

August 28, 2009

Mark O. Gendron
Vice President, Northwest Requirements Marketing
Bonneville Power Administration
905 NE 11th Avenue
Portland, OR 97232

NRU Comments on Exhibit F, Transmission Scheduling Services

Northwest Requirements Utilities (“NRU”) appreciates this opportunity to submit comments on Bonneville Power Administration’s (“BPA”) draft Exhibit F to the Regional Dialogue Power Sales Contract.

An overriding goal of Regional Dialogue (“RD”) is to encourage preference customers to develop resources. Many of BPA’s Load Following customers that are NRU members will be seeking to diversify their power supplies away from BPA for above High Water Mark (“HWM”) load service, as BPA intended. Others will choose to rely on BPA to serve their load growth needs. Exhibit F is critically important because Load Following utilities (and in particular transfer service utilities) require BPA’s complete involvement, both Power and Transmission, to make the RD construct work for them.

In NRU’s discussions with BPA staff, however, it has become clear that transmission system constraints could make the task of bringing new non-federal resources to load very difficult, if not impossible, until such time as the transmission system capacity is greatly expanded. These expansions will not happen soon. Indeed, for some of BPA’s customers, necessary expansions may not happen *at all* during the term of the new BPA power contracts.

It is because of these constraints that NRU has discussed over many months all options that may be available to secure transmission for non-federal power delivery. We have simultaneously investigated both an overall power exchange for delivering non-federal resources to load for a group of customers, as well as attempting to secure firm transmission on a utility by utility basis. Our deliberations have occurred in an environment where anticipated above HWM loads have fallen off materially due to the economy, and as a result many utilities are considering market purchases to cover their needs during the first Purchase Period – FY 2012 – 2014.

While discussions with BPA have proceeded in good faith, and we appreciate the hard work of the BPA staff, at this time NRU staff is not confident that the traditional transmission approach memorialized in large part in Exhibit F of the Power Sales Contract can be made to work in time for the November 1, 2009, commitments. In other words, there may be too many transmission barriers or unknowns for certain Load Following customers that would otherwise select non-federal power for some or all of their above HWM load to safely make that selection. Therefore, we would recommend that BPA continue to pursue developing the alternative of power exchanges for the first Purchase Period, and

over the long term if it proves to be a useful strategy for achieving the goals of RD. This alternative can be used in the event that the Agency, in consultation with its customers, is unable to resolve outstanding issues tied to Exhibit F well in advance of November 1, 2009 as to how Transmission and Power Services will be provided. Other approaches to achieve a level playing field should also be examined.

NRU requests that BPA resolve its formal position on how transmission service will be provided for non-federal resources well in advance of the November 1, 2009, commitment date. If it is not possible for BPA to resolve these issues by the end of September, then NRU strongly requests that BPA move the date on which customers are required to make its decisions. We note that the above HWM load of Load Following customers with 1 aMW or more of exposure for FY 2012 is only 29 aMW and FY 2013 only 77 aMW, and it is fair to assume that half of this amount will be served by non-federal power. With these minimal above HWM power supply needs, we see no compelling business need for the Agency to stick with the November 1st date if transmission issues are not successfully resolved. Customers would have the option notify BPA prior to the extended deadline; this would provide more certainty to BPA as to the amount of load to be served by Tier 2 rates. If more time is needed to resolve these transmission issues, we would suggest extending the notification deadline by 90 days.

Given the importance of this issue to NRU members that are considering non-federal power supply options, the Managers of these utilities as well as staff are available to meet with the Administrator and senior staff of the Agency from both Power Services and Transmission Services to discuss our transmission related concerns for moving forward with the goals for resource development the Agency established.

The balance of our comments address specific sections of Exhibit F.

§1.3 “Parameters of TSS”

Clarify in the second paragraph what “in accordance with the applicable OATT” refers to. If this refers only to BPA’s OATT, then state it as such to avoid confusion.

§4.1 “Prescheduling”

The requirement for the delivery schedule to be submitted to Power Services prior to 0800 PPT is unworkable in a commercial environment. This is particularly true for market purchases. Early morning trading occurs as marketers acquire the least cost resources to serve loads. Until the transactions are complete, source and path information are not known and cannot yet be provided for tagging purposes. If the delivery schedule is required by 0800, this would severely limit the marketer’s ability to source power at the lowest cost, if at all. It is important that all non-federal resource options, including market purchases, are able to work under the prescheduling requirements. The 0800 requirement does not work in the world of market transactions.

We propose that BPA remove the 0800 deadline and instead state that the delivery schedule shall be submitted to Power Services pursuant to standard industry scheduling practices in WECC.

§4.3.2

Clarify in the second paragraph that OATT redispatch will occur first (where possible) and then TCMS will be used if and when necessary.

§4.3.4.1 (Options 1 & 3) “Eligibility of Resources for TCMS Coverage”

TCMS needs to be available to transfer customers that have a Dedicated Resource that is in the process of being designated as a network resource. Transfer customers cannot simply rely on the possibility that Power Services might decide to provide TCMS for resources in the process of being designated. It is a huge risk to a transfer customer to depend on Power Services, in its sole discretion, to possibly permit a customer to purchase TCMS for a resource in the process of being designated as a network resource. Therefore, we propose that the second paragraph in §4.3.4.1 (beginning “Power Services may, on a case-by-case basis”) be deleted and replaced with the following language:

Power Services shall provide TCMS coverage for «Customer Name»’s Dedicated Resource if «Customer Name» has submitted a request for firm network transmission to Transmission Services for such resource and «Customer Name» and Power Services are actively engaged in the process of obtaining firm network transmission for such resource.

§4.3.4.3 (or §4.3.4.2 or §4.3.4.4 depending on the option) “Termination of TCMS Coverage”

There are some circumstances where a firm network transmission request may be withdrawn, declined or invalidated where TCMS should not be terminated. Examples would include a firm transmission service request that is rejected for technical reasons, such as a non-compliant submission that may be corrected. Another example would be in the case of a Network Open Season, when a transmission service request is withdrawn because the NOS analysis would compel the customer to pay an incremental rate or BPA determines in the NOS that it cannot serve the request at this time. The language needs to accommodate such circumstances.

§4.3.6.1 “Limitations on the Frequency of TCMS Coverage”

When making resource decisions, customers need confidence that TCMS will be available for the entire duration of the resource even while the resource is in the process of being designated as a network resource. Section 4.3.6.1 gives Power Services the right to terminate TCMS for resources that are not yet designated as network resources when the resource has reached a stated level of transmission events. The ability to terminate TCMS essentially means the customer cannot rely on TCMS. This is an unacceptably high risk the customer must undertake and will factor greatly into its decision-making process.

Therefore, we propose deletion of §4.3.6.1. The actual costs incurred by BPA when providing TCMS coverage will be passed through to customers (see §4.3.6.2). As such, it is not BPA that faces the risk of

a high number of transmission events, but the customers. Power Services has expressed concern that their inability to terminate TCMS coverage may result in higher staffing needs. This could be a potential consequence down the line, but seems to be highly unlikely any time in the near future given the small amount of above HWM load in the first Purchase Period.

TCMS Must Be Equitability Applied to both Tier 2 Rates and Non-Federal Resources

Tier 2 rates are a rate construct, not a power product. As such, *any* federal power will be part of the BPA federal system, and used to serve Tier 2 loads (more precisely, any federal power will be used to serve a customer's net requirement—there is no delineation of electrons between Tier 1 and Tier 2 priced power). If Tier 2 rates are not tied to a specific resource using a specific transmission path to serve a specific load, then BPA will not be able to accurately assess TCMS costs to Tier 2 load when there is a transmission event. When this situation is compared to the situation facing a non-federal resource to used serve above HWM load, it becomes apparent that BPA cannot, as proposed, treat Tier 2 rates and non-federal resources equitably for purposes of providing TCMS coverage. To wit, a specific non-federal resource will use a specific transmission path to serve a specific load. If a transmission event were to occur between the resource and the load, BPA will easily be able to account for that usage of TCMS and pass the associated costs through to the customer. This will not be true for Tier 2 rate power.

A primary principle of RD is that there should be a “level playing field” between Tier 2 rates and non-federal resources used to serve above HWM load. If Tier 2 rates cannot be accurately assessed TCMS costs for transmission events that occurred somewhere on the system that affected delivery of that Tier 2 priced power, then there will be no level playing field between Tier 2 rates and non-federal power.

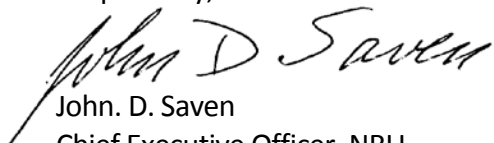
BPA needs to adopt policy guidelines that provide for equitability between Tier 2 rates and non-federal resources for both applicability and pricing of TCMS.

Accommodation of Market Purchases

It is imperative that BPA accommodate market purchases as an option for non-federal resource supply. Most of our above comments focused on ensuring that power can be delivered to loads (particularly loads served by transfer) once the power has been delivered to BPA's Balancing Authority Area (“BAA”). However, it is equally important that the structure BPA establishes under RD allows for the delivery of resources to BPA's BAA. If BPA does not permit reasonable commercial transactions to be delivered to BPA's BAA for purposes of load service, then all the rules about how to get the power to load will be to no avail. We propose that BPA allow the purchase of TCMS for WSPP Schedule C firm power purchases delivered to the Mid C hub (*not* one identified balancing authority as currently prescribed). Meanwhile, NRU commits to work with Transmission Services to revise the rules to allow market purchases to be designated as a network resource without having to identify one balancing area. Mid C is a highly liquid and transparent marketing hub and customers need to have the ability to use market purchases from the Mid C to serve above HWM load, both in the near and the long term.

Thank you for the opportunity to comment.

Respectfully,


John. D. Saven
Chief Executive Officer, NRU

CC: Members of NRU
John Prescott, PNGC Power
Scott Corwin, PPC