



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER BUSINESS LINE

October 5, 2004

In reply refer to: PS

Dear Customers, Constituents, Tribes, and Other Regional Stakeholders:

The public meetings have been completed and the comment period on BPA's July 2004 Regional Dialogue policy proposal has closed. The policy proposal for the FY 2007-2011 time period was released on July 7. Since that time, six public meetings and numerous smaller meetings were held on the policy proposal, and we received over 130 written comments. If you attended a meeting or sent in comments, thank you very much. The purpose of this letter is to give you an overview of the input we received, and to describe our next steps.

The issues we are addressing in the Regional Dialogue are key to the region's energy future. We are most likely to find good solutions when all parties understand each other's interests and points of view. The brief summary of comments on each issue in our proposal provided below will hopefully foster that understanding. Of course, brief summaries don't do justice to specifically what each organization or individual said, so we have also posted the full text of virtually all the letters and email we have received, plus notes of oral testimony, on our web site at www.bpa.gov/power/regionaldialogue. A detailed comment analysis and Administrator's Record of Decision will follow in December. At the end of this letter we describe our next steps.

- 1. Long-Term Power Obligations:** There was strong support for BPA's policy proposal to limit its long-term sales at lowest cost-based rates to the amount produced by the existing Federal system. Many BPA customers noted support for the PPC allocation proposal as a way of implementing this policy direction. NRU, WMG&T, Central Lincoln, Inland, Benton REA, Sumas, and Orcas called for allocations to be based on new net requirements determinations, with WMG&T urging development of a new transparent method for determining net requirements. PPC and others noted that allocation of MW's requires contractually enforceable segregation of costs. Lincoln Electric and others want to ensure that BPA would continue to meet their load growth on request on a bilateral basis. NWEA, NRDC, CUB, MEIC, and a few other commenters expressed strong reservations about whether BPA's proposal was the right course, out of concern for whether adequate amounts of conservation and clean new resources would be developed if BPA limits its role.
- 2. Proposed Schedule for Long-Term Issue Resolution:** Most commenters agreed with BPA's proposed schedule for long-term issue resolution (i.e. a new long-term Regional Dialogue policy proposal in July 2005, leading to new 20-year contracts signed by April 2007 and going into effect as early as October 2008). However, PRM, PNGC,

Clatskanie, and Snohomish commented that BPA should accelerate this schedule. Sumas thought the proposed schedule was too ambitious. WPAG thought that new legislation might be needed, lengthening the schedule. NWEAC, CUB, CTED, and NRDC urged that the decision process on long-term issues provide equal opportunity to non-customers.

3. **Tiered Rates:** Most commenters agreed that BPA should not implement tiered rates in the rate period that will start in FY 2007. Exceptions were the investor-owned utilities and Clatskanie who advocated tiering rates in FY 2007 to create the earliest possible price signals to utilities and the market, though the IOUs would not apply tiered rates to customers who remain under existing contracts. Several BPA customers stated that tiered rates could make sense in the long run as part of an allocation of the federal power system. Both the Confederated Tribes of the Umatilla Indian Reservation and the Tulalip Tribes of Washington expressed concern that in the long-run tiered rates could work against new public utilities like tribal utilities.
4. **New Publics and Annexed Loads:** Most comments supported BPA's proposal for a June 2005 deadline for formation of new public utilities to get the lowest cost-based rate for the rate period starting in 2007. However ATNI, Umatilla Tribes, UIUC, ODOE, Montana Power Authority, and others stated that the deadline for new publics is too tight and should be extended. PNGC, ICNU, and others stated that there should be a MW cap on the amount of new public load BPA serves at its lowest cost PF rate. BPA's proposal for service to annexed IOU loads was supported by most who commented on this issue. Benton REA stated, however, that there should be no transfer of IOU residential exchange benefits to a new preference utility when annexations take place.
5. **Conservation Resources:** Numerous commenters pointed out the significant benefits of conservation in terms of energy cost, environment, economic development, and market stability. Most commenters supported the principles BPA outlined in its policy proposal, but many were concerned that the policy proposal was too vague. Many commenters expressed support for the collaborative process BPA is convening to specify the future approach. BPA customers strongly supported the principle that conservation is best accomplished at the local level, with PNGC advocating the transfer of virtually all conservation efforts to local utilities by 2008. NWEAC called on BPA to define its share to be the proportion of the Council's target that covers all the loads of its public utility and DSI customers. PPC and several others expressed strong support for the C&RD mechanism. NWEAC, NRDC, and many individuals called for stronger commitments to conservation, including low-income weatherization, to ensure the Council's targets are met. NWEAC, ODOE, and others urged that conservation savings not reduce utilities' allocations of BPA power. EWEB expressed concern that BPA's focus on minimizing its costs could result in failure to capture all cost-effective conservation. Emerald and others questioned BPA's assertion that C&RD was a more costly approach than ConAug.

6. **Renewable Resources:** Almost all BPA customers supported BPA's proposal to adopt a facilitation role for renewables. Many BPA customers raised strong concerns about any further BPA acquisition of renewable power, even as an "anchor tenant," due to concerns over financial risk and rate pressure, though Cowlitz and others supported a tightly limited acquisition role. Renewables Northwest, NVEC, NRDC, CTED, CUB, and NW SEED commended BPA's ongoing support for renewables, supported facilitation and urged that specific facilitation actions be defined, possibly through a collaborative process. They also questioned whether the level of financial support was adequate and urged an ongoing "anchor tenant" acquisition role. Many of the comments urged BPA to take action to improve transmission access. Numerous commenters argued that renewables development will shield the region from market price spikes, reduce the need for BPA to "lean on the river" in emergencies, address global warming risks, and provide needed jobs for displaced workers.
7. **New/Different Products:** NRU, Cowlitz, WMG&T, Central Lincoln, Benton REA, and CRPUD advocated no product switching to Slice in 2007. Tacoma supported no product switching, or that such switching hold other customers harmless. PPC, Emerald, EWEB, Snohomish, PNGC, Benton PUD, WPAG, and ICNU said that current Slice customers should be able to adjust their Slice and block amounts in 2007 without changing their total take from BPA, and that the 5-year contract holders should be allowed to switch to Slice in 2007. SUB opposed product switching for 5-year contract holders. PNGC advocated opening the window for utilities to switch to Slice in 2007 so long as the original 2000 aMW limit on Slice purchases is not exceeded. Franklin PUD supported giving customers with expiring contracts the first option to switch to Slice. NRU suggested re-classifying product types under certain circumstances. A number of commenters supported BPA's proposal to allow customers to add a non-Federal resource on a case-by-case basis.
8. **Cost Controls:** Many commenters expressed support for BPA's efforts to be more transparent and forthright with financial reporting and for providing more opportunities for input to decision-making. The Sounding Board, the Customer Collaborative and the monthly technical financial updates were mentioned as positive steps. Most BPA customers commented that though these efforts were a good start, more needs to be done in the areas of cost control, governance, and dispute resolution before customers would be willing to sign new 20-year contracts. Clatskanie called for a permanent cost control board with majority representation from public power. WPAG, Benton REA, and PNW State Utility Commissioners suggested including costs in the BPA rate case. Benton PUD, WPAG and others asked BPA not to rule out a change in legislation to accomplish these goals.
9. **Service for Expiring Five-Year Contracts:** Most who commented in this area agreed with BPA's policy proposal to extend the term of the existing contracts to September 30, 2011 and the lowest cost PF rate to customers with expiring 5-year purchase

commitments. Snohomish and WPAG said that a new net requirements determination to define the amount of power these customers may buy at the lowest cost-based rate in the second five-year period was not reasonable. CRPUD, Benton REA, WMG&T, Northern Wasco PUD, and others said a net requirements determination should be required.

10. **Post-2006 Service to Direct Service Industries (DSI):** Dozens of comments from Alcoa, CFAC, Golden Northwest, Port Townsend Paper, DSI workers, state and local elected officials, NWECC, and DSI-dependent businesses expressed strong support for continuing BPA service to the DSIs or a comparable financial settlement. They cited the dependence of families on high-wage jobs, the central role the DSIs play in local communities, the civic and environmental responsibility of the companies, the national strategic importance of the aluminum industry, and the lack of fairness they saw in “cutting the DSIs off” while others continued to receive low-cost service from BPA. PPC and many other BPA customers emphasized the lack of legal mandate for BPA to offer new contracts to DSIs, were doubtful that BPA’s proposal would meet the stated needs of the DSIs, and expressed concern about the costs of service to DSIs driving up their rates and endangering jobs in other electric-intensive industries. However, Flathead Electric, WMG&T, Northern Wasco PUD, EWEB, Lincoln Electric, ICNU, CTED, and Franklin PUD supported varying degrees of limited BPA sales to DSIs, or equivalent financial benefits, for the rate period starting in 2007. Some were open to power sales but opposed to financial benefits. WPAG advocated up to 500 aMW of service at a rate reflecting the incremental cost incurred to purchase power in the market to serve them. WPAG also said that BPA has no legal authority to provide “service benefits” or financial benefits to DSIs. NRU was willing to explore alternatives that do not increase costs or risk to preference customers, but only as part of a long-term package of decisions. SUB, Cowlitz and Ferry County opposed firm power sales. CRPUD and Benton REA opposed both power sales and financial benefits. Many public utility customers urged that further service, if any, only continue for the next rate period, and not beyond that. Golden Northwest argued for DSI credit support and said that BPA’s proposed eligibility standards would unfairly discount their previous responsible actions because of recent financial difficulties. ICNU, Alcoa, Flathead, and others thought that consideration should be given to allowing some DSI load to migrate to the local utility service without being designated as NLSLs (and thus having to pay a higher rate). Benton REA opposed policy changes that would facilitate transition of DSI service to local utilities.
11. **New Large Single Loads (NLSL):** Most commenters generally agreed with BPA’s NLSL policy proposal. Several commenters said that the cogeneration and renewables exception should be available to all NLSLs, not just DSIs. A couple of commenters stated that off-site as well as on-site cogeneration should be allowed under the policy.
12. **Residential Exchange:** Most agreed that BPA and the IOUs have settled this issue for the near term and supported the financial approach over actual power deliveries in both

the short and long run. However, the PNW State Utility Commissioners advocated that IOUs be given the choice between power deliveries and financial benefits in the event that the current settlement agreement is overturned in court. Snohomish, WPAG, Benton REA, and others noted that this issue would be resolved in the courts.

13. **Rate Period:** Almost all who commented supported a 2 or 3-year rate period starting in 2007, with advocates for both 2-year and 3-year rate periods. Two-year advocates noted that this would sync-up the rate periods with the schedule for new long-term contracts. Three-year advocates noted that this would sync-up the BPA power rates period with BPA transmission rates. EWEB urged minimizing the use of CRACs in future rates. Benton REA favored a 5-year rate period without CRACs because it would provide the best incentive for cost control.
14. **Fish and Wildlife:** Though fish and wildlife issues were not addressed in BPA's proposal, the Yakama Nation, Umatilla Tribes, and many individual commenters urged that BPA commit to having these obligations guide its power supply and marketing decisions.

Next Steps

BPA will evaluate all of the comments received and make a final policy decision, including an Administrator's Record of Decision by December 2004. Because there are differences of opinion on most issues, we may request follow-up discussions on some of them before we make our decisions in December. Notice of these opportunities will be provided. As stated in my February 27, 2004 letter, these policy decisions will guide BPA's post-2006 rate proposal, potential contract amendments, any new contracts with DSIs, the development of post-2006 conservation and renewable resource programs, and BPA's cost management approach.

Many of the comments addressed topics that will be included in the long-term Regional Dialogue policy proposal that we propose to issue next July. We will be working actively with the region on those issues between now and when the next policy proposal is issued.

Updated information will continue to be posted on BPA's Regional Dialogue website at: www.bpa.gov/power/regionaldialogue. If you have any questions on this process, please contact your Account Executive, Constituent Account Executive, or Helen Goodwin, Regional Dialogue Project Manager, at 503-230-3129. You can also contact me at 503-230-5399.

Sincerely,
/s/

Paul E. Norman
Senior Vice President
Power Business Line

Regional Dialogue
List of Commenters Referenced in BPA letter dated October 5, 2004

ALCOA	Aluminum Company of America
ATNI	Affiliated Tribes of Northwest Indians
Benton PUD	Benton County PUD
Benton REA	Benton Rural Electric Association
Central Lincoln	Central Lincoln People's Utility District
CFAC	Columbia Falls Aluminum Company
Clatskanie	Clatskanie People's Utility District
Cowlitz	Cowlitz County PUD
CRPUD	Columbia River People's Utility District
CTED	Washington State Department of Community, Trade and Economic Development
CUB	Citizen's Utility Board of Oregon
Emerald	Emerald People's Utility District
EWEB	Eugene Water and Electric Board
Ferry County	Ferry County PUD
Flathead Electric	Flathead Electric Cooperative, Inc.
Franklin PUD	Franklin County PUD
Golden Northwest	Golden Northwest Aluminum
ICNU	Industrial Customers of Northwest Utilities
Inland	Inland Power & Light Company
Lincoln Electric	Lincoln Electric Cooperative, Inc.
MEIC	Montana Environmental Information Center
Montana Power Authority	Montana Public Power Authority
Northern Wasco PUD	Northern Wasco County People's Utility District
NRDC	Natural Resources Defense Council
NRU	Northwest Requirements Utilities
NW SEED	Northwest Sustainable Energy for Economic Development
NWEC	Northwest Energy Coalition
ODOE	Oregon Department of Energy
Orcas	Orcas Power & Light Cooperative
PNGC	Pacific Northwest Generating Cooperative
PNW State Utility Commissioners	Pacific Northwest Public Utility Commissioners
Port Townsend Paper	Port Townsend Paper Corporation
PPC	Public Power Council
PRM	Power Resource Managers
Renewables Northwest	Renewable Northwest Project
Snohomish	Snohomish County PUD
SUB	Springfield Utility Board
Sumas	City of Sumas
Tacoma	Tacoma Power
Tulalip Tribes	Tulalip Tribes of Washington
UIUC	Umpqua Indian Utility Cooperative
Umatilla Tribes	Confederated Tribes of the Umatilla Indian Reservation
WMG&T	Western Montana Electric Generating & Transmission
WPAG	Western Public Agencies Group
Yakama Nation	Confederated Tribes and Bands of the Yakama Nation

Other Abbreviations Used in Letter

IOU	Investor-Owned Utilities
DSI	Direct Service Industries
NLSL	New Large Single Loads
C&RD	Conservation & Renewables Discount
ConAug Council	Conservation Augmentation Northwest Power and Conservation Council
CRAC	Cost Recovery Adjustment Clause