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September 22, 2004
Via Electronic and U.S. Mail

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RE: PPC Comments On BPA's Policy Proposal For Power Supply Role For Fiscal Years 2007-2011
DRAFT - September 22, 2004

Dear Paul:

Introduction

The last few years have been difficult ones for BPA. The shift from the residential exchange structure that provided benefits tied to the cost of the IOUs, to power purchases tied to market, proved disastrous when coupled with the West Coast energy crisis. BPA also initially allowed its own costs to escalate sharply at the beginning of the current rate period, placing further upward pressure on rates.

BPA recently made an effort to reduce its costs. This, together with its decision to forgo the SN CRAC in FY2005, are heartening indications that BPA is beginning to reverse the rate increases of recent years – yet much risk remains in the future.

The risk is that BPA's rates, still running more than 40% higher than BPA's rates in 2000, will not decline after 2006 to pre-energy crisis levels, but will remain at a sustained high level indefinitely. This would have severe consequences both for the Pacific Northwest generally, and for BPA itself. Traditionally, low electricity costs in the Northwest have served to offset the transportation disadvantage of being distant from major markets. Permanent loss of the electrical cost advantage would lead to permanent economic consequences. The very high levels of unemployment recently suffered in Oregon and

Washington, due in large part to the energy crisis, would be a foretaste of the future if BPA's rates continue to be high.

High rates over the long run would have consequences for BPA as well. Customers have formed the chief base of political support for BPA, and permanent high rates would reduce that support. There may be a belief in some quarters that as long as BPA's rates are even slightly below the market, BPA will enjoy the support of its customers. This is wrong for two reasons. First, the intensity of customer support of BPA is likely to be significantly reduced if BPA provides only a slight cost advantage over alternate power suppliers. And, if BPA locks itself into a high fixed cost structure, the conditions of the early '90s might recur, and BPA may suddenly find itself well above market.

Public power has proposed a method for allocating out the BPA system that would remove the need for BPA to augment the core federal system, thus removing the most important source of BPA cost escalation. Many of the effects of allocation may not be fully realized until 2011, when BPA's existing contracts with the publics expire. Nevertheless, the 2007-2011 period is a key transition period that will determine whether BPA is successful or will fail in the long run. If high BPA costs persist in the 2007-2011 period, it will be much more difficult to reduce BPA's costs come 2012. Other precedents may also be set in this interim period that may be difficult to change in 2012. It is extremely important to make the right decisions now for 2007-2011.

The Centrality Of Cost Control

As noted, a key aspect of any long-term allocation proposal is meaningful cost controls. Allocation is not a panacea. Allocating the system, and limiting future demands on BPA, is only the first step on the way to controlling costs. Meaningful, long-term mechanisms for controlling all of BPA's costs must be developed in tandem with an allocation method. It is vital to BPA's future that the high rates of the last five years prove to be a momentary spike, not a precursor to permanently high rates. Meaningful cost controls are needed to ensure that rates are kept as low as possible.

An allocated system will require BPA to segregate its costs correctly, and in a contractually enforceable manner. The value of an allocation to a utility is much reduced if BPA can assign additional costs of serving load growth to customers that are not placing load growth on BPA. Contractual language would ensure that this does not occur.

An important function of PPC's allocation proposal is to limit future demands on BPA, thereby limiting future cost pressures on BPA. As part of keeping BPA's costs under control, BPA should not voluntarily shoulder additional obligations to provide service.

Schedule For Addressing Long-Term Contracts And Rates

BPA declares, "BPA agrees with the perspective of the Council and many customers that the region has a core interest in the earliest practical completion of this process." (Page 27 of BPA's policy proposal).

We agree.

Tiered Rates

We are pleased that BPA continues to oppose the imposition of tiered rates. As we have said on several occasions, simply tiering the rates as a substitute for a durable allocation mechanism delivered by enforceable contracts does not provide the necessary protections and predictability required to do long-term planning inasmuch as the size of the tiers, the assignment of the tiered power, and the costs allocated to the tiers could change in every rate case.

Length Of Rate Period

We support BPA's proposal to shorten the rate period. Most of the justification for including high charges for planned net revenues for risk (PNRR) in BPA's rates arises from the increased uncertainty of BPA's costs and revenues in the third, fourth and fifth years of the rate period. Hence most of the current PNRR cost should no longer be needed with a shorter rate period.

Furthermore, having short rate periods would allow BPA to eliminate the CRACs. We believe that the existence of the CRACs had a deleterious effect on BPA's cost-control efforts in the past, and has had particularly deleterious effects on BPA's efforts to reduce the costs imposed on BPA from external entities. If BPA absolutely needs the ability to adjust rates in the future during a rate period, such an adjustment should be based solely on factors external to BPA (such as streamflows and market prices). An adjustment should not be based on BPA's financial condition because that weakens the incentives within and without BPA to limit BPA's costs.

Because of the reduction in risk provided by a shorter rate period, and the need to eliminate the CRACs, we support an initial 2-year rate period. This will maximize the rate relief that can be provided in the short-term, even if it means having power and transmission rate cases at different times. We note that BPA could meet its administrative requirements and maintain our 7(i) protections in rate proceedings that were shorter than 18 months. We would like to work with BPA in streamlining the rate case procedures and schedule.

Service To Publics With Expiring Five Year Purchase Commitments That Do Not Contain Lowest PF Rate Guarantee Through FY 2011

We believe that publics with expiring 5-year purchase commitments should be able to purchase power from BPA at the lowest PF rate through FY 2011.

Product Switching Or Changing The Allocation Of Products Currently Purchased By Customers With Contracts Through 2011

We believe that existing full, partial or block customers should be able to switch their existing service among full, partial and block services. Existing Slice/block customers should be able to reapportion the amount of power they take as Slice, and the amount of power they take as block, so long as they find another Slice/block customer willing to make a corresponding adjustment. We also believe that customers with expiring 5-year contracts should be able to switch to Slice service (we understand that only one customer is interested in this option).

Service To IOUs

As BPA notes, we are in litigation with BPA on this subject, so our comments will be limited. The Residential Exchange provides for the payment of money to the IOUs, and we feel that financial payments are the best way to provide benefits to the IOUs.

Service To DSIs

In its allocation proposal, PPC has adopted the principle that the DSIs receive neither power or money to the DSIs after 2011. This naturally raises the question of the treatment of the DSIs from 2007-2011. BPA comments as follows (p. 14):

> Global aluminum markets continue to make Pacific Northwest DSI economics appear highly challenging. These global markets and the construction of new, efficient, lower-cost smelters elsewhere in the world have pushed Pacific Northwest smelters from their former role as base-load plants to either swing plants or worse, excess capacity.

We acknowledge the historical role of the DSIs in the region. We also realize that unlike other parts of the world competing for smelter load, the Northwest has not, for decades, had low cost hydro available for system expansion. In the short run, public power has been willing to assist the DSIs -- public power supported buyout payments to them in 2000 during the energy crisis, despite the fact that it was extremely unlikely that the DSIs would have wanted to operate under BPA's higher rates given the low aluminum prices prevailing at the time. But continued provision of low-cost power or subsidies to the DSIs on a long-term basis is inappropriate. Diversion of power or provision of subsidies to the DSIs not only harms residential and commercial customers of consumer-owned utilities, but it also affects industry. Weyerhaeuser has demonstrated that its facilities in Washington have gone from having the cheapest electrical rates in the U.S. to having among the most expensive, weakening the competitiveness of their its Northwest facilities. By trying to preserve a few hundred jobs in aluminum smelters, BPA endangers thousands of jobs in the forest products and other electrically-intensive industries.

Although BPA acknowledges that it has no statutory obligation to serve the DSIs, BPA suggests that it would be willing to provide 500 MW in power or equivalent benefit to the DSIs. Yet one DSI has already said that 500 MW would barely be enough for that DSI alone. (There are, of course, several DSIs who would like to receive benefits from BPA.) It appears that providing even 500 MW would not meet the stated needs of the DSIs.

BPA also suggests providing credit support for new DSI generating resources. BPA has already lost millions of dollars due to defaults by DSIs, and we do not think that it wise for BPA to put more millions of dollars at risk. DSIs with good credit are not interested in credit support. It is the DSIs with marginal credit that are interested. In light of BPA's experience with DSI defaults over the last few years, we don't think that the function of BPA or its customers is to serve as the DSIs' banker.

Conservation Resources

We support BPA's position that "the bulk of the conservation to be achieved is best pursued and achieved at the local level". Utilities can tailor their conservation programs to fit local needs. Local control enables increased utility participation and has become an essential element of the Conservation and Renewables Discount (C&RD) program. This has led to a broad level of utility support for the program that is not always found with respect to BPA's other conservation programs.

For the purposes of the next 5-year period, or until BPA's power supply is allocated, PPC recommends that BPA change neither the level of the C&RD (*i.e.*, 0.5 mills/MWh) nor the targeted cost-effectiveness threshold associated with the C&RD. Owing to the control over C&RD spending that local utilities have, utilities generally view the C&RD charge not as part of BPA rates, but as a directive to spend a certain amount of money on conservation and renewables. If BPA places additional requirements on the C&RD program by forcing utilities to pick up more of the costs than they do now, BPA risks losing the broad base of political support that the C&RD program enjoys. Furthermore, some are skeptical that a reduction in the C&RD amount would be translated into an equivalent reduction in BPA rates.

We agree that whatever conservation programs BPA adopts, BPA should fund utilities' program administration costs. Our members appreciate the fact that the C&RD, for example, helps them administer cost-effective conservation and renewables programs. Some have found that the Conservation/Augmentation program, for example, did not work for them because it does not guarantee some funding for those utilities' program administration costs.

The current C&RD program has several other benefits that we would like to highlight:

> **It is flexible.** It is one program in which a diverse array of utilities (small and large, rural and urban) can participate. Utilities may decide how, and to what extent, to participate (investing in conservation, renewable resources, or some combination) based on what their service area needs and can support. The extensive list of qualifying activities enhances this flexibility. As we look toward the FY07-11 period, retaining this flexibility is essential for our members.
>
> **It is user-friendly.** Complying with C&RD is relatively easy, for it does not require overly burdensome reporting on the utility's side or oversight on BPA's side. Reducing the costs of administering the C&RD improves the efficiency of the program for all parties.

Much time and energy has gone into designing, implementing and refining the C&RD program, and these efforts have been met with much success thus far. The Council has set an aggressive cost-effective conservation target for the next 20 years. Substantially altering the C&RD will make attaining that target much more difficult for the myriad utilities BPA serves. Looking toward the future, the C&RD is one of many tools the region can use to spur investment in conservation and renewable resource development. Some of our members have suggested ways the C&RD might be improved, and we look forward to participating in the Conservation Work Group to work with BPA and other stakeholders to refine the program further.

Renewable Resources

In light of BPA's strategic directive to move away from resource acquisition (except to meet loads that specific utilities requesting the service and agree to pay all of the associated acquisition costs), we support BPA's proposed move towards being a facilitator of renewable resources development.

Thank you for the opportunity to comment.

Sincerely,

Terry Leone

C. Clark Leone
Manager

R004-0110
SEP 2 4 2004

Kuehn,Ginny

From: steve@nwenergy.org
Sent: Wednesday, September 22, 2004 5:32 PM
To: BPA Public Involvement
Subject: Comment on BPA's Regional Dialogue Policy Proposal for FY 2007-2011

Comment on **BPA's Regional Dialogue Policy Proposal for FY 2007-2011**
View open comment periods on http://www.bpa.gov/corporate/kc/home/comment.cfm

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This comment includes an attachment!

R004-0110
SEP 24 2004

DRAFT 2

Comments of the
NW Energy Coalition
on
the Bonneville Power Administration's Policy Proposal for Power Supply Role for Fiscal Years 2007-2011
September 22, 2004

I. Introduction

The NW Energy Coalition ("Coalition") is pleased to offer these comments on Bonneville's July 7, 2004 Policy Proposal for Power Supply Role for Fiscal Years 2007-2011 ("Proposal" or "Proposed Policy"). The NW Energy Coalition is an alliance of more than 100 environmental, civic and human service organizations, progressive utilities and businesses in Oregon, Washington, Idaho, Montana, Alaska and British Columbia. We promote development of renewable energy and energy efficiency, consumer protection, low-income energy assistance, and fish and wildlife restoration on the Columbia and Snake Rivers.

The Energy Coalition has provided to both BPA and the Power and Conservation Council ("Council") numerous oral and written comments regarding the Regional Dialogue and BPA's proposed Strategic Direction. Most notably, in September, 2002 the Coalition and a large number of other public interest groups submitted a detailed proposal addressing these issues in the public hearing process;[1] comments to the Council in December, 2003; and a response to Paul Norman's key issue questions in March of this year. Those comments are still valid; and, because we do not wish to repeat them in detail here, we urge Bonneville to review them as part of this process.

In addition, Bonneville has just conducted a set of hearings around the region to gauge the public reception to its Proposal. Energy Coalition members and staff attended each of them, and we hope that BPA takes seriously the comments of the individuals representing themselves and their businesses and organizations who took the time to testify. We heard loud and clear that these citizens and businesses want Bonneville to take a leadership role in furthering energy efficiency and renewable energy development, regardless of the resolution of the other Regional Dialogue issues. The Coalition shares that strong sentiment.

The Energy Coalition has three areas of primary interest with this proposal – energy efficiency , renewables and the Allocation concept. We applaud BPA for its clear and strong commitment to capture "the agency's share" of the Council's cost-effective energy efficiency to be identified in its 5th Power Plan. This is an appropriate and vital

[1] This "Public Interest Proposal" was presented at the regional hearings as a supplement and alternative to the Joint Customer Proposal.

commitment for the agency. We will actively support and participate in the collaborative process BPA has recently convened to flesh out the details of implementation for ensuring that all the energy efficiency opportunities are realized. We have more detailed comments in the energy efficiency section below.

We also applaud BPA's commitment to maintain ongoing funding for renewables development and to facilitate and support development of new projects through transmission and power product development. We have more detailed comments in the renewables section below.

Bonneville's support for energy efficiency and renewables is critical to ensuring that the region's citizens have a clean and affordable energy future. In addition, these investments are also a key element of BPA's responsibility to protect and enhance salmon populations in the Columbia basin. Energy efficiency and renewables shield BPA and the region from volatile electricity and fossil fuel markets and swings in precipitation. These resources provide a unique hedge to protect ratepayers and make it much less likely that Bonneville will look to the river as a source of physical and financial reserves.

We have significant concerns about BPA's role in future resource development and the decision to allocate the federal system. The Power and Conservation Council's draft 5th Plan has just been released, and it lays out a roadmap for energy efficiency and new resource development that should also guide BPA's proposal. Yet, consistency with the Council's Plan is not mentioned as a guiding principle on pages 4 & 5 of the BPA proposal. Detailed comments are in the next section. The Council's Plan is a well-vetted, researched and documented blueprint that will most likely result in a least-cost, least-risk power system. If BPA is no longer in the resource development business then responsibility for consistency the 5th Power Plan should shift to BPA's customer utilities. It is this connection and accountability that seems absent from BPA's proposal and makes us question the confidence with which BPA believes it will achieve its core values.

II. BPA's Future Role in Resource Development

While BPA's Proposal contains numerous small decisions (which we will discuss in detail, below), the overriding question is whether Bonneville should limit its future role in developing new resources.

We wholeheartedly agree with Bonneville's statement that it is necessary to provide "clarity" to its customers about who will be responsible for acquiring the resources (and energy efficiency) to serve growing loads. Delaying this decision would be irresponsible. If no one knows who is responsible, it is unlikely good decisions will be made in time, if at all.

Unlike many policy debates, this one comes down to the choice between two distinct options: (a) allocate the FBS in some fashion, thus turning over ultimate responsibility for load growth to BPA's utility customers ("Allocation"); or, (b) continue to augment and meld ("Meld"), thus keeping load growth responsibility with Bonneville.

Due to several distracting issues (ratecase, SNCRAC), the region has had limited discussion and conducted limited analysis of the specific implications that this choice will have on the goal of a clean, reliable and affordable power system.

In our opinion, the impetus for this restructuring concept, that began several years ago, came from resentment by public utility customers over recent BPA decisions regarding the IOUs, DSIs, subscription, etc. Many publicly owned utilities believe these decisions were responsible for sharp rate hikes. Another impetus for this proposal is the desire of some IOU marketers to get Bonneville out of the market. These concerns prompted the "Joint Customer Proposal" which recommended an allocation paradigm. Notably, none of these issues have anything to do with the question of responsibility for serving load growth--nor would the parties' proposal result in better resource choices.

The Council's recommendation supporting allocation is rooted in the 1996 recommendations of the Regional Review.[2] The Council stated its reasons for endorsing the Allocation choice in its Dec. 17, 2002 recommendations to Bonneville, because it felt that model best responded to the problems faced by the agency:

> The problems include:
>
> 1. Periodic lack of clarity regarding load-serving responsibility;
>
> 2. Lack of clear economic signals to many parties in the region regarding the true costs of new power supplies and the value of alternatives;
>
> 3. Exposure of Bonneville to high electricity market risks resulting from the periodic ability of customers to place load on or take load off of Bonneville;
>
> 4. A perception of inequality in the distribution of the benefits of the federal power system within the region.
>
> 5. The financial risk to the U.S. Treasury and the resulting political risk to the long-term interests of the region if at some time, Bonneville is unable to absorb the risks of uncertain loads, a highly variable hydroelectric system and a potentially volatile wholesale market.

The question of how best to accomplish the Council's least-cost, least-risk Plan, much less how to reduce global warming, was neither asked nor answered. In addition, the Council never seriously considered less radical solutions than the Allocation model, favored by the Joint Customers, that could have addressed these issues.[3]

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[2] Interestingly, if one goes back to that document one only has to read the section entitled, "Why are we doing this?" to see that its recommendations were entirely based on the premise of a massive restructuring of power markets that would depend on IPPs to develop new resources on spec. That outcome has, of course, not come about in the West.

[3] Energy Coalition's April 23, 2004 response to the Council's recommendations on this issue offered a less-radical solution to these problems:

The Proposal, without public analysis, assumes that the "one utility" BPA model this region has followed for over half a century, needs to be modified. It assumes that over a hundred utilities, each exposed to the market, each doing its own planning and acquisition, will come up with a better, cleaner and less costly mix of resources than would BPA following the guidance of the Council's Plan.

We see similarities between the allocation approach and deregulation. Advocates for deregulation argued that multiple small players in the market place would result in savings that large integrated utilities could not capture. Instead, we have seen the results: competitive markets in a commodity that cannot be stored and has long lead-times and high capital requirements inevitably results in "boom and bust" cycles, under-and over-investment, and the potential for market manipulation. Such a market also results in over-attention to short-term costs and being "competitive," most significantly the failure to account for societal costs such as pollution or global warming, and the inability to invest in energy efficiency because of short-term rate pressure despite long-term bill reductions and rate stability. One small example: will utilities include the 10% adder for energy efficiency that is required by the Regional Act? Doubtful.

We are skeptical that mechanisms to ensure that energy efficiency and renewables investments are continued and that resource adequacy is taken seriously will be hard-wired into future contracts in such a way that the region has confidence in getting a low cost, low risk resource mix.

Once allocation has taken place there will be intense political and competitive pressures against any "central-planning-" type of requirements or direction to individual utilities as they deal with their future needs. Contract requirements with BPA concerning energy efficiency, renewables, least-cost planning, adequacy, etc., will be resisted as an attack on public utilities' right to "local control."

The one-utility BPA concept that served this region so well, due to the advantages of BPA's economy of scale and diversity, will be lost, and the fostering of cooperation among regional entities will be challenged by the competitive milieu into which they will

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First, the uncertainty about what loads BPA will be responsible for (problems Nos. 1 and 2) can be solved with longer notice requirements before existing contracts expire or before customers place, or remove, significant amounts of load, from BPA.

The lack of correct price signals (problem No. 3) to BPA's customers is important only if *they* are making new resource decisions. If BPA continues to meet load growth, BPA will be making those decisions and already does receive the correct price signal.

Perceived inequality in the distribution of regional benefits (problem No. 4) refers to a deal on the residential exchange. There is no reason such a deal depends on a new BPA role in acquiring resources.

BPA's hydro risk and exposure to market volatility (problem No.5) is lessened once it has more notice before its loads change significantly. An enforceable adequacy standard will reduce market volatility--and such a standard is certainly easier to establish under the status quo than it will be if each utility is on its own. Finally, BPA's hydro risk is not a new problem. It can be dealt with via higher financial reserves, more slice customers, or a CRAC. (Incidentally, the Council's recommended solution for hydro risk doesn't *solve* this problem, it only *shifts* it to BPA's customers, as would higher reserves or a rate adjustment mechanism.)

be thrown. Customers will be much more reluctant to share information or invest in regional, societal benefits that do not have immediate local affect. Finally, the centrifugal tendencies of this proposal will also make it much less likely that the region will be as effective against attacks by some in Congress to take away the benefits of the system.

> <u>Conclusion</u>: The Energy Coalition does not believe the Allocation model will result in a high likelihood that the region will follow the Council's Plan, compared to the Meld model. Similarly, we think that the Allocation model will result in significantly more global warming emissions than would occur under the Meld model. These drawbacks are not compensated for by the supposed other benefits offered by advocates for allocation that could not be more readily accomplished with less radical a proposal. The Energy Coalition recommends that BPA analyze less radical solutions to its problems than the Allocation model. We also recommend that solutions be evaluated on their ability to ensure that the region meets its energy efficiency targets outlined by the Council and that it implements a low cost/low risk resource development strategy.

III. Detailed Recommendations

While the Energy Coalition continues to believe that the Allocation paradigm is unnecessary and counterproductive, the vast majority of the immediate issues on which Bonneville is requesting feedback are not really dependent on that ultimate decision. On many of those issues we supportthe direction BPA is proposing. We will discuss these in the order BPA presented them in its Proposal. We will also submit several additional items on which Bonneville needs to act.

[NOTE: In the following discussion we have used the section letters matching those in BPA's proposal. For those issues we did not address, the Coalition takes no position at this time.]

B. Tiered Rates -- We support BPA's position to exclude tiered rates from its FY07 rate proposal in order to give the region time to debate the long-term policy.

C. Term of the Next Rate Period -- We support a three-year rate period because: (1) it would coincide with the Transmission Business Line rate period--allowing for joint TBL/PBL proposals; and, (2) we think the negotiations over long-term contracts will take much more time and effort than some have imagined, especially considering that a long, complicated ratecase will be needed during that time to implement the contracts.

E. Service to New Publics and Annexed IOU Loads – The Energy Coalition is comfortable with BPA's proposed short-term (before 2011) treatment of annexed IOU loads (residential exchange benefits would follow the annexed load, so that annexed loads would not be disadvantaged by the annexation). However, we think that the same protection should be given to a new public utility. We fail to understand why a new public utility's residential and small-farm customers would have to lose their exchange benefit if they were formed after June 30, 2005. The new utility should be treated the same as an annexed load for this purpose. We hope this was merely an oversight in the write-up.

We are troubled, however, by BPA's proposal to put off for the long-term Regional Dialogue discussions the resolution of how new and annexed loads would be treated post-2011. Bonneville should resolve this issue now by declaring that it will not (we believe that legally it cannot) divide preference customers into two classes: "more-preference" and "less-preference." It is appropriate to discuss how long Bonneville might require to accept a new public utility at PF rates--e.g, until the start of a new rate period--and how that might be done--e.g. by augmenting the Federal Base System or reducing each customer's allocation. However, BPA must provide equitable support for both new and existing preference loads.

G. Service to DSIs – The energy coalition has previously stated our support for a baseline level of support for 500-700 MWs of DSI loads. If Bonneville does decide to provide a benefit as proposed, we are strongly supportive of the option entitled, "Financial Incentive to Operate." This mechanism is much like that originally proposed earlier by the Coalition. It has the advantage over the other choices in that it provides no credit or take-or-pay risks to BPA or the companies. It also gives Bonneville valuable reserves. Finally the mechanism provides the region with a hedge or counter-balance to market price and precipitation risk, in that it would encourage smelting during low-price (due, usually, to wetter years) periods and discourage it during high price, drier times.

In making a final decision on the level of support, we urge BPA to critically evaluate the job creation benefits from providing below-market power to the DSIs. This benefit must be balanced by the effect on jobs from the increase in rates to other consumers or other uses for the money. We would contrast, for example, a 1 cent/kwh 500 aMW benefit to the DSIs that amounts to about $44 million/year with BPA's proposed yearly $21 million investment in renewables to put this into perspective. Would doubling Bonneville's funding for renewables create more regional benefits, more jobs, more tax receipts to strapped counties, than spending the money on the DSIs?

On the other hand, the Coalition has great sympathy for the workers and communities caught in this debate. Money for retraining and relocating these workers should be considered if Bonneville ultimately decides it cannot continue meaningful service to the DSIs.

H. Service to New Large Single Loads – The Energy Coalition supports BPA's proposal.

I. Service to Residential and Small-farm Consumers of the IOUs -- In that BPA's proposal only encompasses the period before 2011, which is covered by the recent settlement, the Energy Coalition is supportive.[4] We have not established our position for the post-2011 period on this issue.

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[4] We must, however, take issue with one statement in the Proposal. BPA states, in arguing that it should provide financial benefits rather than physical power that it is, "seeking to minimize the acquisition of

J. Energy efficiency Resources – We strongly support the direction BPA is headed in energy efficiency acquisition. Except in summary, we will not repeat our previous comments here in detail. To summarize:

- BPA must define "its share" to be the proportion of the Council's target that covers *all the loads of its public utility and DSI customers, including those of its partial requirements utilities.* This is not to say that Bonneville must fully fund the energy efficiency efforts of utilities that do not purchase all their power from the agency. It does mean, however, that BPA should use its contracting arrangements to ensure that that energy efficiency is acquired. For example, Bonneville could require partial requirements customers to provide matching funds proportional to a utility's non-BPA resources in order to receive C&RD or Con-Aug funds. Without BPA's commitment to acquiring this at-risk energy efficiency (from its partial-requirements customers), it will be very difficult to achieve the Council's targets.

- BPA must remove the disincentive to customers' energy efficiency (and renewable) programs that is created by the present uncertainty over how future allocations will be calculated. BPA should make it clear now that energy efficiency and renewable acquisitions of its customers made after the approval date of this Policy will not affect the size or value of their future allocations (if that is the ultimate outcome). By value, we mean that if, due to net requirement constraints, a customer cannot take its whole allocation because of investments in energy efficiency or renewables, Bonneville would sell that now-surplus power on that customer's behalf.

- Bonneville needs to increase its support of low-income weatherization programs. This program has been run very efficiently and provides critical benefits to the most needy of our region's citizens. At present, our best estimate is that funding levels from all sources are able to weatherize only about 1% of eligible housing per year across the region. This level needs to be ramped up significantly, and we urge that BPA establish a funding level for low-income weatherization that leverages other sources of funding such that the region weatherizes 5% of eligible houses per year. The societal savings, in addition to significant energy savings, will repay this investment many times over.

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additional amounts of power that could result in an increase in the average cost of the existing FBS resources." (p.18) What this says is that Bonneville thinks it is *less costly to preference customers* to give financial benefits to the IOUs than it would be to give power. However, less costly to preference customers means less benefits to IOU customers: it is not an *equitable* treatment of these two classes of customers. While financial benefits may be a better *form* for benefits, requiring fewer transaction costs or disputes, and thus good policy, it should not be a cover for inequitable benefits. If the benefits were equitable, there would be no significant difference between providing them in the form of money or power -- the cost of acquiring extra power should be the same as the cost of the financial benefit, and both would raise the cost of the FBS the same.

BPA's goal should not be to lower the cost of the FBS at the expense of the Exchange. The Exchange is not a subsidy from BPA's "real" customers to the IOUs, it is a legally mandated directive to treat the two groups equitably.

We will make one additional point on BPA's goal of meeting its energy efficiency target at the lowest possible cost and rate impact (p.19, third bullet). We understand this desire, but question the metric BPA uses to measure the costs of energy efficiency. Bonneville seems to be relying on an installed cost measure given in $millions/MW. This is a misleading measure of the value of energy efficiency and should be abandoned. This metric measures only the installation cost of measures, not their value in saved kwhrs over their useful lives, and is not a correct measure of cost-effectiveness. It also doesn't capture the different value of measures' load shapes, making some more cost-effective than others. *The correct measure should be levelized cost.* Using installed cost will under-value and disadvantage investment in more expensive but long-lived measures that are very cost-effective in the long run.

K. Renewable Resources – The Energy Coalition endorses the comments of the Renewable Northwest Project (RNP) on this issue. In addition, the issue regarding the disincentive from the lack of certainty over allocation (discussed in the third bullet of section J above) is also applicable to renewables. Finally, while we support BPA's commitments to renewables in this Proposal, we see the overall funding level as being inadequate to meet the overriding need to address global warming and create economic development in the region.

L. Controlling Costs and Consulting with BPA's Stakeholders – The Energy Coalition generally supports BPA's Proposal.

Additional Issues:

J. Grid West -- If BPA is going to limit its role in resource acquisition, then the region must establish a mechanism for customers to manage their new role. Of paramount importance will be to have a transmission system that can accommodate the new transactions that will occur. Thus it is vital for BPA to make sure that Grid West is operational if, and when, new contracts implementing this paradigm shift go into affect.

K. Adequacy Standards -- Except for a passing reference, BPA's Proposal, as opposed to previous position papers on these issues, no longer addresses the need for an adequacy standard under the Allocation model. Without such a standard the region will be at increased risk of market volatility and manipulation, as well as excess costs from under- and over-development, and hydro operations needed to benefit fish will be liable to emergency cutbacks. An adequacy standard must go hand in hand with this proposal.

IV. Long Term Issues and Proposed Schedule for Resolution

We discussed the long-term issues in depth in Section II, above. We also support BPA's proposed schedule for resolution. However, we take exception to the discussion of the schedule on p. 26 that seems to focus on resolving these issues through contract talks with customers. The resolution of these issues will have region-wide impact and cannot be restricted to customers only--they must be resolved in public forums. Thus, while the eventual policy will certainly have to be implemented through contract language, contract negotiations should not be the venue for those discussions.

VIII. Risk Analysis

BPA's analysis of the risks associated with this proposal should be made public as an important element for consideration of these issues.

From the limited discussion in the Proposal, BPA seems to have evaluated only the risks to the agency itself. Equally as important and useful for this discussion, in our opinion, would be an analysis of the risks of this Proposal *to the region.*

We believe the Proposal results in many increased regional risks compared to staying with a "One-utility BPA Meld" model:

- Increased likelihood that the region will not follow the Council's least-cost and least-risk Plan, especially the achievement of its energy efficiency targets;
- Increased risk of expanded reliance on fossil fuels thereby increasing greenhouse gas emissions;
- Increased risks of under and over investment in generation and transmission resources;
- Increased risk of market volatility and market manipulation;
- Increased risk of outages due to resource inadequacy;
- Increased risk of emergency declarations that reduce fish-friendly hydro operations; and,
- Increased transaction and administration costs required of the public utilities and Bonneville.

None of these risks appear to have been evaluated. We urge BPA to thoroughly analyze the broader regional risk factors when considering its role in future power supply.

IX. Environmental Analysis

BPA believes that the environmental review provided by the decade-old Business Plan EIS is adequate to cover this Proposal. It may be, but we have not seen an analysis that addresses the following issues:

- If customer utilities are responsible for load growth and they do not acquire all cost-effective energy efficiency, is there an environmental impact (compared to the Meld alternative) and is it considered in the business plan EIS?
- If new resource development is the responsibility of the region's utilities, will long-range planning and adequate resource standards be developed to ensure that in an emergency BPA is not forced to over use the hydrosystem to the detriment of salmon obligations?

A new business plan EIS may not be necessary but the limited summary language issued in this section of BPA's proposal does not give us assurance that these questions have been evaluated. We urge a more thorough review of the EIS or a release of the complete analysis already done.

IX. Conclusion

Bonneville is proposing a far-reaching change in the way it relates to its customers. Our overriding concern is that the result for the region be a positive one in terms of future resource choices and energy use. BPA's commitments to conservation and renewables give us some comfort of achieving a clean, reliable and affordable power system, but that all depends on how its new contracts are written and implemented. We have detailed our nervousness about the risks this proposal carries--and the lack of analysis of those risks--to a successful fulfillment of the Council's 5th Power Plan. We look forward to participating in those discussions.

R004-0111
SEP 24 2004

Columbia Falls Aluminum Company

2000 Aluminum Drive
Columbia Falls, MT 59912

September 22, 2004

Submitted by Email to: comment@bpa.gov

Public Involvement
Bonneville Power Administration
P.O. Box 14428
Portland, OR 97293

Subject: Comments on Bonneville Power Administration Policy Proposal for Power Supply Role, July 7, 2004

The Regional Dialogue Proposal released by Bonneville on July 7, 2004, speaks to issues of critical importance to the Columbia Falls Aluminum Company ("CFAC"). The overall health of the Federal power system is vital to citizens and industry in the Northwest and we applaud Bonneville's willingness to tackle the serious issues. CFAC's comments are focused on the issue of service to DSI customers beginning October 2006. These comments are intended to inform Bonneville of our needs and concerns and are thus presented to Bonneville through its public comment forum rather than through a legal or political forum.

We understand from the proposal that Bonneville will decide how much power DSI companies will be offered and whether such power will be in the form of traditional IP service or some type of financial incentive payment. How this issue is answered is critical to the future of companies like CFAC and their local communities. Bonneville recognized in its proposal the importance of DSI customers to their respective local communities and the region. CFAC presently employs 150 people in some of the best paying jobs in the state of Montana. If we were at full production, we would have over 500 employees. Studies have shown that there are almost another three jobs in the economy as a direct result of each job at CFAC. We are a major taxpayer in the Flathead Valley. We do business with and/or donate to over 200 businesses and local charities. But that's not the whole story, Bonneville also benefits by the presence of CFAC. CFAC is a large "sink" on the eastern side of Bonneville's system. Bonneville avoids transmission constraints because of the presence of CFAC's load and has even saved money by swapping federal power on the eastside of the system in exchange for market power CFAC has on the westside of the system. Further, CFAC provides stability reserves for the Flathead Valley at no charge to Bonneville.

Today we are facing serious challenges. Aluminum is a world wide commodity. We compete on a world wide basis. Power prices in the Northwest have become more volatile and higher than Aluminum producers pay elsewhere. Since power is a large portion of our production cost, it has become difficult to compete with other aluminum producers in the US and around the world. Over the past four years, eight of the 10 aluminum smelters in the Northwest have shut down, largely because of power issues.

Affordable Power Over the last several years we have learned much about our own operation and what it takes to survive through the tough times. Our present operating level of 20 percent is not a good place to be. While our goal is to operate at the highest possible level at all times we must find a way to survive through the tough economic periods when commodity prices and other factor do not permit an economic operation. If we can operate at about 50% of capacity during the tough times, we believe we can maintain the core of our workforce, raw material suppliers and other infrastructure elements so that we can return our plant to full production when market power, world prices for aluminum and alumina, and other critical factors are favorably aligned. We need a reliable cost-based power supply to maintain jobs at our plant. At 50% of production capacity our power load is 170 MW, an amount approximately equal to the Contracted Power in the 5-year subscription contract CFAC executed with Bonneville in October 2000. For perspective, over the last almost 50 years, the portion of the load of the aluminum plant in Columbia Falls, Montana served by Bonneville has averaged over 250 MW per year.

Rate Impact of 500 MW Bonneville has received comments from several parties that the cost of serving DSIs should be known. The cost of serving DSI load, or any load for that matter, would be known at the time the load obligation is assumed by Bonneville. For example, if the market is $10/MWH greater than Bonneville's tariff rate then the cost of serving an additional 500 MW of 100% load factor load would be about $0.55/MWh spread over all industrial and public utility load.

Financial Incentive CFAC values Bonneville as a power supplier and as such has a preference for IP service. However, if Bonneville adopts the financial incentive option at the exclusion of the IP service option, CFAC is open to that approach.

Interruptibility The Northwest Power Planning and Conservation Council and others have argued that any DSI power contract should include provisions for Bonneville to interrupt delivery of power. All aluminum smelters already provide stability reserves to Bonneville and in addition, CFAC provides stability reserves for the Flathead Valley at no charge to Bonneville. Any other interruption rights must be negotiated bilaterally between Bonneville and the specific DSI since each smelter has unique limitations on its ability to handle power interruptions because of technology and location.

Creditworthiness & Contract Performance Both Bonneville and the Northwest Power Council have stated that any offer to DSIs should be available only to companies that are creditworthy and that have lived up to their obligations under the current Bonneville power contract. CFAC is backed by Glencore, which is rated investment grade, and CFAC has lived up to all of the provisions in its contract with Bonneville.

Contracts for Public Utilities The proposal provides for the opportunity for Flathead Electric Cooperative to be eligible for the lowest PF rate for all of its load on Bonneville. While not a direct benefit to CFAC, we urge Bonneville to follow through and make it possible for Flathead Electric to purchase its power at the lowest PF rate. In some of the public comment meetings it was suggested that Bonneville should permit service to DSI loads through the local public utility rather than as a direct customer of Bonneville. This concept has merit and should be explored.

We appreciate the opportunity to provide comments on Bonneville's proposal through the public comment forum, both at the September 15, 2004 meeting in Kalispell, Montana and also in writing.

Sincerely,

--/S/--
Steve Knight
General Manager
Columbia Falls Aluminum Company

--/S/--
Terry Smith
President
Local Trades Council

R004-0112
SEP 24 2004

September 22, 2004

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

Dear Paul,

Clatskanie People's Utility District (the "District") provides the following comments together with those previous provided in writing, by email, in person or by other means on the Bonneville Power Administration (BPA) Regional Dialogue proposal the "Bonneville Power Administration's Policy Proposal for Power Supply for the Fiscal Years 2007 – 2011" dated July 7th 2003.

Timing

The single overarching flaw with the "Bonneville Power Administration's Policy Proposal for Power Supply for the Fiscal Years 2007 – 2011" is the proposed schedule for action. At a time in the history of the Northwest power industry when bold actions are called for BPA has essentially chosen not to act. The inherent delay of the clarification of BPA's power supply role and the lack of any substantive actions as to power system allocation, obligation to serve, resource development and product offerings freezes critical development activities, frustrates the continued optimal use of the power system, and stalls the recovery of a struggling economy. Action needs to be taken beginning in 2006 not in 2011.

Near Term Actions

BPA should immediately declare limits, effective in 2006, to its power supply role and immediately begin development of new long term contracts or contract amendments based on the allocation of the output of the Federal Columbia River Power System ("FCRPS"). The current Slice contracts are a good model to follow in this process. Benefits to the Investor Owned Utilities ("IOU") need to be strictly established as envisioned under existing law and must be only on a financial basis and only if the relative BPA and IOU cost structures support them.

BPA should implement a system of tiered supply beginning in 2006 wherein those utilities which choose to self supply power for a portion of their requirements load receive a rate credit against their power costs. Such a system of rate credits satisfies utilities which have reference in current contract language to access to the lowest PF rate and sends an appropriate signal about the future by encouraging each utility to decide what the appropriate actions to take are.

Those portions of the elements of the embedded costs of the FCRPS, costs of power purchases, and the costs of several surcharges that are appropriate should be used to derive a self-supply rate credit that would be made available to any utility that arranges for alternate power supplies. This self supply rate credit model supports the transition to the future in which BPA limits its firm sales to at embedded cost rates at the firm output of the existing FCRPS and sales beyond the firm output of the FCRPS would be provided at a rate that would reflect the incremental cost of meeting that load.

Product Choice

Long term contracts must be offered to provide some surety going forward but utilities should be allowed to change the product mix and volume they purchase from BPA during any contract term including changing to no purchase from BPA. The rates, as set in a public process, can accommodate adjustments to product types and volumes while assigning costs appropriately.

Each utility that has a five year contract which are expires in 2006, should be able to choose whether to extend the term and conditions of these contracts though 2011 at the lowest PF rate; convert the contract to provide for other products or to terminate the contract without impact to a net requirements determination or any allocation of the FCRPS. Those utilities with ongoing contract rights or rights to contract renewal should likewise be able to choose whatever product mix they determine to be appropriate for their customers.

If BPA desires a review of any products to determine if the costs of providing the product have been appropriately assigned in the rate setting process the District feels that a request be made that the Government Accounting Office (GAO) conduct that review. The GAO has the independence and expertise as well as familiarity with BPA necessary to conduct the review and provide a accurate and trusted determination.

Conservation

The District agrees with BPA's principle that "The bulk of the conservation to be achieved is best pursued and achieved at the local level." In a future where utilities are allocated a portion of the FCRPS and are responsible for providing power for a portion of their load from sources other than BPA and to meet load growth conservation will be treated as a valued resource and will be pursued at the local level. If regional targets are deemed necessary, the C&RD program is perhaps a useful model for a system to encourage and report conservation activities.

Cost Control

Cost control is essential to the utility of any allocation and long term contract approach. Some approaches, such as the Customer Collaborative, have proven successful in addressing cost control in the short term, and should be continued, but are insufficient to provide long term customers confidence that BPA products are not burdened with excessive costs. A permanent cost control board should be established with majority representation drawn from public power.

If you have any questions my staff and I are available to meet with you.

Sincerely,

Greg Booth
General Manager

cc: Board of Directors
Department Managers

R04-0113
SEP 24 2004

Citizens' Utility Board of Oregon

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September 22, 2004

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

Re: Comments on Bonneville Power Administration's Policy Proposal for Power Supply Role for Fiscal Years 2007-2011

Dear Paul,

The Citizens' Utility Board of Oregon thanks BPA for allowing the regional stakeholders to comment on this latest attempt to tackle the thorny problem of how Bonneville executes its obligations in service to the region. Even though there are multiple points of view in the region and often conflicting demands made by regional stakeholders, the region has much to gain by finding an approach to these difficult issues which is both conciliatory and representative of good public policy.

We will comment on five points. Our comments are intended to be short and to the point. Please do not mistake brevity for lack of interest. In fact, we believe these issues to be of the utmost importance.

1. Allocation implies a change in responsibility for resource development which implicates regional resource adequacy concerns.

It comes as no surprise that Bonneville proposes that it transition towards an allocation of the existing system through long term contracts and to serve utilities beyond the firm capability of the existing Federal system at the cost of such service. (Policy Proposal, p. 24-25.) This basic construct has been discussed in the region in many forums for several years. We have no quarrel with this basic construct. We do, however, believe that the Policy Proposal does not sufficiently connect the benefits for Bonneville's customers from this construct with the obligations those utilities are now taking on.

The Proposed Policy lists the reasons for the proposal: it could reduce firm power rates by avoiding melding higher cost power; it provides Bonneville with clarity on its load obligation and utilities clarity on resource development; it increases the certainty that BPA can repay the Treasury debt; and there is strong support from BPA's utility customers for the allocation construct.

Bonneville says its policy proposal is consistent with the Council's May 17, 2004, recommendations, "The Future Role of the Bonneville Administration in Power Supply" On page two of that recommendation, the Council stated the benefits for Bonneville's customers from this construct this way: "This change would clarify who will exercise responsibility for resource development; result in an equitable distribution of the costs of growth; and prevent the value of the existing federal system from being diluted by the higher costs of new resources."

Clarification, equitable distribution, and dilution prevention are all good things, but the construct advocated here fundamentally transfers the obligation of adequate resource investment from a regional approach to a large number of individual and independent utilities. Before we make that fundamental change, we ought to explore the implications of that change both for the individual utility and the region as a whole. It is our belief that such an exploration will make it clear that it is in the interest of neither the customer of the individual utility nor the region as a whole to spread the obligation for resource investment in a diffuse and uncoordinated manner.

In the past, adequate resource investment has been largely a regional effort. Resource development for the publicly owned utilities and investor owned utility resource investment have been connected through Bonneville. When Bonneville makes a major investment in a generating resource, the preference rate goes up. When an IOU makes a major generating resource investment, its average system cost went up. The two met in the residential exchange so that, to a point, customers of both Bonneville and the IOU were absorbing the other's cost of resource development. For excellent reasons, the IOUs and their customers lost confidence in the way Bonneville operated the exchange mechanism and the exchange became less appropriate as the electricity markets underwent changes over the last ten years.

Now we are considering a shift to the other end of the ideological spectrum where not only is there no sharing of regional resource costs, but there may not be any coordination amongst those making investments. Suddenly 150-some odd utilities, many with little experience developing new resources, will be responsible for making their own resource investment decisions. How will they make those decisions? Will they wait for others to make investments and buy surplus? Will this cause a shift in costs to customers of those utilities that invest and away from those who do not?

Neither the Council in its recommendation, nor Bonneville in its proposed policy addresses resource adequacy in a substantive manner, must less condition the allocation paradigm on a working regional resource adequacy plan. There seems to be no analysis whatsoever of transitioning to a atomized resource approach with or without a resource adequacy standard. Without appropriate safeguards and an enforceable adequacy standard, a change that places more risk and responsibility of meeting future load obligations on individual utilities rather than on Bonneville may increase overall risk.

IOUs are required (in Oregon, at least) to engage in a least cost planning exercise every two years. This public process is designed to analyze the load data and the resource options and to produce a resource investment strategy which represents the lowest cost to the customer, the environment and to society generally. The big questions are what and how much generating plant should the utility build or buy, and what kind of reserve margins should the utility plan for. But without an organizing principle, each utility's reserve margin will be different and in fact some utilities may simply ride on the backs of other utilities with larger reserve margins. Why build a resource if you can live off the surplus of somebody else's resource and not pay the fixed cost of that resource? It is not imprudent or shirking of a board member's fiduciary duty to delay investment in plant if the utility can contract for power on the market or from somebody else's plant; but if enough utilities choose that path, the region investment pattern becomes dysfunctional. At best, this may result in a shifting of costs between customers of utilities that do and do not invest in plant, at worst, it may lead to problems of resource availability and price volatility. Prior to moving toward an allocation approach, Bonneville has an obligation to herd the region toward discussion of regional adequacy standards.

2. The residential exchange settlement must recognize that IOU residential and small farm customers are citizens of the Northwest and have legitimate claims to the benefits of the federal hydro system.

Over the last 10 years, Bonneville's treatment of the IOU residential and small farm customers has been inconsistent. At times, Bonneville has treated these Northwest citizens not as legitimate and fundamental beneficiaries of the federal hydro system, like its publicly owned customers, but rather as a cost to that system. When Bonneville is in financial trouble, one of the "costs" that it cuts is the residential exchange. The way Bonneville has cut the cost of the exchange raised issues about the transparency of the 7(b)(2) test and the ability of Bonneville to manipulate its outcome.

These weaknesses in the exchange methodology led the IOUs, their customers and the regulators to demand a different treatment of exchange benefits. For a time, Bonneville responded and the IOUs were offered power along with monetary benefits. Power was a preferred form because it put IOU residential customers on a near-equal footing with the publicly owned utility customers. Events transpired against this plan, as unexpected DSI load added on top of the expected load combined with the power crisis to make benefits in the form of power problematic.

If we are to go back to a purely financial treatment of the exchange, where we are not on equal footing with the publicly owned utilities with regard to access to power, then we must avoid the dynamic of the past where the exchange is a line item on the ledger and not a benefit to the region as a whole. We have heard nothing from Bonneville over the past several years that leads us to believe that Bonneville recognizes that IOU residential and small farm customers are a fundamental part of its regional mission.

This year, BPA and six regional IOUs signed a settlement of the exchange customer financial benefits during FY 2007-2011 that provided a valuation mechanism that is more transparent and less subject to manipulation than its statutory predecessor. While these settlements provide more certain benefits, they are not perfect. The settlements themselves are subject to legal challenge. Bonneville also states that "[p]roviding financial benefits eliminates the need and associated risk of BPA purchasing power in the market to support power deliveries to the region's IOUs." (PP, page 18.) What this means is that the valuation of exchange benefits is bounded and does not follow the market wherever it goes, so that on the one hand this provides BPA's other customers protection from high market prices, exchange customers are not similarly protected. In addition, while decoupling exchange benefits from physical power and providing them through financial means seems to be a priority for BPA, BPA seems to be willing to consider providing DSIs with physical power. (PP, pages 14-16.) BPA has already placed the IOU residential customers in a position that is less than equal to the public power customer and we need to make sure that IOU residential customers do not slip behind the DSIs, whom BPA has no legal obligation to serve, in access to benefits from the federal hydro system.

A settlement of the exchange or a policy on power supply that does not recognize the legitimacy of IOU residential and small farm customers as part of the region and as beneficiaries of the federal hydro system is a hollow mechanical device devoid of meaning and real durability. Sometimes it's not what you say, but how you say it.

3. New public loads should have the opportunity to access Bonneville power at the lowest PF rate.

It is not completely unreasonable and not without precedent for Bonneville to create a deadline for new publics to meet in order to be served with the lowest PF rate until the end of the rate period. (PP, page 11). Bonneville makes this proposal until the end of the 2011 rate period. Bonneville puts off until later discussions the treatment of new publics post-2011. This is fine with us, but we don't necessarily see that waiting to discuss the issue will change anybody's mind. New publics must be allowed access to Bonneville's power at the lowest PF rate.

What is less clear is the dichotomy Bonneville creates between new publics and annexed publics. The proposal states that publics that annex territory from IOU territory may offset the above-PF incremental costs by the annexed territory's proportionate share of the IOU's residential exchange benefits. The proposal makes no such statement with regard to new publics. We are not sure if this is an oversight, an assumption that the treatment is the same, an implication that there are contract provisions requiring transfer of exchange benefits to a new public, or if there is some unstated justification of differential treatment. We see no policy reason why new publics would not also be credited with the exchange benefits that are attached to the former IOU territory. In fact we would argue strenuously against such a proposal. We request that Bonneville clarify its position on this issue.

4. Bonneville must continue to support conservation efforts and renewable energy investments.

Conservation and renewable energy are ultimately regional efforts. A regional resource base that is inefficient or overly reliant on particular fuels or technologies is bad not just for customers of Bonneville, but for all the region's utilities and citizens. The new role for Bonneville in power supply may begin to send more realistic price signals to some customers, but it is too early to take Bonneville out of the conservation and renewable energy business. Some conservation and renewable energy projects need a centralizing force and institutional barriers may well prevent some utilities from unilaterally acquiring all that is cost effective.

The proposal states that Bonneville will use the Council's Power Plan to "identify" Bonneville's share of cost-effective conservation, it does not say that Bonneville commits to acquiring all of it. (PP, page 19.) It is difficult to comment on Bonneville's proposal on conservation because Bonneville admits that it is not proposing a specific plan. Needless to say, we think a strong Bonneville role is needed to insure that the region will acquire the available conservation resource.

We are a little more concerned, however, with Bonneville's proposal regarding renewable energy. (PP, pages 20-21.) The proposal states that Bonneville will move away from an acquisition role and toward a "facilitation" role. We think that BPA has a continuing role to play in the development of renewable resources including both a supportive role for utilities investing in renewable resources as well as acquisition by Bonneville itself.

Development of renewable resources is a regional benefit. We do think that Bonneville's role should be flexible, but that means engaging in a wide range of activities including direct investment if Bonneville's customers fail to make those investments. Bonneville's wide range of activities would include assistance for renewable resources on both the transmission and the power side. Bonneville still has a responsibility to encourage the development of renewable resources and it is in a unique position to leverage its resources for the good of its customers and the region.

We recommend the comments of the Renewable Northwest Project for a greater exploration of these issues.

5. Collaborative forums must be transparent.

We certainly think that customer and non-customer collaborative forums are valuable. We need to be very careful not to allow some groups to have preferential access to Bonneville management or to be able to steer Bonneville policy and behavior. The proposal explains that collaborative forums should include disclosure requirements. (PP, page 23.) We are not sure what this means. It should mean that someone who is concerned about a particular issue should have access to information about a collaborative forum to determine if the issue came up and how it was addressed. With the numerous stakeholders and types of stakeholders interested in Bonneville's activities, Bonneville should take the utmost care in adhering to an open and inclusive process.

Respectfully submitted,

Jason Eisdorfer

Jason Eisdorfer #92292
Attorney for Citizens' Utility Board of Oregon

PNGC Power
Smart. Local. Connected.

R04-0114
SEP 24 2004

BPA's Power Supply Role Post 2006 (Regional Dialogue Proposal)

Comments of PNGC Power

September 22, 2004

General

PNGC Power appreciates BPA moving to clarify its long-term load-serving responsibilities and overall role in regional power supply. This proposal builds upon several years of discussions and proposals from the agency's joint customers and the Northwest Power and Conservation Council.

In addition, PNGC Power agrees with the general principle laid out in the long-term portion of the proposal of limiting BPA's embedded cost sales to the existing Federal Base System (FBS) and charging for service beyond this at the incremental cost of new resources. We anxiously await the opportunity to assist with the specifics of that concept.

We also welcome the move to clarify the BPA power supply role for the FY 2007-2011 period. Our specific comments on the strategy for Fiscal Year 2007 are below.

Tiered Rates

PNGC Power supports deferring the implementation of rates with a tiered structure in this initial proposal for the period beginning in fiscal year 2007. Notwithstanding this, BPA should not allocate the costs of any long-term resource acquisition to the rates of customers not using the agency to meet long-term load growth. We agree that it should be BPA's intent to move as quickly as possible toward a solution that would "implement the proposed long-term policy of limiting BPA sales at embedded cost for Pacific Northwest firm requirements loads."

Term of the Next Rate Period

PNGC Power favors two-year rate periods, because they should provide better cost control and risk management. We believe BPA's customers will benefit from rates that are as low and stable as possible with minimal reliance on adjustment mechanisms. We believe that the multilevel CRACs should be eliminated. We believe that it is important to synch up the agency's rate periods with the new long-term contract offers on the schedule suggested in the Draft ROD. In light of the importance of the move toward long-term stability, four years will be more than adequate time to put new contracts in place and to conduct the necessary rate cases.

Service to Publics with Expiring 5-Year Contracts

PNGC Power supports treating such customers on the same basis as customers with 10-year contracts provided they give adequate notice to BPA that they wish to extend their contracts on the same basis and doing so does not result in substantial financial impacts to BPA's other customers. We have some concern that BPA's statement regarding an expected reduction in loads in last paragraph of Section VI. D implies that BPA may have already pre-judged the outcome of new net requirements determinations for the affected customers.

Service to New Publics and Annexed Investor-Owned Utility (IOU) Loads

PNGC Power supports the June 30, 2005 deadline for providing PF service to new public utility load that meets BPA's Standards of Service criteria by that time. However, PNGC Power believes a 100 aMW cap on such service should apply for the 2007-2011 period.

Product Switching

PNGC Power disagrees with the BPA proposal restricting product changes with respect to the slice product. PNGC Power understands the agency is concerned about the potential for cost shifts by allowing changes in Slice percentages or offering the Slice product to other customers. This concern is both misplaced and out of context. There are ongoing processes outside of the Draft ROD addressing proper cost allocation. We trust that these processes will determine the true cost basis of the Slice product and, by definition, will result in upholding a "true no cost shift" in which BPA does not allow cost shifts in any direction among its customers. A "true no cost shift" policy is the principle upon which the Slice product was offered.

It remains the sincere intention of the Slice customers, PNGC Power included, to pay the true costs of the product as proscribed in the Slice contract. And, as has always been the case, the slice product helps BPA and its non-slice customers manage risk by taking on the risk of poor water conditions, CGS outages, etc.

BPA should entertain limited increases in Slice sales on a first-come first-served basis of at least up to the 2,000 aMW limit already authorized. This could take the form of increased Slice amounts for current Slicers or new Slice customers. Any increases beyond this limit could be addressed in new or follow-on contracts. Additionally, BPA should allow changes in product mix between Slice Participants, such that utilities seeking to take more Block Product and less Slice Product could exchange amounts with utilities seeking to take more Slice Product and less Block.

Customer Acquisition of Additional Non-Federal Resources to Reduce Net Requirements

In principle we support BPA considering this on a case-by-case basis as long as other customers are not hurt financially. We take note of BPA's apparent willingness to consider adjustments to the products purchased by requirements customers as contrasted to its inflexibility in making adjustments to the product mix of its Slice customers. It would be preferable for BPA to show similar deference to all of its customers, irrespective of how they purchase their power, by allowing adjustments on a case-by-case basis in FY 2007. BPA's reputation for even-handedness would be bolstered by that approach.

Service to Direct Service Industries (DSIs)

BPA is not obligated to provide power to a DSI and lacks legal authority to subsidize rates for DSI serve or development of generation by current or former DSIs or affiliates, let alone serve them under terms and conditions that would ensure DSI operation. No other BPA customer – or utility customer – obtains that kind of service guarantee. As we have stated before, PNGC Power would support BPA, after serving all preference customer loads without augmenting the FBS, selling a limited amount of FBS firm surplus power, if available, to a DSI at an unsubsidized IP Rate if the DSI has met all of its financial, bad debt and other obligations under its subscription contracts and provides robust credit support. Any surplus firm power should not be offered beyond the term of the existing contracts. Under no circumstances should BPA augment its system to serve a DSI unless the DSI pays the full cost of the additional resource. If continued DSI operation in the region is considered good public policy, any necessary subsidies should be borne by U.S. taxpayers, not Northwest ratepayers.

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

We support BPA's proposal to provide financial rather than power benefits to the customers of investor-owned utilities for the period FY 2007-2011 under the current agreement unless new contracts are agreed to that would take affect prior to 2011.

Conservation Resources

BPA has proposed "five principles to guide the development of the specific element for conservation" during the post-2006 time frame. BPA recognizes that "there is a need for significant detail to be developed before these principles can be transformed into a specific program structure that best serves the region." BPA has recommended a "collaborative planning process" to fully define a proposal that can be brought to the region and suggests that C&RD, Con Aug, and a complement of regional initiatives may provide "a solid foundation" for such a program structure.

On their face the principles and other aspects that BPA has laid out are reasonable. We strongly support the idea of the bulk of conservation being done at the local level and meeting conservation goals at the lowest possible cost and rate impacts. However without further clarification these principles, specifically principles one, two and three, are open to wide interpretation. We suggest the following clarification/additions:

BPA Principle 1 – Use the Council's plan to identify the agency's share of cost-effective conservation.

The agency needs to be clear about how its share is determined and how that share relates to its individual customers or types of customers (e.g. Full-Service, Slice, etc.). We have many questions about how this would be implemented and are concerned about assigning "shares" of the overall goal to individual customers regardless of their individual circumstances.

BPA Principle 2 – Achieving the bulk of conservation at the local level.

The agency needs to state clearly what this principle means. We suggest that local control is defined by the ability of local utilities to choose and carry out the programs or conservation measures that best suit their needs and the demands of local end users. We suggest that with the exception of certain limited R&D or "market transformation" activities, that all conservation efforts be transferred to local utilities by 2008.

BPA Principle 3 – Seek to meet conservation goals at the lowest possible cost.

BPA's conservation goals should be achieved at low cost and with the "lowest possible rate impacts." The best way to achieve these goals is for utilities to establish kilowatt hour (Kwh), rather than monetary, targets to be achieved according to a specific schedule. For BPA to collect funds from the utilities and then return those same funds to the utilities does not promote economic efficiency and transparency. BPA's focus should be on keeping its rates low and moving towards a system of power and cost allocation.

In addition, BPA should add a sixth principle that speaks to the issue of equity. It is important that ratepayers in the rural communities receive the same benefits as those in urban areas. Centralized conservation efforts may try to find efficiencies by targeting densely populated areas. In light of the diverse territory served by BPA and its customers, it is important to ensure that customers in sparse rural areas are afforded the opportunity to make use of effective conservation programs.

Renewable Resources

BPA has proposed to "engage in an active and creative facilitation role with respect to renewable resource development." In order to fulfill this role BPA has suggested four "tools": integration services, transmission system improvements, rate discount, and a limited acquisition role.

While we support a facilitation role for BPA, greater specificity from the agency is needed before we can properly gauge the appropriateness of the role envisioned in this proposal.

Integration services are a fine idea but BPA should limit the impacts on its system and and its customers. In particular, BPA should provide those services at cost but only charge those customers who use the service. Moreover, if BPA provides shaping support to renewables, the capability should come from its share of the FBS. It should not be treated as a system obligation that reduces the FBS output for Slice customers.

Making **transmission system improvements** to assist development of strategically-located renewables such as wind projects is laudable as long as such construction is balanced judiciously and is supportive of BPA's overall transmission development program.

Rate incentives for renewables should be linked with conservation as in the current C&RD program. This gives individual utilities flexibility in meeting their responsibility, and aligns the goals of environmental improvement and reduced risk from both conservation and renewables. Our comments above relating to moving to kWh targets as the most effective way to achieve these goals would be applicable here also.

A **limited acquisition role** as defined by BPA ("temporary acquisition") acting as an "anchor tenant" of some kind sounds like it may create unnecessary risk. In order to fully comment on this concept more details are required.

Controlling Costs with Stakeholders

PNGC Power appreciates recent efforts by BPA to involve customers in the review of the agency's costs and business practices. In particular, the Customer Collaborative and monthly technical updates have been a needed step toward increasing the flow of financial information to those who are paying the bills.

We urge BPA to continue to work with the customers on how to build upon these efforts. The Northwest Power and Conservation Council mentions several customer concerns with respect to moving toward long-term contracts including cost control, business practices, cost segregation, contract enforceability, and dispute resolution.
This draft of BPA's Regional Dialogue proposal focuses somewhat on the first two concerns. We urge future drafts of this proposal and the long-term proposal to include more specifics on cost segregation, contract enforceability, and dispute resolution proposals with input from the customers.

BPA notes that it intends to focus on non-contractual means to promote financial transparency. This will not be sufficient as the agency moves toward long-term contracts. We appreciate the intent to make cost decisions more transparent through encouraging public comment. However, the criteria listed as to what is eligible for comment should be carefully reviewed so that they do not intentionally limit outside input. Because several of the "Criteria for Public Comment on Cost Issues" will be difficult to determine in advance of seeing the impact of a cost item, BPA should err on the side of seeking comment when considering an action.

Long-Term Issues

We agree with BPA's general approach in the Regional Dialogue proposal of limiting its embedded cost sales to the existing Federal Base System and charging for service beyond this at the incremental cost of new resources. Utilities would be able to meet the responsibility to serve the loads of their customers through additional service from BPA or through any other means that the local utility deems appropriate.

This step will be critical to creating the certainty that the region needs as utilities look to meet their resource obligations over the next two decades. Clarifying customer costs and power supply options in this manner will help stabilize BPA's rates, allow better analysis of the full array of regional resource options, and put more responsibility back at the local level.

The long-term proposal regarding BPA's load obligations confirms a direction advocated by PNGC Power and many other customers for several years. In addition, it is consistent with past and present directives of the Northwest Power and Conservation Council, with a recent report by the General Accounting Office, and with BPA's own Lessons Learned document.

Many details need to be worked out, most important of which are the terms of new 20-year contracts. Because of the expectation of lengthy discussions leading up to the offering of those contracts, it is important to begin that process as soon as possible. BPA rightly expresses an accurate sense of urgency in moving toward creation of new long-term contracts to be effective for FY09. In light of the importance of this process, we urge the agency to consider an even more aggressive schedule with the possibility of contracts to be effective by FY08.

We appreciate the opportunity to comment on the Regional Dialogue proposal and look forward to working closely with the agency as it proceeds towards final policy decisions on this document by the end of this year.