



Providing quality water, power and service at a competitive price that our customers value

August 31, 2012

Submitted via email to techforum@bpa.gov

Subject: Comments of Snohomish County PUD No. 1 on Treatment of the WNP3 Settlement in the Rate Period High Water Mark Calculation

BPA asked customers to provide it with feedback on whether or not the exchange of power under the WNP3 Settlement Agreement (“WNP3 Settlement”) should be included in the calculation of the Rate Period High Water Mark (“RHWM”) beginning in FY2014. Snohomish’s understanding from BPA staff is that inclusion of the WNP3 Settlement in the RHWM calculation would increase Tier 1 loads by approximately 45 average megawatts for the FY2014-15 period, and cost an estimated \$1 million. Snohomish believes this will result in increased rate pressure for BPA customers whose current net requirements are below their established Contract High Water Marks. We submit the following comments for BPA’s consideration:

BPA explained that under the WNP3 Settlement, it has a Designated System Obligation to provide 91 aMW of power during the FY2014-2015 period to Puget Sound Energy and Avista Corporation. The Settlement also includes a provision that gives BPA the right to request a return of that energy. This clause protected preference customers in the event BPA did not have energy surpluses during the 30-year Settlement term. However, in 1993 and again in 2001, BPA asked for return energy from the parties, but no energy was ever returned to BPA.

In its long-term planning, BPA has reflected the WNP3 Settlement as an exchange—that is, as an “obligation” and an offsetting “resource”—reflecting BPA’s right to request return energy.¹ In *Utility Reform Project v. Bonneville Power Administration*, 869 F.2d 437, 447 (9th Cir. 1989), the Court upheld that, “[t]he unexercised option generates no power, and it adds no capability to BPA’s system.” Snohomish urges BPA to take this ruling into consideration and not increase the size of the Tier 1 System.

¹ The WNP3 Settlement obligation is reflected in the Tiered Rates Methodology (TRM), see Table 3.4, Designated BPA System Obligations.

Historically, BPA has reflected in its rates the operational reality of the WNP3 Settlement exchange. That is, on a planning basis, the WNP3 exchange energy has been valued for ratemaking purposes at a forecast market price when/if energy was needed to augment the federal system, rather than at the IOU parties' system resource cost. This approach helped BPA's Priority Firm energy rates remain low.

By including the WNP3 Settlement as a resource in the calculation of the RHWMM to synch up BPA's long-term planning with TRM ratemaking, there are financial consequences with no benefit for utilities, like Snohomish, and others in the region, who are forecast to be below their Contract High Water Marks through the 2017 and 2019 Settlement expiry.

Based on our understanding of the issues, Snohomish does not support including the WNP3 Settlement exchange energy in the RHWMM calculation beginning in FY2014.

Sincerely,

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Senior Manager Power Supply

cc: Dana Toulson, Assistant General Manager – Power, Rates and Transmission Management
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Ray Bliven, BPA Power Rates Manager