



**Northwest Irrigation Utilities**

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June 13, 2005

BY ELECTRONIC MAIL

Paul Norman  
Senior V.P. Power Business Line  
Bonneville Power Administration  
PO Box 3621  
Portland, OR 97208-3621

Re: Irrigation Mitigation Benefits Post 2011

Dear Paul,

**Introduction**

BPA has asked for customer groups to submit proposals regarding Regional Dialogue issues by June 13<sup>th</sup> 2005. I am writing on behalf of Northwest Irrigation Utilities, a trade association of Full and Simple Partial Requirement customers, who have historically received various forms of rate assistance for qualifying summer irrigation loads.

In recent months I have been working with Garry Thompson, Eastern Power Business Line Hub Manager, to discuss the rationale for and form of irrigation assistance that could be included in a future long term BPA power supply contract. I do not mean for this correspondence to circumvent that dialogue, but wanted to make sure that NIU had formally conveyed our members' basic position to the Agency in conjunction with the Regional Dialogue process.

**Impact of Irrigated Agriculture on the Northwest Economy and Local Communities**

BPA power rate assistance has been a key factor in sustaining our agriculturally dominant rural economy in many areas of the Northwest. For many irrigation operations, power supply is the largest component of O+M costs. Irrigated agriculture production, with power supplied by BPA, contributes \$2.0 - \$2.5 billion to the Northwest economy per year. Local annual income from irrigated agriculture ranges from \$1,900 to \$2,400 per acre, given different crop types. Every \$1 million of agricultural product sales creates 30 jobs in the overall economy, as many as 75,000 jobs. The agricultural community is driven by national and international competition, and has basically no ability to raise prices to compensate for higher power prices. Thus BPA power cost is a critical feature to the continued viability of the rural areas the Agency serves. Please let us know if you would like additional background materials.

## **Form and Rationale of Irrigation Assistance**

As you know, there is a long history of BPA providing varying forms of irrigation rate assistance to qualifying end use irrigation customers. For example, during the previous 20 year contract period, NIU members initially received an Irrigation Discount built into the PF rate structure, followed by Summer Seasonal Product as an FPS contract offering for the last five years. For the current FY 2002 – 2011 contract period, NIU members are eligible for the Irrigation Mitigation Product. The current Irrigation Mitigation Product is a contractual feature (Exhibit D Special Products and Services). It allows for power purchases under an agreed upon FPS rate, which when combined with other purchases using the PF rate schedule, results in an overall expected cost for irrigation that was agreed to between BPA and NIU.

While the form of irrigation assistance has differed from time to time, the underlying premise remained the same. Irrigation loads are seasonally intensive during the summer. BPA's current power rate design is not based on cost of production of FBS resources, but rather the west-coast market dominant marginal values of energy. As a result, BPA is charging customers disproportionately more than the embedded costs of the system during the summer. BPA's pricing rationale has been based on the cost of acquiring incremental generation from the market to serve summer loads. Conversely, NIU members assert that the FBS has sufficient generation resources available to serve their loads during the summer period, and wholesale power rate design based on marginal value of energy is inequitable. Without some form of mitigation, loads that are summer intensive, or summer only, cannot recover these disproportionately higher costs during other seasons of the year when irrigation loads are nominal or non-existent.

Rather than opposing BPA's basic marginal value of energy rate design philosophy in rate case proceedings, NIU members agreed to the various forms of summer rate mitigation for qualifying irrigation loads. The cost of this mitigation was in turn rolled into BPA's overall revenue requirement and reflected in the PF rate. The current Irrigation Mitigation Product seems to be working well to balance irrigation customers' and BPA's financial and social policy interests, and is a model that can be applied to the future 20 year contract period.

## **Irrigation Mitigation Post 2011**

NIU recommends that BPA include in future power sales contracts a provision similar to Exhibit D – Special Products and Services of the current Subscription contracts. This provision would continue to apply to qualifying irrigation loads for BPA customers that otherwise meet the eligibility tests of percentage of total power purchases from BPA.

The contract provision and the implementation mechanism should have sufficient flexibility to respond to future changes in BPA wholesale power rate design. For example, if current rate design was continued post 2011, the contract should provide for generally the same amount of benefit on a qualifying kWh basis. Alternatively, if there is

a fundamental change in wholesale power rate design tied to allocation/high water marks/tiered rates etc., then BPA may change from a rate design based on marginal value of energy to something more akin to a truly cost based rate for “vintage” BPA purchases, and a marginal/market based rate for load growth above some capped amount for the utility. In that scenario, the need for and amount of irrigation mitigation would have to be re-examined. In summary, a basic contract provision for irrigation mitigation could provide for varying levels of future benefits, depending upon the outcomes of subsequent rate cases.

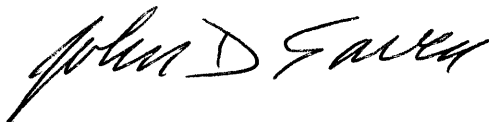
Absent any agreement about post 2011 wholesale power rate design, (which is premature) NIU is not in a position to make an argument about the quantitative value of future irrigation mitigation, if any. However, under no circumstances would we accept this important feature for NIU members being discontinued or, phased out etc. Under current rate design, irrigation mitigation remains a critical component of NIU members’ economic viability. Its termination or diminishment would represent an unacceptable cost shift that would undermine general support for the new long term contracts that did not contain this feature. Therefore, the NIU Board of Directors strongly recommends keeping the Irrigation Mitigation Product design in new long term contract offerings, but determining the value based upon the features of future BPA wholesale power rate design.

**Availability of Irrigation Mitigation for Slice Customers with Block Purchases**

The question has been raised by Slice of the System customers regarding expansion of the Irrigation Mitigation Product to a greater percentage of their BPA block purchases. As a matter of policy, NIU has no objection to expanding the eligibility for block customers that otherwise qualify for the program, and treating this as an overall BPA system cost. However, our support is preconditioned upon the amount of benefits to Full Requirement customers not being reduced as a result of another customer group expanding eligibility.

Please let me know if you have any questions.

Best Regards,



John Saven,  
Executive Director

Cc: NIU Members  
Garry Thompson, BPA