

From: Umatilla Electric Cooperative
Subject: Integrated Network Segmentation
Date: February 11, 2014

Dear Elliott,

Snohomish and others would change the Integrated Network Segment definition to facilities of 116 KV and above. This suggestion was contained in their testimony (JP12-01) before the Bonneville Power Administration (BPA) during the 2014 Rate Adjustment hearing. The existing Integrated Network Segment includes facilities of above 34.5 KV and not included in another segment. This proposed change seems to be based on their understanding and or interpretation of Federal Energy Regulatory Commission (FERC) tests and “eight overarching objectives” from James Bonbright’s “Principles of Public Utility Rates”, which they list. It may be instructive to note that Bonbright accepted as reasonable, that “social objectives” can be a legitimate element in rate making^[1] and that “Satisfactory results, not ideal or optimum results are all that can be expected from the ablest group of rate makers.”^[2]

Consider the rates that both privately owned and publically (consumer) owned utilities currently use. Today’s electric utility rates are a combination of state and federal mandates, low income and senior rates and local social objectives. If electric utilities scrupulously followed cost causation principles, most if not all customers would pay demand as well as energy charges each month, monthly fixed charges would be \$25 per month or greater and customer rates would vary by the number of miles from the substation or the revenue per mile of line for the line that served them or some other cost differentiator. BPA rate structure fall within Bonbright’s rate objectives as do any Northwest utilities’. Mr. Bonbright further observes that “Reasonable public utility rates, like reasonable prices in general, are rates designed to perform with reasonable effectiveness multiple functions as instruments of social control. But a system of rates that could be designed to perform any one of these functions is unlikely also to be the best that could be designed to perform any of the others. Hence, to a substantial extent, sound rate making policy is a policy of reasonable compromise among partly conflicting objectives.”^[3] BPA’s policy decisions concerning the Integrated Network Segment are a reasonable compromise of possibly conflicting objectives.

For Umatilla Electric Cooperative, BPA’s Integrated Network Segment policy is not as technical in nature, as it is in one of a vision for regional prosperity and the use of federally owned generation and transmission in this region. We believe that BPA was created to deliver federally generated Hydropower at the cost of production to all in the Northwest. Changing the Integrated Network segmentation to exclude more facilities as Snohomish, et al. has suggested would harm those utilities that are not fortunate enough to be located near large transmission lines. It would put an enormous damper on the prosperity of the rural communities of the Pacific Northwest for years to come.

Please recall BPA’s beginnings. During the 1932 presidential campaign, in Portland, Oregon Franklin D. Roosevelt promised to begin Federal hydroelectric development on the Columbia River to provide a “yardstick” against which rates charged by the privately owned electric utilities could be measured^[4].

Beginning in 1935 there were five unsuccessful efforts to create a marketing entity for the energy from Bonneville and Grand Coulee Dams. The Bonneville Project Act was approved by a House Senate Conference Committee on August 12th and was signed into law by President Franklin D. Roosevelt (FDR) on August 20, 1937^[5]. At the time, in the East, Grand Coulee Dam was designated a “White Elephant” and Bonneville Dam was criticized as the “Dam of Doubt.” There was concerted effort to make certain

that the first Bonneville Power Administration Administrator not be a “private power man.” Fortunately, J.D. Ross, a personal friend of FDR became the first BPA Administrator^[6]. As BPA decided how it would operate, industrial, utility and commercial interests continued to support the (electric) holding companies which favored sale of BPA energy at the dam site, to investor owned utilities and to develop a large electro-chemical industry. Steve Kahn, who had been hired by J.D Ross to handle public relations for the new agency, noted:

“Ross had a different vision of the dam serving all of the area and as demonstrated by the fact that, we had hearings all over the Northwest as to what the rates should be.” We even went up into Idaho and Montana as I remember it, as well as Washington and Oregon. I went along with Ross and he presented his postage stamp rate idea. That meant that the people of Idaho should be entitled to electricity from Bonneville Dam at the same price as the people of Portland. The dams were built by the Federal Government and should be used for the benefit of all the people, not just for the people of one area or one state.”

Power at cost from Federal dams throughout the Northwest for all preference customers could only be provided if there were postage stamp rates for the delivery from Federal transmission lines as well as Federal substations provided at postage stamp methods (postage stamp rates mean, for example that kilowatt-hours are at the same price anywhere in the Northwest just like the price of mailing a letter anywhere in the Northwest is the same).

Today BPA and Public Power are the yardstick by which reasonable electric rates are measured. The delivery of Federal Hydropower throughout the Northwest has made possible the providing of central station electric service to rural areas at rates comparable to urban areas. Comparing Umatilla Electric to a Snohomish PUD, both with a similar size service area, illustrates the continuing success of the BPA mission to deliver federal power at the cost of production throughout the Northwest.

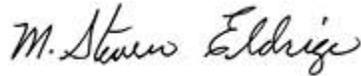
	Snohomish PUD 2012		UEC COOP 2012
Service Area (square miles)	2200		2000
Number of Customers	324,000		16,556
Residential Rates (monthly average bill based on 1400 kWh)	April-Sept \$127.16 Oct-Mar \$132.12		Mar-Nov \$104.69 Dec-Feb \$105.15
Total Personal Income for the county	\$33,570,183,000		\$2,527,473
Per Capita Income	\$45,796		\$32,901
Retail Sales	\$521,032,000		\$53,772,700
Net Electric System Plant Generation capacity	\$889,578,000 125 MW		\$80,281,767 0 MW
Miles of Line	6,195		2,330
New Service Connects	3,165		210
Mwh Sales	9,194,554		973,380
Employees	976		71

As can be seen from the above brief comparison, there are still significant differences between urban and rural areas of the Northwest. The \$300 annually that UEC's residential members save in comparison to Snohomish PUD helps make up a little for the nearly \$13,000 lower annual per capita wage they earn. BPA's original mission of delivering Federal Power at cost throughout the Northwest is still valid today, in that it provides a yardstick for the rates of investor owned utilities as well as helping to create the "universal industrial prosperity" envisioned by J.D. Ross and President Franklin D. Roosevelt so many years ago.

Umatilla Electric has made investments for the past 77 years based on BPA vision and its resulting policy based on the concept that Federal power at the cost of production would be provided to Consumer Owned Utilities, whether they were in Malta Idaho, Hermiston Oregon, Cut Bank Montana or Seattle Washington.

Thank you Elliot for your personal involvement in the Integrated Network Segmentation discussion, we appreciate it very much. Please do not change the current Integrated Network segmentation definition by excluding facilities that bring wholesale power to the many Consumer Owned Utilities that depend on BPA. Please do not dim the lights or lessen the income that BPA policy has made possible throughout the Northwest by delivering Federal power at the cost of production where ever a Consumer Owned Utility has needed it to serve their customers!

Sincerely,



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General Manager and CEO

MSE/trs

cc: via email: techforum@bpa.gov

^[1] *Principles of Public Utility Rates*, New York Columbia University Press, 1961, page 29

^[2] *Ibid* page 35

^[3] *Ibid* page viii

^[4] *BPA & The Struggle For Power At Cost*, 50th Anniversary Edition, page 109

^[5] *Ibid* page 126, 127 and 128

^[6] *Ibid* page 131