NRU

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April 15, 2013

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Northwest Requirements Utilities submits the following comments on the Energy Northwest (EN) budgets for the Columbia Generating Station (CGS) for FY 2014 and its Long Range Plan. Our organization represents 52 consumer owned load-following utility customers of Bonneville Power Administration, and account for about 25% of BPAôs Tier 1 energy sales. The safe, reliable and cost effective operation of this plant is critical to our member utilities. Columbia Generating Station provides more than 13% of the Tier 1 output of the Federal Base System. We also recognize that the continuing improvement in plant performance has a direct relationship to the cost of BPA wholesale power available to NRUôs members.

We appreciate the opportunity to participate in EN CGS budget process. Without that opportunity we would likely be left with only the chance to discuss already approved budgets in the BPA Integrated Program Review, not a particularly satisfactory outcome. EN staff has devoted considerable effort to keeping BPAôs customers up to date on the costs of the plant and its operation. We appreciate their efforts and look forward to a continued constructive working relationship in the future.

Cost predictability is very important to BPAôs customers. Not including debt service costs, the cost of CGS makes up about 18% of BPA Power Services operating expenses. In the past BPAôs 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. For FY 2014, on the expense side this is not the case. In fact, due to the proposed expense/capital re-classification, expenses for FY 2014 and 2015 are less than in the 2013 LRP. However, due to this reclassification and proposals for new capital expenditures and programs, capital costs are increasing above those in the LRP for FY 2013.

BPAôs customers are facing a currently projected Power Services rate increase of nearly 10% on average. The proposal by EN staff to re-classify expenses related to long-lived assets as capital is appropriate assuming that such re-classifications are consistent with accounting standards and industry practice. We urge BPA and EN to continue to work together to incorporate these savings into BPAôs Final Proposal for FY 2014/2015 and in future rate cases. We understand that EN is continuing to benchmark in this area drawing upon the experience of similarly situated nuclear facilities. In future years there may be the opportunity to shift more O&M expenses to the capital area to more closely parallel benchmarked results and general industry practice.

At the EN budget workshop on March 26th our staff heard that the cost pressures from the Fukushima incident are just starting to be known and are expected to drive CGS's capital costs above the previously established LRP. Also, the costs for the Independent Spent Fuel Storage Installation (ISFSI) may rise significantly due to new Nuclear Regulatory Commission guidelines. As we understand it, these costs will become more certain in the near future. Our staff was struck by the BPA staff presentation that showed that by 2019 these increased capital costs will begin to translate into higher Power Services rates as the debt service on these costs effect the bottom line of the BPA power repayment study.

Picking up on the BPA example, shifting costs from expense to capital may be beneficial for rates in the short term, but may mask the overall question of whether over time all of the investments for attractive sounding individual projects are affordable from a BPA customer perspective. We support shifting expense to capital wherever justified as a sound business practice, but such a shift should not reduce the amount of scrutiny that is paid to individual proposals, or the cumulative impact of such proposals on rates. BPA and EN need to work together on the proper timing and need for these investments, recognizing the need for solid plant performance over time in the context of the effect on BPA's power rates.

We would also like to suggest that budgeting for projects in anticipation of what the costs might be (specifically with regard to the Fukushima and ISFSI costs), without knowing what the actual NRC requirements are, may be too aggressive. Instead, we recommend that EN budget for those costs items that are reasonably certain to occur. Also, there appears to be a tendency for EN staff to assume that if a cost item is overstated in the CGS LRP, then it can simply be revised downward as the cost becomes known. However, it is important to recognize that BPA uses the direct result of the LRP in its rate making. While FY 2014 is a key focus for EN, both FY 2014, FY 2015 and part of FY 2016 are equally important for BPA and its customers given BPA's two year rate periods (and the BPA/EN fiscal year conversion). EN's LRP process should be designed to make BPA and its customers aware of the uncertainties that exist and then to budget for these costs as they become reasonably certain to occur.

One important underlying theme of the budget session was whether or not budgets should be set with an eye to increasing the output of CGS. That is, investments are being made that may, or may not foreclose the possibility of a significant increase in the output of CGS in the future. If there is a question about a particular investment's purpose or size that could help towards an increase in plant output, or could forestall that increase, we need to be made aware of the costs and benefits of these investments. BPA's Tier 1 customers will have to pay for investments that preserve options for future power output increases, even if those output increases never occur. Also, BPA's Tier 1 customers will benefit from the increased output that will result from these investments to increase the plant output if they are ultimately made. This is a particularly important topic to us because CGS is one of the few Tier 1 resources where customer involvement can have an impact on the size of the Tier 1 system over time. We want to be part of this discussion, while recognizing that final decision making resides with EN in conjunction with BPA review.

In closing, thank you for the opportunity to participate in this important process and for the information and analysis that Brent Ridge, and the staff of EN have been providing us on a regular basis. If you have any questions regarding these comments, please let me know, or have your staff contact Assistant Director Geoff Carr.

Best Regards,

John D Saven

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Chief Executive Officer

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