INDUSTRIAL
CUSTOMERS OF
NORTHWEST
UTILITIES

KEN CANON
EXECUTIVE DIRECTOR

R004-0093
SEP 24 2004

September 22, 2004

Via Electronic/US Mail

Paul E. Norman
Senior Vice President
Power Business Line
Bonneville Power Administration
Post Office Box 3621
Portland, Oregon 97208

RE: ICNU Comments on BPA's Regional Dialogue

Dear Paul,

BPA's Regional Dialogue raises a number of critical issues for BPA, its customers, and the citizens of the Northwest. Over the last three months, ICNU members have discussed these issues internally and with other regional interests. The resolution of these issues will have a profound impact on the Northwest. The region is still experiencing the pain associated with the legacy of the West Coast energy crisis. For BPA customers, this meant a sudden and sustained increase in rates. As a result, billions of dollars have been removed from the Northwest economy. Partly as a consequence, the Northwest continues to lead the nation in unemployment. More worrisome, as reported in the September 19, 2004 Oregonian, higher wage manufacturing jobs are being replaced by lower wage jobs. Many of the industries most impacted by higher electric rates are specifically the same industries providing higher wage manufacturing employment. It is for this reason that ICNU has made a strong commitment to BPA's cost control efforts. We know that lower BPA costs should lead to lower rates and lower BPA rates will have a positive impact on Northwest employment.

The FY 2007 – 2011 period is an important transition period for BPA and its customers. If BPA does limit its load serving responsibilities, utilities will need some time to determine reasonable alternatives to relying on BPA to meet load. For BPA, demonstrating a sustained and compelling cost control effort is critical. BPA will need to provide this type of assurance to its customers in order for them to have the confidence to sign long term take or pay contracts for the post-2011 era.

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In addition to responding to the twelve areas outlined in the Regional Dialogue (see below), ICNU also has a deep interest in the two longer-term issues raised in the Regional Dialogue. First, we support the schedule outlined in the Regional Dialogue. It is appropriately aggressive to help focus attention on this important issue, while still allowing enough time to provide for a thorough and comprehensive process.

Second, we generally support the direction of limiting BPA's long-term load service obligation at embedded cost rates to preference customers. However, we do not support the use of tiered rates as mentioned in the paper. Instead, we believe that BPA should create other services (load growth, shaping, etc.) that it offers to its customers. These services should be financially self-supporting and should not be subsidized by customers not utilizing these services.

As end use customers, we are mindful that BPA's ability to lower its rates by limiting the melding of higher cost of acquired power with the lower cost system will not necessarily translate to lower rates at the retail level. The cost of augmentation will shift from BPA to the local public utilities. Therefore, we do not view this proposed change as a magic bullet to address high rates, but as shifting risk from a large centralized federal agency to a number of smaller, localized entities. While this diversity of risk will likely result in both winners and losers, it will also help to sustain a more viable and robust wholesale market.

The key to actually accomplishing the long-term vision outlined in the paper lies both with BPA and its customers. The customers will be challenged to set aside historic differences to arrive at solutions that are not only fair, but better for all. Ensuring solutions that result in all customers benefiting when BPA does well should be one of the overriding goals of the long-term process. For BPA, the challenge will be to convince it customers that if its role is limited, BPA will have the proper motivations and incentives to drive costs and rates down – even if BPA's rates are considerably below market.

As we reviewed the twelve different issues raised in the Regional Dialogue we came to the obvious conclusion that all were not of equal importance. Some have essentially been settled for the time period covered by the Regional Dialogue (i.e. the residential exchange), while others may not surface as a real issue during the time period (i.e. tiered rates). Consequently, our comments are out of numeric order to allow an emphasis on those issues that we consider of most importance during the Regional Dialogue. In addition, we have assumed that while the resolution of the Regional Dialogue sets the stage for limits on BPA's service obligations, the main impact of that service obligation limitation will be in 2011.

1. **Service to the DSIs** (#7 on BPA's list)

This is one of the few major decisions that has to be addressed during the Regional Dialogue. It has also been a subject of much discussion within ICNU. ICNU agrees that BPA has no statutory obligation to provide service to the DSIs, although BPA does have the authority to provide power to this class of customer. With BPA expected to be close to load resource balance for 2007-2011, the issue for other BPA customers is whether the existence of the DSIs is a benefit compared to the cost of BPA augmenting to provide for the DSIs' additional load. If it is determined to be a benefit, the second issue is to assure that the rate for DSI service is closely linked to the PF rate. ICNU's discussion has led to a position of qualified support for BPA providing power to no more than 500 aMW of DSI load. These would need to be loads that have fulfilled all of their contractual obligations to BPA and are a good credit risk. ICNU does not support providing credit support to the DSIs. In addition, more work needs to occur to clearly define the potential additional cost to preference customers for the provision of this service.

ICNU would support rolling over the existing DSI contracts for the next rate period, but with the 500 aMW limit. A take or pay allocation would be made to each eligible DSI that requested such an allocation. An allocation could only go unused for a limited amount of time before it reverted back to the DSI pool for use by other DSIs. While beyond the scope of the Regional Dialogue, ICNU members would support the elimination of the DSIs' unique status and to have the remaining DSIs become customers of public power (still with the 500 aMW limit). This would help to ensure the proper alignment of interests between this group of large industries and the rest of Public Power.

2. **Controlling Costs** (#12 on BPA's list)

This is a critical issue for 2007-2011, and beyond. In the short-term, BPA needs to continue the positive trend of thoughtful cost control that has contributed to the ability of BPA to zero out the Safety Net CRAC. A sustained focus on appropriate activities and costs can contribute to further reductions in rates. Longer term, If BPA cannot convince its customers that it has permanent processes in place for cost control, who would want to sign a 20-year take or pay contract with the agency? BPA's current Process Improvement Program is a good first step, but its ultimate outcome and durability is unknown. If it is successful in the next two or three years in actually changing the way that BPA does business, it will become an important benchmark for BPA's future actions. Actual changes to BPA's governance structure and rate setting process may be necessary to build confidence in BPA's ability (and motivation) to control costs in the long-term.

Meaningful and sustained cost control is a greater challenge in a system where BPA's resources are allocated. BPA's lower cost resources provide the opportunity for BPA to add costs and still have PF rates at a level just below market prices. What would motivate BPA to actually drive costs and rates down, when it knows that the utilities, not BPA, are on the hook for the costs of any augmentation? BPA and its customers need to answer this question as part of the longer term dialogue regarding the terms of the 20-year contracts.

3. Term of the Next Rate Period (#3 on BPA's list)

ICNU supports a two-year rate period. This minimizes risks for BPA and obviates the need for the use of cost recovery adjustment clauses. This should lead to lower rates. It also allows ample time to complete the longer term schedule suggested in the Regional Dialogue while still providing a reasonable deadline for the completion of the contracting process. We strongly urge BPA to work with its customers to improve BPA's ratemaking process.

4. Service to New Publics and annexed IOU Loads (#5 on BPA's list)

One of the historic reasons for BPA's existence is to provide low cost power to public utilities in order to act as a check on the IOUs and to provide a competitive yardstick for the IOUs. This historic role is one of the reasons that Northwest rates (for both publics and IOUs) have been below the national average. Any competition is good, even if it is between two different forms of electric utilities. For that reason, ICNU recommends that BPA provide PF power for up to 75 MW of power for new publics or annexed IOU load. BPA would not augment for that amount unless the load was created. Specifically, BPA would not acquire power to hold in reserve for new publics. Therefore, it is a small contingency that would not impact current rates, while still allowing BPA to act in its historic competitive role.

5. New Large Single Loads (NLSL) (#8 on BPA's list)

In the scope of the Regional Dialogue discussion, most aspects of NLSL will not change in the next five years. If BPA follows through and does not impose tiered rates in 2007, then it will meet the loads of its customers. If a NLSL situation occurs, then it will be charged the higher NR rate. The allocation issue raised in the Regional Dialogue is whether the DSIs can move 9.9 aMW to the publics each year and avoid the NLSL designation. BPA's answer is no and we would not disagree with that position.

However, once an allocation structure is in place, then all new or growing loads have the impact of a NLSL on a utility in that they push the utility load beyond that served at the lowest cost PF rate. An issue that will surface in the future is whether those potential NLSLs that have Contracted For, Committed To (CFCT) protections should retain those protections. ICNU's position is that a pool of 75 aMW should be recognized for potential use by a NLSL that has secured CFCT protections. Similar to the situation with new publics, BPA would not acquire power to service this pool unless, and until, it is needed.

6. **Product Availability** (#6 on BPA's list)

ICNU supports allowing publics the flexibility to change the types of products they purchase from BPA. This is especially true regarding the Slice product as that is the type of product that will likely result from a fixed allocation process. Allowing a greater number of utilities to gain experience with the risks and rewards of the Slice product should be allowed.

7. **Service to Publics with 5-year contracts** (#4 on BPA's list)

ICNU continues to support allowing these utilities to purchase power from BPA at the lowest PF rate through 2011. This is consistent with ICNU's general philosophy that it helps to have all of the publics treated in the same manner.

8. **Conservation Resources** (#10 on BPA's list)

ICNU supports keeping the C&RD funding at it current level until BPA's longer term allocation is accomplished. ICNU also supports BPA's belief that conservation is best accomplished at the local level. ICNU would strongly encourage BPA to ensure that its conservation programs are cost effective, user friendly and low cost. It is also important that BPA funding for conservation be given the same scrutiny applied to all other BPA costs. The longer term discussion should explore whether there is a continuing need for customers to financially support two layers of conservation administration (BPA and the local utility) when the utilities are more directly exposed to the higher costs of new resources.

9. **Renewable Resources** (#11 on BPA's list)

Given that one of the main reasons to undertake the Regional Dialogue is to reaffirm the region's support for BPA's limited role in resource acquisition, ICNU supports a limited role for BPA in the development of renewable resources. While BPA discusses its interest in moving away from large-scale renewables acquisition (which ICNU supports), BPA instead suggests that it plans to take an active and creative facilitation role in renewable development. This new role is seen as providing integration services, transmission system improvements, rate discounts, and a limited acquisition role (as an anchor tenant). ICNU believes that each of these roles has its own unique costs and risks. It is important that through these new roles, BPA should not subsidize any of these services. Renewable resource development should be focused at the local utility level and not at BPA.

10. FY 2007-2011 Rights to Lowest-Cost Priority Firm (PF) Rate (#1 on BPA's list.)

ICNU agrees that most of BPA's 10-year contracts with Public Power utilities (and some of the five-year contracts) have provisions that guarantee that BPA will apply the lowest cost PF throughout the 10-year contract term.

11. Tiered Rates (#2 on BPA's list)

ICNU supports BPA's decision to set aside tiered rates for the period covered by the Regional Dialogue.

12. Service to the IOU's Residential Exchange (#9 on BPA's list)

Since this is an issue that has been decided and is subject to litigation, we will reserve comment on it until the post-2011 issues are discussed.

We look forward to working with BPA and its customers on the Regional Dialogue and the longer-term issues.

Sincerely,

Ken

Ken Canon

WHATCOM COUNTY
EXECUTIVE'S OFFICE
County Courthouse
311 Grand Avenue, Suite #108
Bellingham, WA 98225-4082

R004-0094
SEP 24 2004

Pete Kremen
County Executive

September 22, 2004

Stephen J. Wright
Administrator and CEO
Bonneville Power Administration
PO Box 14428
Portland, OR 97293-4428

Dear Mr. Wright:

We the undersigned community leaders from the Whatcom County, Washington area are writing in response to your Regional Dialogue Policy Proposal of July 7, 2004.

We recognize the importance of the Bonneville Power Administration to our region, and commend you for your efforts to develop clear and meaningful policies that will lead to the preservation of the BPA benefits for the citizens of the Northwest for years to come. We also recognize that this policy proposal deals with issues that must be decided in the short-term (fiscal years 2007-2011) while you continue to develop long-term policies.

We are particularly concerned about your decisions that will affect future service to the Alcoa Intalco aluminum plant located at Cherry Point. The operation of this plant is vital to our community, and we understand from Alcoa that an adequate supply of economical electricity from BPA is essential for their continued operation.

You have proposed providing up to 500 average Megawatts of total service benefits to all of your Direct Service Industrial Customers including Alcoa, and we understand that the current contract with Alcoa provides for 438 Megawatts of firm power, and even that amount is not enough to operate the Intalco plant at full production. We understand your desire to limit BPA's service obligations, but do not believe it would be fair as a matter of policy to arbitrarily reduce power supplies to Alcoa below existing amounts while increasing supplies to other customers in the Northwest.

Alcoa has been an extremely good corporate citizen in our community for decades, and has met all of its obligations under past BPA contracts. We urge

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you to extend current firm power sales to Alcoa so they can continue to provide jobs in our community while the region works together to formulate policies for a stable and economical, long-term BPA Power Supply Role in the Northwest.

Sincerely,

Pete Kremen, County Executive
Whatcom County

The following elected officials are also in support:

Senator Dale Brandland
Representative Doug Erickson
Representative Kelli Linville
Jim Ackerman, Mayor, City of Nooksack
Jerry Landcastle, Mayor, City of Ferndale
Jack Louws, Mayor, City of Lynden
Jaleen Pratt, Mayor, City of Everson
Dieter Schugt, Mayor, City of Blaine

COLUMBIA FALLS
Gateway to Glacier National Park
AREA CHAMBER OF COMMERCE
P.O. Box 312 • Columbia Falls, MT 59912 • (406) 892-2072 • www.columbiafallschamber.com

RD04-0096
SEP 24 2004

September 14, 2004

To Whom It May Concern:

My name is Steve Stahlberg and I represent the Columbia Falls Chamber of Commerce, representing 150 local businesses. I can tell you from first hand experience that without local mills like CFAC, communities like Columbia Falls would be hard pressed to survive. It is true we have other important activities like tourism but the impact of large industrial employers on a small rural community is very significant. When a large mill shuts down the whole community suffers, not just the people who were employed in the mill.

With the loss of a large mill (like a CFAC) communities like ours, and everyone in those communities must immediately tighten their belts. Sporting Goods stores suffer a drop off in business, auto dealers see sales plummet, and even grocery stores see much more selective purchasing. Even our Certified Public Accounting firm is impacted. In addition to local businesses, community and civic organizations experience drastic reductions in local monetary support. The local schools suffer through loss of tax revenues. The list goes on and on and by the time the ripple effect is through, you end up with a depressed community. We need the big employers and we need CFAC. I urge BPA to provide the 500 Megawatts of cost-based power to the direct service industries and to make sure that CFAC is offered a significant share.

Thank you for your consideration.

Sincerely,

Steven C. Stahlberg
President

RD04-0097
SEP 24 2004

CITY of COLUMBIA FALLS

130 6TH STREET WEST
ROOM A
COLUMBIA FALLS, MT 59912

PHONE (406) 892-4391

FAX (406) 892-4413

September 15, 2004

Bonneville Power Administration

Portland, Oregon

RE: Public Hearing

Ladies and Gentlemen:

On behalf of the City of Columbia Falls, I ask for your support for cost based power for the Columbia Falls Aluminum Company (CFAC). Selling power to CFAC as a direct service industry allows them to remain in business.

The Columbia Falls Aluminum Company is an integral part of the Columbia Falls community and the Flathead valley. The company employs 140 people and their vendor list includes 241 Flathead valley suppliers. They are currently operating only one potline out of five available due in a large part to the cost of power, only a portion of the power is provided through a direct service industry agreement. CFAC was forced to downsize their operations due largely to the cost of power. Over 150 individuals lost their jobs in the downsizing. Many of these people had to leave the valley and their families to find employment.

CFAC would like to go back to operating at 50% capacity, or 2 ½ potlines. This would provide much needed employment opportunities. However, to maintain the current level of employment or to expand operations, CFAC needs a consistent source and price on their power supply. This requires cost based power for production.

Please support cost based power for the Columbia Falls Aluminum Company. Our community and our valley needs stable employment opportunities. Columbia Falls Aluminum Company needs a direct service industry agreement with Bonneville Power Administration in order to provide those opportunities.

Sincerely,

Susan M. Nicosia

Susan M. Nicosia
Mayor

The Big Sky Country

R004-0098
SEP 24 2004

MONTANA HOUSE OF REPRESENTATIVES

REPRESENTATIVE DEE BROWN
HOUSE DISTRICT 83

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HELENA, MONTANA 59620-0400
PHONE: (406) 444-4800

HOME ADDRESS:
PO BOX 444
HUNGRY HORSE, MONTANA 59919
PHONE: (406) 387-9393

COMMITTEES:
STATE ADMINISTRATION, VICE CHAIR
LEGISLATIVE ADMINISTRATION, VICE CHAIR
FEDERAL RELATIONS, ENERGY,
AND TELECOMMUNICATIONS

September 15, 2004

BPA Officials

re: CFAC power

Dear BPA Officials,

Hungry Horse Dam was built as the first hydroelectric facility on the Columbia River System for a reason--to provide reasonable power rates for industry to locate in the northwest. The Anaconda Company built the present Columbia Falls Aluminum Company to take advantage of that reasonable power.

Through the years the aluminum plant has provided good paying jobs with benefits to thousands of Flathead Valley residents. Only a few remain because of the inability to secure low enough power rates to continue full operation. Historically it has also given many students the ability to attend college through summer employment.

I believe it is in your authority to change the decline in jobs and tax base locally and to the State of Montana by setting aside some ~~KW~~ MW for industrial use in the future. Please allow this viable business to increase production by making that commitment to our community.

Thanks for listening.

Sincerely,

Rep. Dee Brown

RD 04-0099
SEP 24 2004

Flathead County

Board of Commissioners

(406) 758-5503

Howard W. Gipe
Gary D. Hall
Robert W. Watne

September 15, 2004

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

Re: Cost-Based Power

Dear Sirs:

The Flathead County Board of Commissioners strongly supports the use of cost-based power for the Columbia Falls Aluminum Company (CFAC) in Columbia Falls, Montana.

The loss of CFAC family-wage jobs in our local economy has adversely impacted many households in the county. Replacement jobs, when available, have meant reduced incomes and loss of benefits. This has placed increased financial stress on families that can no longer afford adequate health care or purchase a larger home for a growing family. Today in Flathead County, 29% of the working population is without health insurance. Workers who have lost jobs at CFAC represent a significant portion of this group.

The use of cost-based power for CFAC will result in an increase of family-wage jobs for our economy and an improvement in the lives of many of our citizens.

Sincerely,
BOARD OF COMMISSIONERS
FLATHEAD COUNTY, MONTANA

Howard W. Gipe, Chairman

Not Available for Signature
Gary D. Hall, Member

Robert W. Watne, Member

FCBC:mw

800 South Main ** Kalispell, Montana 59901 ** Fax (406) 758-5861

Comment Received 9/15/04 @ Kalispell Public mtg.

R004-0100
SEP 24 2004

Lincoln Electric Cooperative, Inc.

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Eureka, MT 59917
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www.lincolnelectric.org

September 16, 2004

Paul Norman
Senior Vice President Power Business Line
Bonneville Power Administration
PO Box 3621
Portland, OR 97208-3621

Dear Mr. Norman:

Lincoln Electric Cooperative appreciates this opportunity to comment on BPA's Regional Dialogue proposal. Lincoln Electric's 4,500 customers are served with our full requirements Hungry Horse contract with BPA making the agencies decisions on power supply very important to us.

In particular we wanted to comment on the following issues:

- **Five Year Contracts –** we strongly support your proposal to offer to extend the term of those contracts through 2011 at the lowest PF rate. Included in this offer should be the requirement that BPA perform net requirements determination to ensure that these customers have the right to this power.

- **New Public Power Loads –** we agree that in order to be served at the lowest PF rate during the 2007 to 2011 these utilities need to have met the standards for service and request and commit to receive firm power from BPA no later than June 30, 2005.

- **DSI Service –** while we are very concerned about providing either power or financial benefits to the DSI's we are willing to consider providing up to 100 MW per *operating* smelter capped at a total of 300 MW until 2011. We are open to the idea of financial benefits instead of power only if there are realistic caps placed on them and restrictions put in place that will not allow the DSI's to game the system to their benefit.

- **Cost Control** – it essential that BPA continue to consult with its customers on cost control. We applaud you for your recent efforts in this area.

- **BPA's Long Term Power Supply Role** – BPA is proposing to 1) limit its firm sales to Pacific Northwest customers at embedded cost rates at approximately the firm output of the existing Federal system and 2) that sales beyond the firm output of the Federal system would be provided at a higher tiered rate that would reflect the incremental cost of serving the load. Lincoln Electric is supportive of continuing to explore this option as long as it does not prevent customers or groups of customers from contracting with BPA to serve their load on a bi-lateral basis.

Thank you for the opportunity to comment on your proposal.

Sincerely,

Michael T. Henry
General Manager

Golden Northwest Aluminum

3313 West Second Street
The Dalles, Oregon 97058
Phone (541) 296-0801
Fax (541) 296-0800

RD04-0101
SEP 24 2004

September 22, 2004

BY FIRST CLASS MAIL

Paul E. Norman
Senior Vice President Power Business Line
Bonneville Power Administration
P.O. Box 3621
Routing: P-6
Portland, OR 97208-3621

Re: Bonneville Power Administration's Policy Proposal for Power Supply Role for Fiscal Years 2007-2001

Dear Mr. Norman:

We appreciate this opportunity to comment on the above referenced BPA Policy Proposal. These comments are presented on behalf of Golden Northwest Aluminum, Inc. and its two smelter operating affiliates, Goldendale Aluminum Company and Northwest Aluminum Company (collectively "GNA"). Our comments address the issue of BPA Service to Direct Service Industries (DSIs) in the period FY 2007-2001.

BPA Should Continue to Allow the DSIs to Share in the Benefits of the Federal Columbia River Power System.

GNA strongly endorses BPA providing continued service to DSIs after their current contracts expire in 2006. During an earlier phase of this Regional Dialogue, on September 11, 2002, GNA submitted comments urging BPA not to abandon its statutory role of meeting the net requirements of its public agency and DSI customers. We pointed out that, due to the requirements of § 7(b)(2) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), continued service to the DSI's is a necessary element of the statutory program to provide benefits to the residential and small farm customers of the regional investor owned utilities (IOUs). However, now that BPA has executed residential exchange settlement agreements with all six of the IOUs through FY 2011, it seems that BPA is committed to an alternative mechanism to provide residential benefits, at least for that time frame.

Notwithstanding BPA's decision regarding the residential exchange program, it remains appropriate for BPA to provide continued service to the DSIs. Although the Northwest Power Act did not absolutely require BPA to provide continued service to its DSI customers, it plainly authorizes such service, and, because of the interrelated statutory structure of the residential exchange program, sales to the DSIs and the 7(b) rate, we believe that it was the intent of Congress that BPA provide such service for the indefinite future. While we don't want to rehash history, I believe the reason the Act says "may" rather than "shall" in referring to follow-on DSI contracts was because, unlike the initial contracts, BPA was not deemed to have a sufficient amount of power but rather BPA was directed to acquire resources so that it in fact had sufficient power for new contracts for all its customers. If BPA were unable to acquire sufficient resources to meet 100% of the loads requesting power, the "may" language would keep BPA from being in violation of the statute.

It is clearly equitable for BPA to continue to serve the DSI loads. They are among BPA's oldest customers, their existence allowed the Federal Columbia River Power System (FCRPS) to be developed much earlier than would otherwise have been economically feasible, and thus, the DSIs have contributed significantly to the low nominal cost of the FCRPS. Most importantly, the workers and rural communities that depend on the jobs provided by the DSIs are no less deserving to share in the benefits of the FCRPS than are the workers at facilities that happened to be served by local utilities instead of BPA when the Northwest Power Act was adopted. The DSIs gave up the option for service through local utilities like other industries in return for continued direct service from BPA.

GNA understands fully that BPA desires to reduce its total load obligation to conform better to the output of the FCRPS. For that reason, GNA has been engaged in a long-term plan to meet a large portion of its own load with non-federal power. However, it has always been an essential part of GNA's plan to obtain a portion of its power needs from BPA at cost. GNA has strongly supported the proposals of some customers and the Power Planning Council to make at least 100 MW of power available to each aluminum smelter at BPA's average embedded cost. Although this amount of power is very short of what is needed to operate the smelters, its availability would contribute significantly to the long-term viability of the smelters. As noted by BPA, the smelters will have to modify their operations to the realities of the expected future power and aluminum markets, and GNA has worked hard and made significant investments to do so. But the likelihood that GNA will rehire its workers and restart its smelters would be enhanced significantly by a commitment by BPA to offer each smelter up to 100 MW of power service benefits through at least 2011. Thus, we support BPA proposal to provide at least 500 MW of service benefits to DSIs.

Every DSI with a Demonstrated Long-Term Commitment to the Region and to Maintaining Northwest Jobs Should Be Eligible for a Share of Benefits.

GNA obviously cannot support BPA's proposal that "any benefits would be targeted to DSIs that are creditworthy and have fully met their obligations under their Subscription contracts." As you know, GNA and Goldendale Aluminum are currently undergoing reorganization under Chapter 11 of the Bankruptcy Code. Northwest Aluminum will also file for reorganization. It will not be possible in that reorganization for GNA to pay in full BPA's claims relating to GNA's Subscription contract. The Federal policy and fundamental purpose embodied in the Bankruptcy Code is to allow companies to reorganize and then operate without the burden of their pre-bankruptcy problems. BPA should not black ball any DSI based on the need to reorganize under the Code or based on the economic difficulties that drove the DSI to bankruptcy. To do harms innocent employees and communities that depend upon the smelter facilities for jobs.

It is significant that BPA has not been harmed by GNA's inability to purchase the power to which it committed under its Subscription contract. After the contracts were executed, BPA requested that each DSI curtail its purchases from BPA for a two-year period. GNA hoped to restart its operations as soon as practicable to help preserve jobs and economic health of its local communities, and therefore agreed to curtail initially for only six months. As a result, BPA paid GNA far less in curtailment payments than BPA paid to companies with no bankruptcy problems that agreed to curtail longer. As it turned out, the period between six months and 15 months after the rate and contract period began (i.e. April through December 2002) were the times when BPA's rates were above market prices. Thus, the curtailment payments made to other companies for curtailments within this period were money-losing deals for BPA.

Subsequent to these paid curtailments, BPA claims that GNA defaulted on $15.8 million in take-or-pay damages during the period from April 2002 through December 2002. GNA strongly believes that BPA has overstated the take-or-pay liabilities applicable to that period. But more importantly, over the entire four and one-half year period for which BPA had not entered into a buy-back with GNA, BPA's own estimates show that it will receive at least $2.2 million more in total on the open market for the power that GNA was unable to purchase than it would have received from GNA at the IP rate with all applicable CRACs. This is because the forward market price for power exceeded the IP rate for the period January 2003 through September 2006 by over $18 million. In short, BPA suffered no damages, and actually gained from GNA's inability to purchase power during the Subscription contract period. It would be particularly inappropriate, therefore, if BPA were to use the unfortunate circumstances that befell GNA during this period to deny it future benefits.

There are many reasons that it became necessary for GNA to reorganize, including the high price of BPA and market power and the difficult aluminum and alumina markets that have prevailed since 2000. But, the fact that BPA retained $98 million of GAC's and NAC's remarketing revenues, and that, with BPA's strong support, GNA invested heavily in generating resources in the attempt to assure its long-term future and develop resources for regional needs are very significant factors that contributed to its current economic difficulties. BPA should recognize these as positive factors, not negative ones, in deciding where to target the available benefits.

By these and other actions, GNA has consistently demonstrated its commitment to the region, and its long-term commitment to support its employees and to be a good corporate citizen in the communities in which it operates. This demonstrated commitment, and not the unfortunate circumstances that drove GNA to seek reorganization, are the criteria BPA should appropriately use to determine whether GNA should be eligible for power system benefits.

Options for Providing Power System Benefits to Eligible DSIs.

GNA believes that any of the following mechanisms would be effective to provide power system benefits to DSI:

- *The direct sale of at least 100 MW of power for each smelter.*

Under this option, BPA would simply acquire the resources needed to meet the service commitment and sell the power to each eligible DSI at an Industrial Power (IP) rate developed under § 7(c) of the Northwest Power Act. The industrial power product should be made subject to interruption to provide power system and transmission reserves of a value sufficient to make the IP rate equivalent to the lowest Priority Firm rate. As noted above, access to 100 MW of power per smelter priced at BPA's average embedded cost would contribute significantly to the continued viability of GNA's smelters. The downside of this proposal is that it creates price and credit worthiness risks for BPA and take-or-pay risks for the DSIs that could be eliminated by other alternatives.

- *A Power Exchange Under Which the DSI is Responsible to Acquire the Augmentation Power Needed to Serve its Load, but BPA Covers the Difference Between the Market Price and the BPA Rate.*

BPA has expressed a preference to provide benefits to eligible DSIs in the form of a Financial Incentive to operate with a cost to BPA roughly no greater than if BPA had elected to serve the DSI customers directly. We believe that BPA can design a power sale to each DSI as an exchange structured to be consistent with the Northwest Power Act; so as to relieve BPA of any price and credit risks inherent in the direct service option, while meeting the other criteria BPA set out for the Financial Incentive.

Under this option, BPA would agree to purchase from a DSI up to 100MW of power per smelter whenever the DSI operates at a level at least equal to the amount of power offered, and simultaneously resell to that DSI an equal amount of power. The purchase and sale would each take place at the point of delivery for the smelter to avoid any transmission costs. The price at which BPA would purchase the power would be set in the relevant rate case equal to BPA's forecast of the relevant market price for the rate period. The price at which BPA would resell the power to the DSI would be the (IP) rate established in the same rate case. (The market price and IP rate may, but need not be seasonably differentiated.) The difference between the rate cases determined market price and the IP rate would establish the financial incentive per MW hour of power used that a DSI would receive only when it was actually operating.

This exchange proposal has several advantages over any direct sale option that lays the responsibility for acquiring the augmentation power on BPA. First, it relieves BPA of any market price risk. The cost to BPA of each MW hour of benefit provided to a DSI would be fixed in each rate case and embedded in BPA's overall rates. Second, it eliminates for both BPA and the DSI any take-or-pay risks. BPA would determine whether the exchange took place after the fact, and would pay only to the extent that the DSI actually operated, but the DSI would have no obligation to BPA to operate. This meets BPA's general criteria that it will provide benefits to DSIs only if such benefits actually enable aluminum production and maintain Pacific Northwest jobs. This approach also provides the DSI with greater flexibility in making operating decision than would the direct sales approach. Finally, the approach relieves BPA of any credit risk associated with the recipient DSI, and thus obviates any reason for BPA to use the DSI's creditworthiness as part of the eligibility criteria for benefits.

- *Credit Support for New DSI Generating Resources.*

GNA believes that it would be appropriate for BPA to provide credit support for new generating facilities developed to help a DSI transition permanently off the BPA system. Last year GNA has had a number of discussions with BPA regarding the possibility of obtaining BPA's credit support for the Summit Westward generating project. Although the particular transaction between BPA and GNA was never completed, through these discussions, BPA and GNA were able to resolve a number of issues associated with any form of credit support, including reducing and limiting BPA's risk and assuring the region that the credit support did truly transition GNA to self reliance for its own power supply. Attached hereto and made part of these comments is a paper drafted by GNA entitled "Credit Support on the Merits" which describes how one particular credit support transaction could be structured between BPA and GNA. We urge BPA to keep open the option of providing credit support to GNA along the lines we discussed in 2003, or for any other DSI under appropriate circumstances. We want to make sure that this Policy Process would allow the Administrator to provide credit support, should BPA subsequently decide to do so.

On behalf of Golden Northwest Aluminum, I thank you for BPA's continued consideration of providing the DSIs access to a reasonable share of the benefits of the FCRPS and for this opportunity to comment on BPA's current thoughts on that issue.

Sincerely,

Brett Wilcox

BW/cac
cc by email to: comments@bpa.gov

CREDIT SUPPORT ON THE MERITS – GNA DRAFT OF 8/13/03

A. The Three-Part Proposal

The Bonneville Power Administration ("BPA") and Golden Northwest Aluminum ("GNA"), one of BPA's direct service industrial ("DSI") customers, have drafted an overall resolution of their long-standing commercial relationship. The resolution consists of an agreement with three basic and interrelated parts:

1. Termination of GNA's right and ability to continue purchasing BPA power.

The Termination Agreement would take effect immediately. It would be permanent, and enforceable by Northwest utilities as well as BPA. GNA could no longer buy BPA firm power directly as a DSI or indirectly through BPA utility customers. Like other Northwest customers, GNA would be offered seasonally surplus power before BPA exports it to California, and GNA could also buy (but not increase) the few megawatts it has historically bought from two local publicly owned utilities. But for its basic power supply, GNA would be "off the BPA system" immediately and forever.

2. Preservation of GNA's take-or-pay obligations.

GNA has paid BPA for all power it has used, but GNA owes BPA some $___ million (including interest) for power GNA did not use. Because GNA is not operating, it currently has neither cash flow nor other liquid assets available to repay BPA. BPA and GNA propose to preserve GNA's accumulated take-or-pay obligations, however, and agree that GNA will make specified payments on this debt at any and all times in the future when GNA operates its smelters. This GNA obligation is tied to BPA credit support in the manner described below.

3. Limited BPA credit support for GNA's five-year purchase of power from a new non-BPA generating project.

To date, GNA is the only DSI that has developed new non-BPA power projects in the region. More than $100 million in GNA power remarketing proceeds have been invested in wind and gas/steam turbine projects. The Summit Westward Project, a combined cycle (gas and steam) power plant near Clatskanie, Oregon, is ready to be financed and begin construction this fall. The Project will benefit Clatskanie Peoples' Utility District ("CPUD"), among other BPA preference customers.

To help GNA buy power from the Project and thereby replace power BPA no longer will supply, BPA and GNA propose that BPA provide a limited amount (up to $14 million per year) of short-term credit support for GNA's power purchases during the Project's first five years (2005-2010). BPA and GNA have agreed on provisions to (a) reduce the risk of actual payments by BPA, (b) help assure that BPA would be fully repaid for any such payments (with interest), and (c) provide adequate security to BPA for such repayment. As compensation, BPA would have an option to buy, for one year, 100 MW of power from the same source and at the same price as GNA.

This three-part proposal reflects many months of negotiation and drafting, including periodic informal BPA consultations with several of BPA's utility customers and Northwest public officials. Groundbreaking for the Summit Westward Project is now scheduled for September 27, 2003, and permanent financing of the Project is scheduled for mid-November. The time has come for BPA to advise the general public of this proposal and receive additional comment on it.

B. The Overall Context

Like other DSIs, GNA was once wholly dependent on BPA power for its process loads. Unlike other DSIs, GNA has actively worked with BPA since 1998 in effort to "transition" its process load from BPA to non-BPA service. This is uncharted territory. No major BPA customer in recent times (DSI or utility) has attempted such a transition, much less completed it successfully. There is no guarantee that GNA can complete it successfully either, because aluminum prices are currently low in relation to power costs. BPA is aware that GNA may be compelled to reorganize under the bankruptcy laws in its efforts to resume operating and provide jobs, as GNA hopes and intends to do. However, GNA is not currently in bankruptcy, nor has GNA asked to be relieved of any indebtedness to BPA.

GNA has instead asked that BPA help its intended transition by providing five years of credit support for BPA's purchases of power from the Project. For reasons discussed below, BPA has been willing to consider such help – but only if GNA agrees in turn to certain BPA requests and risk-protective measures. This process of negotiation, including the consultations with others referred to above, has produced the three-part proposal described here.

BPA's willingness to consider GNA's request reflects more than just GNA's effort to transition from BPA to non-BPA sources of power. Importantly, GNA also agreed with BPA and the United Steelworkers of America ("Steelworkers"), the union that represents GNA's hourly employees, to invest all of GNA's $300 million in net remarketing proceeds (from power BPA resold on GNA's account in 2001) in its employees, its production facilities, and new non-Federal sources of power, all in an effort to give GNA the best chance of continuing to operate and provide jobs in two of the region's most economically distressed counties. In weighing GNA's request, BPA places significant weight on the jobs that construction and operation of the Summit Westward Project will provide in Northwest Oregon and on the improved prospect for the retention and restoration of high paying smelter jobs in Klickitat County, Washington and Wasco County, Oregon that completion of the Project will offer.

Most important, perhaps, GNA also agreed to provide – and did provide – BPA some $100 million in net remarketing proceeds in 2001. BPA retained this amount in addition to receiving GNA's full payment for the power BPA remarketed. BPA used the $100 million to benefit all BPA customers. No other DSI took the same step. This point bears emphasis, because to BPA this $100 million provided a starting point for considering the currently proposed resolution of the commercial relationship between BPA and GNA.

C. <u>The Summit Westward Project</u>

Summit Westward is not the only new power project developed with GNA's share of its remarketing proceeds. The Klondike Project, a wind farm in Eastern Oregon, is already operating and providing BPA its least-expensive source of wind power. But Summit Westward has several particularly noteworthy features:

- The Project would represent a large new addition to the region's total power supply: more than 530 MW.
- It is a modern high-efficiency combined cycle gas/steam turbine power project, designed as a virtual duplicate of several power plants already operating elsewhere in the United States.
- Its location near Clatskanie, Oregon, should benefit the reliability of BPA's existing transmission system in the I-5 corridor during most months of the year.
- BPA and Northwest utilities and DSIs have been offered the opportunity to participate in the Project and/or to buy power from it at cost – and those costs have been cut substantially in an effort to make the Project competitive and financeable under current market conditions.
- Summit Westward represents a large construction project in Columbia County, Oregon, an area of particularly high unemployment in one of the highest unemployment states in the nation.
- The Project itself and both of GNA's smelters are located in communities served by BPA preference customer utilities. Employment and economic activity generally in all three communities are expected to benefit from the Project.
- At least one preference customer utility (Clatskanie PUD) intends to purchase Project power from the outset. According to Clatskanie PUD, other preference utilities are actively considering becoming purchasers.
- BPA has not been asked to take any risk with respect to the Project itself.

D. <u>Benefits and Risks to BPA</u>

In assessing the proposal's benefits and risks to BPA, it may be useful to consider each of the proposal's three parts separately.

1. <u>Termination of GNA's right and ability to continue purchasing BPA power</u>.

The Termination Agreement is intended to provide BPA certainty that the GNA load will be off the BPA system in the future, no matter what. The Termination

Agreement also resolves by contract, in BPA's favor, a legal dispute between BPA, on the one hand, and GNA and its two local utilities, on the other, about the statutory right of those utilities to buy small but increasing increments of BPA power to serve GNA's smelter loads. In combination, these two benefits of the Termination Agreement provide greater power planning certainty to BPA, permanently "freeing up" firm power for sale to utilities without any need to consider the contingency of serving GNA.

Termination of BPA service to GNA has both immediate and long-term benefits to BPA's preference utility and other customers. GNA currently has the right under its subscription contract to buy 236 MW of power from October 2003 through September 2006. While GNA has no right to remarket this power, the current market value of this power exceeds, by a substantial margin, the rate (even after application of all cost recovery adjustments) that GNA would pay to BPA. Immediate termination of the GNA contract allows greater certainty for BPA to remarket this power and use the net proceeds to minimize rates to other customers prior to October 2006. In the long-term after 2006, the Termination Agreement eliminates a potential demand for BPA power. This should make it easier to resolve disputes over the allocation of BPA power and benefits and make more power available for other customers.

There is a risk that, in some hypothetical circumstance, the Termination Agreement might prove ineffective. BPA considers that risk small. To further minimize the risk, BPA sought advice in drafting the Agreement from its utility customers – and also made the Agreement directly enforceable by the utilities, not just by BPA. (GNA did not resist BPA or the utilities in this.) Even if some risk remained, BPA and its utility customers are better off in this respect with the Agreement than without it.

2. <u>Preservation of GNA's take-or-pay obligations</u>.

The benefit to BPA of this portion of the proposal is that it provides at least an opportunity – and perhaps the best opportunity – for BPA ultimately to collect GNA's outstanding take-or-pay obligations, and to do so with interest. GNA has not renounced or sought to escape this obligation, but GNA currently lacks cash or other unencumbered liquid assets with which to pay it. It is foreseeable, however, that as part of GNA's effort to resume operations, GNA may seek to reorganize under protection of the bankruptcy laws. Thus, it is in BPA's interest to have GNA acknowledge this debt and agree on a plan for paying it as part of a contract that GNA will both seek and be entitled to affirm (rather than try to set aside, as other DSIs have done) in the bankruptcy context. Under the contract proposed here, which includes BPA credit support, GNA believes it has its best chance of resuming operations. If it does, GNA will repay BPA over time out of income from operations. (As part of the contract, GNA will also agree not to dispute BPA's calculation of the take-or-pay amount.)

The risk to BPA is that, despite this agreement and GNA's intentions, BPA will still not get paid – or not get paid in full – because GNA either does not resume operations or does not do so for long enough to produce the full payment. However, the incentives for GNA to operate outweigh any incentive for GNA to try to avoid this obligation by not operating. Moreover, absent this overall proposal (including credit support), BPA has little real prospect of receiving payment from GNA. As noted above, without credit support and other financial benefits from the Project to help provide a power supply during a transition period, any GNA plan for future operation would probably rely on discharge of prior indebtedness as part of a reorganization in bankruptcy. BPA is better off with a payment plan GNA has reason to affirm.

Moreover, that GNA has a take-or-pay obligation to BPA is somewhat fortuitous. In 2001, at the height of the power crisis, BPA sought to "buy back" all of the aluminum companies' rights to purchase power under their Subscription contracts for two full years. Unlike the other companies, GNA declined that offer because it was committed to restart smelter operations and recall its workforce as soon as possible. Therefore, GNA agreed to only a six month buy back arrangement. As it then happened, weak aluminum markets prevented GNA from restoring operations at the end of the six month buy back period, and the market price for power declined to the point that a longer buy back period would not have been cost effective for BPA. Had GNA taken BPA's initial offer, however, BPA would have paid GNA $53.8 million more in buy back payments than GNA actually received, and GNA would have had *no* take-or-pay obligation. While this history does not suggest that BPA should simply excuse GNA's obligation, it puts the obligation and its future repayment into some perspective.

3. Limited BPA credit support for GNA's five-year purchase of power from a new non-BPA generating project.

The risk to BPA of providing credit support for GNA's purchases of power is that (a) BPA may be forced to make actual credit support payments, and (b) despite numerous mechanisms and security arrangements designed to assure that BPA recovers those payments (with interest), something nonetheless may prevent BPA from being repaid in full. If BPA suffered an actual unreimbursed loss as a result of entering into the credit support arrangement, the burden of that loss would ultimately be borne by BPA's utility customers.

This risk of loss, of course, has been BPA's credit support focus from the outset. GNA has worked hard and creatively to respond to it. The result is a series of multiple provisions intended to (a) protect BPA and its other customers to the fullest extent possible, without (b) rendering the proposed credit support useless, and thereby eliminating the very benefits that credit support is intended to produce. The most important of these BPA-protective provisions include the following:

- Limited form of support. BPA will provide support for only a specified portion of the total price that GNA pays for power, not for the entire price. (Basically, the portion that BPA supports corresponds to the debt service component, a relatively small portion of the total.)

- Limited term. The term of the agreement would be five (5) years. BPA would have no obligation after that period (but any obligation to repay BPA would continue until satisfied).

- Limited scope. BPA assumes no Project-related risk (e.g., no non-completion, "dry hole," or other major performance risk). BPA's risk is limited to the circumstance in which (a) GNA fails to pay for power in advance, and (b) market prices are too low to recover the power's cost when it is resold. In that event, BPA would pay some money, but would be entitled to repayment with interest.

- Limited dollar amount. BPA's exposure could never exceed $14 million per year ($70 million in total). As noted, BPA would be entitled to full repayment, with interest, of any amount actually paid out, at any time, within these fixed limits.

- Multiple layers of repayment security:

    - During the five-year credit support term, if BPA were actually required to make any credit support payments, the obligation to repay BPA with interest would be that of Powerex, the power marketing arm of BC Hydro (an entity with a high credit rating). Powerex would halt sales to GNA and sell the power instead in the open market; BPA would be repaid from proceeds in excess of the GNA price under an agreed pricing formula. Favorable power pricing associated with the Project improves (without guaranteeing) the likelihood and amount of such excess proceeds.

    - If BPA had not been fully repaid by the end of the credit support period, Powerex would remarket other GNA power (partially paid for already with Project funds) and pay BPA from the net proceeds.

    - If the foregoing steps were not sufficient to repay BPA, then BPA would be repaid from the sale or refinancing of GNA's residual ownership interest in the Project. BPA would have a lien on that interest to enforce repayment.

Based on the foregoing, the Project's economics, and BPA's efforts to analyze future market prices of power and natural gas, BPA believes that (a) there exists some non-trivial risk that BPA may, at least in some years, be called on to make some actual credit support payments, at least in some amount (although those amounts would probably be significantly less than the maximum possible $14 million per year and $70 million in total), and (b) the likelihood of BPA ultimately being repaid all such amounts, with interest, is very high, given the layers of repayment security for BPA included in the credit support proposal.

From BPA's perspective, the principal benefits of providing credit support – to be considered along with the foregoing risks and BPA-protective measures – include the following:

- The overall benefits of the three-part proposal (which, absent the credit support component, GNA would not accept) for BPA and its utility customers, discussed above.

- The possibility that the overall proposal may help save hundreds of jobs in hard-hit areas, and assist the continued operation of GNA's smelters, <u>without</u> GNA's continued reliance on Federal power that BPA wants to reserve for other customers

- Related to the foregoing, completion of the multi-year cooperative effort by GNA and BPA (which included BPA's receipt of the $100 million in net remarketing proceeds referred to above) to "phase out" GNA's reliance on BPA power, while at the same time providing GNA a reasonable opportunity – not a guarantee – both to survive and to preserve production and employment

- Addition of a major new regional power project (with resulting benefits regionally, locally, and within the territories of BPA preference customer utilities), non-Federal in terms of risk and ownership but offered to BPA, Northwest utilities, and other DSIs at cost

- The option for BPA to acquire 100 MW of firm power for one year at the same price as that paid by GNA for credit-supported power. Although the precise value of this option cannot be known with certainty at this time, the value appears to be (a) positive, and (b) capable of being reduced to cash, if that would best serve the interests of BPA and its utility customers.

RD04-0102

Oregon

Theodore R. Kulongoski, Governor

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September 22, 2004

Steve Wright, Administrator
Bonneville Power Administration
905 NE 11th Ave.
Portland, OR 97208-3621

Dear Steve,

We appreciate the opportunity to submit comments on the Policy Paper that Bonneville issued on July 7, 2004, as part of the ongoing "Regional Dialogue" addressing the future role of your agency. These BPA issues are important for all Oregonians:

- It is important to assure that residential and small farm customers of the state's investor-owned utilities continue to receive significant benefits from the Federal Columbia River Power System.
- It is important that Oregon's consumer-owned utilities, which serve about 30% of Oregon, receive equitable treatment and are assured of meeting their load growth in a responsible manner.
- It is important that Bonneville continue to foster the development of conservation and renewable resources in Oregon and the region.

We have comments on the following sections of your Policy Paper:

A. BPA's Role in Meeting Load Growth Between 2007 and 2011

We agree with BPA's proposal to meet up to 190 aMW of load growth during the referenced time period with new resources. We also agree that the cost of those new resources should be melded with the low-cost power from the Federal hydropower system. We urge BPA to explore alternatives, including bilateral contractual arrangements as well as "tiered rates," in order to assign the costs and risks of new resources to the entities experiencing load growth after 2011. Also, between 2007 and 2011, BPA should aggressively pursue conservation at levels recommended by the NW Power and Conservation Council in its forthcoming 5th Power Plan. It is conceivable, based on preliminary drafts of the Council's Plan, that most or all of the 190 aMW can be met with conservation and renewables.

B. Providing Service to New Customer-Owned Utility Loads[1]

Generally, we agree with BPA's policy position. Like existing consumer-owned utilities, fully qualified new consumer-owned utilities in the region should have access to BPA's lowest cost-based rates. However, we believe the conditions proposed by BPA are a bit too restrictive. In our view, any new COU that is technically able to receive service on October 1, 2006 and which has given notice to BPA of its intention to take service on April 1, 2006, should be deemed eligible for BPA service at the lowest cost-based rates.

C. Acquisition by Customers of Additional Non-Federal Resources

BPA should allow a customer to acquire conservation and new renewable resources without affecting the utility's contracted-for net requirements. Any resulting surplus power should be sold for the benefit of the utility that acquired the non-federal resource(s).

D. Service to New Large Single Loads

Oregon supports BPA's policy position, which amends the existing New Large Single Load policy in a manner that makes good sense for regional energy resource development.

E. Pursuit of Conservation Resources

Generally, we agree with the discussion of this issue in BPA's policy paper. However, we would encourage BPA to adopt the following specific points in the final policy paper:

- BPA should commit to achieving its share of the Council's regional conservation target.
- BPA should assure that achieving conservation will not have a negative impact on a customer's contractual "net requirements"
- The C&R Discount and Conservation Augmentation Programs BPA has run over the past several years, which have been very successful, should be continued and funded for longer than the upcoming rate period in order to have a stable base for pursuing conservation.
- BPA must provide a "backup", the costs of which become part of its overall system costs, should the Council's conservation targets not be met.

F. Pursuit of Renewable Resources

Consistent and orderly development of renewable resources is clearly in the best interests of the region. While we support a change in BPA's role to becoming a facilitator of renewable resource development by utilities and others, we think the final policy paper should contain some specific points to assure that development momentum is not lost:

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[1] The Oregon Public Utility Commission takes no position on this issue because of its regulatory responsibilities with respect to matters pending before it.

- To the extent that BPA acquires any "major resource" to meet the forecasted load growth, it will honor the priorities in the Northwest Power Act, which gives renewable resources priority after conservation resources.
- BPA should reiterate that there will be no adverse impact on a customer's "net requirements" should the customer acquire renewable resources in the 2007-2011 period.
- BPA should commit to increasing the amount of C&R Discount funding for renewable resources, making the discount available by contract for longer than the upcoming rate period, and ensuring that all forms of renewable resources are eligible for the discount.
- BPA should commit to the near term development of standardized interconnection protocols and standardized power sales agreements for distributed generation resources based on renewable fuels.
- BPA should commit to work with the states to maintain and expand assessments of the potential of all forms of renewable resources in the region – wind, geothermal, biomass, biofuels, etc.
- BPA should aggressively pursue opportunities to be the "anchor tenant" for emerging renewable resource projects.

We would be happy to discuss the above with you. Oregon's PUC may be joining with the Idaho, Montana, and Washington commissions in submitting comments that relate primarily to investor-owned utility issues.

Sincerely,

Mikael W. Grainey
Director
Oregon Department of Energy

Lee Beyer
Commisioner
Public Utility Commission

John Savage
Commissioner
Public Utility Commission

Ray Baum
Commissioner
Public Utility Commision

Melinda Eden
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