



January 11, 2008

Nita Burbank
nmburbank@bpa.gov
Ray Bliven
rdbliven@bpa.gov
Bonneville Power Administration

Via Electronic Mail

RE: Public Power Council comments on Discussion Paper on Tiered Rates
Methodology

The Public Power Council (PPC) submits these brief comments in response to BPA's December 21st draft of its Discussion Paper on Tiered Rates Methodology (TRM). We recognize that the document is a very early draft, and appreciate BPA's willingness to share it with customers.

These comments represent PPC's initial thoughts on the TRM as set out in the Discussion Paper. PPC anticipates submitting more detailed and substantive comments at a later date. PPC hopes that the agency will continue to provide customers frequent opportunities to review its TRM draft and to discuss those drafts with customers. The January 8th clarification session on the Discussion Paper was productive for both customers and BPA staff. PPC believes that continuous open dialogue about the TRM will facilitate a more reasoned and informed approach by both the customers and BPA than would be the case if BPA relied on formalized rate proceedings to collect customer input.

In framing these comments, PPC feels it necessary to acknowledge that the tiered rates construct represents a huge paradigm shift in how business is conducted. This shift applies as much to BPA's way of doing business as to customers'. PPC hopes that BPA will display the necessary flexibility and ingenuity in evaluating and modifying its current role and practices to ensure the success of tiered rates.

In general, PPC believes that the Discussion Paper represents a helpful start in the necessary process of codifying the ideas and concepts that have been developed in the Regional Dialogue workshops on this topic. Much work needs to

be done, however, to ensure that the TRM is a reliable, understandable, and durable regulation of the tiered rates construct and promotes the goals that underlie the tiering of rates. At this time, PPC notes the following ways in which the TRM could be improved.

1. More work needs to be done to ensure that the TRM furthers the goal of tiered rates to promote resource development.

For customers to assume the costs and risks of developing non-federal resources, they must be confident that their Tier 1 rates do not include costs and risks associated with BPA's Tier 2 service. One way that the TRM will seek to ensure that Tier 2 costs and risks stay out of Tier 1 is through use of a "Cost Allocation Table" that describes the costs that are included in each tier. While we understand that the Cost Allocation Table may need to be revised over time to incorporate new costs, the TRM will have to set out in greater detail how and when that will be done, along with the criteria that will be used in determining where new costs fit. Additionally, the Discussion Paper does not describe how the TRM will prevent against Cost Allocation Table categories being interpreted in different ways in the future that expand or shift the types of costs included in each tier.

PPC also recommends that the TRM be drafted to describe all of the methods for keeping Tier 2 costs out of Tier 1 that will be used. Although, as the Discussion Paper recognizes, there may be some future circumstance under which BPA believes it has no choice but to put a cost in Tier 1 that would normally properly belong in Tier 2, the TRM should ensure that doing so would be the last possible option. The TRM should specify the contractual mechanisms and insurances that would be used to guard against that. The concepts of having Tier 2 rates subject to a true-up to collect cost changes, for example, should be further explored, as should the concept of ensuring that contracts for Tier 2 resource development include provisions assigning project liabilities among participants before those costs could be assignable to others.

2. More work needs to be done to ensure that the TRM furthers the goal of preserving the value of the existing FBS.

In addition to promoting resource development, another goal of tiered rates is to preserve the value of the existing FBS. In a few significant ways, the TRM must be modified to further this goal.

First, the Discussion Paper lists many "off-the-top" obligations that would reduce the size of the FBS prior to the calculations of High Water Marks. These obligations have not been fully identified as to their nature or amounts of the obligations. They require more exploration and serious discussion with customers. Many of the obligations that are better defined at this point are problematic. For

example, BPA proposes that energy and capacity disposed of by Transmission Services in providing ancillary and control area services reduce the size of the FBS. Many of these services are sold to non-preference customers. The size of the commitment has not yet been defined but expressly will grow as the transmission system expands over time. One of these control area services is wind integration balancing service which promises to grow significantly in the near future. Also, these off-the-top obligations can be expanded unilaterally by BPA as new services are offered and new contracts signed because the list of obligations is expressly not exclusive. The reduction of the FBS size to accommodate the needs of the Transmission Services and the other off-the-top obligations would diminish access to low-cost FBS capacity and energy resources through Tier 1.

Second, the Discussion Paper indicates that BPA will acquire capacity in amounts that BPA deems necessary, and that capacity is not subject to any augmentation limit that will be placed on Tier 1 through the TRM. The TRM, as currently written, does not protect Tier 1 customers from paying the costs of acquiring capacity used to support Tier 2 sales, or non-preference customer requests. Indeed, given the presence of off-the-top obligations, the draft TRM could put preference customers in the position of paying the costs of capacity additions in their Tier 1 power rates while Transmission Services customers enjoy the benefits of the installed federal generating resources.

Finally, the Discussion Paper's reference to augmenting the system ahead of need requires further exploration. The value of the existing FBS could suffer significant damage if BPA acquires augmentation ahead of need, and that need fails to materialize.

3. The TRM should adhere as much as possible to the Rate Design proposal that was advanced by public power.

In the Regional Dialogue workshop process, public power representatives presented BPA with a strawman proposal for products and rate design. Those representatives expressly recognized that further technical work is needed to ensure that the intent of the proposal would be realized in any eventual implementation. The rate design proposal in the Discussion Paper, however, appears to contain a few significant changes to the strawman proposal that may change the value associated with the public power proposal. Aspects such as the Load Following Charge, shaped demand charge, and the years used to determine grandfathered demand need further discussion. To the extent possible, BPA should adhere closely to the public power strawman proposal, and subsequent technical work that followed that proposal, since that work represents a balance that has the greatest potential to unite public power on the important issue of rate design.

4. The requirement that conservation be “cost effective” before it can adjust a customer’s HWM needs further discussion.

The TRM states that the goal of the conservation adjustment to the Contract High Water Marks (CHWMs) is to ensure that customers have minimal disincentives towards conservation between now and the implementation of the Regional Dialogue contracts. Toward this goal, PPC would like to see more discussion to ensure that the standards determining cost effectiveness and verification are as up-to-date, appropriate, and equitable as possible. PPC understands that a future process will be used to determine BPA’s role in conservation under the Regional Dialogue contracts, and does not want the TRM to preclude incorporating changes that may come out of that process. However, a change in how cost effectiveness is determined may be appropriate under tiered rates, and any changes to that determination may need to be applied to the adjustments to CHWMs for conservation.

5. The formula for determining the HWM of new public utilities needs to be modified.

The Discussion Paper states that the HWM for new publics will be based on the utility’s forecast net requirement the year deliveries begin, “limited by the percentage derived by dividing the existing CHWMs by the forecast total net requirements of existing public utilities that year.” This calculation appears to inadvertently provide for too high of a HWM for new publics.

To the extent that existing publics go out and develop resources to meet their above-HWM loads, their net requirements placed on BPA will remain close to their HWM, even if their total retail load is much higher. Under BPA’s formula, this would mean that new publics could receive a HWM close to 100 percent of their total retail load, even though most existing publics could have a great disparity between total retail load and their HWM, due to their responding to the goals of the Regional Dialogue to encourage non-federal resource development. PPC believes that this formula needs to be modified to take into account the ratio of existing publics’ HWMs to their total retail loads.

6. The TRM should more clearly set out the timing of important decisions and commitments that will be made by customers and BPA while conducting business under the tiered rates construct.

Under the Regional Dialogue contracts, BPA and the customers will make many decisions that will greatly affect the price and availability of BPA power. These include, for example, determinations of utility net requirements, Rate Period High Water Marks, Federal Base System output, and commitments and dedication of non-federal resources. Although the timing of these decisions has been discussed in Regional Dialogue workshops, the TRM should clearly set out a

timeline of when and how these decisions will be made. Setting such a timeline out in paper would help customers and BPA recognize any as yet unforeseen problems associated with the timing of those determinations and commitments.

Sincerely,

/s/ Scott Corwin
Executive Director
Public Power Council