NRU

(503) 233-5823
Fax (503) 233-3076
jsaven@pacifier.com

Northwest Requirements Utilities

825 NE Multnomah, Suite 1135
Portland, Oregon 97232

March 29, 2012

Mark Reddemann, CEO
Energy Northwest
P.O. Box 968
Richland, WA 99352-0968

Northwest Requirements Utilities (NRU) submits the following comments on the Energy Northwest (EN) budgets for the Columbia Generating Station for FY 2013 and its Long Range Plan (LRP). NRU represents 50 consumer-owned load following utility customers of Bonneville Power Administration. The safe, reliable and cost effective operation of this plant is critical to the interests of our member utilities. Columbia Generating Station provides more than 10% of the firm power output of the Federal Base System.

Cost predictability is also very important to BPA's customers. The operating cost of CGS makes up about 13% of BPA's total power costs. When the debt service cost of CGS, WNP-1 and -3 are added, EN's costs make up about a quarter of BPA's power costs. In the past BPA's customers have been surprised by budget increases from CGS in the middle of a rate period where rates were based on prior Long Range Plans. This is not the case with this 2013 budget which is in line with the long range plans set in prior budgets. For that we express our appreciation. In addition, EN staff has devoted considerable effort to keeping BPA's customers up to date on the costs of the plant and its operation. These outreach efforts have been very useful and we look forward to their continuation.

As an outcome of the FY 2011 budget process we urged EN and BPA to work together to accomplish two critical tasks. Find creative ways to reduce fuel cost and restructure EN and BPA debt so that the lowest cost debt service stream could be obtained. BPA and EN did both of these things over the last year. This required a major time commitment by many individuals within both organizations and will provide significant benefits for the upcoming rate period and into the future.

From preliminary data we have seen, as has been the case for the past few BPA rate cases, CGS could be a major driver in the upcoming BPA rate increase. Operating cost pressures from CGS are responsible for about a fifth of the 12% cost increase that has been preliminarily described by BPA. As described in our comments below there are actions that can be taken now that will ameliorate CGS's contribution to BPA's potential rate increase for the FY 2014/2015 rate period.

At the budget session on March 20th NRU staff heard a commitment to live within the long range plan for FY 2013. Beyond that point there is less certainty. The cost pressures from the Fukushima incident are unknown and are expected to drive CGS's costs above the previously established LRP. As we understand it, the likely range of these costs will become much clearer in the near future. As more information becomes available we would like to have a discussion of the most cost effective way to implement these changes.

We ask that, as you prepare for the future, you work with the customers of BPA to keep us informed and involved in the development of these new programs and priorities and how they can be accommodated in the context of historic commitments and planned spending levels. For example, BPA's review of its costs for FY 2014 and 2015, the Integrated Program Review (IPR), will begin this summer. CGS, WNP-1 and WNP-3 are major components of that cost structure.

We do have a few specific comments on your FY 2013 budget and Long Range Plan as noted by Geoff Carr at the budget workshop on the 20th.

- Safe and reliable plant operation is essential, none of the comments below should be interpreted to detract from that fundamental goal.

- In order to prepare for your presentations in IPR we suggest that you provide benchmarked information to support the basis for your statement that "benefits are expected to increase dramatically". This increase in employee benefits is a major reason for the increasing O&M costs in the LRP. For example PERS rate changes are increasing ENs costs significantly. It would be helpful to know the extent to which other entities in Washington State are facing the same cost pressures from employee benefits over the FY 2014 to 2015 period.

- At Risk Compensation is also a cost driver. We would like to see a discussion of why the cost of this program is not budgeted at the expected level as opposed to the highest At Risk Compensation level. If it is expected that At Risk Compensation will be fully paid out then this may be appropriate. However, we question whether this should be budgeted at the fully funded level if past experience would show otherwise.

- A significant reduction in costs can be obtained for the BPA FY 2014, 2015 rate period if the CGS relicensing application is approved by the NRC. In preparation for that eventuality we ask BPA and EN to work together to determine those program areas where budget reductions can be made. We expect that reductions will be available in the areas of decommissioning and debt service cost. It would be helpful if BPA and EN staff could provide an update on these efforts at the upcoming IPR discussions.

- A more detailed cross-walk from the cost numbers in the CGS LRP for 2014 to 2015 to the cash numbers for 2014 and 2015 that BPA will be using in the IPR process is needed. For example, how are decommissioning and nuclear insurance included and how are the capital to debt service and fuel amortization conversions treated? A more detailed table showing these would be helpful.

While not directly related to the budget process we do have an increasing concern about the effect of wind generation on the physical plant of FCRPS generating facilities. We are keenly interested in gaining more information from your perspective about the potential plant wear and costs that arise as a result of ramping generation up and down in response to the highly variable fluctuations of wind generation. We ask EN to continue to examine this issue and to provide its assessment as soon as possible.

Thank you for the opportunity to participate in this important process. If you need further clarification regarding any of the items discussed above give Geoff Carr or me a call.

Regards,

John D Saven

John Saven, CEO
Northwest Requirements Utilities

Cc: Steve Wright, Administrator, Bonneville Power Administration
Andrew Rapacz, Supervisory Public Utilities Specialist, Bonneville Power Administration
Scott Corwin, Executive Director, Public Power Council
Kevin O'Meara, Deputy Director, Public Power Council
NRU Members