

November 18, 2004

Council Chair Judi Danielson
Northwest Power and Conservation Council
851 S.W. Sixth Avenue, Suite 1100
Portland, Oregon 97204

Re: Draft Power and Conservation Plan

Dear Ms. Danielson,

Thank you for the opportunity to provide public comments regarding the DRAFT FIFTH NORTHWEST ELECTRIC POWER AND CONSERVATION PLAN. The following comments are submitted on behalf of Northwest Requirements Utilities (NRU). NRU represents the interests of 49 Full and Simple Partial Requirements customers of BPA that rely upon the Agency as their primary or exclusive supplier of electrical power and transmission services. Individual members of NRU may be submitting their own comments. Because the Council's Draft Plan contains detailed sections regarding BPA, much of the response we provide address the BPA issues. Both Geoff Carr and I are available to meet with the Council members and staff at your convenience to discuss the plan in general, the future role of BPA, and our recommendations detailed below.

We are of course very concerned about the future role of Bonneville. NRU members are a large part of BPA's core customer base and have relied upon the Agency over the years for a full range of services, consistent with statutory directives and long standing contractual arrangements. Our intent has been to actively participate in the regional dialogue, to see if a more limited long term power marketing role for the Agency makes sense, and is good for our members as well. Much of the Regional Dialogue discussion has focused on some form of allocation of the FBS resources to public power, implemented through new contracts, pricing/rates, a tiered rate for load growth, cost control, financial benefits for IOU residential and small farm customers, and a resolution of the DSI issue.

While continuing to work on these matters, NRU has reserved judgment about supporting a particular model. We need to know the details of our future business relationship with BPA, the products offered, and the approach to pricing. Once that work is complete, we can then undertake an assessment of the recommended future role for the Agency, and the cost and risk implications for our members. The task will be to show whether a new approach is superior to continuing under the current model, projected into the future.

Please consider these comments in conjunction with our April 22, 2004 letter to the Council regarding the future role of BPA, which touches on some of the same subjects.

In general, the Council plan points in the right direction on many key regional issues. The comments below indicate areas where we disagree with the direction or where clarification is needed

Council Document Has A Significant Missing Component

Given the Council's interest in regional loads and resources, we are surprised that the draft plan does nothing to discuss the need to maximize the value of the Federal Base System for the customers it serves. There is a huge benefit in operating the system as an integrated whole, much as is done today. BPA currently charges customer groups cost based rates or charges for the services provided. Limiting BPA's future power supply role is a different issue than "piecing out" the Agency's resources. To avoid "deoptimizing" the Federal Base System, we would like to see a future Full Requirements product designed similar to what we have today in terms of drawing upon FBS resources (other than a likely differentiated rate treatment for load growth.) In our estimation, if the FBS, through allocation and product pricing, is broken into a series of small segments that are for control purposes isolated from each other, the following will likely occur:

- The economic value of the federal based system will not be maximized and will be reduced from its current value.
- The system will be run less efficiently.
- We will open up rate setting to major clashes between customer groups over what services should be priced based on cost and what should be priced at market, likely leading to major winners and losers compared to current operations.
- Utilities that are willing to allocate the FBS and move to a tiered rate for bi-lateral load growth may find that other basic shifts in cost make the Full Requirements package so expensive overall compared to current operations that the entire proposal draws significant opposition.
- Utilities may need to add staff or to contract for expensive services to perform services that BPA traditionally has supplied cost effectively on their behalf.
- Federal legislation may be required to accomplish this, which many customers are unlikely to support.

Others within public power may or may not share our concerns, but we believe retaining and maximizing the value of the FBS is a topic that should be elevated to a first priority by the Council, and is one that deserves your full review. This meshes well with your statutory responsibility for resource planning. Maximizing the FBS value directly affects other related topics, such as reliability, and the reserve requirements that may be placed on individual utilities, or that can be provided through BPA. Unfortunately, this issue is not addressed in the Council's document.

The Future Role of BPA –Timing of New Long Term Contract Offering

In Chapter 11, the Council states that BPA should offer new long-term contracts by October of 2007. If the schedule can't be met, the Council suggests a number of actions. Substantive rulemakings and legislation are described as approaches to carrying out the

needed changes to BPA's role if new contracts can't be available by October of 2007. The Council states that it may also press for tiered rates if this schedule is not met. We note that the schedule proposed by BPA in its document, "Bonneville Power Administration's Policy Proposal for Future Power Supply Role for Fiscal Years 2007-2011" contains a December of 2006 date for contract offerings with contract signing by April of 2007.

Like others in the region, we want the work on new contracts to move at a deliberative pace, and have an anticipated ending date that allows sufficient time for resource planning for the post 2011 period.

This schedule will give us over four years of lead time from final contract language until the end of the current contract period. But more importantly, we feel confident that the allocation issues (amount of low cost FBS power as a percentage of the generation resources) will be generally known earlier in the process, likely in FY 2005, which should provide ample time for general resource planning post 2011.

As the Council notes, the offering date of new contracts does not mean they will go into effect at that time. Alternatively, we have concerns about new contracts going into effect before October of 2011. An earlier date opens up the issue of potential cost shifting among current BPA customers if the financial responsibilities of some customers change with new contracts.

NRU's membership is protected, through BPA power contracts that run through the end of FY 2011, from the imposition of tiered rates. We also have serious reservations about new legislation (as noted by the Council) or the rulemaking approach to setting BPA's policies for power supply. We have previously stated these reservations in our April 22nd comments, and nothing has changed our view.

BPA Products and the Issue of Cross Subsidies

In the Products section of Chapter 11, the Council states that "*Every effort should be made to eliminate cross subsidies among products.*" This is rather a broad based statement that would benefit from additional work. As a general principal, we can support this concept at a high level. However, it would be useful to explore its consequences in greater detail before any decision is made to apply it rigorously.

The general goal of having each product pay its full costs seems legitimate. However, there may be programs that serve broad public power objectives such as the "widespread use of federal power" the cost of such programs may appropriately be applied to a variety of products. These programs must be viewed in the overall context of the benefits BPA provides, including those related to Investor Owned Utilities' customers receiving Residential Exchange benefits.

The history of the current purchasing agreements, and the public policy reasons for certain actions and programs cannot be discarded due to one party's interpretation of

what the term “no cross subsidies” should mean in the future. The need for some of the rate relief mechanisms that BPA currently maintains will be impacted in the future by both product and rate design. We look forward to participating in future deliberations regarding these issues.

Conservation Resources

The conservation acquisition goal of 700 aMW over the next five years is an aggressive target, and represents a 50% increase over the target for the last five years. It starts with 130 aMW the first year increasing to 150 aMW the fifth year. The reported cumulative investment to accomplish this is in the range of \$1.2 to \$1.35 billion, and according to the draft plan, will likely result in nearly a 1% increase in utilities’ overall revenue requirements.

Rather than this 700 aMW “option 3” listed in the Council’s “Portfolio Analysis and Recommended Plan,” we would ask you to reconsider “option 2” – or 80 aMW per year, which is representative of the level of conservation achieved in many years, but short of the maximum accomplished.

The Council raises the following question: “Is the Council’s call for aggressive and sustained conservation appropriate and achievable?” To answer this question, NRU members need to know the implications of a “call” within the Council’s plan. Is it a goal, or a mandate, with an obligation for BPA and utility customers to fulfill, and how would this tie in with an allocated amount of the FBS resources? Our reading of the section entitled “Implementation of the Council’s Power Plan” particularly the references to Section 6(A)(1) of the Northwest Power Act describes an obligation of the Administrator to take actions consistent with the plan. Thus we are viewing the 700 aMW as a potential mandate that would subsequently be accompanied by mechanisms to encourage or force compliance.

In a potentially allocated power supply world, we need to know how a conservation target for the region would align with BPA providing load growth services to the Full Requirement customers. These customers will need actual generating resources to cover load growth. They will want to be in a position to consider a power supply package offering from BPA against alternatives from the market. It would be useful to know the likely future relationship between BPA and its fixed supply customers (Slice/Block) and the interface between conservation and the availability of federal power supply.

If any commitment to the region for meeting conservation or renewable resource targets remains with BPA, then it’s implementation has to be distributed over the total BPA loads or customer base, rather than disproportionately assigned to the elements of the Full Requirements sector that is relying upon the Agency for load growth.

In addition, we believe that if BPA moves to a tiered rate to cover the actual charges of resources beyond the allocated FBS after 2011, there will be a natural incentive for all utilities relying upon BPA for load growth to aggressively pursue conservation. The

trade off for BPA's customers with load growth will become the cost of conservation acquisition compared to market purchases or the cost of new resources rather than a single melded BPA cost based product that is likely to be less expensive than the cost of implementing conservation measures. Has the Council taken this into account in its goal setting? It does not appear so from the document.

The conservation acquisition goals in Chapter 3 of the plan are both aggressive and are of concern to smaller utilities that may find new responsibilities and costs imposed upon them as a result of BPA's implementation of the plan. Smaller utilities in most cases have significantly fewer commercial and industrial customers compared to the larger utilities with generation resources. According to the Council's report, commercial and industrial customers account for 30% and 27% of the region's non DSI loads.

Remaining cost effective conservation opportunities are most available with these larger types of customers. In addition, the staffing at the smaller utilities is limited. Carrying out aggressive programs will be particularly difficult if there is not a clear end use customer interest in the services. The implementation of these goals and the financial obligations that will come with them need to be attuned to the limited staffing and conservation opportunities available at smaller utilities. The Plan provides no recognition of this issue. We would like to reiterate that the existing C&RD with its small utility provisions has worked well and should be retained (with minimal changes). We appreciate the Council's continued support for this program.

Clearly utilities will want to know if conservation targets can be pooled among utilities to help collectively take advantage of the programs that make the most economic sense. We would like to see that issue addressed in the plan.

Service to the DSIs

The Council states that "*if a DSI has been a responsible customer of Bonneville, there may be an opportunity to provide a limited amount of power for a limited duration under specified terms and conditions.*" It is important to re-emphasize that BPA is under no legal obligation to provide power or financial benefits to the DSIs. BPA's future role will primarily be to sell the output of the existing Federal Columbia Power system at cost. We note that BPA is forecast to be at load resource balance - BPA's public power loads equal the existing federal resources -- post FY 2006. Therefore, in our view, any power supply to the DSIs should reflect the cost of providing that incremental service, and should be directly assigned to the DSIs.

The Council states that BPA should augment the power system to provide service to the DSIs and then does not say that the DSIs alone should pay for the cost of this augmentation. While we may disagree on the question of how costs are assigned, we do agree with the Council that if there is a physical delivery of power to the DSIs, there should be a limited one time augmentation of the FBS resources to serve that load. In other words, we are not interested in keeping the FBS at its current size, adding a DSI

load obligation, and thereby reducing proportionately the amount of cost based “tier 1” power NRU members receive from BPA.

In its Regional Dialogue proposal, BPA has raised the issue of serving a limited DSI load through a financial transaction rather than a commitment to a delivery of power. The financial transaction as explained by BPA would likely create less of a risk for other BPA customers than a commitment for power deliveries that is subject to future market conditions, which could be very volatile. However, we are not yet convinced that BPA has the statutory authority for this type of transaction, and we are concerned about the potential cost to other customers.

For either a power delivery or a financial transaction, BPA has to provide assurance to the region that any potential offer made to the qualifying DSIs cannot be expanded to any other group or type of customers. Equally important, we should explore only those approaches that do not involve the need for new Federal legislation, because the risks of pursuing that approach seem to be increasing. In summary, if the DSIs can be served at limited or no additional cost or risk to BPA’s other customers, then we are willing to discuss such approaches.

Cost Control for BPA

We note that the discussion of cost control was dropped in the body of the Plan as it relates to BPA and is now in the appendix. We must re-iterate and re-emphasize here our comments on that issue from our April 22nd 2004 letter to the Council. *“The Council document highlights the importance of cost controls, references the newly formed Customer Collaborative and goes on to discuss alternative forms of dispute resolution mechanisms. The foundation of a meaningful allocation is a belief on the customers’ part that what is being allocated to them inherently has value. And the value can only be assured by contractual protection that unwarranted costs will not migrate to the customers that want to sign long term contracts. We want to identify this subject as a priority area of concern, and one that needs to be addressed by the Council, the customers, and BPA early in the work program.”* The importance of this concept should be given priority in the Council Plan and not relegated to the Appendix. To do otherwise, misses an important opportunity for the Council to signal it fully understands the importance of BPA cost control to retaining the value of the FCRPS for the region.

Resource Adequacy

In the section entitled Resource Adequacy, the Council poses the question of whether the region should focus on “physical adequacy” or “economic adequacy” – the latter being a higher standard that reduces exposure to unacceptably high power rates. In the short term the region needs to resolve the physical adequacy issues, with a longer term goal of planning and project development that facilitates reasonably stable power rates.

The issue of reserve adequacy ties in directly to the need to maximize the operating efficiency of the FBS resources, and take collective actions on behalf of a broad group of

BPA customers, rather than having them plan for such things as reserves in relative isolation.

In the section entitled Resource Adequacy, the Council states; “*This risk (of load resource deficit) can only be removed if all utilities ensure an adequate level of resources for their own load serving responsibilities.*” NRU’s members, for the most part, have no generation of their own. Therefore we will need to work with BPA to ensure an adequate level of reserves within the context of allocation, and in the development of products offered. This may likely involve BPA maintaining the reserves on behalf of the utilities and charging the customers for this service.

The Council’s Relationship with BPA – Administrative Implementation

We have concerns about Chapter 12 entitled “Implementation of the Council’s Power Plan.” This section seems to overly focus on the BPA/Council relationship. What about the relationship between the Council and the other major power and transmission providers in the region?

The potential requirements that this section sets up for BPA reporting to the Council could put further restraints on BPA’s ability to act in a fashion to meet changing circumstances and customers’ needs. Whatever processes are set up need to be streamlined and efficient, and conducted in a timely fashion that is responsive to the needs of the customers BPA is serving, and the realities of the changing utility environment. For example, assuming BPA were to bi-laterally contract to meet the load growth of a class of customers, we would expect that any Council oversight of this would not detract from the ongoing contractual business relationship between the Agency and its customers for this service. We are concerned about all aspects of BPA’s total cost, both for internal staff and for other external financial obligations.

Especially troubling is the following statement, “*The Council intends to be vigorous in its oversight of Bonneville’s actions and whether they are consistent with the Council’s Power Plan.*” Areas that the Council wishes to take into consideration include; power supply resource acquisition, load service, contracts and rates. This sounds like some form of a de facto governing board starting to move into operational decisions. We do not support any move in this direction. We think that the Council goes too far in its reach here and should be limited to review of BPA’s power supply/conservation and fish and wildlife responsibilities, more at the planning level, as described in the Regional Act Section 6. Our power sales and transmission contracts are with BPA and we have concerns about the Agency’s authority to make key decisions in a timely fashion and then be accountable for their actions. We will look to the expected dispute resolution process within the new power sales contracts, if and when needed, to resolve most issues with the Agency. Further, we will be active participants in the rates processes with other customer groups and interested parties to address and hopefully settle any differences.

Thank you for the opportunity to comment. We look forward to working with you in the future in helping to shape the Fifth Northwest Electric Power and Conservation Plan.

Best regards,

A handwritten signature in black ink, appearing to read "John D. Saven". The signature is fluid and cursive, with the first name "John" and last name "Saven" clearly legible.

John D. Saven

Chief Executive Officer

CC: Steve Wright, Paul Norman, Helen Goodwin Bonneville Power Administration
Members of NRU
Jerry Leone, Public Power Council