NRU

Northwest Requirements Utilities

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Bonneville Power Administration
Public Affairs Office
DKC-7, P.O. Box 14428
Portland, OR, 97293-4428

Re: Proposed settlement with Spokane-based utility Avista

Dear Public Affairs Office,

We are writing to provide Northwest Requirements Utilities' comments on the proposed Settlement of the Avista Deemer account. Our organization represents 54 load following customers of BPA that take power service under the priority firm rate and pay a large part of the costs of the Residential Exchange Program. The upward rate impacts of the proposed Avista settlement will be levied upon our membership through higher power rates. Also, we have a number of members that share service territory boundaries with Avista. To these customers of BPA, rate disparity is always an issue, especially when one customer is providing funding to lower the rates of another BPA customer.

Although the accrual of the deemer balance for Avista had a long and complicated history as it grew from $39.3 million to $85.6 million over 13 years, the reason for its establishment is clear and unequivocal. On November 12, 1981, BPA and Washington Water Power (WWP now Avista) executed a Residential Purchase and Sale Agreement (RPSA). Section 10 of that agreement explicitly provided for accumulation of a "deemer" balance in the event that an exchanging utility's average system cost fell below the PF Exchange Rate. As stated there "The net balance in such account shall accumulate interest at the rate specified in section IV. E of Exhibit C." In addition, Section 10 of the RPSA stated that WWP can resume full participation in the exchange only after "the debit balance of such separate account [is] less than or equal to zero."

In 1982 WWP received Residential Exchange benefits. However, after a change in the ASC methodology in 1983, WWP's average system cost fell below the PF Exchange Rate. The deemer balance grew to a total of $39.3 million from 1983 to 1987. Acting under the provisions of Section 9 of the RPSA, WWP and BPA agreed to suspend the RPSA instead of terminating it. In 1987, BPA and Avista agreed to the following language in the Suspension Agreement.

> *"The parties agree that the WWP's accrued deemer account balance as provided in section 10 of the RPSA is $27,336,185, including interest, as of 2400 hours, June 30, 1987, for the Washington Jurisdiction, and $11,988,313, including interest as of 2400 hours, June 30, 1987, for the Idaho Jurisdiction. During the period of suspension under this agreement, accruals to the deemer account shall cease, except for interest on such amounts. From and after October 1, 1987, such amounts shall accrue interest, which shall not be compounded, at an average prime rate for each calendar year […]."*

Interest accrued as appropriate under the Suspension Agreement from FY 1988 through FY 2001. The Suspension Agreement also provided that the Suspension Agreement could be revoked with notice and that WWP could return to the Residential Purchase and Sales Agreement.

WWP requested termination in September 1993, and BPA accepted their termination subject only to the terms of the RPSA and the Suspension Agreement. WWP did not accept the terms that it had previously agreed to, and the suspension was not consummated. As a result the deemer balance continued to grow until 2001.

Now Avista and BPA have come forward with a proposed settlement of Avista's deemer account that reduces this obligation from $85.6 million to $55 million. The $55 million deemer obligation was derived by taking the $39.3 million and applying the GDP deflator to it for the years FY1988 to FY2001. This amount was arrived at in the context of a settlement proposal and is not consistent with the terms of the Suspension Agreement.

NRU objects to this settlement for the following reasons. First, for the reasons described above the settlement is not consistent with the signed RPSA and the Suspension Agreement. We are worried about the precedent this sets especially since our members have just entered into contracts for power supply for the next 20 years. Second, WWP had the opportunity to suspend the agreement prior to 1987 and did not do so; in light of the fact that BPA's preference customers have only recently signed up for twenty year take-or-pay power purchases, BPA should not be imposing these new costs on its preference customers now when Avista could have resolved the issue in 1987. Third, this settlement will cause the rates of BPA's public power customers to be higher than they would otherwise be. BPA has up to this point been unable to demonstrate the rate impact of this proposal, but since $30 million is at play here we do expect that BPA's public power ratepayers will find their rates higher as a result of this proposed settlement. Fourth, the distribution of these added costs among public power ratepayers is also in question. On February 11th, at the clarification session on this it was unclear whether the burden of the settlement will be fairly spread over BPA's Slice and Non-Slice customers. An inequitable allocation of these costs to the Non-Slice customers will only add insult to injury. Fifth, Idaho Power has a deemer balance that is much larger than Avista's. We are very concerned that the settlement of this issue along the lines proposed here for Avista could set a precedent for a settlement with Idaho Power. Sixth, BPA and the region are now facing considerable economic uncertainty. Whatever the added cost of this settlement, they will only add to BPA's costs.

For these reasons and the fact that this settlement is not in accord with good business practice, we must oppose this settlement.

Signed,

John Saven, CEO