BPA Long-Term Regional Dialogue Policy Proposal
Emerald PUD Comments
October 31, 2006

Emerald PUD is somewhat optimistic that the region can come to agreement on the issue relating to the long-term future of BPA and its relationship to its customers. However, there are so many details yet to be decided that we must reserve judgment on whether the proposal package works for Emerald PUD and for public power. Before we can give our support to any proposed package we need to work through all these detailed issues.

While Emerald PUD fully supports the comments submitted by the Public Power Council, below are additional comments by Emerald that we want to emphasize.

Low Density Discount

BPA is statutorily required to offer the LDD to low-density public power systems. As BPA states, it applies to 55 customer and has a cost of $20 Million per year. While this cost is not significant in a nearly $3 Billion BPA budget, the benefits are wide-spread among utilities and it is very important to Emerald PUD! It is inappropriate for BPA to leave the door wide open for review and possibly revision, or even elimination, of the LDD in future 7(i) general rate case proceedings. We do not believe BPA should revise the implementation details relating to eligibility, the discount level or the applicable rate. Reduction or elimination of the LDD would be an undue hardship on those utilities that currently receive the LDD. In 2005 Emerald received over $600,000 from the LDD, and elimination of this discount would result in about a 2% rate increase for our customers! This is particularly relevant when BPA is currently providing IOUs benefits through the Residential Exchange Program that exceed $300 million per year in which Emerald's ratepayers are sending money to BPA to send to IOUs so that they can have lower rates than us – revising the LDD will further exacerbate this inequity. As well, it will weigh heavily in Emerald's decision to waive our other statutory rights as part of any Regional Dialog settlement.

Workable Product Lines

BPA has suggested that the amount of Slice available be limited after 2011, and that additional operational restrictions be placed on the Slice product. This makes Slice a much more problematic product for utilities, like Emerald, that do not have many of their own resources to follow load and deal with the variability of the Slice product. At the same time BPA has yet to create an alternative to Slice that will work for utilities that do not have many resources but want to provide for their own resources for load growth. This is particularly important in light of likely Renewable Portfolio Standards in Oregon and Washington. BPA needs to work with public power to create a workable **Complex Partial**

Requirements product within this Regional Dialogue process. These products need to be fully developed well before we sign contracts & waivers of our statutory rights.

General Transfer Agreements

Emerald PUD is heavily dependent upon its GTAs to provide service to its native load. It is important to remember that we have a GTA because, unlike other utilities, it was more cost-effective to transmit power via an IOU than to have BPA build us new lines. The rationale behind the policy was to contractually create a virtual BPA network, which would allow us to do everything as if BPA had spent the money to build the lines that they were legally obligated to provide (including the wheeling of non-federal power). Therefore, it follows that GTA service should also provide us all the same rights and costs that the build option would have provided us, including the exact same ability to transmit power. It would also be completely inconsistent with the GTA rationale to place caps on the MW and dollars it would take to provide this service. BPA should eliminate both the MW and the dollar caps from its proposal.

Transmission

BPA needs to resolve the NT and PTP transmission issues raised by the execution of power contracts such that: there will be no diminution of current transmission service or rights for Preference load service; and Preference Customers executing new BPA power contracts will not be required to get in the queue behind other requests for transmission service. BPA should also resolve all transmission access issues caused by new federal and non-federal resources used to serve Tier 2 Preference load. There needs to be a level playing field between BPA Tier 2 and non-federal Tier 2 products. BPA should not advantage its Tier 2 product via restrictions imposed by the transmission system on alternative products. Resolution should be achieved well before you offer new power contracts to Preference Customers.

Rate Methodology

BPA proposes being able to collect a portion of Tier 2 costs from Tier 1 sales, if it not possible to collect all Tier 2 costs from Tier 2 sales. This arguably shifts risks to Tier 1 recipients that did not sign-up for BPA’s Tier 2 product. The risk is directly related to BPA’s marketing and resource acquisitions decisions for Tier 2, and that risk and cost should be borne by **ONLY** those that chose that option.

Conservation

For those utilities that have done extensive conservation effort, like Emerald, it is problematic that BPA has proposed increasing the HWM credit for conservation activities only between 2007 and 2012, but not for prior conservation activities.

This rewards those that didn't do their share of the conservation resource, and penalizes those that have gone beyond what was expected. We support credits for utility-funded conservation activities from 2002 to 2010. As well, we agree with BPA's proposal to give credits for 50% of the BPA-funded conservation activities

Cost-Based or Opportunity-Cost Pricing (Tier 1 – capacity and load following)

BPA needs to make it clear how it plans to price Tier 1 well before we sign contracts or waivers of our statutory rights.

It is becoming apparent that the treatment of capacity is likely to be highly significant in our evaluation of the acceptability of BPA's proposal package. BPA proposes providing cost-based energy to Tier 1 Preference customers; but BPA has also stated that it intends to provide capacity and load variance services, on an "opportunity cost" basis, or at the market. Even given BPA's statement that revenues from these opportunity cost sales will be credited to Tier 1, opportunity cost or market pricing creates the risk that some Tier 1 Preference customers would have to pay far above BPA's actual costs for capacity and load variance services. It is unclear who the winners and losers will be in this scheme. As well, using market pricing for products to Preference customers could expose us to unjustified market risk. Finally, while Tier 1 customers acquire rights to a specific amount of energy under BPA's proposal; they do not obtain a specific amount of capacity. BPA should also specify the capacity that Preference customers get with their Tier 1 allocation.

The President's Budget Proposal

The President's budget proposal to send secondary revenue to prepay U.S. Treasury obligations should be rejected. After imposing a 40% rate increase as a direct result of failed federal policy that resulted in the California Energy Crisis, any additional secondary revenue that BPA has should be used to lower our rates to mitigate that previous huge rate increase.

Service To IOUs

While we think that BPA's proposal of $250 million of residential exchange benefits to the IOUs in 2012 is probably too high, we continue to be supportive of the negotiations between the Publics and the IOUs, and are hopeful that we can reach an agreement. The current benefits in excess of $300 million are artificially high, are largely a remnant of the California Energy Crisis, and are the result of a settlement that may indeed be unlawful. As we move forward with these negotiations with the IOUs it is important to keep in mind that we perceive the residential exchange as exacerbating an inequity. It is unfair and inequitable for Emerald PUD ratepayers to send money to BPA so they can send it to the IOUs so that their ratepayers can have lower rates than Emerald customers! This inequity must be corrected, and adoption of BPA's proposed ratio methodology, and appropriate treatment of the IOU "deemer" accounts, is a good place to start.

Service To DSIs

BPA should not provide any benefits to DSIs after 2011. BPA's proposal to provide power to DSIs places risk of market fluctuations on BPA, and risks a replay of the terrible impacts of the California Energy Crisis. The DSIs have no legal right to Preference Power and should not be given any power or dollars post-2011. There should be no special deals given to the DSIs!

Any money or power given to the DSI after 2011 is directly paid by Emerald PUD rate-payers, and the rest of public power in the northwest. The amount could range from $59m - $89M per year, and the distribution of this benefit is limited to only three counties in the northwest. Payments to the DSIs represents a massive redistribution of income from our counties to their counties, most of which goes directly into the pockets of large corporations that made hundreds of millions of dollars last year in profits. Giving any part of the low-cost power from the BPA system to the DSIs actually fact reduces the amount of this valuable asset that can go the public power Preference customers, like Emerald PUD.

The trend is clear that the DSIs are declining and their continued viability, at best, is very uncertain. Competition from the global market and the lack of investment in these mills makes these plants unlikely to survive into the near future. As well, the trend in prices of the electricity market, one of the keys to DSI survival, is to go higher, making their closure an almost certainty. The conclusion of BPA's recent study of DSI economics is that while we **MAY** get some short-term employment and income (depending on the market price of power); in the long-run there is **NO BENEFIT** to the region by subsidizing these mills and artificially keeping them alive. Therefore, we believe that any special deal to the DSIs after 2011 is unwarranted and bad public policy.

Deal Enforcement/Dispute Resolution

BPA should agree to dispute resolution arrangements so that matters of contract interpretation are subject to arbitration, even if that arbitration is non-binding. We believe that BPA needs more tools in its toolbox to deal with customer disputes. As well, BPA should not preclude discussion of tiered rates in rate cases simply because they are included in Federal Register notices.

True-ups & Cost Control

BPA proposes a major change in how it will administer rates under its proposal. Currently, only Slicers are subject to a true-up to BPA's actual costs. BPA proposes to have true-ups for all of its other requirements products, which means that all BPA customers would be liable for after-the-fact increases in the rates they pay BPA. Having such a mechanism for all of BPA's requirements sales would weaken BPA's incentives to control its costs, would serve as an incentive for external entities to place more costs on BPA, and creates unnecessary uncertainty in the price of the requirements products. We are not sure this is an appropriate mechanism to use for the requirements service products. Further, it is unclear whether BPA's proposal would provide a meaningful check on the escalation of BPA's costs, especially if BPA has a cost true-up for all of its requirements service products.

Pooling

BPA should allow pooling of HWMs among utilities.

Emerald supports the proposal with respect to: the treatment of renewables, the treatment of New Publics with a potential allocation of 250 aMW, and an Augmentation Cap of 300 aMW.

Thanks you for the opportunity to comment on these important issues in our relationship, and we look forward to working with BPA on many of these unresolved issues.

The Board of Directors
Emerald People's Utility District