



SPRINGFIELD UTILITY BOARD

MAIN OFFICE 250 A Street, PO Box 300 Springfield, OR 97477-0077 Tel 541.746.8451 Fax 541.746.0230 TDD 541.744.3659 www.subutil.co

June 13, 2005

Paul Norman
Senior Vice President
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

Re: BPA Regional Dialogue (Post 2011 Issues) – P-6

Dear Paul:

Springfield Utility Board (“SUB”) received your letter dated May 11, 2005 in which Bonneville Power Administration (“BPA”) invited comment on post-2011 issues related to BPA service. SUB is a municipal utility that serves approximately 30,000 electric customers within the City of Springfield, Oregon. SUB has provided comments on a variety of topics related to the issue of BPA service post-2011. Please refer to Attachment A to this letter which lists the sources of SUB’s prior comments.

Overview

SUB views BPA as a valued business partner and greatly appreciates BPA’s attention and efforts on the Regional Dialogue issue. Much of the time, SUB and BPA are in alignment on general policy issues. While disagreements have arisen between SUB and BPA in the past, those disagreements arose out of a mutual desire to achieve a positive outcome for BPA’s customers and the region. SUB also appreciates the Northwest Power and Conservation Council’s continued efforts to engage the region on these important policy issues.

While recent Regional Dialogue discussions have revolved around BPA service issues for the 2007 – 2011 period, the broader Regional Dialogue discussion has been ongoing for quite some time. BPA and the Northwest Power and Conservation Council (“Council”) first requested specific input on BPA service post-2006 in a letter to the region dated June 19, 2002. BPA sponsored a number of public meetings and workshops in this early stage and, after input was received, BPA and the Council moved into the second phase of public input process where the Council submitted its “Recommendations On The Future Role Of Bonneville”. This subsequently led into a related process that resulted in the Council submitting its “Final

Recommendations on the Future Role of the Bonneville Power Administration in Regional Power Supply”. BPA then initiated the third phase of the process that focussed the Regional Dialogue on issues related to the 2007-2011 period. In February of this year, BPA released a Record of Decision on a number of Regional Dialogue issues for the 2007-2011 period and decisions on other 2007-2011 issues are currently pending.

BPA is now entering into the fourth phase of the Regional Dialogue process that focuses on service and policy issues for the post-2011 period. The broader policy issues that BPA has currently put forward remain largely unchanged since the inception of the Regional Dialogue process.

Move Forward, Don't Delay

At the June 8, 2005 Long-Term Regional Dialogue Workshop, BPA posed the question on whether it should wait for consensus before issuing a proposal or move forward with a proposal to further the regional debate. Because the Regional Dialogue process has been active for nearly three years and there is a strong need to resolve policy issues so that utilities can effectively plan for the post-2011 period, SUB recommends that BPA put forth a proposal rather than wait for regional consensus. SUB is concerned that:

- 1) Consensus may not be achieved on all issues; and,
- 2) Even if consensus were achieved, it would happen after years of continued discussions that would result in utilities scrambling to try to adjust to looming impacts of delayed policy decisions.

Service to Public Utilities

BPA has requested input regarding service to Public Utilities on four specific areas:

- ▶ How much power each public utility is able to purchase at BPA's lowest cost-based rates and how this amount should be adjusted as utility loads and resources change.
- ▶ How to provide customers with more stability and predictability about their rates by establishing a long-term rates methodology.
- ▶ What ability newly formed public utilities will have to purchase power at the lowest cost-based rates.
- ▶ Whether BPA should make modifications to the Full and Partial Requirements, Block and Slice products now provided.

Having reviewed comments from the Public Power Council (“PPC”) and Northwest Requirements Utilities (“NRU”), for the sake of brevity, SUB supports the comments of PPC and NRU and would encourage BPA to carefully consider their comments. Public power has devoted substantial amount of time on the issue and has had to work through a myriad of debates and concerns to create a proposal. To the degree BPA has concerns regarding the specific

language used to describe a concept, SUB suggests that BPA continue to distill the underlying concepts and concerns and move forward with proposal that address PPC's and NRU's concepts while addressing any concerns BPA may have.

Regarding the last issue, whether BPA should make modifications to the Full and Partial Requirements, Block and Slice products now provided, SUB recommends:

- 1) All existing consumer-owned utilities have equal opportunity to select power products for the post 2011 period.
- 2) Because BPA recently released its report on the Slice product and is currently requesting input through a separate process, a decision on product modification may be premature.
- 3) Any general limits on product availability should occur after BPA and customers have had an opportunity to have workshops and discussion on the issue.
- 4) One key piece of information that has been of concern regarding product availability is the flexibility of the Federal Based System to meet hour-to-hour and day-to-day capacity needs for different products. While month-to-month (and to some degree day-to-day) system capability is apparently less of a concern, within-day system capability remains largely unclear. SUB recommends that BPA refine the Federal system's within-day, day-to-day, week-to-week, and month-to-month system capability in order for BPA and customers to have a more informed discussion on product design and, if necessary, general limitations on the sale of specific products.

SUB would like to take this opportunity to thank Steve Oliver, Kim Leathley, Tom Miller, and all of the BPA staff who have taken the time to discuss the issue of post-2011 service to public customers in meetings sponsored by the Public Power Council. Through those discussions, BPA and customers have made substantial progress on this complex issue.

Benefits to Residential and Small-Farm Consumers of Investor-Owned Utilities

SUB has reviewed the proposed principles put forward by the state utility commissions and SUB agrees with the utility commission's proposal to have the IOU benefits through a financial transaction rather than a physical power sale. The benefits could be linked to the difference between a market price and BPA's lowest cost preference rate. The benefits should be established to provide some degree of certainty to IOUs and consumer-owned utilities regarding financial exposure through a cap and floor mechanism. Because of the cyclical nature of power prices, any annual increases in the cap and floor must be carefully considered to avoid a scenario where the floor rises while difference between BPA costs and the market prices narrows. This would result in an unanticipated disconnect of regional benefits of the BPA system where IOUs would receive substantial benefits and Consumer-Owned Utilities would receive none.

SUB looks forward to further discussions on the exact nature of the financial benefits. As a member of PPC, nothing in these statements is intended to conflict with PPC's position on this matter.

Service to Direct Service Industries

SUB has provided comments to BPA regarding benefits to DSI's for the 2007-2011 period. In those comments, SUB cited numerous reasons, primarily provided by BPA, why DSI's should not receive any assistance from BPA (physical sale of power, financial benefits, or otherwise) post-2011 that would directly or indirectly impact preference customers' costs. SUB incorporates those comments with this reference and encourages BPA to review SUB's comments. SUB's position remains unchanged.

Resource Adequacy Standards

BPA should not add a provision to its long-term contracts that requires customers to comply with resource adequacy standards. The basis for SUB's position is three-fold: 1) SUB does not believe it is a contract issue, 2) discussions of resource adequacy standards are in their infancy and the issue should not overwhelm other policy issues, and 3) because there is little information on what exactly resource adequacy standards are or will be. Rather than move policy discussions forward, a premature decision – even a tentative decision – on mysterious Resource Adequacy Standards could only create more problems and slow or paralyze discussions at all levels of policymaking.

SUB is open to discussion on the issue of Resource Adequacy Standards. After the issue has been evaluated and the region has been adequately informed, a decision on the issue of resource adequacy may be appropriate¹.

Cost Controls and Dispute Resolution

Cost control is an important issue that may be more easily resolved if consumer-owned utilities and investor-owned utilities benefit from BPA having the lowest cost preference rate. If it is in the interest of both consumer-owned utilities and investor-owned utilities to have BPA have the lowest costs possible, then the issue of cost control will continually be addressed through an evolving process as economic factors that impact BPA's costs change.

SUB notes that BPA's financial condition that exists today is partly a result of direction from the region in the past. The push for low rates has pressured BPA to borrow money for infrastructure and other expenses. It is difficult to control costs if more and more of BPA's costs are becoming fixed through increasing debt service to meet a near term desire for lower rates. Cost control over BPA's internal staffing and operating functions are only a fraction of BPA's total cost exposure and provides limited benefits if customers continue to pressure BPA to lean on borrowing as way for BPA to address a financial crisis. Is cost control important – absolutely. Is it a “silver bullet” that will limit customers to exposure to the cost of purchasing power from

¹ SUB notes that BPA states the Council is working on developing Resource Adequacy Standards. There are currently no standards, nothing to base a decision on, and the Northwest Power and Conservation Act requires the BPA adequately inform and receive input from customers when making decisions. As a result, BPA would not be following sound business principles by initiating a decision-making process on an issue it has not explained and expect customers to provide input. Initiating a decision-making process (if needed) after informing customers and receiving input would be more consistent with the Act.

BPA? Not if external pressures outside of BPA's control prevail and/or cost control merely reduces costs in the near term by pushing BPA's costs into the future.

Regarding dispute resolution, SUB would prefer that a contract between parties include a provision that first requires mediation. SUB hopes that there can be a free exchange of information from BPA and customers, but in some circumstances formal mediation may be a productive step in parties listening to each other's interests. Arbitration could be a succeeding step, but the specific issues that can be arbitrated should be clearly spelled out under the contract. It is not inconceivable that some issues could be arbitrated and some, if necessary, would be litigated due to the nature of the specific issue.

Conservation and Renewables

SUB sees a bright future for Conservation and Renewables in the future with service to public utilities structured as described and referenced in the "Service to Public Utilities" section discussed above. With known levels of lowest cost-based rates, individual customers will make resource decisions to meet load growth based on the avoided cost of power. BPA could continue to facilitate renewable resource development and provide resource integration services to customers, but BPA should not directly acquire renewable resources without a corresponding long-term commitment from a public customer (or group of public customers). In the instance where BPA is acting as the agent for a public customer to acquire a renewable resource to integrate it with their lowest cost preference product, mechanisms should be set in place to protect other customers from financial default.

Guidance could still be provided by BPA and the Council on measuring and tracking conservation activities, but the economic incentive to pursue cost-effective conservation and renewables would be greatly enhanced compared to the approach that exists today².

BPA appropriately asks for input regarding what long-term approach best maintains BPA's commitment to development of conservation and renewables consistent with the Council's Plan. SUB notes that the Council has indicated that it will be continually updating the Power Plan. The Power Plan should be considered a living document that is adaptable to BPA's policy changes to provide long term guidance to the region. For conservation, the Power Plan should balance the need to adapt to changing economics while at the same time promote stability to conservation program design. The region needs to avoid "program shock" at the utility level where cost-effectiveness standards change at a rate where utilities roll out a complex, integrated promotional campaign only to have it undermined by a change in the Power Plan.

Regarding renewables, should the region move forward with service to publics consistent with PPC's and NRU's proposal, the Council would likely have to re-evaluate the underlying assumptions in the plan. In SUB's case, as an example, there are untapped cogeneration opportunities within the City of Springfield. To date, economic and environmental factors have not converged to propel additional cogeneration development in Springfield. With post-2011 service to publics resolved in combination with rising external transmission costs, generation

² Rather than go into the details of the incentive to pursue conservation when the economic signal is based on the avoided cost of market power compared to what is proposed to BPA, SUB would refer BPA to SUB's earlier comments.

opportunities within Springfield's service area (and elsewhere) will likely have more favorable extrinsic and intrinsic value. Often, intrinsic and extrinsic values of localized resource development are different across the region and a regional cost-effectiveness standard may have to yield to, or transform into, a local cost-effectiveness standard. With long-term access to lowest-cost BPA power in place, localized economic factors take center stage over generic standards and the region may be better served if BPA and the Council deferred to a large degree to local resource decisions.

Regarding resource integration, SUB does see a potential conflict arising from BPA offering wind integration or other integration products with the use of federal system resource capability. An over-extension of an offering of a wind (or other renewable resource) integration product could compromise power and transmission service to preference customers. When BPA created its current wind-integration product, SUB was under the assumption that the product development would have been backed-up by a fairly rigorous analysis of the federal system's within-day system flexibility (upon which a wind integration product would rely). It appears SUB's assumption was incorrect as BPA has raised concerns about the amount of specific product offerings based, in part, on uncertainty of within-day system capability. This heightens concerns that BPA has created a wind integration product that BPA has no full understanding of. SUB recommends that if a renewable resource integration product is offered in the future that:

- 1) BPA conduct an analysis of within-day system capability of the federal system and seek public input.
- 2) BPA place an aMW cap on the amount of federal system capability that may be set aside as a system obligation that would be dedicated toward renewable resource integration.
- 3) The pricing of the integration product be comparable to integration products offered by third parties.
- 4) The integration product be developed such that it does not compromise BPA preference power and transmission service to consumer-owned utilities.
- 5) All revenues from any integration product that uses federal system capability be credited toward the costs of the purchasers of lowest-cost power from BPA.

Tiered Rates

While not a topic that BPA specifically requested comment on, the issue of tiered rates has been brought up in the past and impacts on all levels of BPA policy-making. Traditional tiered rates proposals that would establish a lower rate for a certain level of service and a higher rate for load growth provide economic signals for as long as the rate period. In that scenario, with a utility's planning horizon measured over a period of a few years, it is problematic for a utility to adequately measure the financial impact of conservation or renewable development, cost control, IOU benefits, or other policy decisions as the rate impact is ultimately examined anew every rate period as loads, revenue requirements, and cost allocations change. As a result, a traditional tiered rates approach would not be a productive solution to post-2011 service. Lately, BPA has not indicated it will move towards a traditional tiered rates proposal and SUB is highlighting this issue in the event that a traditional tiered rates approach is proposed by other interested parties.

Respectfully submitted,

_____/s/_____

Jeff Nelson
Springfield Utility Board

cc: SUB – Bob Linahan, Bob Schmitt, Tamara Johnson
BPA – Tina Ko, Angie Quinata

Attachment

Attachment A

Index of Springfield Utility Board's Comments Related to Bonneville Power Administration's Regional Dialog Process

Process: Future Role of BPA in Power Supply, document 2003-18
Process Sponsor: Northwest Power & Conservation Council
SUB Comments: Letter to NWPPC dated December 12, 2003
<http://www.nwcouncil.org/library/2003/2003-18comments/springfield.pdf>

Process: Future Role of BPA in Power Supply, document 2004-02
Process Sponsor: Northwest Power & Conservation Council
SUB Comments: Letter to NWPPC dated April 23, 2004
<http://www.nwcouncil.org/library/2004/2004-2/springfield.pdf>

Process: Regional Dialogue: BPA Policy Proposal for FY 2007-2011
Process Sponsor: BPA
SUB Comments: Letters to BPA dated September 22, 2004 (RD04-0106) and
November 12, 2004 (RD04-0158)
http://www.bpa.gov/power/pl/regionaldialogue/rd04_0103-0108.pdf
http://www.bpa.gov/power/pl/regionaldialogue/rd04_0154-0164.pdf

Process: BPA service to DSI customers during the 2007 - 2011 period
Process Sponsor: BPA
SUB Comments: Letter to BPA dated March 11, 2005 (DSI-076)
http://www.bpa.gov/power/pl/regionaldialogue/dsi_076-082.pdf

Process: BPA Post 2006 Conservation Proposal
Process Sponsor: BPA
SUB Comments: Letter to BPA Dated April 28, 2005 (PCP 032)
http://www.bpa.gov/energy/n/post2006conservation/pdf/PCP_23-32.pdf