

Tacoma Power's response to the **BPA Response** (dated October 19, 2007)

To Public's October Strawman Proposal on Products and Rate Design

October 31, 2007

Grandfathered Determinants for Demand

Ensure there are incentives to limit peak demand

RESPONSE: Tacoma Power supports BPA's desire to ensure that there are incentives to limit peak demand on the system at the start of the contract and in the future. We believe there may be alternative methods for achieving the goal including using a percentage of the historical demand to establish a fixed number of MWs available to be purchased at the grandfathered rate. Tacoma Power will be available to assist BPA in developing an effective and acceptable method to provide an effective and equitable incentive.

One issue that is a consistent concern of Tacoma Power's for any adjustment to the allocation or grandfathering of rights to BPA power is our concern regarding the appropriate crediting of revenues from marginal cost or market-based pricing methodologies used for appropriate and various purposes. First, we agree that in many applications, using marginal cost pricing is appropriate as a price signal. However, we firmly believe that BPA's customers should receive a full credit of excess revenues when pricing policies collect revenues in excess of the costs of serving the demand placed upon BPA's system.

Adjustments of Grandfathered Demand Amounts in Future Rate Periods

RESPONSE: Tacoma Power is generally supportive of BPA's proposal for adjusting Tier 1 Demand for loss of resource.

We assume that adjustments to the grandfathered demand amounts related to capacity changes could be either positive or negative depending on underlying degradation or improvements to the system. Therefore we would expect BPA to use the same methodology to account for both the positive and negative adjustments.

Grandfathered Slice Demand

RESPONSE: Tacoma Power will support BPA in the development of an equitable method for determining the amounts of grandfathered demand for Slice purchasers.

Our goal is equitable treatment in grandfathered rights for all customers regardless of their product choices.

Changes to the BPA Framework

2, More Flexibility in Resource Shapes for Load Following Customers.

RESPONSE: Tacoma Power appreciates BPA increasing the available flexibility associated with the Regional Dialogue products. To the extent BPA is offering to enhance the flexibility of one product beyond its current defined flexibility, then BPA should be willing to enhance the flexibilities of other products. Such flexibilities can and should be accurately priced.

Pricing transparency is essential and would further enhance the ability of BPA customers to make economic choices as well as establish equitable rates for each product. Tacoma Power would like to strongly encourage BPA to develop the products in parallel with rates. We believe that equitable treatment across customer classes can be best addressed when the products and the rates are clearly linked during development.

3, Increased Flexibility in the Shape of the Block Product.

RESPONSE: Tacoma Power greatly appreciates BPA's willingness to offer a Block with Shaping Capacity product that will provide flexibility similar to the product offerings in the existing contracts. However, we are concerned that for the Block with Shaping Capacity product in particular, the flexibilities offered still fall short of those offered in the current contract and we remain concerned that the Block Product with Shaping Capacity is the one product least equivalent to the current contract offerings.

Tacoma Power understands the concerns BPA has with the potential for a large group of customers electing to choose the Block with Shaping Capacity product in the new contract period. We would like to suggest that BPA work closely with the customers that select this product to continue those discussions. As is the case today Tacoma Power would like the ability to use this product to meet our load requirements in the next contract. One specific concern, if imposed, is that restrictions on ramping limits in HLH periods could make it difficult if not impossible to meet our load requirements in certain months on certain days.

With regard to a change in the protocol for pre-scheduling Shaping Capacity, Tacoma Power understands that BPA is simply offering to further discuss and explore this proposal as an option for the Block with Shaping Capacity. Tacoma Power is open to exploring the new pre-scheduling concept in pursuit of much lower costs. Our concern for the requirement to pre-schedule all shaping capacity two days in advance relates to

the cost equity in comparison to the costs borne by Load Following and Slice customers in relationship to the flexibility they receive.

Tacoma Power notes that both the Load Following customers and Slice customers have access to LLH flexibility and therefore such flexibility should also be accessible to customers, particularly for customers like Tacoma Power that are using the Block-only with Shaping Capacity product to meet their customers' load requirements. Tacoma Power understands the concerns that BPA has with minimum flows during certain periods of the year. We would suggest for exploration and discussion that there may be other periods during the year where the amount of LLH flexibility has to be limited, but in other periods where accessing such flexibility is not a concern. If true, then some amount of LLH flexibility in defined months could be included with this product without impinging on BPA's system operations. We are willing to work with BPA to identify these potential periods and discuss in more detail opportunities for adding this flexibility to the Block with Shaping Capacity product. Tacoma would also be open to explore a transitional ramp in the LLH's to mitigate any concerns about extreme ramping between the HLH and LLH diurnal periods.

Tacoma Power can support BPA's proposal to make the capacity day neutral but would like to again encourage BPA to make sure that product and rate design development proceed in parallel. Where one type of product allows customers load to move up and down within the hour, day, or month the product should have charges that accurately reflect the cost to provide that service. If that charge does not exist or is not reflective of the service provided then other products should be given access to that same service at the same cost.

Tacoma Power understands the concerns BPA has expressed concerning capacity rights and can support BPA's proposal to make the elected shaping capacity take-or-pay. As a principle in supporting this proposal BPA should apply this same restriction to all other customer classes as well. Where capacity must be reserved to meet loads in other products that capacity should be priced equitably akin the take-or-pay provisions set forth in the Block-only Product with Shaping Capacity.

Tacoma Power would like to express it's appreciation for BPA committing to offer a viable product option other than the *Slice* product in the Regional Dialogue period to customers that operate a Balancing Authority Area. While this proposal does make significant forward progress in the Regional Dialogue discussion, we feel that the product discussions need to closely track with the rate design discussions to make sure that both the rates and products are developed equitably for all classes and types of customers. We look forward to continuing to work with BPA in the further development of these products and rate design proposals.

4, BPA will Provide Wind Integration Services at Marginal Cost.

RESPONSE: Tacoma Power supports BPA in the development of a Wind Integration Services based on marginal costs.

Tacoma Power believes that customers that purchase wind integration services should be responsible for all costs that BPA incurs to provide that service. Specifically, Tier 1 capacity and energy that is used to serve preference customers loads should not be used to provide that service without an equitable allocation of the revenues received to all Tier 1 customers.