



236 N. Washington • P.O. Box 188 • Afton, WY 83110 • 307-885-3175 • Fax: 307-885-5787

Elliot Mainzer, Administrator
Bonneville Power Administration
RE: Transmission Segmentation Discussion and Proposed Principles
Via email: techforum@bpa.gov
February 11, 2014

Dear Administrator Mainzer:

Lower Valley Energy appreciates the opportunity we had to express our concerns about BPA's segmentation process at the January 28 meeting in Portland and that you were personally willing to attend. We also appreciate this opportunity to submit our written comments on BPA's segmentation process and proposed segmentation principles.

The issue of BPA's segmentation policy is of paramount concern to our utility, as explained in this letter. Lower Valley also supports the comments of Northwest Requirements Utilities (NRU) and urges BPA to adopt the Segmentation principles as proposed by NRU, which we have also included.

One of the primary reasons Congress created BPA was to ensure that the entire Northwest region would have access to affordable electricity. BPA's original legal mandates require the agency to "promote the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles." In order to meet this objective, BPA has consistently for decades used a postage stamp rate, which allows all of BPA's public preference customers to receive transmission service at the same affordable price without regard to location or size. Power should not be a luxury purely afforded based upon geographic location. That being said, Lower Valley has always been willing to step up to the table and pay our fair share as evidenced by past cost share agreements we have had with BPA on transmission projects such as the Teton 2 Transmission Line which runs from Swan Valley, Idaho to Jackson, Wyoming and more recently with the proposed Hooper Springs Transmission Line from Soda Springs, Idaho to Lanes Creek, Idaho. Both projects were designed to support and strengthen the transmission grid for the whole Southeast Idaho region.

Because Lower Valley is on the eastern fringe of BPA's system we have had to make extensive investments in additional plant other BPA customers have been able to avoid. As such, Lower Valley owns and maintains over 200 miles of transmission and 18 substations. Yet, we still struggle to receive equivalent transmission service available to public power utilities directly connected to BPA's main grid even though we pay equivalent rates.

Lower Valley, like many BPA customers in the rural areas, receives power through transfer service from other utilities. In 2004, the Idaho Consumer-Owned Utilities Association (ICUA) completed and submitted a study to BPA showing the significant savings the region has gained by BPA entering into transfer service arrangements as opposed to building out its transmission system to serve all of its customers. At that time we were concerned about public discussions

suggesting that transfer customers be directly charged for those services. As a result of the ICUA study and much discussion in the region, BPA offered its transfer service customers the 2005 Agreement Regarding Transfer Service (ARTS). This contract with BPA transfer service customers provides BPA's legal assurance of adequate transmission service for the next 20 years and at rates equivalent to customers directly connected to BPA's main grid. In fact, paragraph 4 (b) of the ARTS contract calls for BPA to support rolled in treatment of transmission component costs. The recent suggestion of segmenting costs for transmission at 116 KV and below for special treatment seems to be contrary to the spirit of the ARTS agreement.

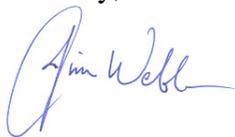
It seems that pressure from a few of BPA's larger and more urban customers is causing BPA to bend to politics and possibly abandon its longstanding segmentation policy for an inferior policy that would slightly benefit those big customers to the extreme detriment of BPA's smallest and most rural customers. However, as pointed out earlier BPA's original mandate remains to encourage the widest possible use of power, and the postage stamp rate should be the baseline to determine whether any alternative segmentation proposal meets the widest use obligation. The rate impacts under any alternative proposal must be as good or better *for the entire region* as compared to the current postage stamp rate.

If an alternative proposal would result in rate impacts that would have BPA's more rural and remote customers paying more for transmission service than the rest of the region, and thereby failing the widest use standard, then BPA should not consider it, which also means not engaging in time-consuming technical studies. BPA should not spend valuable staff time and resources doing any analytical work that is not supported by a sound legal and policy basis.

Furthermore, BPA should recognize that utilities throughout the region have planned and built their transmission and distribution systems, investing millions of member dollars, in good faith reliance upon BPA's longstanding policy of postage stamp rates. Simply put, we developed our utility's plan of service with a reliance on BPA's application of its longstanding segmentation policy to existing facilities.

Thank you for this opportunity to comment and your continued involvement on this issue. I also appreciate the excellent work by BPA staff to explain the historical and analytical basis for BPA's current segmentation policy.

Sincerely,



James R. Webb, President/CEO

CC: John Saven, Northwest Requirements Utilities