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Scott Wilson
Regional Dialogue Staff Lead and
Account Executive
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P.O. Box 3621
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Hello Scott:

First, this is to let you know that Inland Power and Light (Inland) greatly appreciates the work that you and many other BPA staff and management are doing to ensure the overall Regional Dialogue effort and all its many critically important components produce a positive result for the Pacific Northwest, BPA's many utility customers, and other stakeholders. As you well know, the Regional Dialogue tasks are many, often complex and entail the need to find a balance between many competing interests and objectives.

Inland has long been a full requirements customer of BPA and has experienced a positive and constructive business relationship with BPA. While we are posed to enter a new era of power supply arrangements, including BPA tiered rates, renewable portfolio standards (RPS) and other factors, from my perspective Inland would like to have every opportunity to continue to have its total power supply needs provided by BPA. There is value for both Inland and BPA if our future business relationship is mutually beneficial and broadly based.

I am sending this letter to highlight a limited set of issues that are important to Inland and hopefully to BPA as well. Specifically, these selected issues relate to BPA's Tier 2 Load Growth Rate Alternative (LGRA) and closely linked topics. The LGRA is clearly the tier 2 mechanism that most closely matches the traditional full requirements model under which BPA has served Inland and most of its public utility customers. Inland wants this key tier 2 rate alternative to work well, including for those that must comply with a RPS as well as those that elect to place an emphasis on renewable resources to serve load growth. Unfortunately, as presently proposed, the LGRA is not suited for Inland, and I would imagine a significant number of other BPA customers as well.

Specifically, as BPA moves forward with additional efforts on the tier 2 rate alternatives, the Tiered Rates Methodology, and the Load Following power sales contract, I would urge you to consider the following:

1) The LGRA should incorporate on an embedded cost basis all the environmental attributes or Renewable Energy Credits (RECs) that are associated with the resources acquired by BPA relative to the LGRA as well as provide a mechanism for those customers that do not desire or need such RECs to obtain the value of the RECs.

   To date, BPA has consistently indicated that any RECs associated with LGRA resources would be not included as part of the LGRA, but rather such RECs would be made available separately at "market prices". This is unnecessary and inconsistent with a well designed LGRA.

   In response to input in the Regional Dialogue process, it is my understanding that BPA has now appropriately decided to transfer registered RECs associated with Tier 1 resources, including augmentation resources, at no extra charge or premium to customers. Further, BPA has apparently decided to allow a customer to retain the RECs or authorize BPA to market a customers' share of Tier 1 RECs and credit the customer for revenues generated by such sale.

   The general approach to RECs for Tier 1 is clearly reasonable and appropriate and should be adopted by BPA for the LGRA as well.

2) BPA's power sales contracts are limited by law to a term of 20 years and as such the Regional Dialogue power sales contract will terminate in 2028. This produces a notable problem for the LGRA, and BPA's other tier 2 rate alternatives as well, in terms of long term competiveness and risk profile. Specifically, a customer relying on the proposed LGRA will have its total above HWM power supply terminate in 2028. This 'supply cliff' regarding BPA tier 2 is likely to produce exposure to high market and resource prices when a utility either independently or via BPA seeks post 2028 power supplies. A supply or resource cliff is much less likely should a utility elect to use a non federal aggregator.

   BPA has apparently recognized this problem in that various BPA tier 2 rate alternative documents have indicated that BPA is open to "exploring alternatives to allow for longer-term purchases" (i.e. those that extend beyond 2028).

   I would encourage BPA to work with interested customers so this topic can be fully explored and hopefully positively resolved or mitigated in a timely manner.

3) There is no doubt that BPA's plate is overflowing. Nonetheless, the potential delay of a draft BPA Resource Program until August 2009 is of concern. In evaluating the attributes of BPA tier 2 rate alternatives, including the LGRA, it is important for Inland to have information on the methods, evaluation factors and ultimately the likely new resource costs that BPA may incur. Furthermore, it is clear that BPA has additional requirements and processes not faced by non federal power suppliers and aggregators when it comes to resource acquisition.

There is some question as to BPA's ability to acquire substantial amounts of competitively priced renewable and other power by October 1, 2011. This relates in part to the extended schedule delay for the BPA Resource Program, and related processes. The November 1, 2009 date for customers to commit regarding BPA tier 2 service is only 23 months before October 2011. At a minimum, it would be useful for BPA to provide a start to finish timeline for resource acquisitions, including key process steps, related to initial tier 2 resource acquisitions and service.

In closing, I would like to emphasize that addressing issues in a timely manner is critical if Inland and others are to have an adequate opportunity to fully assess BPA's tier 2 approach, including the LGRA. Critical decision points regarding non federal alternatives to BPA's LGRA will likely occur in early 2009.

Thank you for considering these comments. As always, I look forward to continuing to work with you and others at BPA on the Regional Dialogue effort.

Sincerely,

Fred

Fred Rettenmund
Inland Power & Light

Cc: Paul Norman
Mark Gendron