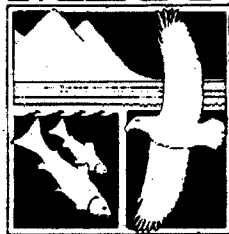


R004-0069
SEP 22 2004**MEIC****MONTANA ENVIRONMENTAL INFORMATION CENTER***"Working to Protect and Restore Montana's Natural Environment Since 1973"*

(Comments by Patrick Judge, Energy Program Director)

September 22, 2004

MEIC would like to take this opportunity to submit comments on BPA's "Policy Proposal for Power Supply Role for Fiscal Years 2007-2011". These written comments are meant to supplement the oral testimony delivered by MEIC at the Kalispell public hearing held on September 15, 2004. In general, MEIC believes that BPA is headed in the right direction with its July 7, 2004 regional dialogue document, particularly in the areas of renewable energy and energy efficiency. However, we do have a number of suggestions for further improvement.

The overarching goal of MEIC's energy policy work is its vision for a Clean, Affordable, Reliable, and Efficient energy system. It is MEIC's belief that that vision can be achieved, both in Montana and the region. We have just now begun to develop the region's tremendous potential for clean, renewable energy sources, and are already beginning to see the payoff in employment, tax base, rate stability, and supplemental income for farmers and ranchers. Energy efficiency promises to save the region literally billions of dollars in reduced energy bills. A recent study by the Tellus Institute concluded that the Pacific Northwest could easily meet all of its projected load growth by 2020 with a combination of cost-effective conservation and renewable energy. Doing so would not only be good for workers and consumers, but would also reduce the strain on Bonneville's system, and the temptation to run the system to the detriment of fish and wildlife.

Renewable Energy. MEIC applauds BPA for committing \$21 million per year for renewable energy programs. Renewable energy delivers numerous, indispensable benefits to the system. Environmental benefits include the avoidance of air, water, and land pollution which is all too often associated with the production of energy from fossil fuel-based power plants. Especially valuable is the absence of greenhouse gas and mercury emissions in renewable energy power production.

Note also that the "upstream" environmental costs of obtaining and transporting fossil fuels are avoided with renewable energy facilities. And renewables have significant economic benefits, insulating consumers from fuel price risk, and from overdependence on any one energy source. Approximately 80% of BPA's energy production is hydro-electric. As a consequence, BPA's portfolio is under-diversified and highly drought sensitive. (In Montana, we are suffering

through our sixth year of drought, and have seen the devastating impact on our reservoirs.) The risk of drought only intensifies under current global warming scenarios.

Due to these considerations, MEIC calls on BPA to do everything in its power to facilitate new renewable energy development in the region, including such things as providing seed money, and acting as an "anchor tenant". BPA's size, experience, and regional transmission system can all be put to work to help bring new renewables on-line.

Energy Efficiency. MEIC also commends BPA for committing to acquiring its share of the regional cost-effective conservation potential identified by the Northwest Power and Conservation Council (and it appears that the NPCC is living up to its new name, having found a substantial conservation resource). However, MEIC is concerned that BPA has not yet defined what it means by "its share". It is critically important that BPA provide some kind of "backstop" to help ensure that its customer utilities follow through on their efficiency investments. Otherwise, consumers will needlessly suffer the economic harm associated with lost savings on energy bills. (It is also important that those publics that do pursue their own efficiency and renewables investments are not be penalized for it, with reductions in their power allocations. Instead, they should be able to resell that portion of power that they no longer need.)

In the related area of low-income weatherization, BPA is to be commended for its positive statements about the value of, and continued need for these programs. But here again, the document is light on specifics. MEIC would urge BPA to adopt a goal of weatherizing 5% of the eligible households annually, as opposed to the current rate of 1% per year (which creates a century long waiting list).

As a final note, MEIC is concerned about the proposal to transfer load growth responsibilities to the individual utilities. The region is better served by a "one-utility" model that can take full advantage of BPA's scale, scope, and planning experience. A more fragmented approach could lead to price instability, over- and under-development of resources, and adverse impacts on fish if a crisis situation develops.

In summary, MEIC is grateful for this opportunity to comment, and optimistic about BPA's direction in this process. In general, our recommendation is for the Administration to "stay the course." BPA has developed strong, sensible policy statements on clean and efficient energy. It must now follow through with equally strong language to translate those goals into actual practice.

R004-0070
SEP 22 2004

Kuehn, Ginny

From: Fishkin, Scott L [scott.l.fishkin@boeing.com]
Sent: Wednesday, September 22, 2004 12:00 PM
To: BPA Public Involvement
Cc: Warner, Keith C; Tougas, Dean; maria.castillano@seattle.gov
Subject: BPA Regional Dialog - Boeing Recommendations for SCL Conservation Programs



Boeing
Recommendations for SCL

Thank you for the opportunity to participate in the Bonneville Power Administration's regional dialog. The Boeing Company takes this opportunity to acknowledge BPA's continuing support of energy conservation in the region. The Boeing Company's recommendations for Seattle City Light's Energy Conservation Program are attached.

<<Boeing Recommendations for SCL Conservation Program - BPA Regional Dialog.doc>> .

Scott Fishkin
Boeing Utility Management
Seattle-Renton

Phone: 425-234-4484 Fax: 425-237-0041
Cell Phone: 206-898-8333

Mailing Address:
The Boeing Company
P.O. Box 3707; M/S 96-01
Seattle, WA 98124

September 21, 2004

R004-0070
SEP 22 2004

Paul E. Norman
Sr. Vice-President
Bonneville Power Administration
P.O. Box 14428
Portland, OR 79208-4428

Via e-mail and US Mail

Dear Mr. Norman:

Thank you for the opportunity to participate in the Bonneville Power Administration's regional dialog. The Boeing Company takes this opportunity to acknowledge BPA's continuing support of energy conservation in the region. Competing in a global market requires attention to cost containment to remain competitive in the dynamic global market. BPA's funding of Seattle City Light energy conservation programs has enabled us to reduce consumption, contributing to our ability to operate profitably in this region.

Over the past decade, Seattle City Light Energy Conservation funding has enabled Boeing to implement more than 40 projects, reducing energy consumption by over 45 million kWh annually. The conservation projects include compressed air, HVAC, motor upgrades, VFD's, cafeteria equipment, as well as factory, office, and security lighting. In addition to energy reduction, conservation projects have upgraded plant equipment, improving reliability and reducing long term maintenance costs. Conservation projects have enhanced lighting and indoor air quality, resulting in increased employee comfort and productivity.

SCL's conservation funding typically covers 20 – 50% of the total installed cost. Without SCL's funding, energy conservation projects would not have a viable ROI for Boeing. The Seattle City Light conservation funding is the catalyst that enables us to implement energy conservation projects.

SCL's Energy Conservation staff provides valuable experience and expertise to its corporate customers. By sharing the successes and pitfalls experienced by other industrial and commercial concerns, Boeing has been able to select the most appropriate and cost effective projects. Energy Conservation project funding also enables us to introduce newer technologies to our operations on a trial basis, and when proven, to implement them on a large scale.

Lean manufacturing and elimination of waste is essential to Boeing's competitiveness. SCL's program supports Boeing's continuing efforts to promote energy conservation awareness in our factories and offices. SCL support gives us access to innovative communication tools and programs, including Mariner and Seahawk endorsements. These tools enable us to reach target segments of our employee population more effectively than conventional corporate programs. In several Boeing buildings, utility supported communication programs alone have enabled us to reduce energy consumption nearly 20%. These programs encourage increased conservation by our employees in their homes and civic organizations as well as in the workplace. Several church, school, and community organization energy projects have been sparked by Boeing employees who observed energy project results at Boeing and recommended similar projects to these organizations.

The following are among Boeing's notable success stories. At the Thompson Site, where our jet engines are assembled, \$86,000 in SCL conservation funding enabled Boeing to upgrade the plant air compressor, reducing the total facility energy consumption by 20%. Using the compressor project as a demonstration of Company commitment to energy conservation, SCL and Boeing cooperatively audited all energy usage at the site. Lighting and HVAC schedules were adjusted, steam and air leaks were identified and repaired, office equipment sleep settings were optimized, and employee cooperation was enhanced. Thompson Site's total energy consumption has now been reduced by 40%.

An SCL sponsored seminar at the WA Plant Engineering Show featured another SCL customer's successful HID to T-5 lighting conversion. Boeing was able to employ the same technology in much of our Spares Distribution Center. Energy consumption has been reduced by more than 20% despite a significant upswing in business, employment level, and operating hours. Application of the T-5 technology and Advantage T-8 lamping in other areas of the building, plus SCL recommended upgrades to the HVAC system are projected to reduce energy usage by another 20%.

In summary, Boeing strongly recommends that BPA continue its support of SCL's conservation program. It is a cost-effective tool for energy conservation that enhances our ability to operate profitably in the region. Long-term, cost-effective commitment to energy conservation programs by our energy providers enables Boeing to prioritize energy projects in our facilities planning and achieve our conservation goals.

Sincerely,

Scott Fishkin
Utility Management Specialist
Boeing Support Services

cc: Marya Castellano, Seattle City Light

R004-0071

SEP 22 2004

Kuehn,Ginny

From: Alan Zelenka [ALAN@epud.org]
Sent: Wednesday, September 22, 2004 12:02 PM
To: BPA Public Involvement
Cc: Rockwood,Theresa E; Jim Theabolt; Bob Mieger; Coy Kratz; Frank Lambe; Jenny Grant; reymann@epud.net; bpilling@epud.net; btanner@epud.net; bushtit@worldnet.att.net; kschacht@epud.net; Alan Zelenka
Subject: Emerald PUD's Regional Dialogue Policy Paper Comments

Attached are Emerald PUD's comments on BPA's Regional Dialogue Policy Proposal.

Alan Zelenka
Emerald PUD
Power Resources Manager
33733 Seavey Loop Road
Eugene, OR 97405
Phone (541) 744-7464
Fax (541) 726-1128
Cell (541) 228-6331
alan@epud.org

R004-0071
SEP 22 2004

September 22, 2004

Mr. Alan Zelenka
Power Resources Manager
Emerald
33733 Seavey Loop Road
Eugene, OR 97405

Dear Alan:

Subject: PRM Response to August 26, 2004 Questions

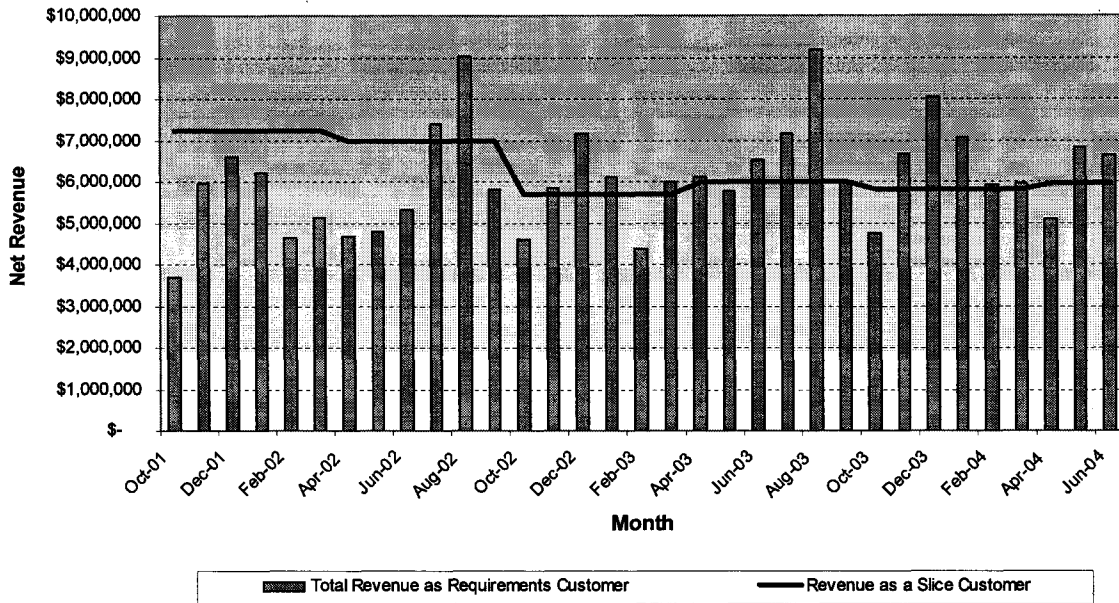
This letter provides PRM's responses to the two questions, repeated below, that you posed to Loren Baker in an August 26, 2004 email:

1. What is the benefit to BPA of having the Slice product? Since Slicers have to provide for their own load growth, and therefore BPA does not, this should lower BPA's risk. What is this worth to BPA?
2. If Emerald were to have to wait until 2012 to become a Slicer, how much would it add to the purchase price of resources and market purchases that we would have to buy in 2012 rather than 2006? We want to try and quantify (with a rough estimate) the additional cost of BPA making us wait to become a Slicer.

PRM Response to Question #1

As you allude to in your question, the benefit to BPA of the Slice product is that it transfers risk from BPA to the Slice customer. Slice provides BPA with a fixed and known revenue stream for 22.6% of the Federal Base System (FBS), at current Slice sales volumes, in lieu of a revenue stream comprised of PF requirements sales, which are subject to volumetric variations due to weather and load growth/shrinkage, and secondary market sales subject to both volumetric and price risks. Chart 1 provides an illustration of this benefit. Chart 1 compares BPA's actual Slice sales revenue during the October 2001 through June 2004 period for approximately 3% of the FBS to a rough estimate of what BPA's monthly revenues would have been had this load been served on a requirements basis. The revenue stream also reflects net revenue from secondary sales that would have accrued to BPA during this period if this load had been served on a requirements basis. This analysis is based on actual load data, slice system generation data and market prices. Annual Slice true-up payments are treated as a monthly adder or credit in each fiscal year rather than shown as a lump-sum payment.

Chart 1
Monthly Slice Revenue for 3% of Slice System versus Requirements Revenue plus Secondary Sales for Equivalent Share of System



Over the 30-month period, the total revenue to BPA is about \$7 million higher under the Slice scenario. This figure is going to be volatile in the short-term as market prices and hydroelectric generation levels vary from year-to-year. This 30-month period has been characterized by below normal stream flows, and in the case of FY02, low market prices. If this same analysis is developed over a longer period of time, the Slice revenue stream should be lower due to the removal of planned net revenues for risk (PNRR), and transmission and ancillary services costs, from the Slice revenue requirement.

What is important in assessing the value of Slice to BPA is the lack of volatility in, and higher predictability of, the Slice product revenue stream. What is particularly interesting to note is that revenue received by BPA for this 3% of the FBS was actually about \$15 million higher in FY02 than would have been the case if this same load were served on a requirements basis. Assuming other Slice loads yielded a similar result implies that BPA revenues in FY02 were about \$110 to \$115 million higher as a result of Slice than would have been in the absence of the Slice product. If Emerald had been a Slice customer during FY02, BPA revenues would have been an additional \$1.75 million higher (assuming half of Emerald's load was served under the Slice product). Considering BPA's FY02 year-end reserves were less than \$200 million, the value the Slice product brings to BPA is apparent. The Slice product helps dampen volatility in BPA's revenue stream. FY03 and FY04 YTD have seen BPA's revenues down slightly – about \$4 million annually for the same 3% share of the Slice System – relative to what the equivalent requirements sales plus secondary sales would have been.

BPA uses three different "tools" for managing risk: 1) PNRR, 2) financial reserves, and 3) cost recovery adjustment charges. Determining the risk reduction value of Slice to BPA is a function of the effect that Slice sales will have on these three risk tools. If 100% of BPA's sales were

Slice, BPA would not need to include PNRR in its revenue requirement. PNRR was \$98 million per year in the 2000 rate case, which is roughly \$1.60 per MWh assuming every \$60 million is approximately \$1 per MWh. A proportional reduction in PNRR to reflect the addition of Emerald as a Slice customer would reduce BPA's annual revenue requirement by about \$700,000. Additionally, target financial reserves could be set at a lower level as Slice sales volume increases. If BPA is not absorbing volumetric and price risk, BPA's financial reserves probably could be set at 90 to 120 days of operating and capital expenses. How much of a savings this represents would be a function of BPA's reserves at the time.

It is important to remember that enabling BPA to reduce what it charges for risk will not necessarily translate into an equivalent savings for Emerald. Emerald will have to make adequate provision to manage the same risks that BPA currently manages for requirements customers. The benefit of Slice is that it places management of the Slice customer's share of the system in the hands of the utility managers and commissioners that are directly accountable to the retail rate payers that ultimately pay BPA's costs. As a result, Slice purchasers are able to execute their own risk management strategies independent of BPA, and customize those strategies to the risk tolerances of their ratepayers. BPA has made some poor risk management choices in the past several years. Admittedly, this statement is made with the benefit of 20:20 hindsight, but the cost of these poor choices is significant. Some of BPA's risk management challenges are beyond their control. It is difficult for BPA to efficiently execute risk management strategies because of their size relative to the overall market. BPA suffers to some extent from being the "elephant in the china shop". Placing risk management responsibility in the hands of the individual utilities mitigates this risk. Another benefit of Slice is that it provides customers with greater flexibility to meet the power supply requirements of their end-use customers. For example, Slice customers do not need to get BPA's approval to offer a special market-based contract to an end use customer.

PRM Response to Question #2

PRM does not believe that anyone can definitively state that acquiring a long-term resource "today" will yield a lower long-term cost than acquiring a resource at some point in the future. First, any potential savings is contingent on Emerald committing "today" to a purchase in the future. Any positions left open will be subject to then current market prices, and should not be considered a cost of BPA not allowing Emerald to purchase Slice pre-October 2011. Second, any potential savings also assumes that there is some structural factor currently influencing the market price that is presenting a unique purchase opportunity, never to be seen again. There are reasons to believe that current market conditions are favorable for long-term resource acquisition as will be described below. However, there are other factors that may cause costs to be lower in the future. Summarized below is a list of issues for Emerald to consider in its evaluation of alternatives and whether now is the best time to acquire long-term resources. The issues list include arguments both for and against why non-Federal resource opportunities may be lower in the current market than will be possible at some future point.

- Table 1 shows annual avoided cost estimates from recently completed integrated resource plans from three regional IOUs, which provide an indication of long-term resource cost expectations.

Table 1
Long-term Annual Avoided Costs for 7x24 Power

Year	Avista	PacifiCorp	Puget	Average
2007	\$ 38.20	\$ 40.68	\$ 38.66	\$ 39.20
2008	\$ 42.44	\$ 43.96	\$ 38.58	\$ 41.70
2009	\$ 45.98	\$ 47.16	\$ 39.73	\$ 44.30
2010	\$ 50.10	\$ 48.45	\$ 40.36	\$ 46.30
2011	\$ 52.97	\$ 48.47	\$ 41.90	\$ 47.80
2012	\$ 55.35	\$ 47.59	\$ 44.65	\$ 49.20
2013	\$ 57.39	\$ 48.23	\$ 45.54	\$ 50.40
2014	\$ 58.28	\$ 49.06	\$ 47.32	\$ 51.60
2015	\$ 60.20	\$ 50.23	\$ 45.39	\$ 51.90
2016	\$ 62.63	\$ 51.34	\$ 45.39	\$ 53.10
2017	\$ 64.87	\$ 54.76	\$ 47.59	\$ 55.70
2018	\$ 65.41	\$ 57.26	\$ 51.43	\$ 58.00
2019	\$ 67.28	\$ 59.90	\$ 53.16	\$ 60.10
2020	\$ 69.19	\$ 60.91	\$ 55.27	\$ 61.80
2021	\$ 70.32	\$ 61.24	\$ 53.65	\$ 61.70
2007-2021	\$ 57.40	\$ 51.30	\$ 45.90	\$ 51.50
2012-2016	\$ 58.80	\$ 49.30	\$ 45.70	\$ 51.30
2012-2021	\$ 63.10	\$ 54.10	\$ 48.90	\$ 55.40

PRM performed a quick canvas of forward market prices, which showed that Emerald probably could lock-in power in the 2007-2016 period today at a price in the \$44 to \$48 per MWh range. Prices were fairly flat during the entire period. However, if Emerald had to wait until 2012 to procure a power supply, the avoided costs shown in Table 1 indicate that Emerald would pay around \$51 to \$52 per MWh in the 2012-16 time period if the average of the 3 avoided cost estimates is used. This represents an increase in cost of between \$3 and \$8 per MWh relative to what can probably be achieved in the current market environment. For every 5 aMW that Emerald must purchase in the future, the annual cost that Emerald pays will be about \$131,000 to \$350,000 higher. This represents a \$655,000 to \$1,750,000 increase in cost over the 2012 to 2016 period.

- There have been, and may continue to be for the foreseeable future, “distressed asset” purchase opportunities. These are predominantly merchant gas-fired generating projects that were built in response to the high market price seen during the 2000/01-time period. The region is now long capacity, which makes it impossible for merchant plant owners to recoup their fixed investment in the current market environment. As a result, there have been instances of plants being sold for less than full cost as merchant developers exit the marketplace. PRM believes it unlikely that Emerald could avail itself of such a purchase opportunity by itself. Sellers of a distressed asset are going to want the purchaser to take a significant portion, if not all, of the plant. For Emerald to take advantage of such a purchase opportunity would almost certainly require it to partner with other utilities. However, even if Emerald is unable to purchase a tolling agreement from a generating project at a fixed charge that reflects less than full cost, Emerald should be able to purchase a contract that emulates a tolling agreement at a price that reflects the reduced value of capacity in the marketplace today. Table 2 shows the potential savings that may accrue to Emerald as a result of buying capacity in the current depressed market.

**Table 2
 Distressed Asset Purchase Price Savings**

% of Full Cost	Low Capacity Charge		High Capacity Charge		Savings	
	\$/kW-mo.	\$/kW-mo.	\$/MWh	\$/MWh	\$/MWh	\$/MWh
100%	7.00	9.00	9.60	12.30	--	--
90%	6.30	8.10	8.60	11.10	\$1.00	\$1.20
80%	5.60	7.20	7.70	9.90	\$1.90	\$2.40
70%	4.90	6.30	6.70	8.60	\$2.90	\$3.70
60%	4.20	5.40	5.80	7.40	\$3.80	\$4.90
50%	3.50	4.50	4.80	6.20	\$4.80	\$6.10

Note: all \$/MWh figures assume 100% load factor operation.

At full cost, Emerald likely would pay between \$7 and 9 per kW-month for long-term capacity tolling rights from a gas-fired generating project. (This charge is intended to reimburse the developer for their fixed costs, including cost of capital. It does not include fixed O&M or firm gas transportation charges.) If Emerald could purchase a tolling agreement in today's market at 60% to 80% of full cost¹, the District would save between \$2 and \$5 per MWh on fixed charges. This represents an annual savings to Emerald of between \$87,600 and \$219,000 for every 5 aMW of non-Federal power that the District acquires. Losing the opportunity to acquire the capacity at a discount would add about \$1.8 to \$4.4 million over the life of a 20-year agreement for every 5 aMW of non-Federal power acquired. This discount will disappear as the Pacific Northwest capacity surplus is reduced over time. Furthermore, other factors that may place additional upward pressure on prices in the long-term include: 1) inflation, 2) higher interest rates, and 3) a "capacity premium" if the region is slow to build new resources when required, which is a real concern given the markets propensity to exhibit boom/bust cycles. Developers may be slow to develop given their experience over the past few years.

The downside to purchasing capacity today is that over time, generation unit efficiencies are likely to improve. If the efficiency of gas-fired generation improves 10% (6,300 btu/kWh versus 7,000 btu/kWh), the cost of generation would be reduced by \$3.75 per MWh at \$5 per MMBtu gas (forward price for 2005); at \$3.50 per MMBtu gas, the savings would be \$2.65 per MWh. However, it is unclear at the present time what the fixed cost will be for the more efficient unit. The more efficient unit may come with a fixed cost that more than offsets the improved efficiency. What is clear is that capacity can be acquired in today's market at a price that reflects less than full cost for currently available technology.

- Another potential downside to purchasing capacity today is that new lower cost generating projects, or projects with lower fuel cost volatility than gas may also come on line in the 2007-2012 time period. For example, there may be new coal fired generating built that is competitive with gas, and subject to less fuel price volatility.

¹ PRM believes this is a reasonable assumption given what information was publicly available about Puget Sound Energy's purchase of 50% of the Frederickson generating project in 2003.

Mr. Alan Zelenka
September 22, 2004
Page 6

- Future power prices will be determined to some extent by future hydroelectric generating conditions. If a period of above normal hydro conditions similar to 1995-1997 were to occur again, forward prices may fall relative to current levels and present another favorable purchase opportunity. One of the reasons that 5-year market purchases could be executed at \$15 per MWh back in the mid-1990's is that this was a period of time when the region was experiencing record stream flows. As a result, coal-fired generation was on the margin during a significant number of hours in the spot market, which kept spot prices at \$12 to \$13 per MWh and lower. This effected long-term quotes. If a similar event were to happen in the future, prices probably would not fall to the same levels as the mid-1990's, however, they may fall below the mid-\$40's we're currently seeing.
- Any long-term market purchase would expose Emerald to the credit risk of its counterparty. If the counterparty defaulted, Emerald would be forced to replace the contract at a future point at then current market prices, which would eliminate the benefit it achieved from purchasing long-term during a favorable market environment. This risk can be eliminated if the District purchases generation rather than a market purchase.

We appreciate the opportunity to assist Emerald in its efforts in this matter. Please call me at (425) 460-1110 if you wish to discuss this matter further.

Sincerely,

POWER RESOURCE MANAGERS, LLP

Jeff Fuller
Vice President and Risk Manager

cc: Loren Baker
Rob Sirviatis

I:\Emerald PUD\Zelenka Slice Questions_3.ltr.doc

**Comments of Emerald PUD
On BPA's Regional Dialogue Policy Paper
September 22, 2004**

Emerald PUD supports the comments submitted to BPA by the Public Power Council, but would like to add additional comment on two areas of the BPA Regional Dialogue paper: the Conservation and Renewables Discount, and the preliminary decision not to allow Emerald to become a Slice customer.

Regarding the first issue – the future of the Conservation and Renewables Discount --

we are very concerned about the future direction BPA may take for the C&RD. For the purposes of this and the next five-year period, or until BPA allocates the system, we recommend that BPA neither lower the current funding level of the C&RD (at a already low level of one-half a mill per KWH), nor the program's targeted average cost-effectiveness threshold (of about \$2.2 Million per MW). More specifically, we would like to add the following comments on the BPA Regional Dialogue paper:

1. We applaud BPA for committing to the new higher Council conservation targets. Well done!
2. While it would not surprise us if everyone agreed with the lofty principles that were laid out in the paper; the overall principles do not appear to mesh well with the program implementation realities that we are experiencing at Emerald PUD, and probably by many others in the region.
3. We think it is inappropriate to compare the costs of ConAug with the costs of C&RD. It is an apples-to-oranges comparison. ConAug is predominantly industrial without administration and C&RD is predominantly residential with administration. These two sectors have wholly different investment criteria and costs.
4. BPA has stated that conservation needed to be more "cost-efficient", and in the future BPA would need to have conservation cost about \$1.3M/MW on average. In effect, this is saying that you want to get the C&RD spending (with an average cost of \$2.2M/MW) in line with ConAug spending (with a cost of \$1.2M/MW). To simply get the cost in-line would mean cutting the C&RD program by 40%. That is a big cut! To accomplish this BPA can either cut the 0.5 mills/kwh funding level, or lower the individual measure cost-effectiveness threshold (by this we mean, instead of a current payment of \$100 for a particular energy conservation measure utilities would only get \$60). While this will indeed lower BPA's delivery costs by paying \$0.9M/MW less for conservation, it does not mean the conservation magically got cheaper. The \$0.9M/MW will need to be made up by the utilities or the end-use customers. We believe very little will actually come from "cost-efficiencies". This also implies that if a small utility with not much cheap industrial conservation, but substantial amounts of more expensive residential potential yet to be captured (like Emerald PUD), will be very hard pressed to get the more expensive residential conservation at the new lower \$1.3M/MW cost-effectiveness threshold without kicking in a bunch of local money.

5. "Cost-efficiency" (distinguished from cost-effectiveness) highlights the different perceptions we have from BPA about the C&RD. It appears that BPA perceives it as their money/program and their responsibility to make the program "cost-efficient" by bringing its costs more into line with ConAug costs. On the other hand, utilities perceive it as their money/program and not a BPA cost at all. To illustrate this point more clearly, our perception about how the C&RD works is that when we get our monthly power bill from BPA it charges us for the PF Rate for the power we use (including the 0.5 mills/kwh for the C&RD) but on the same bill there is a credit of 0.5 mills/kwh for the C&RD. The net power cost to the utility is a PF Rate without the C&RD. So, we never actually pay BPA any of the C&RD money, and from our perspective that makes it our money and not BPA's. We think the C&RD is a way of making sure each and every utility spends at least 0.5 mills/kwh on conservation & renewables. We like to think of the C&RD as a mechanism to ensure that we end up buying a minimum of conservation & renewables.

It is also important to understand how we ended up with the C&RD. Back in the late 1990s BPA eliminated local conservation and renewables spending from its budget and told the utilities they need to pay for it. In the ensuing years utility C&R spending plummeted. By about 2000 BPA, the Council, the utilities, and the public interest community gathered together to figure out how to fix this problem. The solution that we all jointly developed was the C&RD. This set a minimum level of funding for all public utilities on C&R at 0.5 mills/kwh or in our case about 0.7% of gross revenue (despite the Regional Review's call for a minimum of 3% spending for C&R). We do not believe that there is much support in the region for going through this process again.

6. It is often difficult to understand that if the C&RD is eliminated, utility power costs from BPA would not change at all since we never actually pay this money to BPA. For many utilities the opposite is also true -- if we increased the C&RD it would not raise their BPA power cost. Only those utilities that are spending the very minimum amount on conservation & renewables would actually see their local utility costs increase. Many utilities, like Emerald, who are spending more than the minimum C&RD amount would not see an increase in cost at all. In our case, the current 0.5 mills/kwh C&RD amounts to about 0.7% of our gross revenues and we spend over 3% of gross revenue on C&R. So, if the funding level of the C&RD were tripled we would not see our actual costs rise since we are already spending it, and to that extent we would not object to raising the amount of the C&RD.
7. C&RD is already a very cost-effective resource, especially when compared to gas plants and the market. So, why would we cutting it further? Seems like a weird result of the current regional obsession with cost-cutting. Is this an unintended consequence? The real levelized cost of the C&RD at \$2.2M/MW is about \$28/MWH (with a 10 year life) while a gas plant is about \$45 and the Council's market forecast is about \$40. How much more cost-effective does it need to be? It's already more than 30% cheaper than a gas plant!
8. The recent trend toward less funding for administration or staffing is also troubling. The administration cost of conservation is analogous to the fuel cost of a generating resource. Not providing administration would be like buying a gas plant but not buying any natural gas. It doesn't result in many KWHs.
9. We believe that the flexibility of the ConAug and the C&RD programs has declined substantially, and we should strive for more flexibility not less. One of the keys to the

success of these programs has been the inherent flexibility of each. The way in which they were originally designed allowed individual utilities with wide ranging territories, conservation commitments, and customer bases to have access to a program that works best for them or to design a program that fits their needs. Now, it appears we are heading toward a low-cost, fixed program that only caters to very large utilities or utilities that have not acquired a significant amount of conservation. Please do not fix what is not broken.

10. In the end, the outcome we should certainly avoid is one where we constrain the cost and acquisition of conservation so much that we end up not acquiring sufficient conservation, and instead we buy more expensive market power or a gas plant. Wrong result.

Regarding the second issue – BPA’s preliminary decision to not allow Emerald to go Slice – we hope BPA will reconsider this initial decision and allow Emerald PUD to sign a Slice contract.

Emerald did extensive analysis and public involvement in our original decision to go Slice. Because of the California Energy Crisis, the severe drought in the Pacific Northwest, lower than expected Emerald financial reserves, and higher than expected future capital needs Emerald decide to convert our contract to Full Requirements back in 2001. At that time we expected to return to the Slice product, and thus signed a 5 year, instead of a 10 year, contract with BPA.

In the last 3 years the market has returned to normal & stabilized, and our financial reserves have substantially improved, the drought -- while not completely over -- has improved, and Emerald is now willing and prepared to become a Slice customer. All of the previous reasons that lead us to originally wanting to go Slice still apply.

1. We understand that we are the only BPA customer with an expiring contract that wants to go Slice -- and this makes our request unique and would not open the door for significantly more Slice. We believe that BPA has a valid and defensible position in offering Slice to only 5-year Full Requirements contract holders. Beyond that, Emerald would only add about 25 aMW of Slice – hard to consider that “significantly more” -- it’s only about 2% more. Since there is only 1650 MW of current Slice; adding Emerald will still put BPA well below the 2000 MW limit to Slice. In the alternative, we also believe that BPA should allow Emerald to use a portion of a current Slicer’s amount should they want to convert some of their Slice to the Block product. This would keep the overall amount of Slice offered the same as it is today.
2. Initially we understood that there was an internal BPA concern that since Slice was a one-time offer and other customers would be offended if BPA let Emerald go Slice after only 5 years. After asking a wide array of customers (including John Saven of NRU, and numerous other Full Requirements and Slice utilities); none had an objection to BPA allowing us to go Slice.
3. We also understand that some believe that Emerald is trying to seek a financial benefit by signing up for the last 5 years of the Slice period, on the hopes that it will end up being wetter than average. To address this concern, Emerald is willing to sign a full 10-

year Slice contract that would automatically convert to the new contract if one should be offered during this 10-year term.

4. In the Regional Dialogue Paper BPA mentions a concern that allowing us to convert to Slice "would be a complicated undertaking that would be a major diversion from the goal of new long-term contracts". We don't believe the staff time it will take to convert Emerald to a Slice utility will be all that great, or all that challenging. BPA has already done all the Slice contract set-up work for Emerald back in 2000 when we signed our Slice-Block contract. We assume we would use a similar contract. As well, Emerald would likely continue to use EWEB as our scheduler, and therefore BPA would not need to even add any new scheduling parties. We do not believe shifting Emerald over to Slice from Full Requirements would pose much of a time burden on BPA staff, since we do not believe the issues that would need to be resolved are that challenging or difficult. Nearly all of what it takes, from BPA's perspective, to become a Slice utility is already known and quantified.
5. Emerald does not believe it is in our strategic advantage to wait until the new contracts are available in 2012 (or potentially as early as 2009) to shift to Slice. Waiting numerous years to become a Slice utility puts us behind the curve, and will likely cost our ratepayers substantially more. An analysis done by PRM, at the request of Emerald, shows that waiting until 2012 to purchase resources could cost our ratepayers about \$4 million per year.
6. Allowing Emerald to shift to Slice after our current contract expires would benefit BPA, rather than harm BPA. The Slice product lowers BPA's risk by lowering the amounts of power BPA needs to purchase for load growth in a volatile market-place over the long-term. As well, since BPA is likely to be in load/resource deficit by 2007, having Emerald required to provide its own load growth can only lower BPA's forward risks and costs. Therefore, it is likely that waiting until 2012 to shift Emerald to Slice would actually increase BPA's risk and cost. An analysis done by PRM, at the request of Emerald, shows that BPA's risk is indeed lower (PNRR would be lower by over \$600,000 per year), and BPA would likely see about \$1.5 million per year in additional revenue.
7. The final objection seems to be that adding Emerald as a Slicer would exacerbate the cost shift problem of the Slicers audit law suit/arbitration. Should BPA prevail in the matter, and Emerald shifts to Slice, there would be no cost shift and therefore no problem. Should BPA lose, Emerald does not avoid the cost shift penalty by switching to Slice. We would still be on the hook for the 5 years that we were a Full Requirements customer (2001- 2006), and we do not see how this exacerbates the problem. As well, we do not feel comfortable waiting until the Slice audit legislation is resolved because that could be as much as 2 or more years from now. In any case, the matter is likely to be resolved by the time that we begin Slice in October 2006, the prices for the two products would have already been adjusted, and there would be no need for any additional cost shifts or payments. It is also worthy to note, that since Emerald would account for less than 2% of the total Slice pool, any financial resolution to the law suit would still be rather insignificant.

Emerald's Board of Directors and Staff are unanimously in support becoming a Slice utility. Our previous analysis, and the rationale for going Slice, still point us in that direction, and we would like BPA to reconsider its draft position on not allowing Emerald PUD to convert to the Slice product at the expiration of our current 5-year

contract. We believe that our circumstances are sufficiently unique that BPA can do this solely for Emerald.

Thank you for this opportunity to comment on these important issues. We hope that these comments are helpful as you consider BPA's role in the future.

R004-0072
SEP 22 2004

Kuehn, Ginny

From: Aileen Denton-Setter [AileenD@ep.cted.wa.gov]
Sent: Wednesday, September 22, 2004 12:14 PM
To: BPA Public Involvement
Cc: Usibelli, Tony (CTED); Schwartz, Howard (CTED)
Subject: Comments on the BPA regional dialogue proposal

Attached are the comments of the Washington State Department of Community, Trade and Economic Development - Energy Policy on the BPA Regional Dialogue Proposal.

<<Regional Dialogue Draft Comments final 9 22 04.doc>>

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**Aileen Denton Setter**  
*Executive Assistant  
Energy Policy Division  
Department of Community, Trade  
and Economic Development  
PO Box 43173  
Olympia, WA 98504-3173  
(360) 956-2096  
(360) 956-2180 FAX  
aileend@ep.cted.wa.gov  
[www.energy.cted.wa.gov](http://www.energy.cted.wa.gov)*

**"What would you attempt to do  
if you knew you could not fail?"**

**-Dr. Robert Schuller**



RD 04-0072  
SEP 22 2004

STATE OF WASHINGTON  
DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT  
**Energy Policy Division**

925 Plum Street SE, Bldg. 4 • PO Box 43173 • Olympia, Washington 98504-3173 • (360) 956-2096

September 22, 2004

Bonneville Power Administration  
P.O. Box 14428  
Portland, OR 97293-4428  
Via E-Mail: [comment@bpa.gov](mailto:comment@bpa.gov)

Re: Comments on the BPA Regional Dialogue Proposal

The Washington State Department of Community, Trade, and Economic Development (CTED) is pleased to provide comments on the July 7, 2004 document, *BPA's Policy Proposal for Power Supply Role for Fiscal Years 2007-2011*. We appreciate the years of discussion that lie behind the proposal. We also appreciate BPA's extensive public outreach and consultation that has accompanied its development. BPA should also be commended for the thoughtful and detailed nature of the proposal.

CTED is in overall agreement with the direction of the proposal. Our comments focus on those areas that most broadly affect the citizens of Washington and where we think the proposal needs to be improved or clarified. We are not commenting on the issues that primarily relate to bi-lateral relationships between BPA and its customers and that have no broader public policy implications for Washington State.

#### **Future Service to Direct Service Industrial Customers (DSI)**

Although the future of the aluminum industry in the Washington and the rest of the Northwest is, at best, uncertain, the legislature and governor of Washington have do not want to "close the door" on an aluminum industry revitalization or stabilization at a lower level of production. Earlier this year, Washington enacted legislation which provides limited duration tax incentives to our aluminum companies. This legislation was explicitly intended to provide a partial financial bridge to new BPA electricity rates in the hope that future BPA rates would be low enough for some aluminum plants to continue to operate. In the spirit of that legislation, we support a modest buy down on rates that would help competitive smelters survive. BPA's proposal for 500 aMW is a reasonable amount and the aluminum industry eligibility criteria are good ones.

#### **Electricity Conservation/Efficiency**

The Northwest Power and Conservation Council is on the verge of adopting its Fifth Regional Power Plan that will set ambitious, but clearly achievable, conservation targets. We are delighted that BPA has pledged to meet its share of the Council's targets. We offer a few suggestions about how BPA can improve its ability to do so.

First, we think it is essential that BPA should accurately and sufficiently budget for acquiring its proportionate share of regional conservation. BPA should not be tempted to acquire less than its full measure of our least expensive resource, conservation, through a shortsighted attempt to keep near-term rates low. Council staff has estimated that a one per cent increase in utility system revenues region wide

would be sufficient to meet even the most optimistic Council conservation targets. This suggests that short-term rate impacts on consumers would be small while the long-term benefits will be very large. BPA must take the long-term view on both conservation targets and conservation budgets.

We agree with the analysis, in the third bullet on p.19, that suggests that the C&RD needs to be revised but we offer some cautions. Alliance Market Transformation programs cannot be used as the only conservation cost benchmark because there is only a limited amount of conservation available at \$1million/aMW. This is also true for Conservation Augmentation. BPA should certainly work hard to develop a regional program that achieves the most conservation for the least cost. However, BPA needs to understand which conservation measures are best achieved through regional market transformation programs, which through regional, centrally run or centrally coordinated conservation acquisition programs, and which through utility run programs at the local level. These programs will necessarily have different measure and administration costs. Both the BPA Conservation Working Group and the regional conservation forum, called for in the draft Power Plan, will be important venues for determining the best path to meeting regional targets at the lowest realistic costs.

We agree with the principle in the third bullet that “only cost-effective measures and programs are a given.” That is the starting point for lowering the average cost of conservation acquisition in the coming years. BPA needs to commit itself to a systematic analysis of how its various programs compare in cost effectiveness so it can work with its stakeholders and the Regional Technical Forum in designing a coherent and effective set of conservation programs.

Second, BPA should use its contracts with utilities to clarify what each party will be expected to do in order to reach regional targets. Bonneville should seriously consider how it might use such contacts to help leverage the non-BPA portion of its customers’ loads. This could help the region better meet its targets and may also provide additional opportunities for overall cost savings. The Conservation Working Group should address how contractual obligations should be used as tools in developing conservation programs.

Third, the states can, and are, assisting the Northwest in meeting its conservation goals by capturing significant portions of the Council’s targets directly through codes and standards. With limited assistance, the states can achieve extremely high penetration rates often at very low costs. Washington State is eager to work with BPA and the region’s utilities to find ways to maximize acquisition of such “lost opportunity” resources.

Fourth, BPA should explicitly acknowledge that conservation investments have significant added value in making the electricity system more efficient, in improving the economic health of businesses, and in providing the cheapest and most immediate methods to reduce regional greenhouse gas emissions and reducing the negative impacts of global warming. Governor Locke has joined the governors of California and Oregon in the West Coast Governors’ Global Warming Initiative. As a key regional organization, BPA should acknowledge these added values of conservation.

We fully agree with the final bullet under Conservation Resources. BPA’s Conservation Working Group and the Power Council’s proposed regional stakeholder process are the appropriate entities to address questions of how best to integrate education and outreach into conservation programming.

Finally, as to low-income weatherization, while BPA’s support has been modest, it has provided an important supplement to national low-income weatherization funding and has enabled those dollars to be stretched further. BPA needs to continue to provide a dollar commitment to low-income weatherization as it has for renewables and other important programs.

## **Renewable Resources and Related Transmission Issues**

BPA is correct to cite the Northwest Power Act at the beginning of “Section K. Renewable Resources.” While much of what BPA proposes to do to implement the letter and spirit of the Act is praiseworthy, notably its commitment to spend \$15 million per year, there are a number ways in which BPA can and should go further.

First, Bonneville should consider acquiring a steady amount of wind generated electricity over the next five years. This will do two things. It will provide BPA with the modest amount of additional resources it needs (as noted on p. 6 of the proposal). It will also offer the additional predictability and stability that wind developers need in order to make new long-term investments in the region.

Second, transmission issues are a particularly important aspect of renewables development. We have some suggestions for areas that should be explored further:

- The transmission queuing process needs to be improved. BPA should examine whether a separate renewables queue could be created so wind projects or other renewable resources would not have to compete with large thermal resources in getting their transmission needs studied. Even large wind projects (200-300 MW) are relatively small incremental additions to the system (only 65-90 aMW). We have heard that FERC may be willing to consider a separate fast track BPA queue for small interconnects. We understand that BPA is reviewing its transmission queue policies and will attempt to address many of the issues that developers have raised about the queue’s fairness and efficiency. This is a good start and we look forward to seeing the results.
- In general, BPA (and the region) should begin to reassess whether a market-oriented system is the best way to provide transmission services. The current hybrid system of ownership of generation by regulated private utilities, local and federal agencies and independent power producers and ownership of transmission by federal agencies and regulated IOUs is proving unworkable because no one knows who is supposed to be sending market signals to whom. Washington has adopted Energy Strategy Guiding Principles that assume that utilities are responsible for meeting their own loads and will acquire resources to do so. We envision utilities informing developers that specific resources are needed. In this model, generators only seek transmission when they have specific buyers for their electricity and thus have utilities as partners as they seek to acquire transmission. If BPA placed a priority on providing new transmission to those utilities that need to acquire new resources to meet their native loads, developers would get the right signals about what resources to build and where.
- Begin to re-join the Transmission and Power Business lines. There are strong financial reasons to do so. It became clear during the Net Revenue Improvement Sounding Board meetings that the duplication of functions costs BPA many millions of dollars each year. In addition, we believe planning would be improved. The extreme prohibitions that prevented transmission and power business line staff from talking to each other went too far and far exceeded what is needed to maintain a reasonably open transmission system. Transmission planners need to know what power planners expect new resources and loads to be and power planners need to know what new transmission lines and upgrades are being planned. With many utilities putting wind in their IRPs, it only makes sense that transmission planners think about how to accommodate those new resources
- FERC is beginning to back off from its most stringent requirements and expectations about the role of RTOs and power markets. BPA should no longer feel prevented by FERCs orders 888 and 2000 from implementing common sense transmission policies that enhance service to its own power customers and can save the region money.

- BPA should offer new transmission products that maximize the current transmission capacity. We have discussed with BPA staff the introduction of a “conditional firm” transmission contract. While there is much to do to perfect this idea before it is offered to potential transmission customers, this concept is illustrative of the kind of creative thinking that needs to be undertaken in order to make more transmission available for renewable resources without augmenting the current system.

### **Cost Control**

CTED has been among those who have constantly urged BPA to be more transparent in its finances and more consultative and collaborative in discussing them. We are happy to acknowledge that BPA has made great strides towards meeting our concerns and deserves great praise for developing mechanisms and forums for providing timely and accurate financial data. Our staff has attended and participated in many of these activities and has seen continuous improvement in both data and process.

Going forward, we think BPA has outlined (on pp. 22-29) a reasonable proposal for how to proceed in the near future. More collaborative forums are a good idea. BPA is on the right track in trying to establish criteria for public comment on BPA decisions. This will make it clear that not all BPA decisions are subject to comment by customers and other stakeholders, and will also enable BPA and its stakeholders to distinguish between costs that BPA can control and those it cannot. BPA has endured much needless criticism for actions about which it has had little or no financial control. BPA might want to set a threshold for the dollar amount of expenditures or activities so that time and effort is not wasted on small cost items while big-ticket items are left undiscussed. One of the virtues of the Sounding Board, was that it forced members to look at activities that could lead to meaningful cost cuts and revenue enhancements. There was no point in considering small expenditures or revenue shortfalls no matter how much they annoyed members for ideological or historical reasons.

BPA needs to keep the process inclusive and public. It will need to continue to resist pressure from the customers to focus only on “bi-lateral business relationships” and cost-cutting which threaten its role as a public agency. BPA, of course, is also under pressure to spend money for public purposes. Making sure that all parties are at the table will ensure that the full range of public debate on the issues takes place.

### **Addressing long-term issues**

We understand that BPA proposes to conduct a three-year rate case and then, at the conclusion of that period (Sept. 2009) replace the current contracts (that expire in Sept. 2011) with new contracts that embody the long-term structure for BPA. This is a reasonable timeline. The process outlined on pages 24 to 29 is a reasonable one. We would like to highlight two concerns.

First, BPA must ensure that the Regional Dialogue continues to be inclusive of all interests and stakeholders. The work by both the Council and BPA has thus far been exemplary and we hope that as the focus turns to new contracts, BPA will realize that it is not its utility customers alone who have a stake in the structure of those contracts. We are pleased that BPA acknowledges this on page 27.

Second, BPA has been playing an important role in west-wide and regional adequacy forums and must continue to do so especially as it moves to reduce its role in meeting the load growth of its utilities. Challenge #5 addresses the importance of “developing regional resource adequacy metrics/standards.” BPA should begin discussions with its customers about requiring those who are not full-requirements customers to do integrated resource plans (or perform some similar analytical planning exercise) so that, as regional power acquisition decisions become more and more decentralized, there is a transparent and

analytical basis to determine whether sufficient regional resources exist to meet loads.

With this proposal BPA is headed in the right direction. We look forward to continuing to work with you on issues of mutual concern to BPA and Washington State.

Sincerely,

A handwritten signature in cursive script that reads "Tony Usibelli".

Tony Usibelli, Assistant Director  
Department of Community, Trade  
and Economic Development  
Energy Policy Division

September 22, 2004

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

Dear Paul,

Northwest Requirements Utilities (NRU) appreciates this opportunity to comment on BPA's Regional Dialogue proposal of July 7<sup>th</sup> 2004. BPA serves the power and transmission needs of the 48 member utilities of NRU. NRU's mission includes working with BPA to ensure low cost power and reliability from BPA over the near and long term. Therefore, the questions and issues raised in "Bonneville Power Administration's Policy Proposal for Power Supply for the Fiscal Years 2007 – 2011" are vitally important to the NRU membership. We agree with BPA's proposed resolution of most of the issues raised in this document and look forward to working with BPA and the rest of BPA's customers as we bring this proposal to fruition. However, given the diversity of our membership, and the wide range of issues raised in the BPA proposal, it is likely that we do not have unanimity on all points, and individual members of the organization are encouraged to submit any additional comments they deem necessary to the agency.

Our response below moves through the issues raised by BPA and provides NRU's response in the same general sequence they are listed in the agency's proposal.

## NRU RESPONSES TO KEY ISSUES IN THE BPA JULY 7<sup>TH</sup> PROPOSAL

### Issues for 2007 - 2011

1. **Tiered Rates** BPA proposes not to implement tiered rates in 2007. Most of the NRU's membership have lowest PF contract language that prohibits BPA assessing a higher tier 2 rate for any portion of their load. BPA is making the correct contract interpretation here. In addition, BPA does not project a major power supply deficit during 2007 - 2011, therefore tiered rates are not necessary during this period. BPA is also proposing that tiered rates be explored as part of an integrated long term contract and rate solution. NRU concurs with this general direction, recognizing that the tiered rates concept will require careful consideration before any final conclusions can be reached about its application, timing, and the specific features of such rate design.
2. **Five Year Contracts** For those utilities that have five year contracts, BPA should offer to extend the term of these contracts though 2011 at the lowest PF rate. In determining



how much power to sell these utilities BPA should perform a net requirements determination consistent with sections 5(b) and 9(c) of the Northwest Power Act to ensure that these utilities have a right to this power. As BPA notes, performing a net requirements determination should reduce the need for BPA to acquire power to serve firm load obligations. The commitment to take power by these customers needs to be completed by June 30, 2005 in order to be incorporated in the 2007 rate proposal.

3. **Rate Period** NRU agrees with BPA's proposal to shorten the rate period from five years in order to reduce BPA's risk exposure, and the consequent lowering effect on BPA's power rates. We believe that a three year rate period is preferable to a two year rate period. This will allow the power and transmission rate periods to coincide beginning in 2009 and should provide sufficient time to complete new long term contract negotiations for service post 2011 during the three year rate period.
4. **New Public Power Loads** NRU agrees that in order to be served at the lowest PF rate during 2007 to 2011 these utilities would have to meet the standards for service and request and commit to receive firm power from BPA by June 30, 2005. Any power sales to new publics formed after this date should be at the TAC (Targeted Adjustment Clause) rate until the end of 2011.
5. **IOU Annexed Loads** We agree with the statement in the document that "BPA will continue to treat such annexed load as it does today under existing contract terms and conditions with its customers." To the extent a publicly owned utility annexes load from an IOU service territory the financial residential exchange benefits that the IOU received for this load should be shifted to the publicly owned utility during the period in which a Targeted Adjustment Clause is applied.
6. **Product Availability and Product Switching** NRU generally agrees with BPA's proposal, with the following caveat. BPA should re-classify a product when the circumstances of the reclassification do not constitute product switching. For example movement from simple partial to full requirements service is not product switching. A number of NRU members are identified by the agency contractually as simple partial, when the basic features of their service are essentially full requirements.

BPA should not increase the amount of Slice sales until the end of the current power sales contracts. Allowing migration to or away from the Slice product could result in shifts of costs to other customers. In addition, we concur with BPA's approach to conduct an overall review of the Slice product to determine if the product has achieved its objectives without shifting costs to other customers. Sales under Slice should not be increased until such an analysis has been completed.

7. **Non Federal Resources** NRU agrees that BPA should consider allowing load following customers to add non-federal resources on a case by case basis. In order to effectively achieve this flexibility for utilities, we need to resolve the issue of transfer of non-federal power over GTA's as soon as possible.

8. **DSI Service** While the Direct Service Industries have a history of BPA service, the contracts for service to these customers expires in 2006. BPA has no statutory obligation to serve the DSIs. To provide power to serve the DSIs would only add to BPA's projected supply/load deficit in FY 2007 - 2011. In addition the Northwest Power Act and previous legislation provides preference for publicly owned utilities in power supply. Providing financial benefits to the DSIs in lieu of power service has no explicit basis in the law. However, we are willing to explore service alternatives that do not increase costs or risks to BPA's preference customers. We would encourage BPA not to think of DSI service as a short term issue that should be resolved on an interim basis while the details of the agency's long term role are being resolved. Alternatively, we think there is time in the current deliberations to come to a resolution of the DSI question.
9. **New Large Single Loads** NRU agrees with BPA's proposal to continue its current NLSL policy. Any DSI load transferred to local utility service should be served at the NR rate. In the document, BPA discusses an expansion of the exemption to the 9.9 aMW annual incremental determination of an NLSL for circumstances where off-site renewables are used. We believe this is the intent of the language, but it would be helpful if it were stated more definitively, leaving less room for possible ambiguity of interpretation. The exception for off site renewables should both help our members develop new loads, and help to facilitate overall renewables development.
10. **IOU Benefits** Individual NRU members took exception to the Subscription contracts that were entered into with the investor-owned utilities as a result of the 1998 Power Subscription Strategy, and we are involved in litigation challenging the implementation of this strategy. Pending the outcome of that litigation, in the interim NRU agrees with the concept of providing only financial benefits to IOUs. It is important for BPA power supply planning purposes that the IOUs and public power both agree that the IOUs will not receive physical power from the FCRPS in the future, and not just during the 2007 to 2011 period.
11. **Conservation** NRU is in accord with BPA's principle that "The bulk of the conservation to be achieved is best pursued and achieved at the local level." Clearly, utilities operating within their local communities have been instrumental in achieving significant conservation savings. In addition we agree with the statement that "BPA funding for local administrative support to plan and implement conservation programs has been essential." BPA does note that the conservation and renewables discount (C&RD) is more expensive in terms of dollars per aMW achieved than Conservation Augmentation and NEEA programs. There are, of course, a number of factors relevant to these unit cost differences, including the sectors that these various programs target. The C&RD is a very successful and important program with the NRU membership and achieves the two principles stated above. We expect the cost of this program to be reduced as more experience is gained. In addition the role to the Regional Technical Forum is essential in fine tuning the C&RD to achieve conservation goals at a lower cost.
12. **Renewables** BPA indicates that it intends to move away from large scale renewables acquisition and towards an "active and creative facilitation role with respect to renewable

resource development.” NRU agrees with this approach, provided the costs of this facilitation role are borne by all of BPA’s customers. This approach towards renewables is consistent with the overall goal of limiting BPA’s sales “of firm power to its Pacific Northwest Customers at its embedded cost rates to approximately the firm capability of the Federal system.”

13. **Cost Control** Cost control is essential to any approach to developing long term contracts and a long term approach to ratemaking. NRU looks forward to continuing its participation in the existing forums that deal with cost control. While these approaches, such as the Sounding Board and Customer Collaborative, have proven successful in the short term, and should be aggressively continued, they may be insufficient as longer term measures/forums to provide customers confidence that BPA products are not burdened with excessive costs.
14. **Maintain Current Contracts** For the most part the members of NRU have contracts that run through 2011. They will most likely stay with those contracts, even if a successor long term contract is signed prior to 2011. BPA’s proposed schedule allows for this and is acceptable.

#### **Longer term issues**

15. **BPA’s Long Term Power Supply Role** BPA is proposing two broad goals for the period after 2011: (1) BPA should limit its firm sales to Pacific Northwest customers at embedded cost rates at approximately the firm output of the existing Federal system, and (2) sales beyond the firm output of the Federal system would be provided at a higher tiered rate that would reflect the incremental cost of meeting that load. This would be achieved through new long term contracts. As noted recently by the GAO, BPA’s “open ended obligation to provide power to utilities in the Northwest is the principle cause of increased financial pressures.” The placement of 3,300 aMW of load on BPA in FY 2002 in the midst of the West Coast power debacle is the primary reason that the power rates of most of our membership is 40 percent higher now than they were 3 years ago.

The NRU Board has agreed to continue to explore a new contract approach consistent with the above stated BPA goals, provided that it allows customers or groups of customers to contract with BPA to serve their load growth on a bi-lateral basis. Equally important, BPA’s future product offerings for Full Requirements customers and related rate designs for those products must reflect the widespread value of the coordinated operation of the federal power system. BPA uses the generation of the federal system and the marketing abilities of the agency for the collective benefit of all of BPA’s customers. In moving to the above long term role, this widespread value must not be sacrificed.

16. **Quantity of Power at Embedded Cost Rates** In order to begin addressing the broad goals expressed above during the 2007-2011 period, and under current contract provisions, customers will need to know how much power they will receive from BPA after 2011 at the embedded cost rate and how much power they will need to obtain from

other sources, including BPA at a tier 2 rate. In determining how much power customers will be able to buy at embedded cost rates, it is essential that BPA perform a periodic net requirements determination for all of BPA's customers as is required by contract.

17. **Varied Resources and Pooling** In order to fulfill their total power supply needs in an allocated world, BPA's customers, if they so choose, will need to be able to access varied power supply sources. These varied sources could include bi-lateral purchases or pooled purchases from BPA, including at a tier 2 rate, or a non BPA resource. While many Full Requirements customers will likely want to rely upon BPA as their exclusive resource provider, other utilities will want to pursue some power supply diversity and are willing to assume additional degrees of related risk. In order to effectively access other power providers, GTA served customers need economic passage over non BPA owned transmission lines for the delivery of non-federal power. In addition, pooling of power among BPA's customers must be examined, consistent with the Joint Operating Entity legislation of January, 2000. Currently the ability to pool purchases from BPA under that legislation is restricted to entities formed prior to January 1, 1999.
18. **Longer Term Rate Methodology** We are very interested in BPA's concept of a long term rate methodology and would like to work with BPA to develop this further. NRU is concerned about the prospect of two year rate terms for power and transmission where the full range of issues is on the table for the next 20 years. Rate proceedings are often a burdensome and unproductive activity. We are amenable to finding ways to alleviate this burden.

We hope you find these comments useful both in terms of offering an analytical framework for the Agency's future role, particularly for FY 2007 – 2011, and a general assessment of what approaches may be broadly acceptable to a large segment of your customer base. We will have extensive additional comments regarding the Long Term Regional Dialogue Proposal, but recognize that BPA will likely issue that document mid 2005. If you have any questions, Geoff Carr and I are available to meet with you or your staff and any other customer representatives to discuss these points.

Best Regards,

John D. Saven  
Chief Executive Officer

CC: Members of NRU