

**WESTERN MONTANA ELECTRIC
GENERATING & TRANSMISSION COOPERATIVE, INC.**

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January 15, 2008

Mark O. Gendron
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P.O. Box 14428
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SUBMITTED BY ELECTRONIC MAIL

**RE: Western Montana G&T Comments on Preliminary Draft Tiered Rates
Methodology**

Western Montana Electric Generating and Transmission Cooperative (WMG&T) appreciates the opportunity to comment on the Preliminary Draft Tiered Rates Methodology (TRM), issued on December 21, 2007. WMG&T recognizes that this is a preliminary document that has not received the approval of BPA management and only represents the thinking of the Bonneville staff. Our comments are offered in the spirit of helping to move the Regional Dialogue process forward to a result the agency and all customers can work with.

We want to thank the Bonneville staff for providing the opportunity to comment on the preliminary draft. While we do not agree with everything in the draft and there are significant pieces missing from it, we acknowledge the desire of the Bonneville staff to develop a superior final product by giving the customers time to comment before the next draft is released.

In that context, we recommend that after reviewing the comments received on this draft, the Bonneville staff release a revised draft TRM with another round of customer comments. This opportunity to comment on a second draft will build on the advances made in this current round of discussions and will result, we believe, in a final TRM that will have significant customer support.

Additionally, it is difficult to make complete comments on the TRM without having a copy of the draft product catalogue. We strongly urge that the Bonneville staff release the draft product catalogue as soon as possible so that the customers have a more complete picture of what the entire package of products and rate proposals looks like.

Our comments are divided into two main groups; elements that need additional clarification or are missing, and those elements that we disagree with.

Elements needing clarification:

- A timeline for decisions should be included in the next draft of the TRM. This timeline should include not only the decisions that will be made by Bonneville – e.g., the timing of the determinations of FBS capability, net requirements, rate case high water marks, Tier 2 requirements, etc. – but also the timing of decisions that customers will have to make – e.g., statements of whether net requirements will be filled by federal or non-federal Tier 2 power. These dates need to be specific – e.g., December 1, 2008 – and not just a month and year.
- Bonneville capacity resource additions apparently have no limit but there are limits on energy resource additions. Why are capacity resource additions not considered augmentation and why the difference in treatment between the capacity and energy?
- What is the rationale for each load served from the federal base system (FBS) “off the top,” prior to the making the remaining FBS resource available for service to preference customers? While some “off the top” loads such as prior contract obligations seem self-evident, while others such as ancillary service to BPAT are less clear.
- The discussion of the load shaping charge is confusing. Additionally, having two separate charges was not something Bonneville and the customers had previously discussed. This rate needs considerably more discussion and work.
- The preliminary draft states that the demand charge will be shaped proportionally to the HLH load shaping charge. This was not something that was part of the customer proposal and could lead to wild fluctuations in the demand charge over time. As we have seen over the years, big swings from rate period to rate period in the variability of the demand charge or the classification of costs between demand and energy give customers little time to respond to the price signals. A demand charge as proposed by the customers is a superior alternative.
- The load following charge is something that we do not recall has ever been discussed with the customers. It was not part of the customer proposal and appears to potentially result in a double-collection of revenues for within-hour service. This rate proposal should be dropped.

- If disputes arise between Bonneville and a customer over such things as the size of the FBS, net requirements determinations, or other forecasts that bear on the utility's Tier 2 requirements, how and when do those get resolved?
- There does not appear to be an explicit prohibition against the costs of individual Tier 2 products "leaking" into the rates of other Tier 2 products. That is, it is not clear that a customer buying one federal Tier 2 product could end up paying part of the costs of a different federal Tier 2 product. There needs to be a wall between Tier 2 products to prevent cross-subsidization of one Tier 2 product by another.

There are several elements of the preliminary draft TRM with which we disagree. These include:

- **Service to the DSIs:** The draft TRM discusses the potential for Bonneville resource acquisitions to serve DSI load. Sales to the DSIs would apparently occur at the IP rate and any under-collection of the difference between revenues from the IP and the cost of augmentation would be subsidized by the PF rate customers. Bonneville should not be making any sales of FBS power to the DSIs.
- When determining how much Tier 1 power to supply to a new preference utility, the proposed calculation needs to take into account the Tier 2 requirements that are self-supplied by existing preference customers. The current proposal only considers federal Tier 2 power supplied to existing customers, and thus would provide more Tier 1 power to a new public than is appropriate.
- **More resource flexibility is necessary.** By September 30, 2011, customers are supposed to tell Bonneville how they will serve their Tier 2 requirements from 2015-2019. A similar notice/commitment period is described for the 2020-2024 period. A 3-year notice provision for a 5-year commitment seems unduly restrictive. It is difficult to understand why Bonneville believes notice periods that far in advance are necessary. The notice/commitment periods should be reduced to reflect the real risk Bonneville faces from resource acquisition versus the reality of the marketplace alternatives for customers.

Again, the members of WMG&T appreciate the way in which Bonneville staff presented this preliminary draft for comments and believe it will lead to a superior final Regional Dialogue proposal. If you have any questions about these comments, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, reading "William K. Drummond". The signature is written in a cursive style with a large, sweeping flourish at the end.

William K. Drummond
Manager