



April 23, 2004

Mark Walker  
Director of Public Affairs  
Northwest Power and Conservation Council  
851 SW Sixth Avenue Suite 1100  
Portland, OR 97204-1348

Dear Mark:

PNGC Power appreciates the opportunity to comment on the Council's draft "Recommendations for the Future Role of the Bonneville Power Administration in Power Supply" dated April 9, 2004 (Draft). PNGC Power submits these comments on behalf of itself and the fifteen rural electric cooperative members it serves. As customers of BPA we have a major stake in the evolution of BPA's role. Please note that we are generally supportive of the joint comments submitted by BPA's customers. Our comments focus on areas where we wish to provide greater emphasis or added detail regarding our specific views.

The Council is well-positioned to take a broad view of policy issues and can help achieve a balance between the various interests affected by changes in BPA's role. The Council should continue to show leadership by pushing the various parties, including BPA, towards a resolution of outstanding issues.

We agree with many of the Council's recommendations including its call for fundamental changes in BPA's role as summarized at the bottom of page 1 and the top of page 2 of the Draft. Serving a base amount of customer load at embedded system cost and then charging customers the incremental cost of load increases above the capability of the current system, is the central concept that should shape a redesign of the BPA system. As the Draft states, this change will clarify who is responsible for serving load and meeting load growth with new resources. It will also result in assigning the costs of growth equitably and prevent diluting the value of the existing system. We support these fundamental concepts.

### **Long-term Contracts**

We support the Council's view that the best way to achieve this is through new long-term contracts. We would prefer that such contracts be put in place and be effective for all customers by October 1, 2006. In the event this schedule is not met, we need to begin

implementing the new approach through policy and rates. For example, BPA could offer contract amendments (effective October 1, 2006) to customers that wish to restructure their relationship with BPA in a manner that is consistent with BPA's new role as described above. These amendments would 1) explicitly limit BPA's obligations to supply such customers and define their long-term (including post-FY11) allocation amounts, and 2) limit those customers' responsibility for BPA costs to their allocation percentages of the costs of the existing federal system. This approach would allow utilities willing to execute such amendments to obtain much greater planning certainty than they now have. This approach would also increase planning certainty for BPA and its other customers who choose to retain their contracts un-amended into the post-2006 period. It might also free-up some power now under long-term contract to serve other BPA load requirements. The amended contracts could be replaced when new ones are offered and accepted by other customers.

We are concerned that the scope of BPA's impending Record of Decision (ROD) process will not include sufficient detail to guide utility decision-making as it relates to long-term resource planning, or even provide the necessary authority for the agency to enter into new or revised customer contracts that have durable impacts on their responsibilities.

The Council's comments, rightly, urge the agency to expeditiously negotiate long-term contracts as a way of providing customers with a durable view of their respective responsibilities. Without that durability, utilities will not have enough assurance on BPA cost and rate issues to begin exercising the option of acquiring non-federal resources. If the agency's ROD does not, at a minimum, provide the authority to negotiate and enter into new or revised contracts, and in the process allocate BPA's resources and their attendant costs, it is hard to see how the Council's stated aim will be achieved in any meaningful way.

Accordingly, we urge you to add unambiguous language advocating that BPA take such steps as are necessary within its ROD process to clear the way for near-term contract negotiations leading to a revised BPA role as defined in the Draft.

### **Implementation Process**

The approach of pursuing near-term contract modifications that establish long-term resource and cost allocations as recommended above would be accomplished using BPA's existing authorities to set policy, establish rates and enter into contractual commitments. As under the current scenario, uncertainties would still exist as to the ultimate enforceability and durability of the arrangements. However, we believe this approach would represent an incremental improvement over the current scheme and a major transitional step toward a new system backed by brand new contracts and, perhaps, legislation.

The Council's suggestion of a formal rule-making is an interesting one that warrants careful consideration. Our main questions regarding this approach are whether it 1) would provide significantly enhanced durability, 2) would conflict with existing statutory requirements or 3) could result in unintended consequences such as added litigation risk.

### **Allocation Method**

We agree with the Council that any allocation method should be as objective as possible and not subject to gaming. The customers are working on a method and expect to reach agreement soon on an approach that meets the Council's criteria. However, we urge the Council not to get into the details of allocation methodology but leave this to the customers and BPA to resolve.

### **Tiered Rates**

We agree with the Council that the central focus should be to get BPA's new role implemented through long-term contracts. However, PNGC believes that it is also important to put load growth on the margin throughout the post-2006 period through the appropriate contract and cost-allocation mechanisms. This can best be accomplished through new agreements which define how costs are allocated. However, should new or amended contracts be delayed substantially, we believe BPA can achieve this by the way it allocates costs in its rate process without a complicated tiered rate structure. Without the appropriate cost allocation and control mechanisms, the new role recommended for BPA by the Council will remain an idea only.

The Council should emphasize in its final recommendations that a tiered rate construct that fails to put any utility load growth at the margin or to durably allocate system costs and resources, will not constitute a meaningful deviation from the current status quo, and will not be in keeping with the Council's stated aims.

### **Choice of Products and Responsibility for Costs**

PNGC supports the Council's recommendation that customers be able to choose freely among the basic product types and that cross-subsidies among products should be avoided. We believe this approach is best achieved through the concept of graduated service levels. Customers choosing a particular service – or bundle of services – should pay accordingly. Customers not taking a particular service – e.g. load growth – should not have to pay for the cost of BPA providing that service to others.

In order to implement this concept, we suggest that each preference customer be allocated a percentage of the federal system capability. These percentages should be memorialized in policy and set forth in contracts. Once this is done a customer may opt to add other services such as converting its percentage of system capability to fixed amounts of energy per year and month, shaping its capability to obtain a block or to follow actual requirements, load growth service, etc., up to and including a full requirements service package. All customers except those purchasing the "raw" product would receive a credit for their share of BPA's

surplus revenues. BPA would allocate its costs and set its rates such that each preference customer pays the “lowest cost PF Rate” for the particular package of services its selects. Cross-subsidies among customers are thereby avoided as recommended by the Council.

### **Direct Service Industries (DSIs)**

Here PNGC Power believes the Council’s Draft misses the mark. BPA is not obligated to provide power to a DSI, let alone “under terms and conditions that would permit the DSI operate.” (Draft, pp. 3-4,11) Carried to its logical conclusion, this principle means that BPA’s customers are required to subsidize DSI rates to whatever level makes the DSIs profitable. Such a policy is clearly not viable. I am not aware of any other commercial or industrial customers in the region - whether served by IOU or Public – that are provided this type of blank check rate guarantee.

PNGC Power would support BPA selling a limited amount of temporary surplus power to a DSI at cost if the DSI otherwise meets standards for service comparable to those articulate on pages 11-12 of the Draft. However, we do not believe BPA has the authority to augment its system in order to serve DSI load, let alone charge other customers any of the costs of so doing. If BPA enters into contracts for the sale of temporary surplus power to any DSI customer, it should do so only on terms which include express and robust credit support provisions. This will ensure that BPA will never again sell power to a DSI customer and fail to collect all that is due under the contract.

Finally, we do not support BPA imposing additional risk on its utility customers by providing credit support for resources developed by DSIs. We urge the Council to drop this option from its recommendations to BPA.

### **Benefits for Residential and Small Farm Customers of IOUs**

This remains a difficult issue to resolve. The Council is wise to continue its support for a negotiated settlement of this question, and we agree with the settlement characteristics recommended in the Draft. We also believe that legislation may ultimately be required to secure a durable result that provides certainty to all parties.

### **Conservation and Renewables**

Overall we support the Council’s recommendations on renewable resources. In the area of conservation, however, we have some concerns. The Council’s recommendations on conservation give excessive weight to centralized approaches at the expense of local efforts. Focusing on a “one size fits all” approach underestimates the importance of local diversity in the Northwest and the value it brings to achieving conservation.

The Draft states that “it is increasingly important that the region continues to enhance its conservation efforts to ensure that it is achieving conservation at the lowest cost to the utility system.” (Draft, p. 15) Although we agree with this goal, we do not agree with the proposed solution, i.e., that “Bonneville should use the full extent of its authority to ensure that all

cost-effective conservation is captured in an efficient, low-cost and timely way and that Bonneville should retain a strong and active role in the coordinated planning and implementation of conservation efforts across the region.” (Draft, p. 15)

Again, we believe there should be a role for Bonneville in acquiring conservation, but it should primarily be a supportive one that does not substitute BPA’s judgment for that of local utility and consumer decision-makers. If given a job to do, local utility managements will perform in a ways that are cost effective and efficient for their ratepayers. BPA is simply too far removed from local conditions to make decisions about what is cost effective or efficient in a specific locality. The best way to achieve the Council’s conservation goals is by taking advantage of local knowledge and the diversity of the region’s utilities.

We acknowledge and appreciate the efforts of the Council and its staff to deal with the issues covered in the Draft. We look forward to continued involvement in the Council’s deliberations on these matters.

Sincerely,

Joe Nadal  
Senior Vice President/COO  
PNGC Power

cc. PNGC Members  
Paul Norman, Bonneville Power Administration  
Dave Fitzsimmons, Bonneville Power Administration