



Citizens' Utility Board of Oregon

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April 22, 2004

Mark Walker
Director of Public Affairs
Northwest Power & Conservation Council
851 SW 6th Avenue, Suite 1100
Portland, Oregon 97204-1348

Re: Comments on the Council Recommendations for the Future Role of the
Bonneville Power Administration in Power Supply

Dear Mr. Walker,

The Citizens' Utility Board of Oregon thanks the members and staff of the Northwest Power and Conservation Council for their work in attempting to tackle the thorny problem of recommending changes in how Bonneville executes its regional obligations to improve Bonneville's service to the region. Even though there are multiple points of view in the region and often conflicting demands made by regional stakeholders, the stakeholder group convened by the Council was helpful for both narrowing some gaps and identifying other gaps that need attention.

We will comment on four points. Our comments are intended to be short and to the point. Given the short comment period and our other commitments we find ourselves pressed for time. Please do not mistake brevity for lack of interest. In fact, we believe these issues to be of the utmost importance.

1. Allocation implies a change in responsibility for resource development which implicates regional resource adequacy concerns.

It comes as no surprise that the Council recommends to Bonneville that it transition towards an allocation of the existing system through long term contracts and to serve utilities beyond that allocation at the cost of such service. This basic construct has been discussed in the region in many forums for several years. We have no quarrel with this basic construct. We do, however, believe that the Council's Recommendations do not sufficiently connect the benefits for Bonneville's customers from this construct with the obligations those utilities are now taking on.

The Council recognizes the benefits for Bonneville's customers in the Recommendations on page two: "This change would clarify who will exercise

responsibility for resource development; result in an equitable distribution of the costs of growth; and prevent the value of the existing federal system from being diluted by the higher costs of new resources.” Clarification, equitable distribution, and dilution prevention are all good things, but the construct advocated here fundamentally transfers the obligation of adequate resource investment from a regional approach to a large number of individual and independent utilities. Before we make that fundamental change, we ought to explore the implications of that change both for the individual utility and the region as a whole. It is our belief that such an exploration will make it clear that it is in the interest of neither the customer of the individual utility nor the region as a whole to spread the obligation for resource investment in a diffuse and uncoordinated manner.

In the past, adequate resource investment has been largely a regional effort. Resource development for the publicly owned utilities and investor owned utility resource investment have been connected through Bonneville. When Bonneville makes a major investment in a generating resource, the preference rate goes up. When an IOU makes a major generating resource investment, its average system cost went up. The two met in the residential exchange so that, to a point, customers of both Bonneville and the IOU were absorbing the other’s cost of resource development. For excellent reasons, the IOUs and their customers lost confidence in the way Bonneville operated the exchange mechanism and the exchange became less appropriate as the electricity markets underwent changes over the last ten years.

Now we are considering a shift to the other end of the ideological spectrum where not only is there no sharing of regional resource costs, but there may not be any coordination amongst those making investments. Suddenly 150-some odd utilities, many with little experience developing new resources, will be responsible for making their own resource investment decisions. How will they make those decisions? Will they wait for others to make investments and buy surplus? Will this cause a shift in costs to customers of those utilities that invest and away from those who do not?

The Council does address resource adequacy, but the connection to allocation is not there and neither is the appropriate tone given the potential problem. The Council says “[a] change that places more risk and responsibility of meeting future load obligations on individual utilities rather than on Bonneville does not reduce overall risk.” Recommendations, p. 16. We would have said, without appropriate safeguards and an enforceable adequacy standard, a change that places more risk and responsibility of meeting future load obligations on individual utilities rather than on Bonneville may increase overall risk.

IOUs are required (in Oregon, at least) to engage in a least cost planning exercise every two years. This public process is designed to analyze the load data and the resource options and to produce a resource investment strategy which represents the lowest cost to the customer, the environment and to society generally. The big questions are what and how much generating plant should the utility build or buy, and what kind of reserve margins should the utility plan for. At the Council’s Power Supply Adequacy Forum on May 28, 2003, one utility representative said what everyone else was thinking, i.e., before I say what my reserve margin will be in our least cost plan, I want to know the reserve margins in all your least cost plans. Why build a resource if you can live off the surplus of somebody else’s resource and not pay the fixed cost of that resource? It is not

imprudent or shirking of a board member's fiduciary duty to delay investment in plant if the utility can contract for power on the market or from somebody else's plant; but if enough utilities choose that path, the region investment pattern becomes dysfunctional. At best, this may result in a shifting of costs between customers of utilities that do and do not invest in plant, at worst, it may lead to problems of resource availability and price volatility.

2. The residential exchange settlement must recognize that IOU residential and small farm customers are citizens of the Northwest and have legitimate claims to the benefits of the federal hydro system.

The Council says as much as it can say about the terms of any settlement of the residential exchange. Recommendations, p.12-13. Of course it must represent an equitable share of the benefits afforded by the federal hydro system, it must provide certainty, it must be transparent, and it must not be subject to manipulation. It must be all of these things, because over the past 10 years, Bonneville has treated the IOU residential and small farm customers not as legitimate and fundamental beneficiaries of the federal hydro, like its publicly owned customers, but rather as a cost to that system. Complaints stretch back for years that when Bonneville is in financial trouble, one of the "costs" that it cuts is the residential exchange. The way Bonneville has cut the cost of the exchange raised issues about the transparency of the 7(b)(2) test and the ability of Bonneville to manipulate its outcome.

These weaknesses in the exchange methodology led the IOUs, their customers and the regulators to demand a different treatment of exchange benefits. For a time, Bonneville responded and the IOUs were offered power along with monetary benefits. Power was a preferred form because it put IOU residential customers on a near-equal footing with the publicly owned utility customers. Events transpired against this plan, as unexpected DSI load added on top of the expected load combined with the power crisis to make benefits in the form of power problematic. If we are to go back to a purely financial treatment of the exchange, where we are not on equal footing with the publicly owned utilities with regard to access to power, then we must avoid the dynamic of the past where the exchange is a line item on the ledger and not a benefit to the region as a whole. We have heard nothing from Bonneville over the past several years that leads us to believe that Bonneville recognizes that IOU residential and small farm customers are a fundamental part of its regional mission.

A settlement of the exchange that does not recognize the legitimacy of IOU residential and small farm customers as part of the region and as beneficiaries of the federal hydro system is a hollow mechanical device devoid of meaning and real durability. Sometimes its not what you say, but how you say it. Therefore, we would suggest that the Council recommend that the settlement "must provide certainty, it must be transparent, it must not be subject to manipulation, and it must recognize that IOU residential and small farm customers have a legitimate and fundamental right to the benefits of the federal hydro system."

3. New public loads should have the opportunity to access Bonneville power at the lowest PF rate.

The Council's recommendation regarding new or annexed public load is a little too vague to be meaningful. Recommendations, p. 10. When the Council says that new or annexed loads "need to be served on a basis comparable to other public utilities," we think it means that new or annexed public loads should get the opportunity to access the lowest PF rate along with other long-time public utilities. We agree, however, the Council goes on to say that "a waiting period of sufficient duration is needed to allow existing customers and Bonneville to make the necessary resource decisions." What that waiting period is makes all the difference. If the waiting period is 20 years then access to Bonneville is largely meaningless as is the larger philosophy of public power. If the waiting period is specifically tied to the time necessary to make resource decisions, including perhaps a time limitation to incite resource solutions, then the waiting period is a fair condition.

As tempting as it may be, a position of "we got ours, you don't get any" is not viable. The proud history and tradition of the public power movement ought not to allow such a morally bankrupt position as depriving others of the benefits of public ownership. Reasonable timing limitations related to lining up resource opportunities are acceptable, but denial of access to the lowest PF rate for arbitrary periods is an insult both to neighbors who happen to live in IOU territory and to public power itself.

4. Bonneville must continue to support conservation efforts and renewable energy investments.

Conservation and renewable energy are ultimately regional efforts. A regional resource base that is inefficient or overly reliant on particular fuels or technologies is bad not just for customers of Bonneville, but for all the region's utilities and citizens. The new role for Bonneville in power supply may begin to send more realistic price signals to some customers, but it is too early to take Bonneville out of the conservation and renewable energy business. Some conservation and renewable energy projects need a centralizing force and institutional barriers may well prevent some utilities from unilaterally acquiring all that is cost effective.


We agree with the Council that the region should develop all cost-effective conservation. This means that budgets should be sufficient, programs should be effective, and Bonneville should serve as a backstop where individual utilities fall short. The Council's approach makes the right points.

We are a little more concerned, however, with the Council's recommendations regarding renewable energy. Recommendations, p. 16. The Recommendations are vague as to Bonneville's role and the Council seems to think that Bonneville's direct support is no longer wanted or needed. We think that BPA has a continuing role to play in the development of renewable resources including both a supportive role for utilities investing in renewable resources as well as acquisition by Bonneville itself.

Development of renewable resources is a regional benefit. We do think that Bonneville's role should be flexible, but that means engaging in a wide range of activities including direct investment if Bonneville's customers fail to make those investments.

Bonneville's wide range of activities would include assistance for renewable resources on both the transmission and the power side. Bonneville still has a responsibility to encourage the development of renewable resources and it is in a unique position to leverage its resources for the good of its customers and the region.

Respectfully submitted,

A handwritten signature in black ink that reads "Jason Eisdorfer". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Jason Eisdorfer #92292
Attorney for Citizens' Utility Board of Oregon