

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

Dear Administrator Mainzer:

Missoula Electric Cooperative 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. Missoula Electric Cooperative 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. Moreover, due to the nature of our service territory, we have fewer customers to whom we can spread costs. For example:

- Missoula Electric Cooperative has a meter density of just over 7 meters per mile
- The Missoula County economy is closely tied to the forest products industry, and has yet to fully recover from the loss of hundreds of jobs with the closure of the Stimson lumber mill in Bonner, and the Smurfit Stone paper plant in Frenchtown
- Any significant cost increases that would result from a change in the BPA segmentation process and proposed segmentation principles would be borne by Missoula Electric Cooperative's rural membership and have a detrimental effect on an already struggling local economy

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

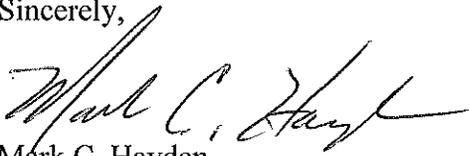
stamp rate should be the baseline to determine whether any alternative segmentation proposal meets the widest use obligation. The rate impacts under any alternative proposal must be as good or better *for the entire region* as compared to the current postage stamp rate.

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.

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.

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,

A handwritten signature in black ink, appearing to read "Mark C. Hayden". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark C. Hayden
General Manager

CC: John Saven, Northwest Requirements Utilities

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