

INDUSTRIAL
CUSTOMERS OF
NORTHWEST
UTILITIES

KEN CANON
EXECUTIVE DIRECTOR

RECEIVED BY BPA PUBLIC INVOLVEMENT LOG#: RA-0352 RECEIPT DATE: OCT 18 2002
--

October 17, 2002

Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration
Post Office Box 3621
Portland, Oregon 97208

Frank L. Cassidy, Jr.
Chairman
Northwest Power Planning Council
851 SW 6th Avenue, Suite 1100
Portland, Oregon 97204-1248

RE: Comments on the Regional Dialogue Regarding the Future of BPA

Dear Steve and Larry,

The Industrial Customers of Northwest Utilities ("ICNU") offer the following comments on proposals regarding the future of the Bonneville Power Administration ("BPA") in response to BPA's and the Northwest Power Planning Council's June 19, 2002, letter to the region and the proposal made by public and private Northwest utilities ("Joint Proposal"). These two organizations have opened a Regional Dialogue on the future of BPA, particularly with respect to resource development and future load obligations.

ICNU's interests are twofold: First, because ICNU members purchase significant amounts of energy from public agencies, ICNU weighs the proposal in terms of ensuring the least-cost delivered power to its members served by public entities. This is essential to insure the financial integrity of these industrial customers.

Second, ICNU will weigh the proposal in terms of the development of a vigorous, open, competitive market for wholesale power supply and demand -- a goal that ICNU believes will benefit both direct-access and utility consumers.

The ICNU comments must be considered as preliminary. Many of the provisions of the Joint Proposal of the Northwest Utilities are still under discussion and development. Therefore, we reserve the right to comment on the final proposal that emerges from negotiations among the various parties involved. There have been changes posted to the Northwest Power Planning Council comment board as recently as October 13, 2002. The impact of these changes has not been fully analyzed.

In addition, there has been little public numerical or financial analysis of the entire Joint Utilities package, including the most recent changes. ICNU understands that BPA has produced studies that show significantly lower net exchange costs under other residential-exchange methods. If these studies exist, then they should be made public in order to further inform the debate over the future of BPA.

In short, it is premature to comment definitively on the proposal until much more is known as to the proposal's characteristics and its economic impact. The following comments therefore must be taken in the context of ICNU's current understanding of the status of the proposal to restructure BPA's power-service obligations. As the proposal changes, the ICNU comments may change as well.

Reducing BPA's Role in Resource Development Should Enhance the Development of Power Markets

BPA is the single-largest provider of power for the region. It is also potentially the largest-single acquirer of new resources, depending on the utilities' decisions to ask BPA to provide for their load growth. Because of the size of its presence in the market place, its decisions affect those loads that rely on its procurement.

An advantage of the Joint Utilities proposal is the diversity introduced by different decision-makers in the resource market place. A decision of a large single player -- BPA -- replaced by a multitude of individual decisions, affording the market to develop multiple solutions to serve future loads.

Regardless of the Decision in the BPA Futures Process, the Ultimate Result Must Be Measured by Its Impact on End Users, Particularly Public Agency Consumers

The Regional Dialogue focuses largely on the future of BPA, but the real effect of major changes in the role of that Federal agency must be measured in terms of the impact on end use customers. It is not sufficient to look simply at changes in BPA's costs as a result of the changes in the way BPA provides resources for the future and the way it addresses the residential exchange and DSI service.

The decisions regarding BPA must be considered in the larger context of how utilities combine their BPA purchases with their ultimate obligation to serve the load requirements of their consumers. The block of BPA power apparently fixed by the Joint Utilities proposal is insufficient to provide for the load growth of the utilities. Those utilities must supplement their BPA purchase with other resources. The costs of these supplemental resources must be weighed along with the cost of BPA allocations.

In addition to the question of how end users are affected by the combination of BPA and/or other resources, the Joint Utilities propose significant payments to investor-owned utilities to fulfill BPA's residential exchange obligations. We understand that BPA has performed an analysis of its residential exchange obligations that produces substantially different results than those offered in the Joint Utilities proposal. The region needs to have these studies and any other BPA analyses made public in order for end users to make a reasoned decision on the proposal. ICNU does not support excessive payments to the IOUs under the residential exchange.

The Joint Utilities proposal also provides 650 aMW of power and other benefits to the DSIs. The proposal notes, however, that the provisions for the DSIs are still under discussion, so the ICNU comments can only be considered as provisional. ICNU is concerned that BPA and the region may underestimate the risks involved and the legality of BPA providing credit backing to the development of resources not destined for the Regional Act's 7(f) rate pool nor as Federal Base System replacements. The provision of 650 aMW of resources for the DSIs has no legal basis on its face and the absence of an industrial margin pursuant to Section 7 of the Regional Act appears to be contrary to law.

Provisions for conservation and renewables are still "under discussion," so it is impossible for ICNU to weigh the merits of the Joint Utilities proposal in that regard.

A regional decision to change the way BPA acquires resources must be informed by analyses of the impact of the decision in the broader context of ultimate service to load, payments or subsidies to the investor-owned utilities and provisions for conservation and renewables. No such analyses have been provided. The region has insufficient information to make a reasoned decision as to the course of action.

The Proposal Bears Little Resemblance to the Regional Act and Other Statutory Bases of BPA's Actions and Therefore May Face Significant Legal Challenges

Any resemblance between the Joint Utilities proposal and the Regional Act as it was implemented in its first 20 years appears to be coincidental. The result of

the changes proposed, absent changes in the underlying statute, may bring about legal challenges to the proposal that would tie up regional decision-making for years.

Among the major divergences from the Regional Act are: 1) the apparent termination of BPA's obligation to serve requirements under the resource directives of Section 5 and the rate directives of Section 7; 2) the lending of credit for resources not acquired under Section 5 and placed into rates under Section 7; 3) service to the Direct Service Industries post 2001; 4) second-tier status for new public agencies; 5) establishment of a residential exchange obligation bearing no direct relationship to the utilities' average system cost, potentially violating Section 5(c) provisions; and 6) the absence of an industrial margin charge pursuant to Section 7.

Summary

Though there may be merit in restricting BPA's involvement in future resource development, it is unclear whether the Joint Utilities proposal will result in overall benefits to the region or to BPA's customers. Many of the major provisions are still incomplete and for those that are complete, no analyses have been made publicly available. Furthermore, the proposed changes significantly alter the way the Regional Act has been developed and, absent changes in the underlying BPA statutes, may face challenges in the courts and introduce uncertainty in regional decision-making.

We look forward to additional analyses of this proposal as it is further developed and refined.

Sincerely,



Ken Canon