TACOMA POWER

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TACOMA PUBLIC UTILITIES

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Mr. Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

RE: Follow-up Comments - BPA's Power Supply Role after 2006

Dear Mr. Wright:

In our October 18, 2002 letter to BPA, Tacoma Power formally commented on BPA's Power Supply Role after 2006. Since that time, a subsequent version of the Joint Customer Proposal was submitted to BPA Account Executive Fred Ruttenmund on October 30th, 2002. It is our understanding that a later version was submitted to BPA on November 5, 2002. Please be advised that Tacoma Power does not support any version of the Proposal. We stand firmly behind our earlier comments and respectfully submit these additional comments regarding BPA's Power Supply Role after 2006 and the recent versions of the Joint Customer Proposal. References to section numbers herein refer to the November 5, 2002 version of the Joint Customer Proposal.

Allocation

Under the November 5, 2002 version of the Joint Customer Proposal (Proposal), the allocation of benefits is bifurcated between Full Requirements and Slice/Block customers in a two-step process. The first step allocates a share of the Defined FBS to the Slice/Block customers based upon their aggregate net requirements. The remainder of Defined FBS, as available, is assigned/reserved for the Full Requirements customers. Given current expectations for setting Slice/Block net requirements, there is a general belief that Surplus Firm Defined FBS will be available. This surplus has been characterized as "headroom", and as such is proposed to be set aside for the exclusive benefit of the Full Requirements customers. Tacoma Power does not agree with this allocation methodology and cannot support the resulting inequitable consequences imposed upon the majority of retail customers of public power utilities served by BPA. The proposed allocation methodology promotes an additional benefit subsidy of the Full Requirements Customers, fundamentally violates the primary objectives of the Proposal, and should not be considered further.

Tacoma Power believes the equitable allocation of Defined FBS would allow all of BPA's customers to face the same degree of certainty, risks and benefits going forward under new contracts or contract extensions. We see that a one-time pro-rata percentage allocation of the Defined FBS, including all firm and non-firm energy and capacity associated with such percentage is an appropriate and equitable starting point. Under this allocation methodology each customer would have access to an equitable share (percentage) of the existing Federal System over the life of current and follow-on contracts. Each customer would receive all of the benefits and pay all appropriate costs arising from their percentage share. Issues associated with either a shrinking or expanding Defined FBS, also could be equitably and legally managed by BPA in the future using this initial allocation percentage (details provided herein).

With regard to initial headroom, to the extent there is any, both customer classes of Full Requirements and Slice/Block would receive their equitable share. To the extent there is a deficit, the Full Requirements percentage share of the Defined FBS would be augmented by BPA, with the full costs of augmentation allocated solely to the Full Requirements customers. The Slice/Block class share would not be augmented and not pay augmentation costs. In the case of a deficit, Slice/Block customers would arrange for their incremental power needs on their own behalf. The key point here is that the allocation of Defined FBS to the Slice/Block class of customers would not be augmented once the initial allocation was made.

Much discussion in the negotiations has been made of the headroom issue and the rationale for requiring and reserving headroom for the Full Requirements Customers and why providing headroom for Slice/Block Customers may be problematic. Tacoma Power believes that a pro-rata sharing of any available headroom to each customer class would allow BPA to fulfill their legal obligations to serve the net requirements of all qualified customers in the most equitable manner.

For Slice/Block Customers, headroom would be further allocated to individual customers within the Slice/Block class based on their percentage share of the initial allocation. This Slice/Block customer-specific headroom would be retained and managed by BPA, just as in the case of the Full Requirements Customer class. For Block purchasers, their specific percentage headroom would be available for service to load only when and to the extent that their net requirement load could justify such use. If BPA feels the allocation of headroom to Slice customers is problematic, such customers could receive their allocation of headroom through their Block purchase, assuming they took a combination of Slice and Block.

BPA would establish predetermined windows of time when such customers could petition for a revised net requirement adjustment. The obvious window would be a period of time leading up to a future rate case. In no case would a Slice/Block Customer have rights to an allocation, including headroom, in an amount greater than that customer's initial percentage allocation of the Defined FBS. Surplus headroom assigned to the Slice/Block pool would be retained and managed by BPA in the most cost-effective manner to reduce the overall cost of the Defined FBS allocated to this pool for purposes of serving net requirements.

Based on the principle of equitable sharing of the costs and benefits of the Defined FBS, we propose the following allocation method for Section III (B) of the Joint Customer Proposal:

The customer's individual net requirements, for the purposes of determining their equitable allocation (percentage) of the Defined FBS, should be based on the following:

- For Full Requirements Customers - 2007 loads (i.e. the 2007 forecasted loads determined at the time of initial allocation, estimated to occur in 2005)
- For Slice/Block customers - 2007 contracted net requirements, where contracted net requirements is the quantity determined in the customer 2001 Subscription Contract as determined consistent with BPA's published 5(b) 9(c) Policy, less contracted retail load growth occurring between 2001 and 2007. In no case would the net requirements used for allocation purposes be less than the FY 2002 net requirement determined in Subscription Contracts.

As we have stated in our earlier comments, we firmly believe that preference customers that have purchased the Stepped-up Multi Year Block Product (SUMY Product) must receive a rebate of the amounts paid to date for the SUMY Product and the SUMY Product portion of the customer's Requirements contract shall be terminated upon execution of a new or amended contract as a result of this process clarifying BPA's role post 2006.

Slice/Block customers facing supply deficits after exhausting allocated headroom would have the right to secure future supply from any source, including BPA if so desired. BPA would only address such requests for additional supply as a distinct and separate product from its net requirement obligations. This product separation would establish a clear revenue recovery and rate mechanism distinct from the initially allocated Defined FBS rate pool for servicing the Slice/Block customers' initial net requirements.

Block Product

The Block product must be designed to provide the full extent of energy and capacity needed to meet customer net requirements. The design is particularly important for those customers that do not chose to purchase a combined Slice/Block. We believe the Block Product as currently defined in the Joint Customer Proposal does not meet the net requirements of Tacoma Power, and does not provide equitable benefits on par with those received by other customers. A customer's fully allocated percentage of the Defined FBS should be used to serve the net requirements of such customer, all at the costs of the Defined FBS. We propose, based on a percentage allocation of the Defined FBS, that the Block Product, per Section III (B) and Section IV (D) of the Joint Customer Proposal, be based on the following elements:

- Energy and capacity required to provide base block amounts and shaping as needed
- Fixed (HLH/LLH plus energy neutral shaping) for the duration of the contact term, except as mutually agreed between BPA and the customer. Customers receiving the Block allocation would have BPA manage their allocation, first to serve load (MWhs and capacity requirements), and second to maximize the value (i.e. minimize costs) of the allocation.

- The Block rate would be derived from the same rate elements used to derive the Slice rate, but include the costs of Planned Net Revenues for Risk (PNRR) attributable to Block.
- A proportionate share of the costs of the Defined FBS resources, including but not limited to planned net revenues for risk would be offset with a proportionate credit for the forecast sale of Surplus Firm Defined FBS and Non-firm Defined FBS power allocated to the Block pool.
- To the extent supplemental or balancing purchases are required to serve the firm requirements of the Block customer classes (additional energy or capacity), such costs would be born solely by those receiving the benefits of such purchases.
- The Defined FBS would not be augmented to serve the Block/Slice customers as a class, and the class would be free of all class augmentation costs arising from Full Requirements service

Non-Signers
Customers who remain with their Subscription contracts through the term of the contracts should be offered the same products, terms and conditions as customers choosing to convert to new contracts prior to expiration. Customers who choose to stay with their Subscription contracts should have the option to sign new follow-on contracts at the same time customers sign conversion contracts (currently estimated to occur in 2004 to 2005). The new follow-on contracts should begin upon expiration of Subscription contracts (2011), and should expire on the same date as contracts offered prior to 2007 for conversion. BPA should not require or incent through punitive measures customers to move to a new contract, particularly if the new contracts benefit one class of customer at the expense of other customers.

GTA, LDD and Irrigation Discount
Since there is no consensus on this issue, BPA must consider the eligibility for, benefits available, and allocation of costs under LDD, GTA and the irrigation product subsidies as issues that should be addressed in rate cases or other suitable venues consistent with Section 7(i) of the Northwest Power Act.

We welcome the opportunity to comment and look forward to development of BPA's regional solution. Our hope is that any solution BPA employs will be based on a fair, equitable, and reasonable allocation of Federal system benefits and risks, with minimal cross-subsidies between customers. I thank you for the opportunity to comment and look forward to your response.

Sincerely,

Steven J. Klein
Superintendent