regional Power Act and be consistent with the Power Council's plan.

6. Link to Initiative-937 (I-937) if this Washington Initiative is voter-approved

If BPA finds it necessary to augment the capability of the federal power system, it should be mindful of state-specific resource requirements. For example, Washington citizens will vote on I-937 this fall to determine whether certain utilities will be required to achieve minimum renewable resource and energy efficiency standards. If I-937 is adopted, Washington utilities' demand for conservation and renewable power will likely increase, a factor that BPA ought to consider in its augmentation strategy.

If voters approve I-937, it will be important for Washington State energy officials and BPA to coordinate policies and rules to make it easiest for Washington utilities to comply with the Initiative. If I-937 passes, BPA should include in the final Regional Dialogue Record of Decision a strategy to help its customers meet state conservation and renewables requirements.

7. Centralia

One of the issues raised in the Regional Dialogue is how much BPA will limit allocation of the federal power system to former owners of the Centralia Coal Plant. This is a major concern of four Washington utilities that are large customers of BPA. I urge BPA to carefully review their request and, if it is valid, to approve it expeditiously. The Regional Dialogue links favorable treatment of this issue to the general success of the overall proposal. However, if BPA finds that there is a fair and legal way to resolve the Centralia issue then it should be just as fair even if other conditions are not met. I encourage you to consider this issue on its own merits.

8. Cost Control and Transparency

BPA has made significant strides toward achieving greater transparency regarding its internal operations and costs. Through such institutions as the Sounding Board and Power Function Reviews (in which Washington participated), the Customer Collaborative, and the use of outside audits and benchmarking, BPA has become much more accountable to the region. I view the proposal to implement a long-term cost control process as the logical next step in this evolving process. I support the proposed Regional Cost Review because it provides an open and meaningful process for regional discussion about BPA business practices without raising questions about BPA's legal obligations and authority.

9. Fish and Wildlife

BPA plays a fundamental role as an environmental steward in the Pacific Northwest. I am pleased that BPA acknowledges its responsibility in the Regional Dialogue. Your duty to fund BPA's fish and wildlife obligations is substantial and does not change in any way as it develops a different power contract. Expenditures for fish and wildlife are essential but can be controlled through improvements in accountability and efficiency. I commit my administration to continue working with you to achieve successful salmon recovery programs in a fiscally responsible manner.

10. Direct Service Industries

According to recent studies, aluminum companies make a positive contribution to Washington State's economy, in particular by providing high wage family jobs. I encourage BPA to build upon the current contracts and continue to seek opportunities to maintain this positive economic value in the region. While BPA contracts cannot alone fully restore this once vibrant industry, I support BPA's efforts to protect these valuable jobs without placing excessive costs on other ratepayers.

BPA has proposed several alternatives for the DSIs post 2011, including providing either financial benefits or power sales contracts. The aluminum companies are receiving financial benefits now under current contracts, but have requested direct power sales when these expire in 2011. If BPA decides to sell power to the DSIs, I encourage you to ensure that power sales contracts provide stability benefits for the region as well as for the companies, and that we heed the lessons learned from 2001. For example, such contracts should, at a minimum, allow BPA the flexibility to interrupt these sales temporarily during power emergencies in the Northwest caused by extreme weather or extreme market conditions.

While regional debate has focused on the question of providing service to aluminum companies, we should not forget that Port Townsend Paper is also a direct customer of BPA and its power needs should continue to be served by BPA after 2011.

11. Service to Tribal Utilities

I am concerned that BPA's proposal may not have the flexibility necessary for new tribal utilities to successfully form and serve customers. Tribal utilities may play an important economic development role for their communities and aligning tribal utility and fish and wildlife priorities would be of value. I encourage BPA to continue to work with tribal utilities to afford them every opportunity to succeed.

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The Regional Dialogue offers a great opportunity for the region to refocus BPA's role to provide the best possible service in the Northwest for the long-term future. In order to achieve this goal, the region must first resolve a number of contested issues. I believe that we should, and can, reach this goal and I offer my help to see this through. Please continue to call upon Matt Steuerwalt, my Executive Policy Advisor, at (360) 902.0499 or matts@gov.wa.gov for any additional assistance.

Sincerely,

A handwritten signature in cursive script that reads "Christine O. Gregoire". The signature is written in black ink and is positioned above the printed name and title.

Christine O. Gregoire
Governor

cc: Tom Fitzsimmons, Chief of Staff, Office of the Governor
Matt Steuerwalt, Executive Policy Advisor, Office of the Governor