



CON-058

*Comments on
issues covered
in workshops*

December 17, 2007

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RE: PNGC Power Comments on Regional Dialogue Issues

Dear Mark:

For the Regional Dialogue approach to be successful over the entire contract period the underlying policy, the Tiered Rate Methodology (TRM) and the contracts must adequately recognize that utilities will need to make decisions and take actions to serve their load growth. In order to achieve this result, utilities must be able to implement their decisions in an effective and timely manner given their particular situations. To facilitate this outcome BPA should consider additional improvements in the:

- Ability to switch Tier 1 Products,
- Ability to use non-federal resources and,
- Tier 1 Products available.

These issues are discussed in more detail below.

I. Improvements in the Ability to Switch Tier 1 Products

Each utility's need to serve future load will evolve differently and on its own schedule. The key factors of a utility's load growth, its changing load shape and resource availability are not likely to align with the single 2020 date that BPA is proposing as the only time that utilities can switch Tier 1 Products. We expect that preference customers will continually assess their future needs. That assessment will likely include testing the ongoing adequacy of their original Tier 1 Product. Depending on the outcome of their assessment utilities will reach different conclusions regarding the timing and feasibility of changing their Tier 1 Product. We believe that it is critically important that each utility's determination of when to switch Tier 1 Products should be on its own schedule. BPA's proposed product switching approach does not adequately recognize that each utility's need and ability to add resources will evolve differently over the contract period. Although we agree that a one-time option to change products during the contract term is appropriate, specifying a single date for switching Tier 1 Products is of limited usefulness.

We propose that utilities should be able to switch their Tier 1 Product once during the contract period by providing BPA with a two-year notice exercising the option to change Tier 1 Products. The notice would be given at the start of a rate period and go into effect for the next rate period. This approach will better align the ability to change Tier 1 Products with an individual utility's power supply requirements without placing additional risks on BPA or other customers.

II. Improvements in the ability to use Non-Federal Resources

During the workshops, BPA has made definite improvements in the ways utilities can use non-federal resources to serve load. The ability to use unspecified resources in a shape that allows utilities to better follow loads and reduce demand will encourage customers to provide additional load following and peaking resources over time. The latter will also allow customers to reduce their exposure to a Tier 1 incremental demand charge.

We assume that the rate design for BPA's load following product will retain an incremental demand charge that will not be seasonally differentiated, as discussed in the TRM workshops. If BPA changes its rate design and incorporates a seasonally differentiated demand charge, we request that utilities be allowed to shape non-federal energy into months with higher demand charges.

We also request that BPA provide grandfathered treatment for the use of small non-dispatchable resources that are currently committed to load. PNGC Power members have several behind-the-meter resources, the full variable output of which is run into load. These resources include Lake Creek Hydro in Northern Light Inc's service area, Buffalo Hydro and Island Park in Fall River Rural Electric Cooperative, Inc's service area, and Coffin Butte Project 1 in Consumer Power Inc's service area. We propose that these resources be grandfathered in without the need for RSS or any additional control area services. These non-dispatchable resources are behind-the-meter and have been dealt with on a billing basis. These resources should not be required to meet any *projected resource* shape or other shape requirements, nor should they be subject to any additional charges since their operation has shaped the residual load placed on BPA for years.

III. Improvement in the Tier 1 Products Available

A. BPA Load Following Product – BPA has made several significant improvements in the rules that utilities will follow when adding non-federal resources and then using those resources to serve load. BPA's load following product could be further improved for the customer by ensuring that its load following product provides the incentives to integrate resources and then use those resources to meet load. We know that load growth will not occur in neat annual block amounts. Accordingly, customers should be able to serve load growth using resources with varying characteristics including different seasonal and diurnal shapes. Customers should have the option of firming these resources independently or using BPA provided support services. Additionally, BPA should offer Resource Shaping Services for all non-federal resources,

whether they are dedicated or unspecified and regardless of resource type (renewable or non-renewable).

B. Slice/Block Product – The detailed Slice scheduling workshops have yielded fairly substantial changes to the operational aspects of the proposed Slice/Block Product. For example, BPA has made it very clear that the new Slice product will not provide control of the system to the Slice Participant. Consequently, BPA contends that Slice generation requirements can be met by BPA in any fashion. This contention allows BPA considerable flexibility.

Additionally, the original 25 percent limit on the amount of Slice provided by BPA was tied directly to the uncertainty of the Slice product. The modeling approach being developed for the new Slice/Block Product will, in BPA's view, more accurately reflect the actual capability of the system and reduce BPA's risk of uncertainty from the Slice/Block Product.

Finally the Slice component contains a large Columbia Generating Station (CGS) generation component. Under the critical Slice determinations, CGS represents 15 percent of the Slice system. A requirement that the Block portion of the Slice/Block Product be a minimum of 30 percent is in reality a 45 percent Block amount with CGS included. Consequently, the hydro based portion of the Slice component available to the Slice Participants is reduced to 55 percent. Such a small percentage does not provide a Slice Participant with adequate capacity to follow load as load growth occurs over time. Likewise, a disproportionate share of hydro flexibility is retained by BPA.

We recommend that BPA provide more flexibility in the percentage split between Block and Slice in the Regional Dialogue contracts.

C. Block with Shaping Service – BPA's addition of shaping for the Block Product is a considerable improvement over the initial proposal. We urge BPA to consider additional improvements. For the Block only product, BPA should allow utilities to change their Block shape if their monthly net requirements shape changes over the term of the contract. Requiring utilities to retain the same shape as the 2010 loads may be too restrictive for the future.

The restriction that BPA is placing on the Block with Shaping Capacity Product may render this product useless. BPA has limited the request for shaping capacity to a total of 200 MW. If amounts above 200 MW are requested, BPA will impose hour-to-hour ramping restrictions. It is unclear how many utilities may be interested in this product and their total capacity requests. We suggest that before BPA establishes any such restrictions that it first determine the number of utilities that may be interested in such a product, either initially or in the future, and their total capacity shaping requirements. Such an approach would provide for better product definition and help those interested to be able to evaluate the product fairly. Additionally, if it turned out that the Slice Product is undersubscribed, BPA could provide the additional capacity available to support this product.

IV. Issues Specific to PNGC Power

As a qualifying Joint Operating Entity (JOE), PNGC Power should receive the same contractual, operational and rate treatment as any other preference customer. For example, pooling net requirements should be done for all purposes, e.g. planning, rate making and billing. For all power supply and transmission matters, JOEs should function on the same basis as any other preference customer. We recognize that BPA and PNGC have not adequately thought through and discussed with BPA just how PNGC's pooled operations would work for the proposed Tier 1 products and the final Tiered Rate Methodology. We expect that the necessary meetings between BPA and PNGC on this topic will take place during the upcoming drafting phase of the Regional Dialogue work. We look forward to working through these issues with BPA.

V. Conclusions

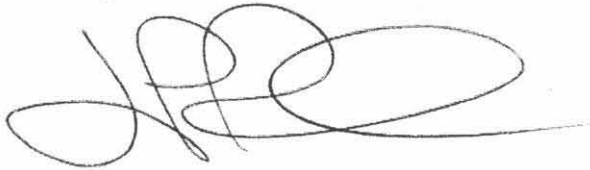
Finally, all of our comments and views about the Regional Dialogue approach are based on assumptions and interpretations of the information provided from the workshops. Those workshops have dealt with parts or subparts of the overall approach. We have yet to see a complete package that includes the TRM, complete products and the Resource Support Services to be able to analyze how all the components for this future approach fit together. BPA and the customers will need to reconsider certain aspects of the Tier 1 rates and products, and the Tier 2 rates once the entire package has been more clearly defined.

To assist preference customers in understanding the overall picture BPA needs to provide comprehensive documentation on policy decisions it has made or will be making. When BPA released its Long-Term Regional Dialogue Policy Proposal it contained three final policy decisions. Now BPA has closed-out its workshop process and the staff has implied that many additional policy decisions have been made. However, in many instances the customers have been left guessing about BPA's actual policy decision. PowerPoint handouts do not constitute an adequate decision document, in our view. Further, the exercise of drafting contract language is not the proper forum to discover the underlying policy.

We expect to provide BPA with additional comments on the overall workability of the Regional Dialogue construct once the complete package is understood. In the final analysis, the Regional Dialogue contracts, the products BPA provides for Tier 1 and the Tiered Rate Methodology for both Tier 1 rates and Tier 2 rates must fit together as a whole. We believe a concise document clearly stating the underlying policy decisions would help the overall understanding as we proceed with contracts and the TRM rate case.

Thank you for the opportunity to comment on these issues.

Sincerely,

A handwritten signature in black ink, appearing to be 'JP', with a long horizontal flourish extending to the right.

John Prescott
President & CEO

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