CON-056

NRU

Northwest Requirements Utilities

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November 15, 2007

Topic has been addressed in workshops. Is more needed?

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Dear Paul,

On behalf of the members of Northwest Requirements Utilities (NRU), I am writing you to provide suggestions as to how BPA should implement the Shared Rate Plan (SRP) for the BPA Load Following customers that may be interested in this service for the post FY 2011 period. The SRP was a joint proposal from NRU and the Western Public Agencies Group representing over 70 of BPA's customers. Our understanding from your staff is that BPA has finished its current round of meetings with customers on this topic and that the discussion of the SRP will resurface during development of the Tiered Rate Methodology and the Load Following Product contract drafting. We have been advised that BPA's current thinking is to impose a 500 aMW cap on the size of the program. The staff of NRU disagrees with the imposition of a cap and recommends an approach set forth below, as well as the rationale for the approach. In addition, other customer representatives have taken issue with the SRP. We would like to take this opportunity to respond to these criticisms.

Rationale

The Shared Rate Plan is designed to be financially neutral to other customer groups. Participants in the SRP pay the full cost of their Tier 1 purchases and their Tier 2 purchases. Each utility maintains its individual BPA High Water Mark. As with all other customers, BPA serves the net requirements of the customer when the customers' net requirements are below their HWM. Thus, there is no pooling of HWMs. As a result; there are no inherent pooling benefits for the SRP participants and there would not be any adverse financial consequence on other Load Following customers, or customers selecting the Slice or Block product.

The SRP allows participating utilities to receive a bill from BPA for energy that is basically proportionate to the cost of the overall load of those in the pool, without a delineation of costs for service above and below the HWM. Other than this feature the rate design for those in the pool would be the same as for all other non-slice customers. This may be attractive to utilities that prefer, for local policy reasons, to offer one retail rate structure for both current and future customers. Having this flexibility may be an inducement for local economic development, particularly in areas that may face other competitive disadvantages. Also, we believe that operating within the SRP may provide an improved environment for utilities to develop conservation programs in conjunction with BPA that are effective in service territories that have a predominantly residential customer base.

NRU has no preference for the SRP compared to Tier 1 and Tier 2/non-federal service for loads above their HWM. That is a determination that each BPA customer needs to make. Each utility will need to consider their likely future rate of load growth compared to the anticipated collective load growth rate of all the participants in the SRP. Each utility should have the right to choose what type of BPA products and rates best meets their needs.

We are well aware of the history of BPA's offering the Slice of the System Product at the very strong urging of the large generating customers. Without getting into the underlying merit or statutory framework of the Agency offering Slice, the Load Following customers did not object to this new product as long as we had assurances from the Agency that it would not result in cost shifts. BPA essentially imposed a limit on the amount of Slice that would be sold because of concerns that an unlimited amount with the initial product flexibility could cause potential cost shifts to other customer groups. This limit, at 22 percent of the federal system, is far higher than the artificial limit being suggested for the SRP at 5 percent. Offering 1000 aMW in the SRP would increase the amount to 10 percent, again far lower than the amount now being requested by the Slice customers of 25 percent.

NRU is requesting that BPA offer a SRP without a pre-established capped amount. The participants in the SRP are willing to pay the costs of this product and its implementation. These customers will continue to rely upon BPA as their exclusive resource supplier. Given BPA's schedule, utilities would have to give final notice to the Agency by December 2008 that they have selected the SRP (which will give BPA nearly an extra year to plan its resource portfolio for post FY 2011 for these customers). We are confident that there will be no cost shift issues, and BPA will continue to perform its historic role as the resource supplier for Load Following customers that select BPA to serve their Net Requirements through this blended approach with other customers. If a cost shift study is necessary as suggested by some customer representatives then, so be it. However, we feel that such a study would be a waste of effort.

Finally, we believe that offering the SRP provides a safe harbor to utilities that are concerned about the complexities of a Tiered Rate design and may otherwise have an individual interest in challenging the underlying framework for BPA moving to Tiered Rates. We have enough other contentious issues to address without adding this one.

Proposal for Shared Rate Plan

NRU agrees with BPA's proposed schedule that requires utilities to sign up for the SRP by December of 2008, the same time that they will sign the new long term power sales contract. We expect the interest level in the SRP will likely not exceed 1,000 aMW of Load Following customer load.

We do not recommend a fixed cap for the program, but alternatively would suggest that BPA reserve the right to impose limits in the event that the customer interest exceeds expectations.

We suggest that by October of 2008 utilities formally notify BPA of their interest in the SRP (60 days in advance of the contract signing deadline.) If the utility does not provide notice they would be ineligible for participation in the SRP. BPA would then circulate the list of all interested customers and their forecasted preliminary HWM to the group. If the maximum interest level is deemed acceptable to BPA, then there would be no cap on the program. If the maximum amount exceeds 1,000 aMW, then BPA could reserve the right to "bump" some utilities from the program if it was significantly oversubscribed when the contracts are signed in December. BPA will notify customers at the end of October if the agency decides that it needs to exercise the option to bump utilities from the SRP.

When BPA receives signed contracts in December of 2008, and if there is a need to scale back the SRP participation, then BPA would bump utilities as needed to reach the final plan ceiling. First, BPA should publish the list of utilities that signed up for the SRP and see if any utility wants to drop based on the other participants in the plan. Then if necessary, reductions would be achieved by starting with utilities with the largest net requirements placed on BPA and then going in reverse order to the next largest utility until any ceiling is achieved. While we believe this is a reasonable approach for maintaining control on the size of the program, we do not believe that the imposition of a cap will be necessary.

We are interested in discussing any aspect of this proposal with you, Mark Gendron, Scott Wilson or other BPA staff if you believe that would be helpful. Thank you for considering our perspective.

Best Regards,

John D Saven

John D. Saven,
Chief Executive Officer

CC: NRU Members
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