



February 10, 2014

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

Dear Administrator Mainzer:

Midstate Electric Cooperative, Inc. appreciates this opportunity to comment on BPA's segmentation process and proposed segmentation principles. The issue of BPA's segmentation policy is of paramount concern to our utility, and I appreciate your personal attention to this matter. Midstate 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 statutes obligate 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 always 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.

This access to affordable electricity allowed our community to develop and grow, and it continues to be essential to the viability of our local economy. For example: In the early 2000's Midstate was one of the fastest growing systems in Oregon, but as most other utilities, we are now seeing flat or declining kWh sales. Over the last 5 years we have seen rapid growth replaced with high unemployment rates. For nearly four years starting in 2008, Deschutes County has had unemployment rates in double digits, reaching a high of 16.6%. It was not until summer of 2013 that we saw our unemployment rate drop below 10%. The poor economy took its toll on our member owners as can be seen by our utilities write-offs increasing by 125%.

With declining sales, increasing power costs every two years and an aging electrical system, rate increases were necessary. As a utility manager, I understand the reasons for rate increases, but to the family struggling to pay bills, it is not that easy.

In late 2013, we passed Bonneville's rate increase on to our membership, as we did in 2011. We knew this would be difficult for customers in a poor economy with high unemployment rates. So to test the reaction of our members, Midstate started to track the number of customer complaints we received. I am very pleased, but somewhat surprised to report that we have only received 12 complaints thus far. But the lack of complaints does not mean they are happy about rate increases. The lack of complaints means they trust the management of their local utility to look after their interests and to provide the lowest possible cost of power. I would like to think this trust of my 15,000 customers can be extended to BPA as we share the same core values.

A few of BPA's larger and more urban customers are now advocating that BPA abandon its longstanding segmentation policy for a policy that would slightly benefit those customers proposing alternatives to the extreme detriment of BPA's smallest and most rural customers. However, BPA remains obligated 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, 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.

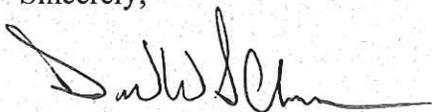
For BPA to change from the widest use standard approach that has worked for the entire region for the past 77 years and drive up costs to smaller systems located in the rural region goes against what public power was created for. Moreover, due to the nature of our service territory, we have fewer customers to whom we can spread costs. Transmission rate increases as suggested would stress an already weakened economy in Central Oregon, but more importantly, I am concerned about losing the public trust that public power has so richly earned.

When you are considering proposals that would increase the cost significantly to many smaller utilities across the region, I would ask you think about BPA's core values found under trustworthy stewardship on your website; "obtain the greatest value from the FCRPS for the people of the region". Midstate honors this stewardship of public power by charging the same rates to the 388 customers at the end of a 155 mile line as the customer living next to the substation.

Furthermore, BPA should recognize that utilities throughout the region have planned and built their transmission and distribution systems around 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. For example, Midstate takes power from BPA's Pilot Butte to La Pine 230kV line that is stepped down to 115kV in the BPA La Pine Substation. Midstate has built its entire system on the 115kV delivery voltage. In a review of a PTP proposal, Midstate's transmission costs will increase by \$1.6 million a year. Had we known our 115kV delivery voltage stepped down from the 230 kV line would cost us \$1.6 million a year, the question comes up, would Midstate have built their system differently?

Thank you for this opportunity to comment and for 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,



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CC: John Saven, Northwest Requirements Utilities

Proposed Segmentation Principles

Date: February 11, 2014

1. Full and timely cost recovery
2. Any segmentation policy must encourage the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles.
 - The baseline for whether a proposal achieves this “Widest Use Standard” is a uniform rate.
3. Equitable cost allocation between federal and non-federal uses of the Transmission system
4. Emphasizes a regional perspective
 - Alternatives must consider how costs are allocated and recovered.
 - Proponents of alternatives must demonstrate how the region benefits from the alternative compared to status quo.
 - Helps facilitate customers working together with BPA on complex matters
5. Honor BPA and utility planning and financial decisions based on longstanding segmentation policies
6. Simplicity, understandability, public acceptance, and feasibility of application
7. Avoidance of rate shock
8. Rate stability from rate period to rate period
9. Cost causation
10. Must align with BPA’s planning and financing policies
11. Is not disruptive or delaying to BPA’s IPR and CIR processes