



CON-057

November 28, 2007

*Comments
on workshop
1/8/08*

Mark O. Gendron PS-6
Vice President – Requirements Marketing
P.O. Box 3621
Portland, OR 97208

RE: PNGC comments on Regional Dialogue Technical Issues

Dear Mark:

We are nearing the end of the initial discussions on the Regional Dialogue and Tiered Rate Methodology. This work has resulted in considerably more clarity on the rate structure and products that BPA will propose for the next power supply contracts. While much work remains to be done the activities over the last several months have resulted in approaches that are potentially more workable as we look to the future. As we wrap up these initial Regional Dialogue discussions, there are several technical issues on which we would like to comment.

Comments on Product Flexibility

BPA has improved the overall framework for the Post - 2011 period by providing more flexibility in both BPA's products and the use of resources provided by the customers. We appreciate these improvements that will increase the overall workability of BPA's future products and rates. We urge BPA to further improve the customer's flexibility by allowing a one-time opportunity to switch products but at a time chosen by the customer with reasonable notice to BPA. As utilities operate under the Tiered Rate construct, the key factors of load growth and resource availability are not likely to align with the fixed 2020 date that BPA has suggested for one-time product switching. We believe that by providing the customers with more latitude on the timing for product switching will better align with the circumstances of individual customers' power supply requirements without placing additional risks on BPA or other customers.

PNGC urges BPA to explore additional modifications to its products that will add value to BPA's contract and allow customers the ability to better contribute to meeting the regions' power resource needs. PNGC and other customers see a future where they can contribute capacity and load following resources as their loads continue to grow. Allowing us to meet our peak loads in a more flexible manner would incent us to develop intermediate and peaking resources in addition to baseload resources as required by BPA's current product design. This would have the added benefit of facilitating the development of intermittent renewable energy resources. We suggest BPA explore a transition product that will allow a customer to move from the scenario where

BPA is following that utility's loads to a scenario where that utility can follow its own loads. This would give BPA's customers the ability to assist in meeting the region's capacity needs and reduce the burden of load following on the federal system.

Comments on the Renewable Energy Certificates (REC) – Environmentally Preferred Power (EPP)

For the Post – 2011 period, BPA should eliminate EPP as the primary way of distributing RECs to preference customers. In place of EPP, BPA should develop an approach that provides preference customers with access to RECs from renewable resources from both Tier 1 and Tier 2 power purchased from BPA. As the result of legislative requirements BPA's preference customers in Washington and Oregon are shouldering increased responsibility to develop renewable resources and local green power programs that help customers reduce their carbon footprint. BPA can assist in these efforts by providing its preference customers with access to the RECs for their local green power programs. We propose the following principles for BPA's Post – 2011 approach.

Any REC that BPA provides should primarily be used at the local utility and should be retired through local utility green power programs. That is, RECs associated with the purchase of Tier 1 federal power should be retired locally and not remarketed by the preference customer receiving them. We do make a different distinction for RECs associated with Tier 2 purchases.

1. Tier 1 RECs

- a. BPA should provide access to RECs for all renewable resources associated with Tier 1, including the augmentation purchases. Customers should have access to Tier 1 RECs based on a percentage of their HWM to the total HWMs.
- b. BPA should allocate the Tier 1 RECs in a two step process. In step 1, all preference customers should be allocated a percentage of the Tier 1 RECs based on their HWM percentage. Utilities that do not want their initial allocation of RECs can return them to BPA at the price they were purchased (see below for pricing).
- c. In step 2 the returned RECs would be collected into a second pool and that second pool would be reallocated to preference customers seeking additional RECs
- d. Tier 1 RECs must be retired at the local utility and are not for remarketing by the preference customer.
- e. Any RECs returned to BPA from the second round allocation would be available for marketing by BPA. The revenues received would be credited to the Tier 1 pool.
- f. BPA should set the price of Tier 1 RECs in each two year rate case. This would be the price at which BPA provides Tier 1 RECs to preference customers under the two round allocation process and the price at which BPA buys back the RECs that utilities return in the allocation process.

2. Tier 2 RECs

- a. BPA should also provide access to the RECs associated with a preference customer's Tier 2 purchase. However, since BPA is anticipating that much of Tier 2 will be based on renewable resource acquisitions, the RECs should be based on the energy purchased.
- b. The price of Tier 2 RECs should be included in the price of power purchased.
- c. Tier 2 RECs may be used at the local level but could also be marketed by the purchasing utility.

Comments on Normalizing Load Data for High Water Marks

PNGC feels that as a general principle BPA should use the best normalization analysis available for each utility system. BPA recognizes this principle, in part, when it says that it will use the most appropriate time period and most appropriate degree day base for each utility system. However, the agency seems somewhat resistant to using the best tools available in other instances.

For example, BPA plans to use Itron's Metrix ND, a tool it described as "industry standard" for weather normalization. Itron's Metrix ND is commonly used by a number of utilities for short-term load forecasting from, one day to two weeks. Most utilities that do long-term load forecasting and long-term historical weather normalization use home grown custom built systems. Additionally, Metrix ND only provides a structure for doing the analysis. It does not determine the variables used and it does not determine how the variables are measured or normalized.

At the workshop, several participants proposed that a custom built system might be more appropriate. BPA expressed concern that a custom built system may not pass muster in the BPA rate case. It is PNGC's observation that there are many custom built systems that pass muster in other utilities' rate cases. It seems unlikely that there should be more problems in a BPA rate case, particularly if the custom built system and methods are more detailed, precise and with a better value correlation.

BPA also expressed a desire to use a consistent method across all of its customers. However, as pointed out above, BPA is planning to use somewhat different analyses to get a "best fit" across its many customers. We think that a better, more detailed analysis should result in a better fit.

Finally, BPA expressed concern about having the data available to conduct custom analyses. PNGC conducts individual normalization analysis for its members. There are only a few pieces of additional information needed from individual systems to perform the analysis. Such information includes rate class accounts and retail prices (revenues and load). Additional helpful information, while not strictly required, includes major load usage and limited customer survey data. We accomplished the necessary data collection for our members with a survey using a simple and inexpensive return post-card. All other information needed is available from government, commercial or other public sources. We think it would be closer to the industry standard to use rate class accounts, economic variables and retail prices.

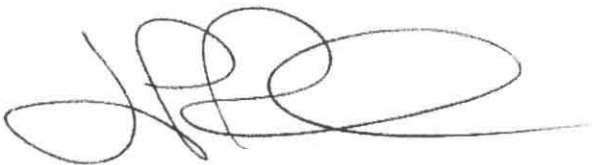
Comments on Normalizing Irrigation Load

We are particularly concerned about the normalization method for irrigation loads. BPA proposes using the average of three or more historical years to represent normal. We believe this approach presents a number of problems including:

1. Double counting will occur with the methods BPA intends to use for normalizing total load. Since Cooling Degree Days (CDD) is an important driver for both irrigation and non-irrigation loads, the CDD normalization will already include some normalization for irrigation. Depending on the direction of the two indicated adjustments this double counting could lead to a neutralization of the overall adjustment.
2. Averaging the irrigation loads for three or more years may, in fact, not be normal. At least one of our members had above normal loads for five consecutive years in one period. We have another member with below normal loads due to exceptional precipitation for two consecutive years. Either year on either side of that two year period was markedly *normal* in comparison. Making normalizing adjustments to these actual load patterns would not lead to *normal* loads.
3. Any bias in irrigation normalization will either advantage or disadvantage the utility with substantial irrigation loads when compared with other utilities. We believe that BPA should strive for overall fairness and the best approach to that end is to use the best weather normalization method available for each utility system. A more detailed weather normalization method for irrigation-heavy systems is certainly fair and appropriate.

Thank you for the opportunity to comment on these issues.

Sincerely,



John Prescott
President & CEO

Cc: PNGC Board Scott Corwin
 Paul Norman John Saven
 Scott Wilson