RD04-0103
SEP 24 2004

TACOMA POWER

3628 South 35th Street
Tacoma, Washington 98409-3192

TACOMA PUBLIC UTILITIES

September 22, 2004

VIA E-Mail

Mr. Paul E. Norman
Senior Vice President
Power Business Line
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621
comment@bpa.gov

Re: Tacoma Power Comments on BPA Regional Dialogue Policy Proposal

Dear Mr. Norman:

Thank you for this opportunity to comment on BPA's recent proposal regarding the Regional Dialogue process. We appreciate the effort and attention BPA has given this process and the very important issues surrounding it. We look forward to continuing to proceed ahead and bringing a quick resolution to both the near-term and long-term issues within this process. Please accept our following comments.

Overview

Tacoma Power agrees that BPA's top priority in the Regional Dialogue process is to resolve issues that will influence rates for the FY 2007 – 2011 period. However, during this process, Tacoma recommends BPA set as its priorities: the development and utilization of sustainable cost control measures aimed at reducing or containing costs that contribute to the build-up of BPA's wholesale power rates; the implementation of policies and actions that are firmly grounded in the Northwest Power Act to ensure the legality of all proceedings undertaken by BPA and its customers throughout this process; and, finally, the preservation of the long-term benefits of the Federal Based System (FBS) by adopting the recently proposed Public Power Council's FBS allocation methodology.

BPA's inability to either directly or indirectly control its costs has led to power rate increases for Tacoma and its customers approaching 50% over what was established in the WP-02 rate case. With market prices at or above BPA wholesale prices and the availability of CRACs within its rate structure, BPA has had little incentive to effectively manage its costs.

The experience thus far for the FY 2002 – 2006 period has resulted in many inequities among BPA's customers. Policy and commercial actions taken by BPA that were not firmly grounded in the Northwest Power Act or uniformly applied amongst customer groups have opened the door to litigation against BPA and others.

Without a framework for a fair, equitable and broadly accepted methodology for preserving the long-term benefits of the Federal Based System, cost uncertainty and customer inequities will continue. As described in the Public Power Council's allocation proposal, a result of defining each customer's long-term allocation of the FBS, is more efficient load planning and clarity will be accomplished. In addition, an allocation of the FBS at the lowest embedded cost to preference customers limits the augmentation risks BPA is exposed to. This alone would be a significant step in the direction of controlling costs for BPA's augmentation liabilities.

Tacoma Power's Specific Comments on BPA's Regional Dialogue Proposal

§VI.A. FY 2007-2011 Rights to Lowest-Cost Priority Firm (PF) Rate

Tacoma agrees with BPA that those public customers of BPA that executed 10-year Subscription contracts guaranteeing the lowest cost-based PF rates should continue to receive that right for the remaining term of the agreement.

§VI.B. Tiered Rates

Tacoma agrees with BPA that there is no need to implement tiered rates in the FY07-11 period. Beyond that period, Tacoma will not support tiered rates without a fair, equitable and broadly accepted allocation methodology of the FBS amongst BPA's preference customers.

§VI.C. Term of the Next Rate Period

Tacoma supports a two year rate period in order to reduce BPA's reliance on cost recovery adjustment clauses, and to provide a near-term opportunity to implement the long-term contract allocation of the Federal system output and costs at the earliest feasible date. If and only if rate certainty can be maintained and BPA's need for planned net revenues for risk can be eliminated over the FY 2007 – 2009 period, Tacoma would also support a three-year rate period.

§VI.D. Service to Publics with Expiring Five-Year Purchase Commitments that Do Not Contain Lowest PF Rate Guarantee through FY 2011.

Tacoma agrees with BPA to offer customers with expiring five-year purchase commitments (including those with on and off ramps) an amendment to extend their existing purchase commitments and lowest PF rate guarantee through 2011, only to the extent BPA provides a refund of total charges and costs to those customers who committed to agreements containing Stepped up Multi-Year (SUMY) load growth products during the FY2002 – 2006 period.

Given the relatively modest amount of load this represents and BPA's forecast of near load/resource balance (including these customers' load) for FY 2007 – 2011, BPA should be capable of effectively managing the amended load requirements without hardship to other customers.

However, going forward, Tacoma recommends that BPA improve their efforts on managing their commercial agreements and avoid situational type contracts. BPA should provide a variety of posted products and rates and refrain from entering into special deals that ultimately result in hardships for other customers.

§VI.E. Service to New Publics and Annexed Investor Owned Utility (IOU) Loads

Tacoma agrees with BPA that newly formed public utilities that meet the standards for service and request service by June 30, 2005, can receive BPA's lowest cost PF rate for the next 2- or 3-year rate period. New publics that have not already signed power sales contracts with BPA and which request service from BPA for the FY 2007 – 2011 period should be charged BPA's incremental cost to serve that load. If the new public agency is formed from the service area of an investor owned utility, the share of BPA benefits associated with the former investor owned utility residential and small farm load now being served by the public utility will return to BPA, and BPA will decide whether such benefits will be provided to the newly formed public agency or made available to all preference customers.

§VI.F. Product Availability

Tacoma agrees with BPA's proposal of no product switching for the upcoming rate period. However, if BPA is persuaded and ultimately agrees to offer product switching for the next rate period, then it must assure that those customers remaining with their existing product lines are held harmless from rate impacts due to product switching.

§VI.G. Service to Direct Service Industries (DSIs)

Tacoma does not agree with BPA's proposal for offering DSIs support for the upcoming rate period. Given BPA's forecast to be approximately 200 aMW in deficit by FY 2011, there simply isn't enough power to go around. BPA should avoid augmenting so the disastrous augmentation results experienced during this current rate period are not repeated.

If BPA is somehow compelled to provide some support to the DSIs, these benefits should not be in the form of power and the DSI must meet all the qualifications BPA has outlined in its proposal. Any proposed benefit for the DSIs must be clearly defined and agreed upon by BPA's preference customers.

§VI.H. Service to New Large Single Loads (NLSL)

Tacoma agrees with BPA's specific proposal to adopt an on-site cogeneration and renewables exception for its DSI NLSL policy, only as long as the total lifetime DSI plant load does not exceed 9.9 aMW. In addition, the Northwest Power Act should be followed when resolving this issue and any gaming by DSIs or other load entities trying to qualify for lowest embedded cost PF rate should not be allowed.

§VI.I. Service to Residential and Small-Farm Consumers of Investor-Owned Utilities (IOUs)

Tacoma Power agrees with BPA and feels the issue has been resolved for the FY 2007 – 2011 period. However, for future allocations, benefits must only be financial and the methodology firmly grounded and based off of the requirements set forth in the Northwest Power Act.

§VI.J & K. Conservation & Renewable Resources

Tacoma agrees with BPA that the bulk of conservation is best achieved and should be pursed at the local level. BPA's role should not be expanded beyond the existing tenants of the Northwest Power Act. Tacoma is supportive of preserving the obligations and priorities as currently specified in the Act. At this time the Conservation & Renewables Discount is an appropriate contractual mechanism to assure continued support. There should be continued reliance on the use of the C&RD mechanism, but with enhancements. For example, the list of qualified activities should be reviewed to determine whether there are any activities that should be removed or added.

Other issues associated with funding conservation are not appropriate areas of discussion, nor is centralized planning for programmatic expenditures/subsidies. The discussion of such ideas is not supportable at this time.

The budget for the C&RD program should be based on BPA's share of the cost-effective conservation megawatt potential identified by the NWPCC. BPA should continue to be responsible for funding its share of regional market transformation, R&D, low-income weatherization and other programs that are deemed best suited to central administration. Furthermore, BPA should make up any shortfall in the acquisitions of conservation by utilities that fail to qualify for their full C&RD program obligations. Before doing so, BPA must first offer such opportunities to its other utility customers. BPA will recognize and encourage conservation transfers, pooling and other similar arrangements.

BPA's role as a facilitator of renewable resource development rather than an acquirer of renewable resources helps reduce the financial demands and rate risk on themselves. The use of the tools available to BPA to facilitate renewable development should be carefully evaluated, and with significant input from regional stakeholders, so that only the most prudent and cost-effective options are considered and ultimately acted upon. Additionally, BPA shall include regional stakeholders in its risk review of renewables facilitation activities.

§VI.L. Controlling Costs and Consulting with BPA's Stakeholders

Tacoma agrees with BPA's proposal to proceed with and enhance current forums and processes dealing with customers' ability to provide input on cost control issues. We encourage the continued use of regular monthly technical workshops and meetings to review and evaluate financial information and conditions affecting BPA. More openness and standardization around financial reporting is critical in order to effectively communicate costs. However, a means of measuring cost control is required so that improvement in cost management is attained and acknowledged.

Tacoma supports the establishment of criteria by which to assess discretionary BPA decisions that affect power costs to public review and comment. BPA's initial factors for consideration on this issue are a good starting point; however, a workgroup needs to be assembled that includes BPA's customers to fully develop the criteria.

Although BPA states no changes in its governance structure have been proposed at this time, Tacoma believes anything short of a complete paradigm shift in governance will fail miserably at achieving cost control success. From BPA's customer perspective, BPA contracts have been difficult to enforce due to a lack of governance, and influence over policies, costs and rates is virtually non-existent.

§VII. Long-Term Issues

A. Proposed Long-Term Policy: Limiting BPA's Long-Term Load Service Obligation at Embedded Cost Rates for Pacific Northwest Firm Requirements Loads

Tacoma Power is supportive of BPA's long-term policy proposal. We expect that this policy will simplify and better align BPA's products and services with the needs and interests of each customer and foster a partnership like relationship. Ideally, customers will have the products and services they want at the fully allocated cost, with no cross product subsidies.

Tacoma specifically supports limiting BPA's mandate to provide power beyond the capability of the Federal system. Only those entities willing to contractually commit to receive additional services at the full costs or a higher incremental cost of providing such products or services should allow BPA to expand its role/relationship beyond its core responsibility. While this approach maintains preference customers' guarantee to power, it also eliminates the augmentation risk for BPA and their other customers.

Central to our comments on this long-term policy is the allocation of the existing Federal Power system to those qualified regional entities as designated by the Northwest Power Act. Since BPA's future role is expected to result in production of the lowest cost resource available to regional utilities in the future, the benefits of this system will be highly desirable. Equitable sharing of the benefits among qualified preference customers is essential for harmony in the Region that will, for once, eliminate the need for ongoing litigation and political posturing. If an equitable allocation is achieved, then this policy will likely support a long-term and productive partnership between BPA and its customers and foster peace among the customer groups.

Once an equitable allocation has been achieved for the FBS, customers requiring additional resources would receive those benefits at the incremental cost of providing them.

B. Proposed Schedule for Long-Term Issue Resolution

Tacoma agrees that a 20-year BPA contract with well defined and enforceable terms and conditions would provide clarity over load service obligations. However, unresolved rate issues such as a long-term rate methodology would be problematic. BPA and its customers must decide on a rate methodology that provides BPA the ability to meet its taxpayer obligations, but also meet ratepayer interests.

The contracts must be durable and not allow for gaming of allocations over the term of the contract and rate cases. Tacoma is unwilling to start a new long-term contract before the expiration of its current contract if the overall benefits of the new contract are less than or equal to the current contract. In addition, Tacoma will not support a parallel service of old and new contracts if those customers that remain under the old contracts are harmed in any way by the implementation of new contracts. That said, Tacoma is not opposed to BPA's proposed schedule for long-term contracts and rates. Tacoma would prefer to establish a new contract containing an allocation methodology as proposed by the Public Power Council well before our current contract expires, but the effective date would not be until October 2011.

Again, thank you for the opportunity to provide these comments.

Sincerely,

George Whitener

for Steven J. Klein
Superintendent

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SNOHOMISH COUNTY
PUD
PUBLIC UTILITY DISTRICT NO. 1

Providing quality water, power and service at a competitive price that our customers value

September 22, 2004

Mr. Paul Norman
Senior Vice-President, Power Business Line
Bonneville Power Administration
Post Office Box 14428
Portland, OR 97293-4428

RE: BPA's Policy Proposal for Power Supply Role for Fiscal Years 2007-2011

Dear Paul:

Snohomish County PUD No. 1 submits the following comments in response to BPA's "Policy Proposal for Power Supply Role for Fiscal Years 2007 – 2011."

In general we support the comments by the Public Power Council, the Washington PUD Association, the Washington Public Agency Group, Power Resource Managers, LLP, and the PNGC Power.

We also agree with the Regional Council that the ultimate "goal should be long-term contracts (20 years) both to protect the system from interventions from outside the region and to reduce uncertainty for both the customers and Bonneville." In order to achieve that goal, we believe that the next five year period should focus on establishing the necessary foundation for those long-term contracts-- which will require FBS allocation, cost control, governance reform and dispute resolution provisions.

Consistent with this long-term goal we have the following specific comments:

BPA's public customers with five-year contract options should be treated in the same manner as other public customers

Prior to and after issuance of BPA's "Policy Proposal for Power Supply Role for Fiscal Years 2007 – 2011," BPA received comments from most of public power that recommended that BPA should treat public agencies with five-year options the same as all other public agencies with ten year contracts. For example, PPC said: "We believe that publics with expiring five-year purchase commitments should be able to purchase power from BPA at the lowest PF rate though FY 2011."

Snohomish PUD provided notice of its intent to continue its current level of commitment, by letter dated May 26, 2004. The Administrator had made a personal request to Snohomish to provide advance notice of its decision to help BPA reduce its load

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uncertainty. In response, Snohomish provided BPA with notice more than two years ahead of the required notice period stating that it would continue its existing load levels on the same rate basis as other publics--and that we would not wait to see if our loads increased beyond our current contract levels. Snohomish and other public utilities that provide such advance notice should not be subject to a TAC penalty, which would be inappropriate. Snohomish sent the Administrator a letter dated August 17^{th} questioning BPA's verbal indication to treat Snohomish differently by requiring that either Snohomish submit to a new net requirements determination or be subject to TAC for their existing Block commitment even though Snohomish has a contractual right to extend that commitment. To date, Snohomish has received no reply. A copy of that letter is enclosed for your convenience.

We also agree that BPA should require that any additional load to be placed on BPA for the next rate period be declared by June 30, 2005.

Publicly owned utilities should be free to choose the products they wish, at the lowest PF rate.

We agree with PPC, PNGC, WPAG and others that publicly-owned utilities should be free to choose whatever products from BPA's existing product menu they wish, including Slice, during the 2007 – 2011 time period. We do not agree with BPA that such changes would either constitute an impediment to development of new long-term contracts or that switching products would create inter-customer equity and/or technical issues. The contracts implementing the various products which BPA sells could stay the same as they are now, as could the rate structure associated with each. If rate structures were to change we might agree, but there is no need for such change given a short rate period of two to three years.

BPA should provide financial benefits to Residential and Small-Farm Consumers of Investor-Owned Consistent with the Northwest Power Act Residential Exchange Provisions, including the 7 (b) (2) rate test.

Until long-term contracts are developed, residential and small farm customers of the IOUs should receive the financial benefits specified by Congress and not those substituted by BPA in the Subscription Contracts. The legal issue of whether the Subscription Contracts violated the specific provisions of the Regional Power Act is now before the Ninth Circuit Court of Appeals and should be resolved by the time BPA's next wholesale power rate case is decided.

BPA should continue to work with its customers to improve transparency in its finances and to implement cost control mechanisms

Snohomish agrees with PPC that "meaningful, long-term mechanisms for controlling all of BPA's costs must be developed in tandem with an allocation method." BPA made progress in the past year in working with its customers to establish better cost controls, such as outlined in the Process Improvement Program report that KEMA prepared for BPA. BPA should continue efforts to capture the potential savings the KEMA report outlined. We are committed to continue to work closely with BPA to assist it in that process. In order to enable customers to sign long-term contracts, there must be institutionalized and enforceable contract provisions for cost control with meaningful dispute resolution mechanisms and governance reforms.

The process to resolve remaining long-term contract issues should be accelerated

An agreed upon, long-term contract allocation of FBS power to publicly owned utilities is essential to protect the region from outside interference and to reduce uncertainty.

BPA's publicly owned utilities, through a unanimous PPC vote, recently agreed to a long-term contract allocation and also agreed on a specific determination of each utility's individual allocation. BPA should continue current rates and products for the next rate period, which will allow the region to focus on the remaining long-term contract issues. There is no reason that the remaining principles of long-term contracts cannot be agreed to by June 30 of 2005; setting the stage for detailed contracts to be signed by the end of 2005. Those long-term contracts might not take full effect until the expiration of the existing contracts, but the region's utilities would be able to make plans based on the knowledge of what their rights would be in the post 2012 period.

Very truly yours,

Steven C. Marshall
Assistant General Manager, Power and Transmission
Snohomish County PUD No. 1

RD04-0105
SEP 24 2004

Kuehn,Ginny

From: Terry Mundorf [TerryM@millcreeklaw.com]

Sent: Wednesday, September 22, 2004 7:54 PM

To: BPA Public Involvement

Subject: Comments of the Western Public Agencies Group

Attached are the comments of the Western Public Agencies Group in response to BPA's Proposal for Power Supply Role for Fiscal Years 2007-2011. The utilities of the Western Public Agencies Group appreciate the opportunity to submit comments on this important topic, and look forward to working with BPA on these matters. Terry Mundorf, Attorney for the Western Public Agencies Group

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COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP IN RESPONSE TO BPA'S POLICY PROPOSAL FOR POWER SUPPLY ROLE FOR FISCAL YEARS 2007-2011

INTRODUCTION

These comments are submitted by the utilities that comprise the Western Public Agencies Group (WPAG) in response to BPA's Proposal for Power Supply Role for Fiscal Years 2007-2011 (Proposal).

The WPAG utilities provide electric service in 13 different counties in the State of Washington, and serve about one million residents. The WPAG utilities purchase more power from BPA than any other preference customer group. As a consequence, the WPAG utilities have been active participants in all of the proceedings in which the future role of BPA has been discussed, and continue to be vitally concerned with the disposition of these issues. The WPAG utilities appreciate the opportunity to provide its comments to BPA on this important topic.

COMMENTS ON SPECIFIC ISSUES

1. Rights to Lowest-Cost PF Rate

BPA proposes to honor the contractual commitment to provide the lowest-cost PF power for the remainder of the contract term (FY2007-2011). This is the proper course of action for BPA, and the WPAG utilities support this proposed approach. By honoring its current contract commitments, BPA will provide a constructive atmosphere for the negotiation of new, long-term contracts needed to implement an allocation of the Federal base system.

2. Tiered Rates

The proposal to forego the implementation of tiered rates in the upcoming wholesale power rate case is the correct decision. Doing so will avoid a distracting legal fight over whether BPA has the authority to impose tiered rates under current contracts, and instead allow the region to focus on the issues of allocation, cost control and governance that demand immediate attention.

BPA should also consider extending this policy decision to forego tiered rates until the end of the existing power sales contracts. Doing so will prevent tiered rates from becoming the focal point of the long-term BPA role discussion, which is what is likely to occur if implementation of tiered rates is only a year or two in the future. This will allow tiered rates to take its place as one of many matters that will need to be resolved in order to successfully implement an allocation of the Federal base system.

3. Duration of the Next Rate Period

There are pros and cons to either a two or a three year rate period, but on balance, it appears that a two year rate period is the better choice for a number of reasons. First, after the dramatic BPA rate increases that the region has experienced, the first priority must be to choose a rate period that offers the greatest likelihood of producing a major rate reduction. A two year rate period would allow a greater rate reduction since a financial cushion for uncertainty in the third year would not be necessary. Second, the shorter period will force the region to stay "on task" regarding a long-term allocation, which increases the likelihood of success in this area. The region has an unfortunate tendency to lose both focus and energy on a topic when the time-frame for completing it is too long. The two year rate period will keep us all focused on getting the long-term allocation finished sooner rather than later.

4. Service to Publics Without the Lowest PF Guarantee

The WPAG utilities support the proposal to offer extensions to expiring contracts and to permit utilities with on/off ramps to place their loads on BPA, and to offer both categories of customers the protection of the lowest PF rate language through FY2011. Putting all of these customers on the same contractual footing as BPA's other customers makes good sense.

However, it is far from clear what purpose will be served by having such utilities submit to a net requirement determination. Conducting a net requirement determination for these customers is not required by statute or contract, and will not change BPA's service obligation since all but one of these customers are full service customers of BPA. And since BPA's proposal indicates that it expects to be in load/resource balance through FY2011, these net requirement determinations are not needed for load/resource balance purposes.

For Snohomish PUD, the proposed net requirement has potentially serious consequences. Snohomish PUD is a Slice/Block purchaser that purchased a fixed amount of power from BPA through 2011. Like all other utilities in the region, it has suffered load loss during the early part of this rate period. Now that its loads are recovering, and Boeing is gearing up to begin fabrication of the 7E7, BPA is proposing to subject Snohomish PUD to a net requirements calculation. This proposal casts a shadow over the amount of federal power that will be available to this utility at a very inopportune time.

There is no substantive reason for imposing this net requirement determination at this time. For these reasons, BPA should eliminate the requirement that a net requirements determination be performed for customers with expiring contracts or with on/off ramps.

5. **Service to New Public Utilities and Annexed Loads**

The proposal to give newly formed preference utilities and utilities that annex loads a window of opportunity during which to qualify for service at the lowest PF rate makes sense and should be adopted. The question of whether under an allocated system new preference customers and annexed loads should be served at the lowest PF rate, or at some other rate, should be reserved for later discussion.

6. **Product Availability**

The proposal to make core products (other than Complex Partial and Slice) available to customers with expiring contracts should be implemented, as it provides a reasonable range of choice to the customer without imposing unnecessary administrative burden on BPA.

The BPA decision to prohibit the small number of customers who wish to switch to the Slice product from doing so seems less defensible. The amount of Slice product actually purchased fell short of the amount BPA had set aside for sale when the Slice product was originally offered, indicating that additional Slice contracts could be signed without exceeding the total amount of Slice product BPA was willing to sell. BPA has not offered a plausible explanation for declining to sell this residual Slice product to customers demonstrating a willingness to purchase it.

Further, BPA should consider permitting existing Slice purchasers to adjust their Slice and Block amounts if they can find another Slice customer willing to make a corresponding adjustment. Permitting such changes would serve the interests of the respective customers, and would not change either the number of customers or the total amount of Block or Slice product sold by BPA. And it would offer customers the opportunity to bilaterally adjust the amount of these products after having some experience with them. There would be no risk to BPA, and it would be of help to the customers.

Lastly, the WPAG utilities strongly support the proposal to consider on a case-by-case basis requests from customers that purchase load following products to add non-federal resources to their supply mix. As the region moves towards an allocated Federal system, it will become very important that customers have the flexibility to begin to acquire and use non-federal resources to serve their load. This is a good idea, and it should be implemented.

7. **DSI Service**

BPA is not in the business of providing "service benefits". The recent BPA rate increases are a testament to what occurs when BPA strays from the directives of the Regional Act, and provides "benefits" of its own design to its customers. BPA is a federal power marketing agency, and itt should stick to the job it is given by the statutes. BPA should not attempt to create gift programs for customers.

BPA should offer to DSIs who meet the following criteria: (i) they have not declared bankruptcy; (ii) their facilities have not been declared unsuitable for operation; (iii) they have not imposed stranded costs on BPA by substituting market power for their federal power supply; (iv) have not rejected their BPA power contract in a bankruptcy proceeding; and (v) they have not defaulted on a payment to BPA under their power contract, a power contract with a duration equal to the next rate period. The rate charged by such contract should collect the costs incurred by BPA to acquire the power needed to serve the DSI load from the market, since the entire FBS will be utilized to serve preference customer loads. The amount of power sold under such contracts should be limited to 500 aMW. The contract should contain credit-worthiness provision like those contained in the Block/Slice contract. These requirements would continue the process of weaning the DSIs from their special status which ended legally in 2001.

8. Service to New Large Single Loads

The proposal to continue to enforce the current new large single load policy (NLSL) but to permit the DSIs an exception for 9.9 aMW of utility service at the PF rate if the rest of the DSI load is served with a renewable or cogeneration resource makes little sense. Since the region is moving towards an allocated system in which the ability of a utility to purchase power at the lowest PF rate is limited, and the size of each utility's allocation is fixed, then the PF rate at which a DSI qualifying for this program can purchase at will be a PF rate reflecting the incremental cost incurred by BPA to serve the load, which is essentially what the NR rate is today. Hence, it appears that this proposal will provide no economic relief to the DSIs, and it is unclear what purpose this proposal will serve.

9. Service to Small Farm and Residential Customers

The contracts under which BPA is providing payments to the IOUs are currently under legal challenge, as is the most recent settlement executed by BPA and the IOUs. At this time, the WPAG utilities will withhold comment on this topic.

10. Conservation Resources

The five principles set forth in the Proposal are sound, and provide a good basis for crafting a conservation and demand side strategy that will complement an allocation of the Federal base system. In particular, the emphasis on local initiative is well taken, as well as the continuation of both the C&RD and Conservation Augmentation approaches.

Some utilities have expressed concern about their ability to find sufficient conservation opportunities in their service area to fulfill their C&RD obligation, while others have ample opportunities to fulfill their obligation and then some. BPA should investigate with its customers the feasibility of a program that would permit a utility to fund conservation in the service area of another utility to satisfaction of its C&RD obligation.

11. Renewable Resources

BPA has played a vital role in fostering a vibrant renewable industry in the Northwest, and a continuation of these activities in the next rate period is warranted. BPA can important contributions to renewable resource development in two ways. First, it should use its system to facilitate the integration of cost-effective renewable resources. And second, it should continue availability of C&RD as a tool for the acquisition of renewable resources is vital tool that enables smaller utilities to participate in renewable resources.

12. Cost Control

The Proposal recites recent BPA initiatives in the area of cost control and transparency, in particular the Cost Collaborative, the Sounding Board and the quarterly financial reports, and proposes to continue these processes in the next rate period. These efforts on the part of BPA have been positive steps, but much remains to be done both for the next rate period, and even more importantly in the context of the long-term allocation discussion.

In the near term, the effectiveness of the Cost Collaborative is hampered by the lack of utility staff support, lack of legitimacy from the point of view of unrepresented customers and the veil of secrecy that has been imposed on its activities. It is difficult for customers to have confidence that the proper issues are being addressed, and that adequate information is available, given the closed nature of its proceedings and the exclusion of representatives of a number of large preference customers. Such an approach is insufficient, both now and under a long-term allocation, to convince the customers who pay all of BPA's bills that thoughtful decisions on budgets and spending are being made. More openness regarding the issues discussed and the recommendations made, expanding the participants to be more representative, as well as utility staff support for these efforts, are needed now.

An even more fundamental issue is the apparent focus of the Cost Collaborative and the quarterly financial report. It seems that the primary focus of these efforts is on the consequences of decisions already made. Neither of these activities appears to place the customers in a position to provide input on budget and spending decisions before they are made, which is at the heart of cost control. It must be an absolute priority to ensure that customers have a meaningful voice before commitments are made, rather than to deal with the consequences of decisions already taken by BPA.

The Proposal also suggests that BPA-PBL will commence a process similar to the Programs In Review recently conducted by the TBL for the entire agency. Such processes provide good forums for sharing information with customers. However, they are not a substitute for the rigorous examination of the revenue requirement that should properly be part of the section 7(i) process. The region has been down this road before. When BPA removed the issue of its revenue requirement from the section 7(i) rate proceeding, it instituted the Programs in Perspective process to provide an alternative forum for customer comment on revenue requirement issues. Programs in Perspective alone was never an adequate replacement for the critical examination that BPA's revenue requirement received in the section 7(i) rate proceeding. And the Programs in Review process alone is not sufficient to ensure a thorough examination of these matters.

The WPAG utilities do not object to having a regional process to discuss program levels as an interim step. However, it should be coupled with a return to the prior practice of including the revenue requirement as part of both the TBL and PBL rate proceedings. BPA is the only major power supplier in the region that excludes its revenue requirement from its rate setting process, and that makes examination of the revenue requirement "off limits" in its rate proceeding. As a first step towards budget and spending accountability for the long-term, the TBL and PBL revenue requirements should be included as an issue in the rate proceedings for these business lines.

For the longer term, when an allocation of the Federal system is in place, the three inter-related issues of cost control, governance and contract enforceability must be squarely confronted and addressed. In order to convince customers that signing a long-term power supply contract with BPA is in the interests of their customers, it will not be sufficient to say that there is a tiered rate that will separately charge for incremental resource costs incurred by BPA to serve load growth, and we can take on faith the notion that the cost of the Federal base system power will remain low as a consequence. This is exactly the paradigm that is contained in the Regional Act with the PF and New Resources (NR) rates. Under that construct, the PF rate was to be based on the low cost Federal base system power, and the costs of incremental resources were supposed to be collected through the NR rate, thereby producing a low PF rate. This approach has been a failure.

For a long-term allocation to be successful, and for customers to be persuaded that it is in the interests of their customers to sign up, four structural changes are necessary: First, the segregation of new and embedded resource costs must be memorialized in the power sales contract; second, the cost segregation provisions in the power sales contract must be enforceable by the customer; third, governance changes must be implemented that give the customers who pay BPA's bills a meaningful voice in budget and spending decisions *before* they are made, rather than dealing with the consequences of these decisions after the fact; and fourth, ways must be found to provide BPA incentives to control costs over the long-term. These changes are fundamental and will be difficult to implement, but they are an absolute prerequisite to a successful long-term allocation of the Federal base system. Simply stated, yet another public process (such as PIR) will not get the job done.

13. <u>Long Term Issues</u>

The WPAG utilities support the idea stated in the Proposal that BPA should limit its power sales at the embedded cost of the Federal base system resources to the firm capability of the Federal base system. They also support the notion that sales in excess of the capability of the Federal base system should recover the cost incurred by BPA to acquire resources to serve such load.

The support of these propositions is contingent on successful resolution of a number of difficult issues. They include cost segregation and contract enforceability, meaningful customer oversight of budget and cost decisions, the availability of appropriate product choices, the role of conservation and renewable resource programs, and the ability to acquire and use non-federal resources to serve load, among other matters. These issues will require a unified approach in both the contracts offered and the rates under which power will be sold. These matters must move forward in tandem, and it would be fatal to this effort to push one set of issues (such as tiered rates) forward ahead of the other.

14. Schedule for Next Steps

BPA has laid out an aggressive schedule for considering and resolving the issues necessary to implement a long-term allocation of the Federal base system. This is appropriate, and the WPAG utilities generally support the timelines contained in the proposal.

A couple of words of caution are appropriate with regard to the proposed schedule. First, it will be necessary to construct the contracts and the rate methodology that will implement the long-term allocation in tandem, and both elements will need to be enforceable to provide assurance to the customers that they will be getting the deal for which they have bargained. This will bring to center stage the issue that is currently in dispute between BPA and the Slice customers: how can customers get objective enforcement of contract terms, and a rate methodology incorporated in a long-term contract, if the 9th Circuit is the only place where disputes on this topic can be taken. And second, the areas of cost control and governance may involve changes that cannot be accomplished with contract language alone.

If the successful resolution of these issues takes longer than the proposed schedule provides, due to the need for legislation as an example, the region should be willing to take the additional time needed to fully and completely resolve these issues. It will not be a satisfactory outcome to conclude that the long-term contracts cannot be made enforceable because the schedule does not provide sufficient time to do so. The successful resolution of these issues is so fundamental to the long-term allocation that if they cannot be done in the time scheduled, additional time will need to be taken.

SPRINGFIELD UTILITY BOARD

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RD04-0106
SEP 24 2004

VIA E-Mail

September 22, 2004

Mr. Paul Norman
Senior Vice President
Power Business Line
Bonneville Power Administration
P. O. Box 3621
Portland, OR 97208-3621
www.bpa.gov/comment

Re: P-6, SUB Comments on BPA's Regional Dialogue Policy Proposal of July 7, 2004

Dear Paul:

The Springfield Utility Board (SUB) hereby submits the following comments related to the Bonneville Power Administration's (BPA's) Regional Dialogue Policy Proposal dated July 7, 2004. SUB appreciates the opportunity to comment on these fundamental policy issues, and we strongly encourage BPA to allow for additional comments on these important matters as they become more specific and more clearly defined prior to reaching a Final Record of Decision. SUB agrees with and supports most of the policy proposals as described by BPA, and we appreciate your efforts to identify pragmatic and well reasoned solutions on a number of important issues. For ease of use, the following comments have been organized based upon the sequence and the format of BPA's Regional Dialogue Policy Proposal.

"Resource Adequacy Metrics" – Page 1

BPA should define the term "resource adequacy metrics". In our view this term may relate to both transmission and power supply adequacy. Please refer to SUB's Grid West bylaws comments to BPA dated 9/2/04 for specific comments on Northwest transmission adequacy. SUB does not believe the Grid West approach as proposed will resolve important transmission adequacy issues, and we strongly urge BPA not to approve of the proposed Grid West bylaws until a number of important requirements are resolved.

BPA Does Not Mention Allocation Of The FCRPS – Page 3

SUB strongly urges BPA to support the allocation of the Federal Columbia River Power System (FCRPS) as unanimously proposed by the Public Power Council (PPC). BPA needs to mention allocation of the FCRPS within the following statement or within future Regional Dialogue Policy Communications: "resolution of BPA's long-term role in providing power to regional customers at the lowest embedded cost-based rate, and capturing that role in the long-term contracts and rates as soon as possible to create a durable solution."

SUB Agrees With the Four Core Values as Stated By BPA – Page 4

SUB supports the four core values as stated by BPA: "high reliability, low rates consistent with sound business principles, responsible environmental stewardship, and clear accountability to the region."

SUB also agrees with the general concepts outlined in the strategic direction section that has been used to guide this proposal including "Regional Infrastructure Development: BPA policies encourage regional actions that ensure adequate, efficient, and reliable transmission and power services." SUB agrees with this statement in general, and we want to emphasize we do not believe the Grid West approach as currently envisioned meets this criteria. BPA should resolve important bylaws issues before supporting the current Grid West approach.

No Sales to DSIs and No Deliveries of Power to IOUs – Page 6

SUB agrees with the following statement: "There are no sales to the DSIs and no deliveries of power to the IOUs assumed during the FY 2007 –2011 period."

SUB Does Not Support Tiered Rates Without Allocation – Page 7

SUB strongly urges BPA not to apply tiered rates without a commensurate approach to an allocation of the FCRPS. SUB does not support application of tiered rates in the 2007 – 2011 period (as stated by BPA), and SUB does not support application of tiered rates post 2011 without an allocation of the FCRPS approach similar to the proposal that was unanimously supported by PPC and recently submitted to BPA.

SUB Supports a Two-Year Rate Period Staring in October 2006 – Page 8

SUB supports following a two-year rate period for the October 2006 through September 2008 rate period because this is expected to lead to lower rates, and because we prefer not to have BPA coordinate a power rate case in same year as a transmission rate case.

SUB Supports BPA Approach to Five-Year Contracts – Page 10 and 13

SUB supports BPA's proposed approach to Service to Publics with Expiring Five-year Purchase Commitments. SUB supports BPA's proposal to offer the "same power products and services as the customer currently purchases." To do otherwise would be to offer these specific customers a free option to switch products and services, and if BPA were to offer such options to customers with five-year purchase commitments, SUB would want the same options to switch products and services.

SUB Advocates Against Credit Support for New DSI Generating Resources – Page 15

SUB does not support any type of BPA "Credit Support for New DSI Generating Resources". We strongly urges BPA not to venture into any type of credit support with any DSIs that may impart any risk to BPA and Northwest public utility customers. SUB does support BPA offering a small and limited financial incentive to operate DSI facilities from 2007 through 2011, and we encourage BPA to take a cautious, reserved and prudent approach to any such offerings. Any DSI offerings should be based upon the following items:

1. The DSIs had 20 years to transition off the BPA system.
2. BPA has no obligation to serve the DSIs post-2006.
3. The DSIs exposed customers to hundreds of millions of dollars in excess costs in the WP-02 rate case.
4. The DSI track record of re-marketing power has been at the expense of other northwest utility customers.
5. Any benefits received by the DSIs should be contingent on their operating. If they don't operate, they should receive no benefits.
6. DSI loads result in some of the highest energy use per job. DSI subsidies are an inefficient use of power to generate jobs. If the issue of jobs is thrown into the mix, BPA should require a minimum energy usage per employee ratio when discussing DSI benefits.

SUB Generally Supports BPA Approach to Conservation and Makes the Following Suggestions for Improvements – Page 19:

SUB supports a continuation of BPA's approach to Conservation including a continuation of Conservation and Renewables Discount, continuation of Conservation Augmentation agreements and the use of a regional group to participate in a collaborative planning process.

SUB wants to point out that BPA's general conservation principles are in significant conflict with each other:

- Achieve agencies share of cost-effective conservation,
- Meet conservation goals at lowest possible cost,
- Provide BPA funding for local administrative support,
- Offer financial support for education, outreach and low-income weatherization.

BPA needs to develop a balanced and reasonable approach that best meets these conflicting principles. For instance, if BPA is focused upon conservation programs that are designed with the "lowest possible cost", then significant cost-effective conservation project achievements may not be realized.

The Council's plan identifies a very large increase in conservation potential related to lost opportunity, new construction types of conservation projects, and BPA's current programs and policies do not adequately support these opportunities, especially related to new, large commercial and industrial facilities. SUB advocates for BPA modifying programs and policies now to be able to capture a significant portion of these lost opportunity projects.

As BPA is well aware, driving down the cost of conservation programs may result in a significant reduction in annual conservation achievements. Comparing various BPA program costs, such as C&RD and Con Aug can be misleading. C&RD primarily addresses the residential sector, which has historically had a significantly higher cost per aMW, while Con Aug is primarily related to large industrial and commercial sector projects that have historically had a much lower cost. C&RD at $2.2M per aMW (say about $25/MWh levelized cost) is still considerably less costly than current long-term wholesale power market rates at about $40/MWh.

We strongly support BPA's principle whereby BPA will provide funding for local utility administrative program support, and we advocate for BPA to further increase the level of utility administrative support funding for each of the program sectors: residential, commercial, agricultural and industrials.

Controlling Costs and Consulting with BPA's Stakeholders – Page 22

SUB applauds recent BPA efforts to control costs and consult with BPA's stakeholders. The Power Net Revenue Improvement Sounding Board has been a very successful effort for BPA and BPA's stakeholders, and BPA should continue to expand upon this type of approach in the future. SUB also applauds recent BPA efforts on Summer Spill, and we are hopeful for a successful resolution to this matter in the near future.

Controlling costs is extremely important to BPA's public utility customers, especially given the volatile nature of wholesale power markets and the expectation that BPA and Northwest publicly owned utilities will be signing long term power sales contracts based upon an allocation of the BPA system within the next few years. These recent efforts to control costs have significantly improved the perceived level of trust between Northwest publicly owned utilities and BPA.

Proposed Long Term Policy – Page 25

As stated earlier, BPA does not propose to implement tiered rates in 2007, and SUB supports this approach. BPA implies they may implement tiered rates after 2011, and BPA's Policy Proposal does not mention the proposed allocation of the BPA FCRPS system in conjunction with a tiered rate approach. SUB views tiered rates and the allocation of the BPA system as developed by the PPC as a package proposal. SUB does not support tiered rates in 2007 or 2011 without an allocation of the existing BPA federal based system to public utility customers in a manner based upon the recent PPC proposal to BPA.

Next Steps – Page 29

As described in BPA's Policy Proposal dated July 7, 2004, "The Administrator intends to make final policy decisions for this part of the Regional Dialogue and sign a ROD in December 2004." This approach is acceptable to SUB only if we have the opportunity to comment on the specific details that may be contained in this proposed Regional Dialogue Record of Decision. The language contained in this BPA Policy Proposal is quite vague, and it lacks a number of important details and specific proposals. SUB strongly urges BPA to allow sufficient time for BPA stakeholders to be able to comment on, and advocate for, specific proposals or important details prior to the Administrator making final policy decisions and signing a final ROD on these Regional Dialogue Policy issues.

Again, thank you for the opportunity to comment on BPA's Regional Dialogue Policy Proposal. We look forward to working with you over the next few years to continue to develop policies and approaches that best meet the needs of SUB, BPA and BPA stakeholders.

Sincerely,

Robert J. Schmitt
Director of Resource Management

cc: Steve Loveland, Bob Linahan, Jeff Nelson, Paul O'Neal, Tom O'Connor

R004-0107
SEP 2 4 2004

September 22, 2004

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

Re: BPA Policy Proposal for Power Supply Role for Fiscal Years 2007 – 2011

Dear Paul:

These comments are submitted in response to BPA's request dated July 7, 2004 for comments on its Policy Proposal for Power Supply Role for Fiscal Years 2007-2011 ("Short-Term Policy Proposal") and are submitted on behalf of the following ("PNW Investor-Owned Utilities"): Avista Corporation, Idaho Power Company, NorthWestern Energy, PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc. The PNW Investor-Owned Utilities support BPA's proposed long-term policy for tiered BPA power rates, and believe that this policy should be developed immediately through a 7(i) process, as outlined below.

1. BPA Should Establish a Long-Term Rate Structure Without Delay

BPA's customers need greater clarity about their federal power supply so that they can plan effectively for the future and make long-term power supply commitments. Successful resource planning is a long-term process that requires long-term BPA policy clarity. The region does not have the luxury of waiting for BPA to provide this clarity. BPA should act without delay to provide this long-term clarity by implementing a long-term rate methodology as soon as possible as discussed below. It is our understanding that BPA intends to address the issue of rate methodology in its long-term policy, but we believe BPA must address this issue sooner in order to allow BPA to successfully implement its long-term initiatives.

A. BPA's Long-Term Rate Structure Should Encourage Regional Actions That Provide an Adequate, Efficient and Reliable Power Supply

Under the Northwest Power Act, BPA remains obligated, upon request, to serve customer net requirements, even if that request is in excess of what the existing federal system can supply. The basic issue to be resolved before BPA's long-term power role in the region can be defined is the rate methodology applicable to various loads to be served by BPA. As pointed out in the Short-Term Policy Proposal at page 8, a BPA "tiered rates"[1] structure is a necessary part of the long-term solution to limit BPA's sales at embedded costs for Pacific Northwest firm requirements loads to the existing system.

The PNW Investor-Owned Utilities recommend that BPA proceed without delay to develop a long-term BPA rate structure and avoid reliance on a two or three year targeted adjustment clause ("TAC"). The TAC approach will not facilitate conservation and resource planning and development in the region and will not facilitate final resolution of BPA's long-term power supply role. BPA recognizes that its policies should "encourage regional actions that ensure adequate, efficient, and reliable transmission and power service." BPA's proposed temporary TAC rate for service to municipalized or annexed loads by preference agencies is inconsistent with and will undermine BPA's contemplated long-term tiered rate policy.

BPA is proposing a long-term tiered rate policy, recognizing that it "would help reduce BPA's firm power rates by sharply limiting the past practice of acquiring power and melding its costs with the lower cost of the existing system, thereby 'diluting' the low-cost existing federal system with higher-cost purchases." Short-Term Policy Proposal at page 25. The PNW Investor-Owned Utilities agree and believe that this goal is best accomplished by:

(i) ensuring that the benefits of the existing federal system[2] are durably and equitably allocated, thus giving all BPA customers a stake in working together for the most efficient operation of the federal facilities, and

(ii) ensuring that the costs of any new BPA resources to meet new BPA load are borne by that load.

This approach will reduce the risk that BPA will be overcommitted in the future and will help BPA control the costs of future power purchases by defining the rights to purchase the firm output of the federal system. This approach will, consistent with BPA's statutory framework, facilitate planning and development of economic resources to meet load in the region by

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[1] References in this letter to "tiered rates" mean a BPA rate structure under which incremental or additional loads on BPA are assigned the cost of incremental resources acquired by BPA to serve that load.

[2] The existing federal system consists of the electricity produced by the federally-owned hydroelectric dams on the Columbia and Snake River systems, as well as the output of Energy Northwest's Columbia Generating Station (formerly known as WPPSS Plant No. 2) and other long-term resources that have been acquired by BPA and that are currently in operation or under development.

providing greater certainty as to the load BPA will meet with the low-cost existing federal system resources. In other words, resources can best be planned in the region if BPA's customers (i) have a clear understanding of the rate structure under which BPA will provide power to serve their loads, and (ii) BPA's rate structure provides for the sale of BPA power to meet incremental loads at the full cost of the incremental resources that BPA must acquire to serve new load.[3]

B. BPA's Long-Term Tiered Rate Structure Should Be Adopted Without Delay

BPA should not delay the establishment of the principle that new loads placed on BPA must be served by new resources at the full cost of those resources. If BPA acquires new resources to serve new loads placed on BPA by a particular customer(s), such acquisition should only be done under a BPA rate structure pursuant to which those customer(s) bear all the costs and risks of the new resource. The Short-Term Policy Proposal states at page 8 that BPA's establishment of such a principle need not occur for the FY 2007-2011 period.

As discussed above, it is imperative that BPA not delay development of a long-term price methodology for service of incremental loads at the cost of new resources to serve those loads. First, there is a significant likelihood that, in the absence of such a rate methodology, BPA will be exposed to the costs and risks of serving a significant amount of new load at a melded rate. That would expose BPA to costs and risks such as those experienced when it faced a 3,300 aMW deficit. Second, the absence of such a rate methodology will not provide BPA's customers "adequate incentives to conserve or seek power from alternative sources," as the region faces the prospect of needing perhaps 1,500 MW of new conservation and generating resources. BPA's customers need planning clarity in order to develop new resources needed to meet load growth over the next 5 to 20 years. The lead time of new resource development requires that BPA customers understand BPA's rate policies for meeting loads placed on the agency in excess of the capabilities of the existing federal system. Policy stability regarding incremental load service needs to be established in the

[3] This approach is also consistent with "Recommendations for Executive Action" at page 38 of the July GAO report. United States General Accounting Office – Report to the Subcommittee on Energy and Water Development, Committee of Appropriations, House of Representatives – Bonneville Power Administration: Better Management of BPA's Obligation to Provide Power Is Needed to Control Future Costs – July 2004 – GAO-04-694.

next rate period and must remain constant over time. This will provide the needed clarity regarding BPA's role that will allow utilities to plan in the future.[4]

C. BPA's Long-Term Tiered Rate Structure Need Not Apply to Existing BPA Service Under Existing Contracts

BPA's tiered rate methodology need not apply to service to preference agencies during FY 2007-2011 under existing contracts to meet their existing loads (including their normal load growth during such period). However, adoption of the rate methodology for any new contracts, whether during or after FY 2007-2011, for BPA service to preference agencies will avoid driving up BPA's power costs and provide needed certainty regarding BPA's role and rates that will facilitate resource development.

The BPA power "tiered rate" methodology need not apply, with respect to service to new preference agencies (and service to preference agencies for load annexed from investor-owned utilities), if and to the extent the preference agencies meet BPA's criteria for such service and enter into a BPA contract for such service prior to June 30, 2005.

D. BPA's Long-Term Rate Structure Should Not Dilute the Value of the Existing Federal System

BPA should not meld higher-priced resources with the existing federal system. BPA is proposing a long-term tiered rate policy, recognizing that it "would help reduce BPA's firm power rates by sharply limiting the past practice of acquiring power and melding its costs with the lower cost of the existing system, thereby 'diluting' the low-cost existing system with higher-cost purchases." Short-Term Policy Proposal at page 25. The July GAO report at page 22 also recognized this issue:

> BPA's costs rose dramatically [in the current rate period – from fiscal years 2002 to 2006] as the agency purchased large amounts of power, at average prices much higher than the costs of power from the federal power system, and took other steps to meet its obligations. BPA's rate structure, which did not charge incremental rates equal to BPA's costs of acquiring additional

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[4] Avoiding delay in development of BPA's long-term tiered rate methodology would also have the advantage of providing additional time to resolve legal challenges to the methodology should they arise.

> power, contributed to the rising costs because it did not give customers adequate incentives to conserve or seek power from alternative sources. . . .

E. BPA's Long-Term Tiered Rate Structure Should Be Adopted, and Confirmed and Approved by FERC, Under Section 7 of the Northwest Power Act

BPA, for the reasons discussed above, should proceed without delay to develop and adopt such a BPA power "tiered rate" methodology in a proceeding under § 7(i) of the Northwest Power Act. The adoption should be accomplished by a BPA final action that is subject to confirmation and approval by the Federal Energy Regulatory Commission, and is subject to subsequent judicial review in the Ninth Circuit Court of Appeals. Northwest Power Act § 7. Such a rate methodology should establish the basic methodology for BPA power "tiered rates" with enough specificity to inform BPA's customers of how BPA's rates will be structured, and with enough specificity to ensure that it is a BPA final action that adopts such a rate methodology and that is subject to such confirmation and approval by FERC and judicial review.

There is precedent for BPA's long-term adoption of such a rate methodology. For example, BPA in 1987 adopted the IP-PF Rate Link Methodology in a proceeding under § 7(i) of the Northwest Power Act. *See* 51 Fed. Reg. 24197, 24199 (July 2, 1986). FERC confirmed and approved extension of that methodology on February 3, 1992, noting that "since the IP-PF Rate Link Methodology provides Bonneville with load planning certainty and its DSIs customers with rate predictability, both positive attributes, the requested extension of the IP-PF Rate Link Methodology is approved." 58 FERC ¶ 62,101 (February 3, 1992). Thus, a long-term BPA rate methodology has been previously confirmed and approved by FERC. Moreover, in approving such methodology, FERC noted that BPA load planning certainty and BPA customer rate predictability are positive attributes. Development of the BPA power "tiered rate" methodology as a final action will help provide timely resolution of any legal challenges that might be raised regarding such final action.

2. Residential and Small Farm Consumers Served by Investor-Owned Utilities Should Receive a Share of the Benefits of the Federal Power System that is Equitable and Durable

BPA and the PNW Investor-Owned Utilities recently entered into Agreements Regarding Payment of Residential Exchange Program Settlement Benefits During Fiscal Years 2007-2011 (the "2007-2011 Agreements"). While these agreements represent, for

FY 2007-2011, only one approach to allocating the value of the FCRPS,[5] the agreements demonstrate a keen understanding of how the interests of BPA can be aligned such that the value of the FCRPS flows to consumers throughout the region, whether those consumers are served by public or private power. We note the following features that help align the interests of BPA customers and BPA:

- For FY 2007-2011, residential exchange program settlement payments for residential and small farm consumers will be subject to annual adjustments, based on (i) the level of BPA power rates and (ii) objective forward wholesale market prices of electricity. This feature helps align the interests of BPA's customers.

- BPA, in the 2007-2011 Agreements, commits to meet its residential and small farm consumer obligation without acquiring new resources.

- Because the 2007-2011 Agreements provide that the investor-owned utility residential and small farm consumers share in the value of the FCRPS based on the difference between wholesale power prices and BPA's power rates, all of the region's consumers retain an interest in a healthy, strong and efficient BPA.

- The pass-through requirements of the 2007-2011 Agreements ensure that all of the value of the FCRPS provided in our contracts will flow through to our residential and small farm consumers, in accordance with BPA's mission.

Therefore, in its 2007-2011 Agreements, BPA has shown that it understands the political and fairness imperatives of an equitable distribution of FCRPS value that aligns the interests of BPA's customers. The PNW Investor-Owned Utilities urge BPA to be equally clear as to the long-term need for such alignment.

The complexity of the Northwest Power Act residential exchange program ("REP") has been the source of continuous and protracted disputes over average system cost methodology (*e.g.*, its "temporary" exclusion of costs such as return on equity and taxes), average system cost determinations, in lieu transactions, and the PF exchange rate (including the section 7(b)(2) rate step). As a result of these disputes, as well as the considerable burden of administrating the REP, nearly every exchanging utility (both investor-owned and consumer-owned) has entered into a settlement agreement with BPA during the past two decades. The Northwest

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[5] The 2007-2011 Agreements still go only part way toward a fully equitable sharing of value, as they are based on only 2200 aMW during FY 2007-2011 period, which is approximately half of the residential and small farm load served by the investor-owned utilities.

Power and Conservation Council recognized in its May 2004 Recommendations on the Future Role of the Bonneville Power Administration in Regional Power Supply at page 7 that, "[f]or the longer term, there is general agreement that the mechanism for sharing the benefits established in the Act has operated in such a way that it satisfies no one. . . ." Accordingly, BPA and its customers should actively explore other means of providing, after the FY 2007-2011 period, a fair and durable share of the FCRPS benefits to the residential and small farm consumers served by the PNW Investor-Owned Utilities.

The PNW Investor-Owned Utilities appreciate this opportunity to comment on the Short-Term Policy Proposal, and we are prepared to continue to work with you and your staff as you chart a future course for the agency.

Sincerely,

James Litchfield
President
Litchfield Consulting Group, Inc.
Consultant to the Investor-Owned
Utilities

cc: Helen Goodwin
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FRANKLIN PUD

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Stephen J. Wright
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Re: Comments in response to BPA's Regional Dialogue Policy Proposals for Fiscal Years 2007-2011

Dear ~~Mr. Wright~~ Steve:

Thank you for the opportunity to comment on BPA's Regional Dialogue Policy Proposals. I first want to express my appreciation, on behalf of Franklin PUD, to you and your staff for listening and considering customer feedback on most of the 2007-2011 policy issues as you prepared your proposal.

We support the aggressive schedule you have set for achieving long-term contracts. An aggressive schedule will provide better opportunity to focus on long-term issues such as allocation of the federal power system.

We support your proposal to limit sales of firm power at embedded cost rates to the firm capability of the Federal Based System.

We agree with your proposal that no tiered rates will be implemented during the next rate period.

We support a shorter rate period and encourage you to adopt a two-year rate period to reduce the need for CRACs and to encourage you to focus your efforts on cost control and cost reductions during the rate period.

We agree with your proposal to serve new publics who apply for service prior to June 30, 2005 at PF rate. New publics applying for service after that date should compensate BPA for actual costs of additional resources acquired to serve that load.

We strongly agree that it is important to provide a forum allowing for customer input to the decision-making process. You have made good strides toward improving the transparency of your operations; additional strides need to be made. Groups such as the Customer Collaborative and the Sounding Board must continue working with you to reach those goals.

We reluctantly agree that BPA needs to continue its role in pursuing Conservation and Renewable Resources. We do not believe the current contracts provide for the most cost-effective method of achieving conservation. In fact, we strongly believe that locally controlled programs provide more benefit at lower cost to ratepayers. We are encouraged that you are turning to your customers for input on this item. Darroll Clark, Franklin PUD Energy Services Manager, will be participating in your focus group.

THE POWER IS YOURS

BPA is on target in its proposal to move away from large-scale renewables acquisition and toward reducing the barriers and costs customers face in developing and acquiring renewables. **By offering cost-based integration services, improved transmission facilities, and attractive rate mechanisms, you are precluding the need for BPA to operate in any acquisition mode.**

We endorse your proposals for service to publics with expiring five-year contracts and for annexed IOU loads.

Residential Exchange benefits to IOUs MUST be in the form of financial benefits with no provision for providing power.

Franklin PUD disagrees with BPA's proposal to disallow product switching. The Slice product benefits the region by increasing the size of the "pie". BPA should allow a limited amount of additional Slice product – up to the original 2000 MW offering. Customers with expiring contracts should be given first option to switch to Slice.

Service to DSI's is a difficult issue. Franklin PUD is not comfortable with having its ratepayers subsidize industrial customers across the state. However, after consulting with some of our own industrial customers (who do not receive the rate benefit DSI's currently receive from BPA) we are willing to accept limited service to DSI's. **We are willing to accept limited sales of surplus firm power only to those DSI's who have performed under their existing contract. We do not support any sales that would require augmentation of the FBS nor do we support financial incentives. Service to DSI's should be limited to the two- or three-year rate period with no future rights.**

Thank you for the opportunity to offer written comments and the opportunity to comment to Paul Norman directly at our September 14 board meeting. Please contact me if you have any questions.

Yours truly,

Jean

Jean Ryckman
Manager

Ltr. 2004-229