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May 11, 2009

SUBMITTED ELECTRONICALLY

Bonneville Power Administration
Residential Exchange Program – PFE-6
P.O. Box 3621
Portland, OR 97208-3621

Docket Number: ASC-10-SN-01

Re: FY 2010/2011 Snohomish Average System Cost (ASC) Draft Report

Thank you for the opportunity to review and submit comments on the FY 2010/2011 ASC Draft Report for Snohomish County PUD No. 1 (“Snohomish”), dated April 13, 2009. The following comments are submitted by Snohomish County PUD No. 1 as clarification and for BPA’s consideration:

1. BPA revisions to the ASC Forecast Model (“Model”) should be clearly documented, summarized and communicated to Parties before final changes are made to the Model.

Snohomish understands BPA staff has worked diligently to improve the Forecast Model’s calculations for exchange period ASC projections. The Model implements language incorporated into the 2008 Average System Cost Methodology (“ASC Methodology”) and is critical to determining the average rate period utility ASCs. Our understanding is BPA staff made late changes to the Model leading up to the draft ASC Reports. These changes introduced additional uncertainties about the Forecast Model’s output for participating utilities, making it difficult for utilities to replicate figures with Model revisions.

Snohomish recommends BPA provide version control of the Model, including the date of a Model change, reason for the change and verification that testing of Model changes have been completed, and can be reviewed by exchanging utilities. Further, we encourage BPA to provide users with notification of any changes in process or procedures when using the Model to assure consistent implementation by the exchanging utilities.

2. Snohomish requests BPA combine the two separate Snohomish (pre-rate case) new resource groups into one aggregate resource group. The online start date for the aggregated group is March 1, 2009.

Materiality test requirements included in the 2008 ASC Methodology, including changes to the Base Period ASC, electric and natural gas price forecasts and expected annual generation (in MWhs) have resulted in some new resource additions being immaterial at either the 0.5% or the 2.5% threshold levels. Snohomish therefore requests that BPA regroup the resources from the initial resource submittal groups into one aggregate group with one online date. Combining these two resource groups with a later resource online start date of March 1, 2009 meets the new resource materiality requirements.

The financial and energy resource changes resulting from this aggregation are presented in a separate attached document. Snohomish requests confidential treatment of this information under the Consent to be Bound provisions.

3. In Section 5.5.3, New Resource Additions: Materiality, BPA inadvertently states a 5% materiality threshold for new resource additions.

Snohomish wishes to clarify that the correct materiality threshold for aggregated new resource additions is a 2.5 percent change in a Utility's Base Period ASC or a Base Period ASC increase of 0.5 percent or more for each resource, not 5 percent.

4. In Section 6.1, Generic Issues List, BPA states that "Franklin and Snohomish PUD did not respond in writing" to the seven issues raised by BPA that may be generic to all utilities.

Snohomish did respond in writing to the Generic Issues List. In its March 13, 2009 Issues List submittal to the ASC Average System Cost comments, Snohomish responded to all specific utility 2007 ASC and 2010/2011 Forecast Model issues identified by BPA and also included a response to each generic issue raised by BPA. A copy of this written response is attached for reference. Snohomish requests BPA consider the written comments raised by both the IOUs and COUs for all issues raised in these ASC proceedings.

5. BPA should improve upon the ASC implementation methodology covering load resource balance surplus/deficits and the market pricing mechanism utilized by the Model.

On page 12 of the 2008 ASC Methodology (Attachment A, ASC Methodology), BPA states that "all forecast load growth not met by new resource additions will be met by purchased power at the forecasted Utility-specific short-term purchased power price." Snohomish understands why BPA developed separate Utility specific market prices to forecast short-term market purchases and sales, but suggests this approach does translate into a methodology that approximates a utility's likely costs or revenues for short-term purchased power transactions.

Snohomish encourages BPA to work on improvements to the Utility-specific market pricing mechanism included in the ASC Methodology. The market pricing mechanism impacts new resource materiality and short-term market purchases and sales and the final average rate period utility ASCs.

Again, thank you for the opportunity to submit comments on the draft ASC Report. We look forward to BPA's consideration of our comments and concerns in preparing the Final Snohomish FY 2010/2011 ASC Report.

Sincerely,

s/ Dana A. Toulson

Dana A. Toulson
Assistant General Manager
Power, Rates and Transmission Management

cc: Stuart Clarke, BPA-PS Senior Account Executive
Steven J. Klein, General Manager

BPA Issues and Clarification List for FY 2010-11 ASC Filing: SNOPUD

Issue No.	Sch	Account	Issue	Discussion
1	Sch-1	Account 303	<p>Should the percentages allocation of Account 303 be changed to 11% transmission and 89% distribution?</p> <p>Does the level of difficulty in functionalizing an account that requires direct analysis allow for a functionalization other than the default functionalization?</p> <p>Given there is no detailed documentation should the asset be functionalized to distribution?</p>	<p>SNOPUD stated in response to DATA REQUEST NUMBER: BPA-SN-3 that the dollars in their account 304 (listed on the appendix 1 as 304) are for intangible software.</p> <p>SNOPUD states that “there are a large number of software items that make up these accounts, it is difficult to functionalize by line item, so we chose to be conservative and use the Transmission 10%/Distribution (90%) Ratio for the software.”</p> <p>SNOPUD indicated that the final percentages for that ratio are 11%/89% so that may need to be amended.</p>
2	Sch-3	Account 111	<p>Should the functionalization of Account 111 follow the functionalization of Account 303?</p> <p>Why are the percentages different between the accounts?</p>	<p>SNOPUD stated in response to DATA REQUEST NUMBER: BPA-SN-5 that Account 111 is an amortization of account 303 and 304. Therefore the ratio is based on the same percentages, 20% to production, 10% to transmission and 70% to distribution.</p> <p>The Percentages in Account 111 are different from the percentage allocation in Account 303.</p> <p>BPA believes that the functionalization of Account 111 follow the functionalization of Account 303</p>
3	Sch-1	Account 310-316	<p>Steam Plant</p> <p>Should the Kimberly Clark in a Co-Generation (Wood Burning) Plant be recorded in the <u>Other Production Plant</u> Accounts?</p>	<p>Accounts 310-316 Steam Plant is used to reflect Gross Steam Plant in-service. These accounts are related to coal fired generation.</p> <p>SNOPUD stated in response to DATA REQUEST NUMBER: BPA-SN-6 and 7 that Snohomish County PUD is partners with Kimberly Clark in a Co-Generation (Wood Burning) Plant. “Since the FERC accounts do not include an account series for cogen energy, we used the most logical” series since the energy is generated by steam (produced by wood waste rather than coal.”</p> <p>BPA believes that the functionalization of Kimberly Clark in a Co-Generation (Wood Burning) Plant to the following plant Accounts.</p>

BPA Issues and Clarification List for FY 2010-11 ASC Filing: SNOPUD

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				<p><u>Other Production Plant</u></p> <table border="0"> <tr> <td>Other Production</td> <td align="right">340-346</td> </tr> <tr> <td>Fuel Stock</td> <td align="right">151</td> </tr> <tr> <td>Plant Materials and Operating Supplies</td> <td align="right">154</td> </tr> <tr> <td>EPA Allowances</td> <td align="right">158.1-158.2</td> </tr> </table> <p><u>Other Expense</u></p> <table border="0"> <tr> <td>Other Power – Fuel</td> <td align="right">547</td> </tr> <tr> <td>Other Power – Operations (Excluding 547 - Fuel)</td> <td align="right">546-550</td> </tr> <tr> <td>Other Power – Maintenance</td> <td align="right">551-554</td> </tr> <tr> <td>Property Insurance</td> <td align="right">924</td> </tr> <tr> <td>Depreciation</td> <td align="right">403</td> </tr> <tr> <td>Firm Sales for Resale (\$)</td> <td align="right">447</td> </tr> </table>	Other Production	340-346	Fuel Stock	151	Plant Materials and Operating Supplies	154	EPA Allowances	158.1-158.2	Other Power – Fuel	547	Other Power – Operations (Excluding 547 - Fuel)	546-550	Other Power – Maintenance	551-554	Property Insurance	924	Depreciation	403	Firm Sales for Resale (\$)	447
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4	Sch-3	Account 555	<p>Should the \$18,000,000 Purchased Power expense - Enron Power Contract Term in the "data for 2007 ASC" be removed in FY 2008 and beyond?</p> <p>Should the Purchased Power expense - Enron Power Contract be assigned to Account 557?</p>	<p>SNOPUD stated in response to DATA REQUEST NUMBER: BPA-SN-14 that Snohomish entered a power purchase and sale agreement with Enron in January 2001 using the EEI-NEMA Master Agreement form, with certain modifications. The major transaction under that agreement was for delivery of a 25 MW flat block of power from April 1, 2001, through December 31, 2009. No generation source was specified. Snohomish took power under that transaction from April 1, 2001, until November 29, 2001, when the contract was terminated due to the downgrade of Enron's credit ratings to below investment-grade. Enron and Snohomish also entered into a number of shorter-term transactions using the same Master Agreement. Snohomish took 145,800 MWh under the long-term transaction.</p> <p>Snohomish initially assigned this cost to Account 555.216, Purchased Power, but requests that BPA modify the account coding for this cost to 557, Other Expenses.</p> <p>In DATA REQUEST NUMBER: BPA-SN-17 BPA asked – "Please describe the nature of the \$18,000,000 Purchased Power expense -</p>																				

BPA Issues and Clarification List for FY 2010-11 ASC Filing: SNOPUD

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				<p>Enron Power Contract Term in the "data for 2007 ASC", tab "ELIS". Is this a one-time payment or are there future obligations?"</p> <p>In response SNOPUD responded "(T)he amount listed in the "Data for 2007 ASC" in tab "ELIS" is a power purchase contract termination payment made in 2007. This is a one-time payment and completes the contractual relationship between Enron and Snohomish. There are no future obligations.</p>
5	Sch-1	Account 186	<p style="text-align: center;">Miscellaneous Deferred Debits</p> <p>Does Snohomish correctly functionalize the following accounts?</p> <p>Account 186.107 "Misc Def Deb Est Jackson Pwr" Account 186.108 "Misc Def Debit Oth Gen. Account 186.110 "Misc Def Debit Everett Cogen"</p> <p>Should Snohomish functionalize these costs using a method to eliminate the receivable and payables?</p>	<p>Snohomish functionalizes these accounts to production.</p> <p>Snohomish responded to Data Request 18, stating "The Electric System and Generation System are two separate legal entities owned by Snohomish County PUD; therefore any accounting between the two entities must be at 'arms length' transaction that is why there payable and receivables."</p> <p>Snohomish has consolidated the Electric System entity with the Generation System entity for this filing. BPA does not have sufficient information to determine if the functionalization of the account should be to Production.</p>
6	Sch-1	Account 253	<p style="text-align: center;">Miscellaneous Deferred Credits</p> <p style="text-align: center;">Does Snohomish correctly functionalize the following accounts?</p> <p>Account 253.116, Oth Def. Cr Adv Rev EC Account 253.118, Oth Def. Cr Adv Rev JK Account 253.119, Oth Def. Cr Adv Rev OG</p> <p>Should Snohomish functionalize these costs</p>	<p>Snohomish functionalizes these accounts to production.</p> <p>Snohomish responded to Data Request 20, stating "The Electric System and Generation System are tow separate legal entities owned by Snohomish County PUD, therefore any accounting between the two entities must be at 'arms length' transaction that is why there payable and receivables."</p>

BPA Issues and Clarification List for FY 2010-11 ASC Filing: SNOPUD

Issue No.	Sch	Account	Issue	Discussion
			using a method to eliminate the receivable and payables?	<p>Snohomish has consolidated the Electric System entity with the Generation System entity for this filing. BPA does not have sufficient information to determine if the functionalization of the account should be to Production.</p> <p>Should Snohomish functionalize using a method to eliminate the receivable and payables?</p>
7	Sch-4		Should the loss factor be changed to reflect the five (5) year average of actual losses?	<p>The original Appendix 1 filing contained a 5% distribution loss factor.</p> <p>In response to DATA REQUEST NUMBER: BPA-SN-16 SNOPUD provided the utility specific loss factor of 3.59% based on the five (5) year average of actual losses.</p>
8	Sch-1	Account 303	<p style="text-align: center;">Generic Direct Analysis Issue</p> <p>Should BPA adopt common functionalization for similar types of software assets?</p> <p>Should the functionalization of Account 303 follow the functionalization of the Account where the expense is recorded?</p>	<p>Inconsistency between how the IOUs functionalize certain types of software, i.e. metering, customer information systems, work management, etc.</p> <p>The issue is whether BPA should maintain consistency in the functionalization of these common types of programs amongst utilities when calculating ASC.</p>
9	Sch-1	Account 182.3 and Account 254	<p style="text-align: center;">Generic Direct Analysis Issue</p> <p>Should BPA adopt common functionalization for similar types of regulatory assets and liabilities?</p> <p>Should the functionalization of Regulatory Assets and Liabilities follow the functionalization of the Account where the expense, revenue, or amortization is recorded?</p>	<p>Inconsistency in the way the IOUs functionalize Deferred Pension, Pay and other labor related Assets and Liabilities.</p> <p>PGE and Avista and NW use the Labor Ratio. IPC uses PTD. PSE and PAC functionalize these assets to Distribution.</p> <p>The issue is whether BPA should maintain consistency in the functionalization of deferred pension, pay and other labor related assets and liabilities amongst utilities when calculating ASC.</p>

BPA Issues and Clarification List for FY 2010-11 ASC Filing: SNOPUD

Issue No.	Sch	Account	Issue	Discussion
10	Sch-1 and Sch-3	Accounts 182.3, 186, 253, and 254	<p style="text-align: center;">Generic Direct Analysis Issue</p> <p>Should BPA require that asset accounts that have a corresponding liability account have a common functionalization? For example, should pension costs in Accounts 182.3 and 254 have the same functionalization?</p> <p>Should the functionalization of the amortization match the functionalization of the corresponding assets and liabilities?</p>	<p>Direct analysis is required in the functionalization of Other Regulatory Assets (Account 182.3), Miscellaneous Deferred Debits (Account 186), Other Deferred Credits (Account 253), and Other Regulatory Liabilities (Account 254).</p> <p>Direct analysis should include maintaining a consistency in functionalization where there is an asset in either Account 182.3 or 186 and offsetting liabilities in either Account 253 or 254.</p> <p>Direct analysis also requires showing how the assets and liabilities flow through the Income Statement</p>
11	Sch 3, Sch 3B, 3-yr pp & OSS	555 & 447	<p style="text-align: center;">Generic Issue - Purchased Power Expense, Sales for Resale, and Price Spread</p> <p>How should book-outs and trading adjustments be treated for calculations of purchased power expense and sales for resale revenue and the price spread calculation?</p> <p>Should the treatment be consistent across utilities?</p>	<p>PacifiCorp is reducing the amount of its purchased power expense and sales for resale revenue by book-outs and trading adjustments. It appears that the other utilities do not.</p> <p>The inclusion or exclusion of book-outs and trading adjustments in purchased power and sales for resale numbers affects the price spread calculation. BPA is considering whether it is appropriate to remove these adjustments when performing the price spread calculation and the ASCs.</p>
12	ASC Forecast Model		<p style="text-align: center;">Generic Issue - New Plant Additions – Natural Gas Prices</p> <p>Should BPA adopt a common natural gas price forecast in the ASC Forecast Model for all <i>new</i> natural gas-fired plant additions?</p>	<p>Forecasted natural gas prices vary significantly between utilities forecasting natural gas burning new additions. None of the utilities submitted documentation on long term firm natural gas supply contracts, so it is assumed that the differences are a result of different natural gas price forecasting techniques.</p>

BPA Issues and Clarification List for FY 2010-11 ASC Filing: SNOPUD

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13	ASC Forecast Model		<p style="text-align: center;">Generic Issue - New Plant Additions - Capacity Factor</p> <p>Should BPA use common representative capacity factors in the ASC Forecast model for estimating the operating costs and expected energy output for plant additions of similar type?</p>	<p>Projected capacity factors vary significantly between utilities for similar types of new resources.</p>
14	Sch. 1, Income Statement	Various	<p style="text-align: center;">Generic Issue – Inclusion - Other Regulatory Assets and Liabilities</p> <p>What should be the functionalization of Other Regulatory Assets and Liabilities that are not included in rate base by the regulatory authority?</p> <p>What should be the functionalization of the corresponding income statement accounts for the Regulatory Assets and Liabilities that are not included in rate base by the regulatory authority?</p>	<p>There is inconsistency between utilities in the functionalization of Regulatory Assets and Liabilities when not included in rate base.</p> <p>For example, PAC functionalized all Other Regulatory Assets and Liabilities that are not in its retail rate base to distribution. Idaho functionalized several items in these same accounts, also not included in its retail rate base, to PTD.</p> <p>Many of these accounts are included in working capital for ratemaking purposes.</p> <p>There is concern that the treatment of the income statement accounts for Other Regulatory Assets and Liabilities are not consistent with the asset and liability treatment for ASC purposes.</p>