

April 23, 2004

BY ELECTRONIC MAIL

Northwest Power Planning Council
851 S.W. Sixth Ave., Suite 1100
Portland, Oregon 97204

RE: Draft NWPPC Comments on the Future of Bonneville

Ladies and Gentlemen:

The members of WMG&T appreciate the opportunity to comment on the Power Planning Council's draft paper entitled: "Council Recommendations for the Future Role of the Bonneville Power Administration in Power Supply." The members of WMG&T purchase all or a significant portion of their resources from Bonneville and anticipate continuing to purchase power from the agency.

We are generally supportive of the underlying goals the Council is trying to achieve. We believe the Council has heard the concerns of the Bonneville customers and the draft proposal is generally responsive to those concerns. We do have specific comments, however, on most of the areas highlighted in the Council's paper and those are discussed below.

Scope of the Recommendations: The Council paper describes the deliberative process the region will be pursuing over the next year and indicates that the results of that process "should be implemented as quickly as possible and in a way that will provide the certainty, continuity, and durability required for the resource decisions that Bonneville and its customers will need to make after 2006." While we certainly agree that certainty, continuity and durability are necessary conditions for any regional agreement, we place less emphasis on the speed of implementation than on getting it right. We recognize that resource decisions take time, but we do not believe that an issue as important as this should be rushed in any way to meet some artificial deadline. It is highly unlikely in our opinion that this issue will be resolved with the necessary documents drafted and signed before 2006. The region should not emphasize haste over quality. As the past few years have shown, decisions that are made in the light of public scrutiny, with supporting documentation, and that can withstand any legal challenges are far more important than the speed with which those decisions are made.

A fundamental change in how Bonneville carries out its role in power supply: We wholeheartedly agree with the Council's reticence to pursue federal legislation. There are some issues that could be best resolved through new legislation. However, given the relatively weak position of our Congressional delegation relative to our likely opponents, the great difficulty

associated with trying to control any legislation and the desire of some other delegations to attack any Northwest legislation to address perceived inequities, it would be a terrible mistake to attempt legislative changes at this time.

Our reluctance to pursue new federal legislation, however, does not lead us directly to the conclusion that a rulemaking process as described in the Council's paper is the best course. We need additional information about this approach and want to have a regional dialogue on the advantages and disadvantages before agreeing to this process. In particular, we wonder whether conducting the necessary regional discussion, subsequent preparation of a new EIS and the resulting contract negotiations will ultimately lead to better and more timely results than the processes currently available.

We agree with the Council that a clearly articulated and durable policy must underlie any implementation of a new Bonneville future. We need additional information, however, before we can agree to the process described in the Council's paper.

It is also important to recognize on this and most other issues discussed in the Council's draft paper that additional time for regional research and discussion will be necessary before agreement can be reached between Bonneville and its customers. We anticipate an ongoing regional dialogue on many of these issues prior to a comprehensive regional agreement.

Offer long-term contracts as soon as possible: The WMG&T members agree that long-term contracts are necessary to provide the certainty customers need to make resource decisions. We also agree that 20 years is an appropriate term for these contracts. These new contracts, however, can do nothing to impede or otherwise affect the existing contracts Bonneville has with its customers. Some of these existing contracts include provisions for follow-on contracts that extend beyond 2011. All existing contract rights, including those providing for follow-on contracts, must continue to be honored no matter what terms are included in the new contracts.

We also agree that cost control and contract enforceability are key issues for customers, and that the Council has accurately captured those feelings in the draft paper. Until these issues are resolved to the satisfaction of the customers, durable and enforceable contracts that the customers are willing to sign will not be possible.

Allocation of the existing system: While we agree with most of the statements regarding allocation of the federal base system, several clarifications are necessary. First, the public utility customers of Bonneville are currently discussing different allocation mechanisms. Until those discussions are complete and we can meet with Bonneville, it is too early to begin discussing specific allocation mechanisms. We agree with the Council's observations regarding the use of multi-year historical periods to account for load variations and the obligation to consider the net requirements placed on Bonneville by incorporating a utility's own generating resources. It is not clear, however, that a single net requirements determination will be sufficient for the entire contract period.

Second, how the allocation would work through time also needs a much more thorough vetting. For example, there are a number of ways to deal with a utility that has a federal power allocation

that exceeds its load, net of its own resources. Some alternatives are contained in the current Slice contracts. For full requirements customers the concept of resource pools, whereby one customer's excess federal allocation could be used by another customer until it is needed by the first customer, needs to be explored. This could be done through joint operating entities via the JOE legislation of several years ago or directly through Bonneville. This concept could also obviate the need for the proposal in the Council's paper under the heading "Reduced Public Utility Loads."

Third, we agree that a reallocation of the federal base system due to new or annexed public loads is likely to be highly controversial. We also agree that resources should follow the annexed load; however it seems problematic to try to base any reallocation for a new public on the same historical period as that used for the initial system. This is an area that needs considerably more regional discussion.

Fourth, the concept of reallocation due to load loss or conservation programs is not likely to garner our support. A reallocation or even the potential for a reallocation of federal base resources causes huge resource uncertainty for utilities and should be dropped from consideration. The allocation mechanism needs to be in place for the 20-year term of the contracts and not subject to interim manipulation. Once a utility receives its FBS allocation, that figure should not change unless the output of the FBS changes. The allocation would set a cap on the amount of the FBS resources a utility would have access to; subject to whatever periodic net requirements determinations are necessary, for the full term of the contract. Without this stability and consistency, resource acquisition and planning become all the more risky for a utility.

Finally, as described above, any allocation must respect existing contract rights, including any rights to follow-on contracts. The allocation mechanism must also allow existing contracts to run their course before affecting those utilities who want to keep their current contracts.

Should Bonneville implement tiered rates under the current contracts? Implementing tiered rates under the current contracts will not produce the advertised results and should not be pursued. Tiered rates under the current contracts would simply be a rate design mechanism that would not provide any incentive for resource development or conservation because a tiered rate could be radically changed in the next rate period or even eliminated. This uncertainty is exacerbated if the region returns to two or three-year rate periods as is currently being discussed.

Even if a utility developed a resource in response to a tiered rate, it is not clear that the utility would be able to decrement its purchases under the second tier. If the utility could not decrement its second tier purchases, there would be no incentive to develop resources in the first place. If the utility is allowed to decrement its second tier purchases from Bonneville, this creates huge revenue uncertainty problems for the agency since customers would be seeking to avoid the very tier that provides Bonneville with the greatest revenue per MWh.

Tiered rates should not be implemented under the current contracts. We believe there are sufficient incentives to move forward toward the goals enumerated in the Council's paper without implementation of tiered rates prior to new contracts that include an allocation of the

FBS being signed.

Service to the DSIs: We are very concerned about some of the proposals contained in the Council's paper regarding service to the DSIs. We agree with the Council's view that Bonneville is not required to offer new contracts to the DSIs and that service to a DSI should be conditioned on a variety of factors, including creditworthiness. We are very troubled and completely reject the suggestion that other customers should subsidize any level of DSI service. We fail to understand why the Council would even suggest that a DSI is entitled to service at a better wholesale rate than a public utility's industrial customer.

The Council's paper describes several alternatives for service to the DSIs including the use of non-firm energy, recognition of stability reserves, Bonneville credit support for DSI resource development and the idea that Bonneville customers could provide an "equivalent financial package." If the DSIs are willing to pay the opportunity costs of that non-firm energy, that is something we may be willing to consider. We are also willing to consider the value of stability reserves provided by the DSIs. We reject out of hand, however, the suggestion that Bonneville provide credit support for resource development and are astounded the Council would even mention the idea of a financial package for the DSIs paid for by the other customers. Having other Bonneville customers pay subsidy to a DSI so that it can buy power at a lower rate is absolutely unacceptable.

Conservation and Renewables: While we generally agree with the Council's proposals regarding conservation and renewables, several observations are in order.

It is important to remember what the Northwest Power Act says about how conservation and renewables are to be treated in the Council's Power Plan and with regard to Bonneville resource acquisition. Conservation programs are to be given a 10 percent cost advantage when compared to other resources. Once that cost advantage is included, conservation and renewables are to be treated exactly the same as other resources. That is, each resource stands on its own when compared to other resources. Only in the event two resources are equally cost-effective is the nod given to conservation and renewables. If a conventional resource is less-costly than conservation (including the 10 percent discount) or a renewable resource, the conventional resource is to be acquired first.

Another point to bear in mind is that Bonneville's future role in resource acquisition will be substantially reduced compared to its historic role. Bonneville's resource acquisition efforts will be aimed only at those utilities that place their future load on the agency and that are willing to pay for those resource acquisitions. Bonneville will not be acquiring resources under any other circumstances.

These two points are important to remember when discussing any resource acquisition by Bonneville, including conservation and renewables. The Council's draft paper seems to envision a much larger role for Bonneville in the acquisition of conservation and renewables – one more consistent with its historical mission rather than the new vision. For example, statements such as "...Bonneville should retain a strong and active role in the coordinated planning and implementation of conservation efforts across the region" do not appear to comport with the

region's new vision for the agency. The utilities electing to purchase load growth services from Bonneville should not be expected to pay for resources, including conservation and renewables, that do not meet the strict cost-effectiveness test, nor should those Bonneville customers purchasing only their allocated FBS resources be expected to pay for any resource acquisition. The new Bonneville role will require a substantial reconsideration of the roles Bonneville and the region are to play in the acquisition of conservation and renewables.

The members of WMG&T appreciate the opportunity to comment on the Council's draft paper. We look forward to working with the Council as these issues are addressed.

Very truly yours,

/s/

William K. Drummond
Manager

cc: WMG&T Board & Managers
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