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Stephen J. Wright
Administrator
Bonneville Power Administration A-7
P.O. Box 3621
Portland, Oregon 97208-3621

Re: Public Power Council's Concerns about Rolling BPA's Eastern Intertie Costs into the BPA Network Transmission Rate

Dear Mr. Wright:

Earlier this year, Governor Schweitzer sent you a letter proposing that the BPA roll the Eastern Intertie facilities and costs into the Network segment of the transmission system. The goal expressed by advocates for the proposal is that Montana wind generation developers wish to deliver their energy to the lucrative markets on the West Coast without having to pay both the BPA Eastern Intertie and BPA Network rates. We understand that, at this point, BPA proposes to analyze this proposal by analyzing the rate impact of rolling into the Network the 185 MW of Eastern Intertie capacity to which BPA has rights.

As you are aware, PPC's members include utilities that are purchasing renewable power and utilities that are developing and selling renewable power. PPC remains committed to the integration of these generating resources and to the application of cost-causation principles so that all users of the power and transmission system are treated fairly.

It is for the second reason that PPC strongly opposes the proposal to roll Eastern Intertie facilities and costs into the Network and the Network revenue requirement. PPC has fundamental policy concerns regarding the violation of cost-causation principles in this case, the potential precedent that adoption of the proposal might create and the costs that might be imposed on preference customers and transmission customers by this proposal.

We believe that, ultimately, the Network rate will increase significantly if BPA's Eastern Intertie costs are rolled into the Network segment. First, with regard to the cost of the transmission facilities, BPA has completed a preliminary rate impact analysis of rolling into the Network the costs of the 185 MW of capacity to which BPA has rights on the Eastern Intertie. Use of the 185 MW by wind generation, however, is only the first

step in a series of actions proposed to deliver Montana wind energy to the West Coast markets. BPA is already studying more system upgrades and expansions needed to deliver Montana wind energy to West Coast markets. BPA is evaluating whether to install $152 million in upgrades to the transmission lines West of Garrison through the Network Open Season process. If these upgrades were made and rolled into the Network segment in addition to the Eastern Intertie, the Network rate would increase by 3.8 percent.

Additionally, BPA is evaluating whether to build a substation at Townsend. The cost of this substation has not been disclosed. Further investments would be needed on West of Hatwai to allow Montana wind full use of the capacity at West of Garrison, requiring $90 million in direct capital. We estimate that inclusion of the costs of these improvements in the Network revenue requirement would increase the Network rate by an additional 1.6 percent, bringing the approximate total increase to more than 5.4 percent.[1] The Policy Institute in Helena, Montana, estimates that the total cost to upgrade the transmission system from Colstrip to the Puget Sound would cost BPA and other utilities between $1.03 and 1.35 billion.[2]

These are not transmission facilities needed to meet load growth in the Northwest. We understand the need for many, but not all, utilities in the Northwest to meet state renewable energy mandates. The Northwest, however, has a significant surplus of wind energy and many more types of renewable generation and conservation are being developed. The economic advantage to the region as a whole from the importation of Montana wind is debatable.

The costs risks detailed above are compounded by the addition of other risks. The first of these is the risk that, if BPA makes upgrades to West of Garrison and at Townsend, and wind facilities interconnect to those substations, BPA may be required to provide costly balancing services to a substantial amount of additional wind generation. Northwestern Energy has established that it does not currently have the capacity resources to supply balancing reserves to wind generation, certainly not to the significant amounts of wind generation planned in its service territory.[3] If the Eastern Intertie is rolled into the Network, Montana wind developers would have a strong

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[1] This rate impact estimate includes BPA's estimated direct capital costs plus a 20 percent adder to approximate indirect capital costs. The estimated rate impact does not include estimated AFUDC estimates and should be considered moderately conservative.

[2] See, the Policy Institute's chart at http://www.thepolicyinstitute.org/chart_map_web_june21_2010.pdf.

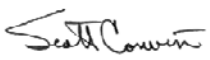
[3] Last year, Northwestern Energy in Montana (NWE) asked FERC to allow it to require wind generation to obtain balancing capacity on its system from sources other than NWE. NWE argued that it did not have the generating resources sufficient to meet the balancing needs of this generation. FERC denied NWE's request but the petition is indicative of the lack of resources in that area to integrate wind generation.

incentive to argue that, as they are interconnected with the Network, they are in the BPA balancing authority area and BPA must provide balancing capacity to integrate their generation. If BPA must provide reserves to wind generation in Montana, it is much more likely that BPA will have to purchase additional balancing capacity to meet the incremental needs for that product and the costs paid by incumbent wind generation in Washington and Oregon to other transmission customers could increase.

In addition to the significant operational and financial risks related to integrating and interconnecting Montana wind, rolling in the Eastern Intertie could set a precedent that would raise challenges to the decision to maintain a separate Southern Intertie. Both the Southern and Eastern Interties were built for imports and exports of generation. Relatively few parties benefit from the uses of those lines and, as a result, their costs have always been segregated from the Network costs. The Southern Intertie facilities represent an investment that is roughly six times the original investment cost of the Eastern Intertie. Inclusion of the Southern Intertie's revenue requirement in the Network revenue requirement would increase the Network rate by approximately 13.75 percent. The argument for doing so might come, not just for wind generation, but also from other generation exported to the Southwest through BPA's system.

Lastly, we remain very concerned regarding BPA's use of its limited borrowing authority to finance capital projects that are not primarily needed to meet load service needs in the Northwest. Even with the recent infusion of $3.25 billion in new authority, BPA is expected to run out of borrowing authority in approximately 2016 given its *current* capital program, which does not include projects needed to interconnect and import Montana wind energy. We believe that BPA needs to give first consideration to the needs of its current contract obligations, particularly to those of preference customers, when it proposes to make new contractual commitments. As ambitious as the current capital program is in regard to maintaining the current capabilities of the federal power and transmission systems, we understand that many of the current hydro capital projects and the transmission replacement projects are the result of recent, new testing and asset assessment programs. We believe that the there is some risk that the future capital projects that are needed to simply maintain the system and meet current obligations for load and load growth may exceed the current forecasts for capital expenditures.

Sincerely,



R. Scott Corwin
Executive Director

cc: PPC Executive Committee